

**UNITED NATIONS
ECONOMIC COMMISSION
FOR LATIN AMERICA
AND THE CARIBBEAN—
ECLAC**



Distr.
LIMITED

LC/MEX/L.715
26 September, 2006

ORIGINAL: SPANISH

**CENTRAL AMERICAN ISTHMUS: ECONOMIC EVOLUTION
DURING 2005 AND PERSPECTIVES FOR 2006**

(Final evaluation)

INDEX

	<u>Page</u>
1. General trends	1
2. The evolution of the external sector	2
3. Economic policy	10
a) Fiscal policy	10
b) Monetary and exchange-rate policy	12
c) Trade policy	16
4. Production, remuneration and employment.....	17
a) Economic activity of countries in the region	17
b) Prices, remunerations and employment	20
5. Prospects for 2006	21
<u>Statistical Annex</u>	25

Index of Tables

Table

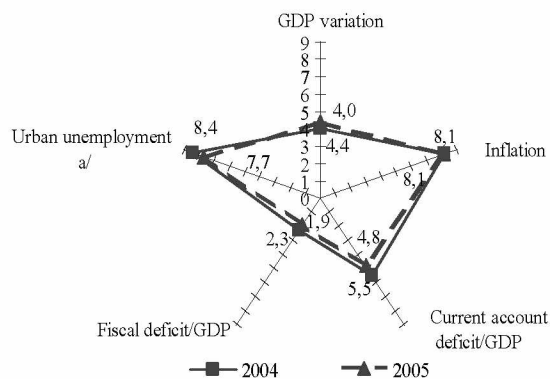
A Main economic indicators, 2000-2005	27
1 Main economic indicators, 2000-2005	29
2 Main economic indicators (Growth rates), 2000-2005	30
3 Trade indicators of goods, fob, 2000-2005.....	31
4 Balance of payment indicators, 2000-2005	32
5 Public debt indicators, 2000-2005	33
6 Intrarregional exports, 2000-2005	34
7 Evolution of the value added of in-bond assembly plant activity and free trade zones, 2000-2005	35
8 Foreign travel account balance, 2000-2005.....	36
9 Garment exports to the United States, 2000-2005	37
10 Foreign trade of fob goods with Mexico, 2003-2006	38
11 Central Government indicators, 2000-2005	39
12 Credit indicators, 2000-2005	40
13 Nominal interest rates, 2004-2006.....	41
14 Price indicators, 2000-2005	42
15 Nominal and real exchange rate, 2000-2005	43

THE CENTRAL AMERICAN ISTHMUS: ECONOMIC EVOLUTION IN 2005 AND PROSPECTS FOR 2006

1. General trends

Economic activity in the Central American Isthmus recorded a superior expansion in 2005 than in the previous year (4.4% versus 4% in 2004), just below the average for Latin America and the Caribbean (4.5%). Excluding Panama, the rate increased from 3.3% to 4%.¹ Less dispersion of growth rates around the mean is also notable. Every country is in the expansionary phase of the economic cycle, since per capita gross domestic product (GDP) has increased for three years, after a recession in 2001-2002. Even though these results are positive, they are still far from what is necessary to markedly improve the economic and social situation the sub-region.

Graph 1
CENTRAL AMERICAN ISTHMUS:
PRINCIPAL MACROECONOMIC
INDICATORS IN 2004 AND 2005



Source: ECLAC, based on official figures.

a/ Calculated with data from five countries.

Macroeconomic indicators recorded few variations...

The rate of inflation (8.1%) in 2005 was the same as in 2004 (see graph 1). Despite the fact that inflation surpassed targeted values, this result represents an achievement, given the significant increase in international prices of petroleum and its derivatives (36%), as compared to 2004. The deficit in the current account balance of payments fell slightly, from

the equivalent of 5.5% of GDP in 2004 to 4.8% in 2005. The fiscal deficit dropped from 2.3% of GDP to 1.9%, which contributed to the improvement of the macroeconomic situation. Finally, through available data from five countries, one can see that the unemployment rate fell slightly, and especially noteworthy is the decline in Panama, which in the last two-year period achieved GDP growth rates above 6%.

... in a generally favorable external environment

Examining the international scene is essential in determining the results of the economies of the Central American Isthmus, since the countries of the region are characterized by being small and open, with a total of exports and imports almost equaling GDP. External demand figured highly in 2005 among positive factors, especially from the United States, the region's most important trade partner. Another positive factor was the high level of family remittances, at around 9% of GDP, which helped in mitigating the considerable trade deficit.

In addition, the flow of foreign capital continued to be favorable, and so there was a positive net transfer of resources, equivalent to 3.6% of GDP. The financial climate remained

calm, even though interest rates rose in several developed countries, and was characterized by abundant global liquidity. One negative factor is the high price of commodities, which, due to its production structure, the sub-region is a net importer. The high international price of petroleum and the consequent significant rise in the petroleum bill also deserve to be mentioned. Consequently, the terms of trade continued to worsen.

Economic policies remain unchanged...

Macroeconomic policies maintained the same general features of the last two years. Fiscal discipline and belt-tightening continued to be priorities, and this led to a monetary policy that sought reasonable balance between controlling inflation and boosting growth in production. The effect of exchange-rate policy was a slowdown in terms of the impact of imported inflation through an almost widespread appreciation of currencies in the region, with respect to the U.S. dollar. In the context of large inflows of foreign currency, the current configuration of monetary and exchange-rate policies is becoming increasingly inefficient, which caused some changes in 2005, at the same time that more changes were announced for the future.

Economic growth should pick up slightly in 2006

Most of the trends that affected the economic situation in 2005 should continue in 2006. The dynamism of the U.S. economy and developing nations in Asia will continue to fuel the global economy and will have a positive effect on the growth of international trade, and may be even higher than that recorded in 2005. Despite the hike in interest rates, high levels of global liquidity will continue, relieving external restrictions on the countries of the Isthmus. Petroleum prices should remain high, while the price of other commodities could fall slightly. One can now add the weakness of real estate markets and a possible pandemic of avian flu to the risk of a disorderly adjustment of global imbalances. With regard to the internal situation, national elections in two countries (Honduras and Costa Rica) did not adversely affect investment during the electoral period, but have brought some changes to economic policy. By the end of the year, Nicaragua will also hold elections. If these risks do not substantially aggravate the economic situation, the economies of the sub-region could speed up their average growth to 4.7% in 2006.

2. The evolution of the external sector

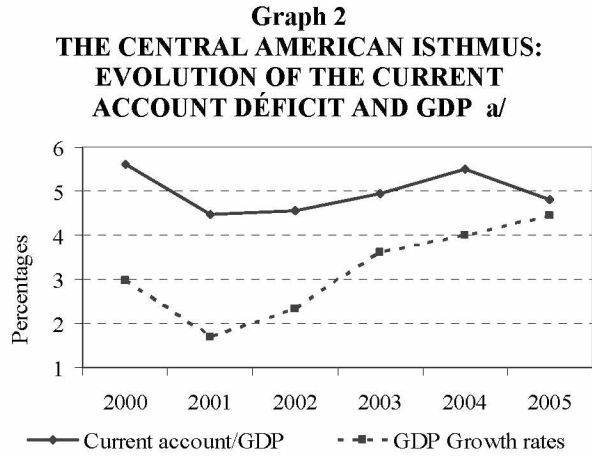
The balance of payment of the current account in the region recorded a deficit of 4,708 million dollars (the equivalent of 4.8% of GDP), which is around one half percentage point lower than in 2004. This was the result of a negative trade balance (–13,630 million dollars), which rose mainly because of the higher petroleum bill. Imports of goods reached 38,921 million dollars compared to 25,291 million of exports. Inflows from family remittances (8.8% of GDP) continued to increase and covered nearly three quarters of the trade deficit, thus greatly improving the current account result.

As depicted in graph 2, the growth of GDP in the last six years has been highly related to movements in the current account deficit. The hypothesis that the countries of the Isthmus continue to be very dependent on outside resources is likely still valid. This is true because of the need to import consumer, intermediate and capital goods, as well as external financing in the form of remittances, investment and loans.

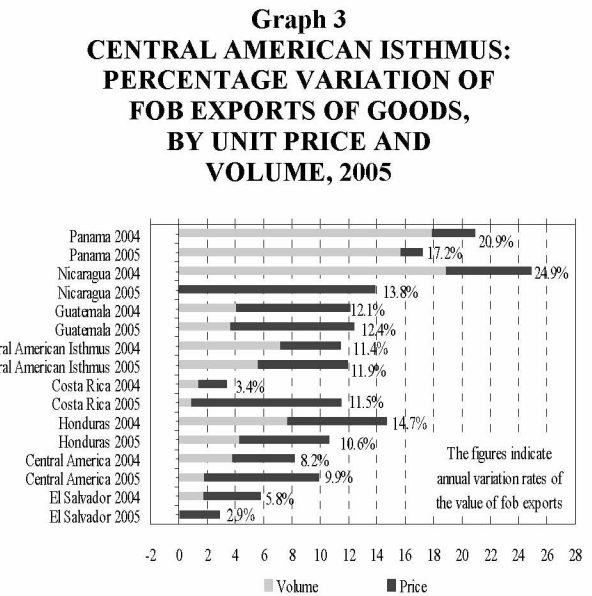
Therefore, all of this favors the theory that external limits on economic growth remain significant.

For the third year in a row, the export sector of the Central American Isthmus performed well, and its sales increased 11.9% in 2005. Still, this compares unfavorably with the notable growth observed in Latin America and the Caribbean (19%). The economies that recorded a higher

increase in exports were Panama, Nicaragua, Guatemala, Costa Rica and Honduras. Costa Rica stood out for its recovery with respect to 2004, thanks to greater sales of microprocessors, coffee and non-traditional agricultural products. El Salvador meanwhile, showed more moderate signs of growth.



Source: ECLAC, based on official figures.
a/ The current account deficit is expressed as a positive figure for a better understanding of the graph.

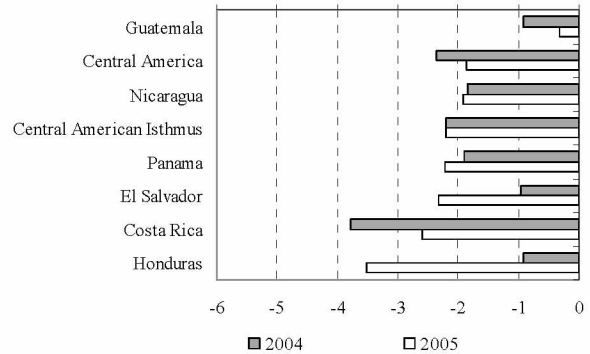


Source: ECLAC, based on official figures.

The price effect contributed more than the volume effect to the expansion of exports in the Central American Isthmus in 2005, 6.3 and 5.2 percentage points respectively. The price effect was predominant in most countries of the

Isthmus, which is explained by the increase of prices of traditional export products like coffee. The volume effect, on the other hand, was strongly felt only in Panama.

Graph 4
**CENTRAL AMERICAN ISTHMUS: TERMS
OF TRADE**
(Percentage variation, 2004 and 2005)



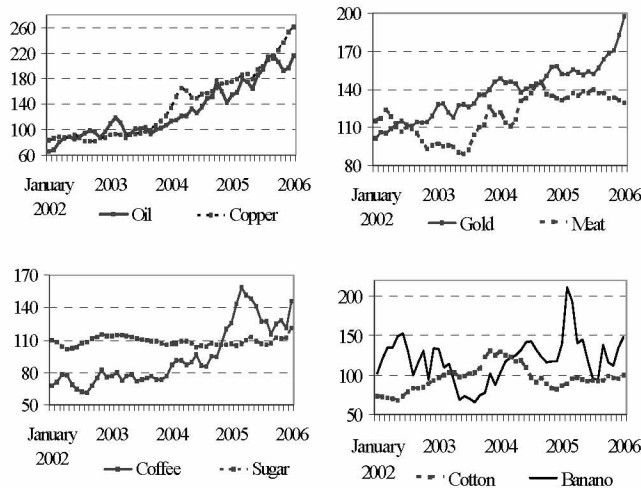
Source: ECLAC, based on official figures.

Although in 2005 the prices of some exported products in the region saw important increases, the Central American Isthmus continued recording a general downturn in the terms of trade (-2.2%) for the eighth year in a row. Unlike most South American countries, which benefited from the rise of international prices because of their production and export of commodities (for example, copper, beef, petroleum, gold, and coffee), the losses in Central America are related to its export structure, characterized by a very high ratio of in-bond assembly products such as textiles, which have not risen in price. Since these countries are net importers of commodities, the boom in international prices of those products gave rise to significant costs.

There are conflicting trends in the recent boom of exported goods, whose level rose from a total of 19 billion dollars in 2002, when economies of the region were stalled, to almost 25 billion dollars in 2005. On one hand, the export of manufactured goods from Central America to the United States, specifically from textile assembly plants and classified in chapters 61 and 62 of the Harmonized System (section on customs), experienced a decrease of 2.7% compared with 2004. Thus, the growing competition from Asia during 2005,

strengthened by the elimination of the multifiber agreement that regulated the trade of items of clothing on a global scale under the system of export quotas, affected nearly the whole region in terms of the American market share. On the other hand, the intraregional trade of the Central American Isthmus has continuously increased in the last three years (12.8% in 2005), mostly due to the moderate but sustained upturn in the economies of the sub-region.

Graph 5
CENTRAL AMERICAN ISTHMUS: SELECTED
COMMODITY EXPORT PRICES
JANUARY 2002 TO JANUARY 2006
 (Index 2000 = 100)



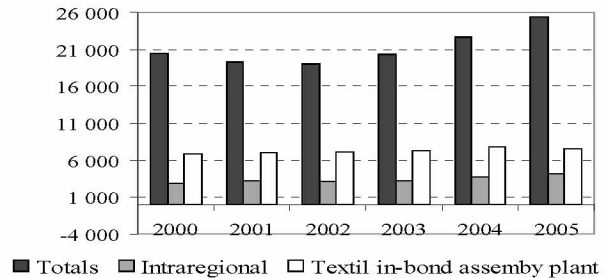
Source: ECLAC, based on official figures.

The value of total trade with Mexico rose 29.2% in 2005. However, the trade balance for the sub-region recorded a deficit of 1,278 million dollars, a 75% increase. Exports from the Isthmus to Mexico reached 1,505 million dollars, an increase of 16.3%, while imports from the latter country increased 37.4%, to reach 2,783 million dollars.

The value added of in-bond assembly plants (exports minus imports) and free trade zones in Central America in 2005 showed a significant reduction with respect to the previous year, mostly based on an important drop in the value added of said productive activity in Costa Rica (-27%) and El Salvador (-10.7%). The reduction of the value added of in-bond assembly plants in the last two-year period indicates that this sector, which fueled growth in the nineties, no longer

plays such an important role in the economy. The sub-region is caught between two opposing forces: first, there are economies outside the region that offer lower labor costs and take away simple assembly plant production from the countries of the Isthmus, especially those related to textiles. Second, the sub-region has not invested sufficiently in adopting more advanced technologies and production with higher value added. Even though Honduras and Nicaragua have not completely lost their competitive edge based on cheap labor in the assembly plant sector, this option is increasingly less viable for other countries of the region. Therefore, a policy of increased diversification of in-bond assembly plant activity in the countries of the Isthmus and a movement towards economic activity with higher value added would diminish the volatility and vulnerability of the assembly plant sector.

Graph 6
CENTRAL AMERICAN ISTHMUS:
EVOLUTION OF THE EXPORT OF GOODS
 (Millions of dollars)



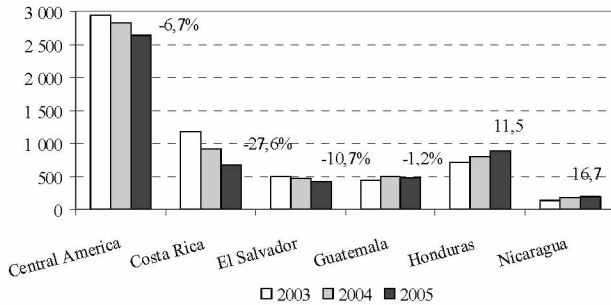
Source: ECLAC, based on official figures.

Regional imports of goods reached 38,921 million dollars and grew 13.2% with respect to 2004. An important part of this increase is due to the rise in the price of petroleum, fuel, and other intermediate goods for the second year in a row. It is also important to highlight the high proportion of imports in most production activities, both for exports and national consumption. This is reflected in the rise of imports whenever economic activity picks up.

In 2005 there was a steady growth in revenues from tourism in the region, an increase of 16.2% with respect to 2004. El Salvador stands out with a 23.2% increase in revenues; nevertheless, there is still a marked difference between the revenues of said country with

respect to traditional destinations like Costa Rica. Thus, tourism in the region recorded a positive balance of 2,765 million dollars, 20.5% more than in 2004.

Graph 7
CENTRAL AMERICA: VALUE ADDED OF
IN-BOND ASSEMBLY PLANTS
AND FREE TRADE ZONES
(Millions of dollars)



Source: ECLAC, based on official figures.

The balance of the financial and capital account (which includes errors and omissions) recorded a positive balance of 6,176 million dollars, with an increase of 15.4% with respect to the previous year; the reduction that occurred in 2002 was followed by three years

of expansion of capital inflows. The dynamism of 2005 can be explained by the introduction of foreign direct investment (FDI) as well as other forms of investment, mainly bank loans; in contrast with 2004, the activity of governments in the international bond market reversed. An accumulation of international reserves and an increase in the net transfer of resources to the Isthmus reaching 3,533 million dollars was made possible thanks to the influx of capital and family remittances for the third year in a row.

A long-term view of the link between capital inflows and economic growth in the Isthmus reveals a generally positive relationship. However, it seems as though in the last five years a highly significant structural change has occurred. In the nineties, the sub-region achieved robust growth, with less capital inflows than those currently entering the region. However, since 2000, higher capital incomes apparently have not had the dynamic effect that they did in the past. This situation could be called the "saturation effect", and poses serious questions with regard to the overall orientation of the economies of the Isthmus in the new millennium.

Box 1

CENTRAL AMERICAN ISTHMUS: PETROLEUM BILL IN 2005

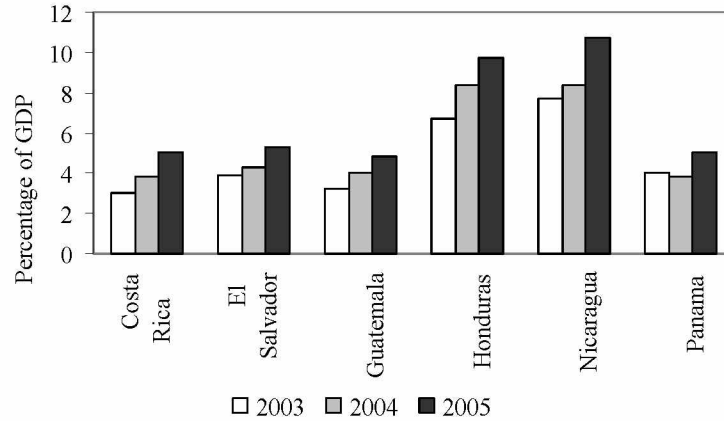
In 2005, the price of petroleum rose from 42.24 to 59.06 dollars a barrel, and so the petroleum bill of the Central American Isthmus increased to 5,560 million dollars. It should be noted that the imported volume decreased 0.6%, in contrast with the prices, which increased 38.9%.

The petroleum bill equaled 5.7% of GDP in 2005. However, it had different effects across countries; in Honduras and Nicaragua it reached 10% of GDP and in Costa Rica, El Salvador, Guatemala and Panama, the petroleum bill was close to 5% of GDP.

From 2002 to 2005 petroleum expenditures doubled in Central American countries. The rise in the petroleum bill had a strong effect on the current account deficit in the countries of the Isthmus, so much so that in 2005 it represented 118% of the deficit in the region and had the greatest impact on the deficits in El Salvador and Guatemala.

Box 1 (Conclusion)

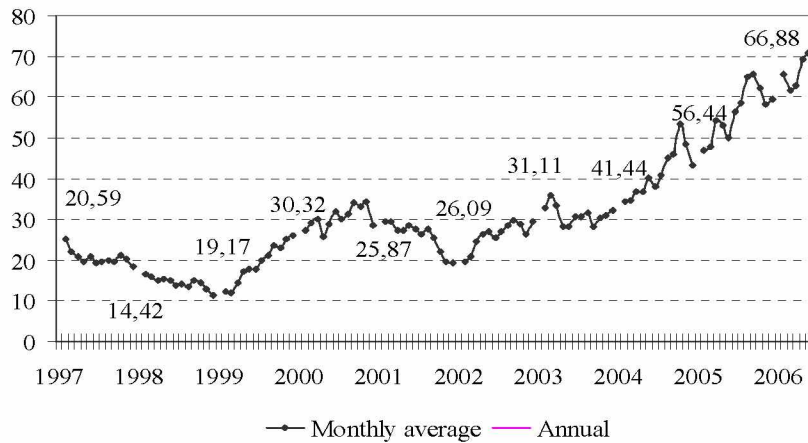
Graph 8
CENTRAL AMERICAN ISTHMUS: PETROLEUM BILL



Source: ECLAC, based on official figures.

Upon analyzing the price of petroleum in the last 10 years, one can see that at the beginning of the period, the price hovered around 20 dollars a barrel, and in the next period the price averaged 30 dollars a barrel. In 2004 and 2005 however, it shot up to almost 60 dollars a barrel. Unfortunately, most forecasts predict the average price to stay at this level for the next two years. Recent geopolitical tensions seem to confirm this.

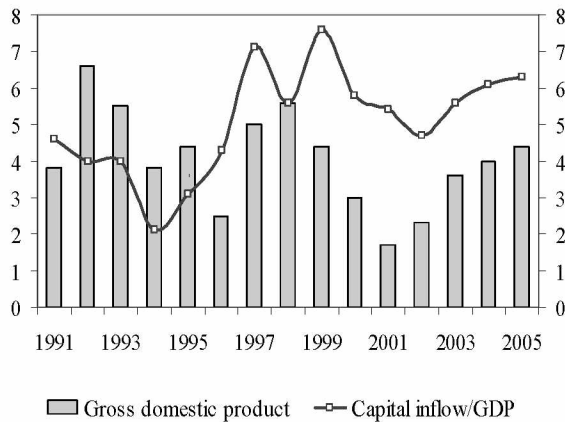
Graph 9
WEST TEXAS INTERMEDIATE CRUDE
INTERNATIONAL MONTHLY PRICE
(Dollars/barrel)



Source: ECLAC, based on official figures.

The total net transfer of resources (NTR) towards the Central American Isthmus was still positive, as it has been since at least 1991. In 2005 it equaled 3.6% of GDP, mainly for the contribution of its financial component. On the other hand, the NTR of direct investment flows was practically nonexistent (0.4% of GDP) due to the importance of repatriations of net profits, especially in Costa Rica and Panama. The favorable total NTR towards the Isthmus stands in contrast with that of Latin America and the Caribbean, which has been negative since 1999, and in 2005, equaled 2.9% of GDP.

Graph 10
CENTRAL AMERICAN ISTHMUS: GROSS DOMESTIC PRODUCT AND CAPITAL INFLOWS
(Percentages)

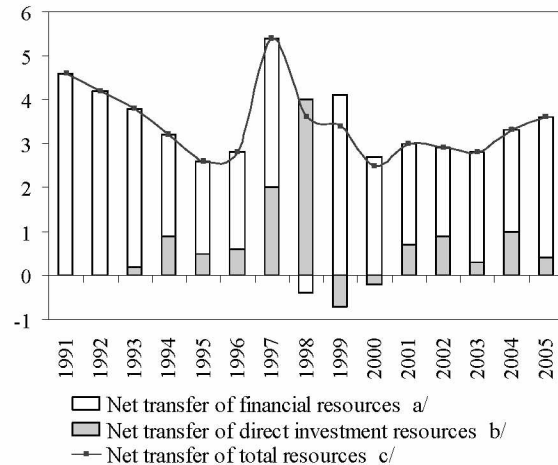


Source: ECLAC, based on official figures.

Note also that in 2005 the Isthmus benefited from family remittances, which represented 8.8% of GDP.² These high inflows counteracted the heavy trade deficit of the region (11.9% of GDP) and notably reduced the deficit in the current account of the balance of payments.

Net foreign direct investment in the Isthmus added up to 2,734 million dollars, similar to the figure for 2004, which is mostly explained by the slowdown in inflows received by Honduras and El Salvador. On the other hand, other countries in the sub-region maintained the same levels from the 2003-2004 period (see graph 12). The stagnation in FDI in the Isthmus contrasts with the increase of the same figures for all of Latin America and the Caribbean (4.3%).

Graph 11
CENTRAL AMERICAN ISTHMUS: NET TRANSFER OF RESOURCES BY COMPONENT
(Percentages of GDP)



Source: ECLAC, based on official figures.

a/ Equals inflow of sources of capital, other than FDI, minus the net payment of interest.

b/ Equals the net inflow of foreign direct investment (FDI) minus repatriation of net profits.

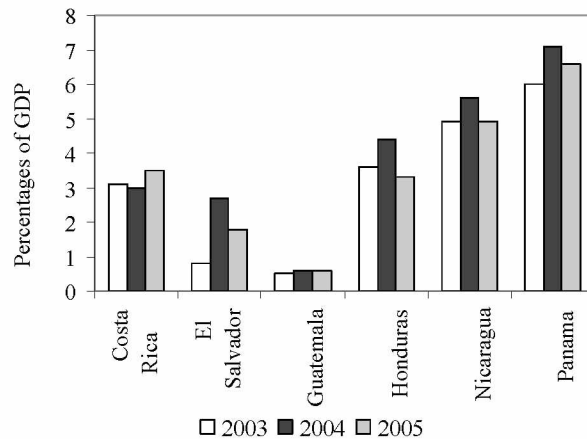
c/ Corresponds to net capital inflows minus the income balance (net payments of profits and interests on debt).

In Costa Rica, FDI continued to be tied to reinvestments made by foreign companies already established in free-trade zones throughout the country, especially in the electronics, computer parts, pharmaceutical and medical equipment industries, whereas in Nicaragua it was focused in the services sector (tourism and trade, communications and in-band assembly plant companies). El Salvador and Panama's investment flows were once again associated with expansion in the banking sector, while Honduras' continued to be oriented towards projects in the free-trade zones. In Guatemala, for the fourth year in a row, FDI was very modest.

External debt flows (bonds and bank loans) reached 2,920 million dollars in 2005, with a variation of almost 41% with respect to 2004. However, the development of its components was strikingly different: while net debt in bonds contracted, net bank liabilities almost tripled. In 2005, the governments of El Salvador and Panama carried out gross bond investments in

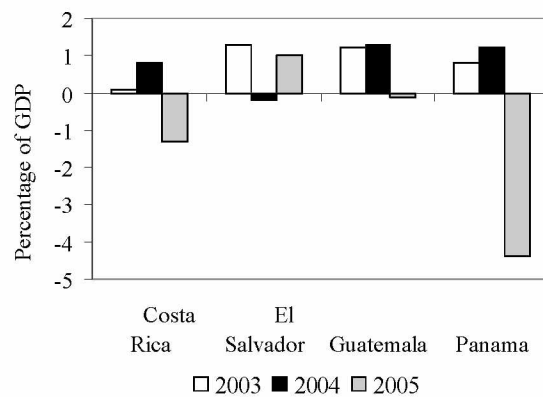
international markets, thereby taking advantage of the very good conditions at the time, and these resources were used mainly to finance the fiscal deficit in both countries and to buy back the external debt. Meanwhile, the governments of Costa Rica and Guatemala chose to finance the fiscal deficit with debt investments in the local market. In net terms, the greatest inflow was received by El Salvador (see graph 13). Honduras and Nicaragua could not issue bonds in international financial markets since they were committed to the Initiative for Debt Reduction of the Highly Indebted, Poor Countries (the HIPC).

Graph 12
CENTRAL AMERICAN ISTHMUS: FOREIGN DIRECT INVESTMENT



Source: ECLAC, based on official figures.

Graph 13
COSTA RICA, EL SALVADOR, GUATEMALA AND PANAMA: NEW DEBT IN BONDS a/

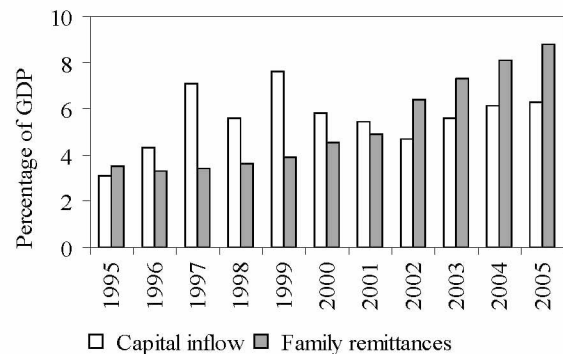


Source: ECLAC, based on official figures.
a/ In international financial markets.

The issue of El Salvador's government was to the tune of 375 million dollars, with 30 year maturity and with an interest rate of 7.65%. In November of 2005, the government of Panama issued a bond for 980 million dollars, with 20 year maturity and an interest rate of 7,125%. This operation allowed for the buy-back of three bonds issued under less-favorable conditions. With a similar objective in mind, in January 2006 another bond was issued for 1,363 million dollars, with 30 year maturity.

By June of 2006, the three of the most important international, sovereign risk-assessment companies held the same assessment from the previous year of long-term instruments for countries of the Isthmus. It is important to mention that El Salvador is the only country in the region which holds the investment rating granted by Moody's Investors Service; in Latin America, of the 16 countries analyzed, only Chile, Mexico and El Salvador hold that distinction. On the other hand, Standard & Poor's changed its outlook from negative to positive in February and June of 2005 for Panama and Costa Rica, respectively. As a result, international bond investments were carried out in more favorable conditions in terms of payments and interest rates.

Graph 14
CENTRAL AMERICAN ISTHMUS: INFLOWS OF CAPITAL AND FAMILY REMITTANCES



Source: ECLAC, based on official figures.

Family remittances continued their accelerated growth rate, increasing by 20% in 2005. They rose to 8,586 million dollars and represented 8.8% of GDP. For the fourth year in a row, they contributed a greater amount of

Table 1
CENTRAL AMERICAN ISTHMUS: SOVEREIGN RISK RATINGS
(Long term)

	Fitch				Moody's				S&P			
	Date	Bonds in foreign currency	Trend	Bonds in Local Currency	Date	Bonds in foreign currency	Trend	Bonds in local currency	Date	Bonds in foreign currency	Trend	Bonds in local currency
Costa Rica	Jun-06	BB	stable	BB+	Jun-06	Ba1	negative	Ba1	Jun-06	BB	negative	BB+
	Dec-05	BB	stable	BB+	Dec-05	Ba1	negative	Ba1	Dec-05	BB	negative	BB+
	Jun-05		stable	BB+	Jun-05	Ba1	negative	Ba1	Jun-05	BB	negative	BB+
El Salvador	Jun-06	BB+	stable	BB+	Jun-06	Baa3	stable	Baa2	Jun-06	BB+	stable	BB+
	Dec-05	BB+	stable	BB+	Dec-05	Baa3	stable	Baa2	Dec-05	BB+	stable	BB+
	Jun-05	BB+	stable	BB+	Jun-05	Baa3	stable	Baa2	Jun-05	BB+	stable	BB+
Guatemala	Jun-06	BB-	stable	BB	Jun-06	Ba2	stable	Ba1	Jun-06	BB+	stable	BB+
	Dec-05	BB-	stable	BB	Dec-05	Ba2	stable	Ba1				
	Jun-05	BB-	stable	BB	Jun-05	Ba2	stable	Ba1				
Honduras	N/D	N/D	N/D	N/D	Jun-06	B2	stable	B2	N/D	N/D	N/D	N/D
					Dec-05	B2	stable	B2				
					Jun-05	B2	stable	B2				
Nicaragua	N/D	N/D	N/D	N/D	Jun-06	Caa1	stable	B3	N/D	N/D	N/D	N/D
					Dec-05	Caa1	stable	B3				
					Jun-05	Caa1	stable	B3				
Panama	Jun-06	BB+	Stable	BB+	Jun-06	Ba1	stable	N/D	Jun-06	BB+	stable	BB+
	Dec-05	BB+	Stable	BB+	Dec-05	Ba1	stable	N/D	Dec-05	BB+	stable	BB+
	Jun-05	BB+	Stable	BB+	Jun-05	Ba1	stable	N/D	Jun-05	BB+	stable	BB+

Source: Fitch Ratings, Moody's Investors Service and Standard & Poor's.

Note: By the end of 2005 and throughout the first part of 2006 the sovereign debt ratings of most countries remained unchanged.

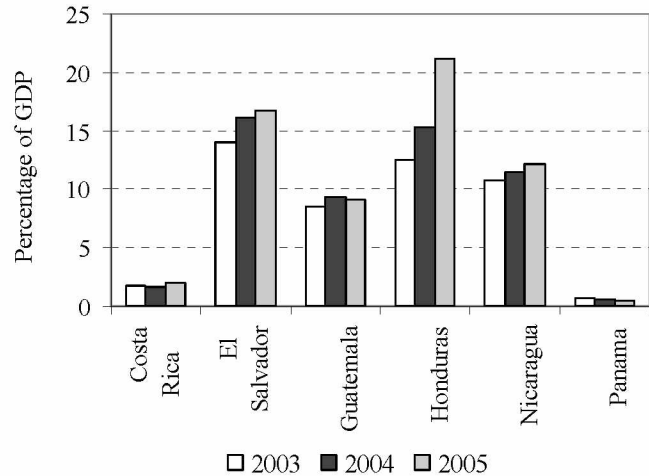
foreign currency compared with the inflows of debt and investment capital.

The high revenues from family remittances pose a serious dilemma for the economic policy of certain countries. On one hand, it is through these resources that most of the deficit in goods and factor and non-factor services is covered, though on the other hand, it contributes to the appreciation of the national currency. In addition, since some economic authorities count on financing in excess to cover the trade deficit, they are not motivated to implement policies that promote non-traditional exports (which would significantly raise foreign currency revenue). Thus, the non-traditional export sector is losing dynamism with its consequent impact on economic growth.

Remittances are concentrated in El Salvador, Guatemala, Honduras and Nicaragua. Guatemala and El Salvador received nearly 3 billion dollars and Honduras received 1.8 billion. Worth noting is that in 2005, these figures reached unprecedented GDP ratios in

Honduras (21.2%) and El Salvador (16.7%). The inflow of remittances was much less significant in Costa Rica (2%) and Panama (0.5%).

Graph 15
CENTRAL AMERICAN ISTHMUS: FAMILY REMITTANCES



Source: ECLAC, based on official figures.

3. Economic policy

Macroeconomic policy mix did not change in 2005 with respect to 2004. Fiscal policy was mostly responsible for macroeconomic discipline, while monetary policy was relatively lax. Central banks were seeking to reactivate economic activity and stabilize prices. Exchange-rate policy continued losing efficiency faced with the extraordinary amount of capital inflows and family remittances. Trade policy, meanwhile, focused on free trade agreements (FTA) with the United States, and to a lesser extent with other trade partners.

a) Fiscal policy

2005 saw the continuation of recent trends, characterized by fiscal discipline and belt-tightening as a priority for the governments of the region. On average, the regional fiscal deficit³ for the central government dropped half a point, from 2.5% of GDP in 2004 to 2.1% in 2005. Consequently, the fiscal situation improved for the fourth year in a row, and it resulted in a substantial decrease in the fiscal deficit, from 3.7% of GDP in 2001.

The regional average, however, was the result of conflicting trends. The reduction

occurred due to improvements in El Salvador, Honduras, and Panama. In contrast, the results for Guatemala and Nicaragua in 2005 deteriorated slightly, while Costa Rica repeated its performance from the previous year. All in all, the performances of El Salvador and Guatemala are noteworthy considering the cost of natural disasters that swept through these two countries.⁴

It should be noted that Nicaragua improved its deficit by half a point of GDP, if donations are not counted. Since the latter decreased, the final performance shows a slight downturn. Electoral pressures to produce increases in expenditures were well-contained in Honduras and Costa Rica.

Interest payments went up in all countries except Honduras and Nicaragua, who benefited from the debt reduction within the HIPC Initiative. However, the reduction in these two countries was sufficient to drive down the regional overage, and to improve the primary surplus.

Also worth noting is the relationship between fiscal results and the economic cycle. In the 2001-2002 period, when the region's economies were in the contractive phase of the cycle, fiscal consolidation had a clearly procyclical effect, aggravating the trends resulting from the world economy and the private sector. In 2005, however, when the economies were in the midst of the expansive phase of the cycle and were reaching their growth potential, fiscal consolidation had a countercyclical effect, contributing to a moderation in expansion. This also has a strong intertemporal significance, since public sector savings that were accumulated during the expansive phase of the cycle could potentially be used to mitigate the contractive phase of the cycle in the future.

The economic pickup had a positive impact on tax collection, especially in countries that saw a higher increase in production. In addition, governments attempted to improve tax collection, combat tax evasion and control spending.

Nevertheless, this objective was difficult to achieve because of the rise in petroleum prices, and so governments felt obligated to diminish the adverse effect on the populace and to lower inflationary pressures.

Towards this end, price controls and subsidies were combined, most notable in countries where elections were held, such as Honduras. While the measures aimed at controlling prices will reveal their true cost in the future through inflationary inertia, subsidies have already affected fiscal balances.

After more than three years of discussion, Costa Rica saw no advances in the area of fiscal reform. In contrast, El Salvador adopted measures that include modifying the tax code, the pensions law and the income tax law, leading to a tax burden increase of one percentage point of GDP.

Panama also adopted 11 fiscal reform measures relating to expenditure and 12 affecting fiscal revenue. A reform of the social security system was also approved, introducing a form of individual savings. Despite these advances, there is still much left to be done in the sub-region to strengthen tax revenues and put them in accordance with the dire needs that exist, especially in the social arena and with regard to public investments.

Table 2

CENTRAL AMERICAN ISTHMUS: FISCAL INDICATORS FOR 2005

(Percentage of GDP at current prices)

	Fiscal deficit of the central government/GDP		Interests paid by central government		Primary result of central government		Total public debt	
	2004	2005	2004	2005	2004	2005	2004	2005
Costa Rica	-2.7	-2.7	4.1	4.2	1.4	1.5	47.3	42.3
El Salvador	-1.1	-0.6	2.0	2.2	0.9	1.6	46.0	45.4
Guatemala	-1.0	-1.4	1.2	1.2	0.2	-0.2	20.1	18.3
Honduras	-3.4	-2.9	1.8	1.6	-1.6	-1.3	74.1	57.5
Nicaragua	-1.5	-2.0	2.7	1.9	1.2	-0.1	149.7	136.2
Panama	-5.4	-3.2	4.3	4.4	-1.1	1.2	70.6	66.4
Regional average a/	-2.5	-2.1	2.7	2.6	0.2	0.5	68.0	61.0

Source: ECLAC, based on official figures.

a/ Simple average.

The stock of total public debt as a percentage of GDP showed a significant decrease, from 68% to 61% (see table 2), as a result of two factors. First, the growth of GDP lowered the debt coefficient in addition to the fact that external debt decreased (612 million dollars). Second, the debt cancellations within the HIPC Initiative made the coefficients appreciably decline in Honduras and Nicaragua. Nicaragua reached the so-called “culmination point” in 2004, and Honduras did so in April of 2005. Both countries will also benefit from the G-8 initiative to reduce or forgive debt to international financial institutions. All in all, the challenges of forgiving debt are great, since there has been no fiscal relief. If nations could not pay off their external debt until they were forgiven, where would they get the resources to finance a poverty reduction strategy? Fiscal consolidation was also reflected in the reduction of the internal public debt, an important fact, since this type of debt has shorter maturity and more cumbersome interest rates.

b) Monetary and exchange-rate policy

In 2005, the economies of the region had to respond to both external supply shocks, mostly due to the increase in international petroleum prices and the decline in terms of trade, and disturbances caused by natural disasters such as hurricanes, storms and volcanic eruptions. In this context, the rise in internal prices exceeded established goals and for the most part, national currencies appreciated with respect to the US dollar while the real effective exchange rate depreciated slightly. The former helped to diminish the rise in internal prices, though at the cost of reducing the competitiveness of the exchange rate. In addition, Central Banks tried to find a balance between the goal of controlling inflation and boosting national production.

Faced with these difficult dilemmas, the interventions of monetary authorities —through open market operations, the buying and selling of foreign currency, changes to interest rates and the minimum legal reserve— were all insufficient to control inflationary pressures. This development reflected not only decisions deliberately taken by the Central Banks but also the limitations of current monetary

policies. In this situation, some countries began to change the framework of their monetary policy, at the same time that others explored the possibility of making exchange regimes more flexible.

In Guatemala, measures were taken towards the adoption of specific inflation targets and the use of one leading interest rate applicable to short term monetary stabilization operations. Beginning in May, Honduras’ monetary policy began to use a new framework, whose purpose is to transmit with utmost clarity the stance of the Central Bank of Honduras; these changes include both the Bank’s operative goals and instruments. The objective of monitoring intermediary goals was abandoned, and instead an operative goal that consists in a money market short-term interest rate was established. A distinction was also made between managing liquidity in the short and long term, and monetary policy instruments were expanded. The bank seeks to empirically determine the need for liquidity of the financial system in order to minimize the divergence between the operative goal and current rates.

In 2006, with a view to improve the transmission mechanism of the monetary policy and the efficiency of its instruments, the Central Bank of Costa Rica plans changes in the mechanism of auctioning of its securities and introduction of new instruments for the monetary absorption. These changes are geared toward increasing the efficiency of the monetary absorption with a condition that interest rates do not increase, as it would attract massive inflows of foreign capital. It is to be expected that these measures result in a shift from consumption to saving and investment, thus alleviating the inflationary pressures. In addition, a placement of the “Monetary Stabilization Bonds” will be facilitated in the electronic form. In time, this would substitute the certificates of deposit issued by the financial intermediaries. This mechanism is expected to improve the transition of the monetary policy via the interest rate, to promote competition on the financial market and to enhance the yield received by those who save. Finally, among the plans of the Central Banks figures prominently the adoption of a more flexible exchange-rate regime.

Table 3

ECONOMIC INDICATORS OF THE BANKING SYSTEM a/

Financial Indicators	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
a) Equity/total asset	9.7	9.5	10.7	11.1	7.6	7.1	8.4	8.4	8.8	9.0	13.4	13.0
b) Non-performing loans-provisions/primary capital b/	-4.2	-7.1	-7.6	-4.5	9.9	6.6	22.1	19.2	-18.5	-21.6	-0.9	-0.4
c) Non-performing loans/total credit	2.0	1.5	2.1	1.9	5.34.5	3.6	6.9	5.3	2.3	2.1	1.7	1.7
d) Loan loss provisions/non-performing loans	126.9	156.9	142.0	125.9	70.3	77.8	60.3	60.1	187.9	188.6	149.9	125.1
e) Total deposits/total credit	145.3	137.9	104.7	95.7	155.4	145.1	132.0	116.6	180.2	152.5	123.1	118.6
f) Annualized administrative expense/average assets	5.4	5.2	2.8	2.9	4.7	4.6	5.3	5.1	4.7	5.1	1.0	1.0
g) Total asset (millions of dollars)	10,195.6	11,724.6	10,187.0	10,650.0	9,782.5	11,666.4	5,606.6	6,707.4	2,288.8	2,577.8	34,604.0	38,641.6
h) Total asset/number of banks (millions of dollars)	536.6	617.1	848.9	968.2	391.3	448.7	350.4	419.2	327.0	368.3	516.5	552.0
i) Total asset/total assets of five main banks	76.0	76.8	86.9	91.2	60.6	61.4	66.1	65.7	95.9	96.1	43.8	45.2
j) Profits before income tax/average assets	20.2	24.7	10.9	12.4	20.2	22.2	18.9	20.9	34.6	30.3	18.1	15.8
k) Profits before income tax/average equity	1.9	2.4	1.1	1.4	1.6	1.7	1.5	1.8	2.7	2.6	2.4	2.1
l) Margin of implicit financial intermediation c/	9.3	9.6	6.3	6.7	6.6	6.6	10.8	10.7	11.7	12.7	3.3	2.8
m) Liquid assets + financial investment/ total liabilities	49.1	46.7	36.6	33.4	50.4	48.7	41.2	41.3	55.9	49.8	43.9	40.5
n) Number of banks	19.0	19.0	12.0	11.0	25.0	26.0	16.0	16.0	7.0	7.0	67.0	70.0

Source: Central American Monetary Council and Supervision of Banks and Central Banks.

a/ Data are from December of each year.

b/ Non-performing loans: Costa Rica, El Salvador, Honduras, Nicaragua and Panama, credits with outstanding loans of 90 days or more. Guatemala, credits whose term has expired.

c/ Annualized financial income from intermediation /Total average credit balance – Annualized financial expenditure by intermediation/average balance of deposits.

Monetary aggregates in most countries recorded higher variation rates than in 2004, partly as a result of the Central Bank's inability to sterilize the increase in the money supply from foreign currencies, which in 2005 reached enormous quantities.

One country that stands out is Honduras, where family remittances were the equivalent of 21% of GDP, which clearly exceeds the Central Bank's ability to sterilize the impacts of foreign currency. Obviously, this was reflected in nominal and real interest rates. In most countries there was a slight contraction of nominal rates, and in a period of rising inflation this translated to a greater decline in real rates. This was favorable for credit expansion, which recorded real increases in almost every economy except in that of Costa Rica and Nicaragua.

By the end of 2005, bank indicators in the Central American Isthmus showed improvements with respect to the same month of the previous year, which indicated progress in the regional financial system in terms of growth, solidity and depth. Such behavior can be explained by recent bank mergers and the expansion of financial groups in the Isthmus, mainly those located in El Salvador and Panama, whose concentration and deep-rootedness in the region was notable in the last three years. However, decreasing the margins of intermediation is a pending task for the financial systems of the countries of the region.

In 2005, the currencies of most countries of the Central American Isthmus showed signs of appreciation in real terms in the real bilateral exchange rate with respect to the U.S. dollar, and a light depreciation of the total real effective exchange rate that measures variation with respect to all trade partners (see table 4).

This process of appreciation is apparently turning into a medium term trend, which reinforces the need to increase competitiveness in the region through improvements in productivity, since it is no longer viable to do it via exchange rate depreciations. In 2005, three factors bore on the appreciation of currencies with greater impact than in previous years:

i) The growth of the economies was boosted primarily by the expansion of the export of goods and the dynamism of the tourism industry, which produced an influx of foreign currency.

ii) The considerable net inflow of capital.

iii) The increase in inflows of foreign currencies through current transfers, whose main component is family remittances, exceeding 10% of GDP in three countries (El Salvador, Honduras and Nicaragua).

It is worth mentioning that within a mini-devaluation exchange rate regime (in effect in Costa Rica, Honduras, and Nicaragua) and within the context of an opening of capital accounts, if the monetary authorities raise interest rates to defend the stability of prices, this in turn encourages an inflow of capital, which occurred, for example, in Costa Rica in 2005. Since the exchange rate does not adjust according to the availability of foreign currency, the latter can lead to monetization that the Central Bank must neutralize so as not to exert pressure on internal demand, which could then nullify the initial effort to contract means of payment. Thus a vicious cycle is formed where the Central Bank's own actions have a counterproductive effect: they reduce the efficiency of monetary policy and usually raise the cost of monetary management through a quasi-fiscal deficit. For this reason, many Latin American countries in recent years abandoned intermediary regimes and instead chose the extremes (either floating or totally fixing the currency).⁵

In summary, despite recent advances, several elements of internal and external vulnerability persist. The imbalance of public finances is still one of the factors that bear on the relatively high level of interest rates, as compared with international rates. This encourages, on one hand, inflows of speculative capital, and on the other hand increases the cost of open market operations, taking away the effectiveness of monetary policy. The elevated total public debt constitutes a considerable burden for public finances and an obstacle to improving the national risk rating and decreasing the cost of issuing bonds in international markets. In the monetary sphere, one of the main sources of imbalance in the sub-region is the debt of several Central Banks. To contain the expansion of liquidity, the payment of interests on the stock of stabilization bonds is done through the issuing of new debt, which creates a "snowball effect". In addition, since Central Banks only exert influence on liquidity in the national currency, the effectiveness of monetary policy continues to be affected by the

growing dollarization of the economy. Also worrying is the currency mismatch due to the rise in credit granted to clients that do not have income in foreign currency.

The real appreciation of the currencies of the region was softened by the deterioration of the terms of trade and fiscal discipline. In this latter case it is important to point out that a higher fiscal deficit ought to be financed through

an increase in internal savings or a boost in external debt. A rise in interest rates is necessary, in order to increase net private savings, which would then attract external capital, leading to an additional real appreciation of the exchange rate. Since public finances in 2005 exerted less pressure on the resources of the financial system, they contributed toward mitigating the appreciation of the exchange rate.

Table 4

CENTRAL AMERICAN ISTHMUS: REAL EXCHANGE RATE

In national monetary units per dollar a/	2000	2001	2002	2003	2004	2005 b/
<u>Index of the real bilateral exchange rate with the U.S. dollar (2000 = 100)</u>						
Costa Rica	100.0	98.6	100.4	104.0	104.4	103.6
El Salvador	100.0	99.1	98.8	99.0	97.3	96.1
Guatemala	100.0	97.0	90.7	89.1	85.2	78.2
Honduras	100.0	97.7	97.9	98.2	97.8	96.2
Nicaragua	100.0	102.8	106.7	109.9	109.7	105.6
Panama	100.0	102.5	103.1	104.0	106.3	106.9
<u>Index of the total effective real exchange rate (2000 = 100) c/</u>						
Costa Rica	100.0	97.1	97.6	103.6	106.8	108.4
El Salvador	100.0	99.6	99.6	101.1	100.3	101.8
Guatemala	100.0	95.7	88.5	88.2	86.0	79.9
Honduras	100.0	97.1	96.9	98.6	100.0	100.0
Nicaragua	100.0	101.1	103.1	107.2	108.9	108.4
Panama	100.0	103.0	102.1	104.7	107.0	109.6

Source: ECLAC, based on official figures.

a/ For Costa Rica and El Salvador, the currency is colons; Guatemala, quetzals; Honduras, lempiras; Nicaragua, cordobas and Panama, balboas.

b/ Preliminary figures.

c/ Annual averages. The index of the total effective real exchange rate is calculated by adjusting the indices of the real bilateral exchange rate of each trading partner by the participation of trade—exports plus imports—with that partner within the total of the country's trade. A currency depreciates in real effective terms when this index rises, and it appreciates when it decreases.

Box 2**NICARAGUA: EVOLUTION OF EXCHANGE-RATE POLICY**

Beginning in 1991, Nicaraguan exchange-rate policy used the anchor of the nominal exchange rate as one of its main tools in eliminating hyperinflation. The results were a resounding success. Once price stability was consolidated and inflation was at one digit, the increase in external competitiveness became the priority for economic authorities. However, the control of the rise in prices was accompanied by an overvaluation of the real exchange rate, a boom in private consumption and a worsening of the terms of trade, so that by the end of 1992 the

Box 2 (Conclusion)

export of goods and services had recorded a decrease of more than 35%, while imports had expanded almost 33%. To reverse these trends, in 1993 the cordoba was devalued by 20% and a sliding system for the nominal exchange rate was implemented to avoid an exchange-rate appreciation. The idea consisted in incorporating an exchange rate adjustment that would offset external inflation, allowing the competitiveness of the export sector to be maintained. At the same time, authorities recognized the need to adjust excessive internal spending. Thus, economic policy combined the daily slide of the currency with respect to the dollar with a greater effort towards public savings and monetary discipline.

The fundamental purpose of the Central Bank was reducing the inflation rate to one that would coincide with the international rate. Toward that end, the annual devaluation rate of the nominal exchange rate (12%), which was established in 1993 when the system of daily preannounced minidevaluations, known as the active crawling peg, were adopted, was reduced in 1999 (to 9% and to 6%) and in 2004 (to 5%). One of the main arguments in favor of the reduction of the exchange slide was the decline in the effectiveness of the devaluation policy to improve the real exchange rate and reach a sustainable trade deficit. This decline in effectiveness is caused by the depth of the monetary substitution, where the dollar consolidates its function as a means of exchange, and also by the indexing of prices to the nominal exchange rate. As a result, the current devaluation rate only sets a floor for inflation, without improving external competitiveness.

c) Trade policy

Trade policy has practically become the only active policy of what was once known as structural reforms. In 2005 activities were focused on the ratification of the Free Trade Agreement between Central America, the Dominican Republic and the United States, known as DR-CAFTA (see box 3). Meanwhile, Panama continued negotiating with the United States, but strong discrepancies, especially

those related to agriculture, blocked an agreement from being reached. However, Panama's negotiations with Chile, which had been stalled since the end of the nineties, were taken up again and an agreement was quickly reached. The text for an FTA with Singapore was also negotiated with no setbacks. Finally, the FTA between Costa Rica and the countries that make up the Caribbean Community (CARICOM) entered into effect in 2005.

Box 3

DR-CAFTA AND THE COMPLEMENTARY AGENDA

In 1984 the United States approved a law entitled *Caribbean Basin Economic Recovery Act* (CBERA), known as the Caribbean Basin Initiative (CBI). Fifteen years after its passing, industrial assembly plant exports represented more than 55% of the region's total exports to the United States. In October of 2002, the U.S. federal government notified Congress of its intention to begin negotiations for the signing of an FTA with Central America. The negotiations concluded in December of 2003 for El Salvador, Guatemala, Honduras and Nicaragua, and Costa Rica's in January of 2004. The inclusion of the Dominican Republic was negotiated between June and July of 2004, and in August of 2004 the Free Trade Agreement between Central America, the Dominican Republic and the United States (DR-CAFTA) was signed. At that moment the period started wherein each country initiated its process of sending the agreement to its respective Congress for discussion and ratification.

Every country, except Costa Rica, ratified the trade agreement in its respective Congress between December of 2004 (El Salvador) and October of 2005 (Nicaragua). The countries that ratified the agreement set the 1 of January, 2006 as the date for it to come into effect. However, the FTA entails the adoption of a series of commitments on behalf of the signatory countries, which have different levels of fulfillment. These commitments include modifications to legislation

Box 3 (Conclusion)

in different areas, the ratification of international agreements, the creation of the ability to administer the treaty, etc. Thus, the treaty did not come into effect for any of the signatory countries, as had been predicted.

Currently, El Salvador, Honduras, Guatemala and Nicaragua have carried out all of the necessary reforms to its laws, and the DR-CAFTA began operating in these countries. In the case of Costa Rica, there should be important changes in regulations and institutions that up until now have been public monopolies that provide insurance, telephony and internet services.

The great opportunity that the DR-CAFTA provides is guaranteeing and expanding access to the main trading partner's market, in addition to the potential to increase trade and investment in sub-region, which are relevant factors for economic growth and the reduction of poverty. However, the countries need to complement the treaty with investment and reforms in areas such as education, infrastructure, governance, and strengthening institutions. This has been called the "complementary agenda", and includes such varied actions as supporting small and medium-sized businesses, fostering research and development, investing in education as well as in infrastructure that facilitate trade, such as ports, roads and customs, adopting institutional reforms and regulations (transparency, the rule of law, the simplification of procedures) and assisting the most vulnerable groups in order to ease their adapting to the new competitive environment. It is of the utmost importance to note that the countries that advance the most in this complementary agenda will be in the best position to benefit from the potential that the FTA entails.

The finalizing of work related to the Central American Customs Union is expected by the end of 2006, which will bring the process of Central American integration to the next level. Likewise, in May, the European Union have formalized the beginning of negotiations to establish a free trade agreement with the region. Panama will also be included in these negotiations, and this will be the first time

that this country participates as part of a block with the rest of the Central American Isthmus in international negotiations of this scope.

Given that this agreement is conditioned upon a successful process of integration, Panama has relaunched negotiations, paralysed in the past four years, with four Central American countries it has no free trade agreements with (Costa Rica, Guatemala, Honduras and Nicaragua).

4. Production, remuneration and employment

a) Economic activity of countries in the region

In 2005 the economies of the Central American Isthmus grew 4.4%, a rate equal to that of the previous year and slightly lower than the average for Latin America (4.3%). Trends among nations were varied. Costa Rica had a growth rate similar to that of 2004, Panama experienced a slowdown in growth (from 7.6% in 2004 to 6.4% in 2005). The figures for Honduras and Nicaragua went from 5% to 4%. El Salvador saw somewhat moderate economic expansion, which grew from 1.8% in 2004 to 2.8% in 2005, and in Guatemala the same figure rose from 2.7% to 3.2%; both countries experienced heavy damages as a result of the hurricanes that lashed the region in 2005. Also notable is less dispersion of rates around the average throughout the Isthmus. While in 2004 the extremes ranged from 7.6% and 1.8%, in 2005 they dropped to 6.4% and 2.8%.

Nevertheless, in the long term, instead of continuing on a path of economic convergence, the countries of the region have tended to deepen their divergence over the last 25 years. This can be seen in graph 16, where a positive and highly significant relationship is shown between the logarithm of per capita GDP in the base year with respect to the growth rate period of 1980-2005.

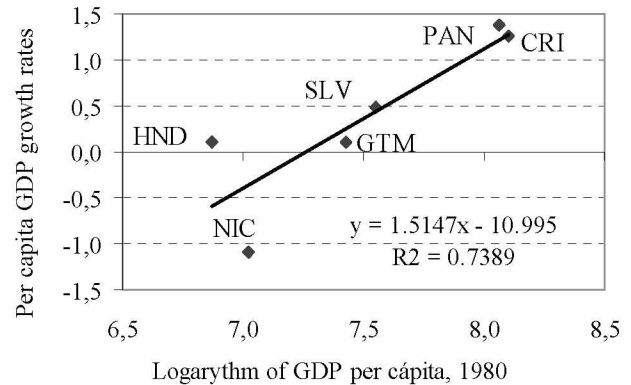
This means that countries with a per capita GDP that was higher in 1980 grew with higher rates in the last 25 years, deepening the rift with other countries. This can clearly be seen in graph 17, where one can see that during the same period, the dispersion of per capita GDP increased among the six countries. In many ways this performance is the result of other events such as civil wars, but the relationships shown here also stands for countries that did not experience similar events. All of this makes the difference between the economic structures in the sub-region stand out despite the processes of integration that intends to reduce differences between Central American economies. Therefore, it is possible that greater trade flows may not be enough to attain sustainable and more equal growth, and that implementing public policies oriented towards achieving macroeconomic balance in the real sector would be required. Consequently, it is not only a question of seeking nominal stability, but rather improving the prospects of long-term economic growth and employment in the region, towards real stability.

It is also noteworthy to analyse the 2005 results for the perspective of business cycles. From 2001 to 2003 the economic growth in most of the economies of the Isthmus was bellow the trend. This means that these economies stopped growing at the rates recorded in the 1990s and failed to use all its potential to grow. In the last two years, however, that has changed so that the real growth rate is somewhat above the trend.

According to econometric estimates, only Nicaragua's growth would be bellow trend in 2006. However, it should be noted that both

El Salvador and Guatemala have recorded very moderate growth rates in the last five-year period. That has reduced its growth trend, so that now they are able to surpass it with even a modest increase in the economic expansion (graph 18).

Graph 16
CENTRAL AMERICAN ISTHMUS:
ECONOMIC DIVERGENCE REFLECTED
IN PER CAPITA GDP GROWTH
RATES, 1980-2005

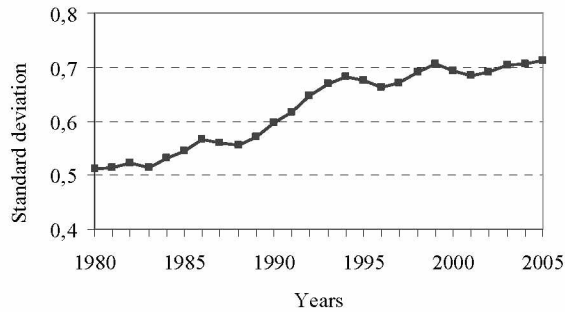


Source: ECLAC, based on official figures.

The abbreviations mean: Nicaragua (NIC), Honduras (HND), Guatemala (GTM), El Salvador (SLV), Panama (PAN) and Costa Rica (CRI).

In 2005, the export of goods and services grew 8.6%, measured at constant prices (base year 2000). The expansion of external demand in the last three years has been an important source of economic growth in the sub-region. However, this growth is below the expectations held by those who were in favor of implementing economic reforms two decades ago, especially if these results are compared with the economic success stories in other developing regions of the world, particularly East Asia. Consequently, several questions arise as to the direct benefits that greater openness to trade really have on the creation of growth in the sub-region. In the last two year period, the GDP in the Isthmus increased moderately, which contrasts with elevated rates of expansion in the export of goods and services.

Graph 17
CENTRAL AMERICAN ISTHMUS:
DISPERSION OF PER CAPITA GDP,
1980-2005



Source: ECLAC, based on official figures.

Table 5
CENTRAL AMERICAN ISTHMUS: GROSS NATIONAL
PRODUCT AND EXPORTS, 2001-2005

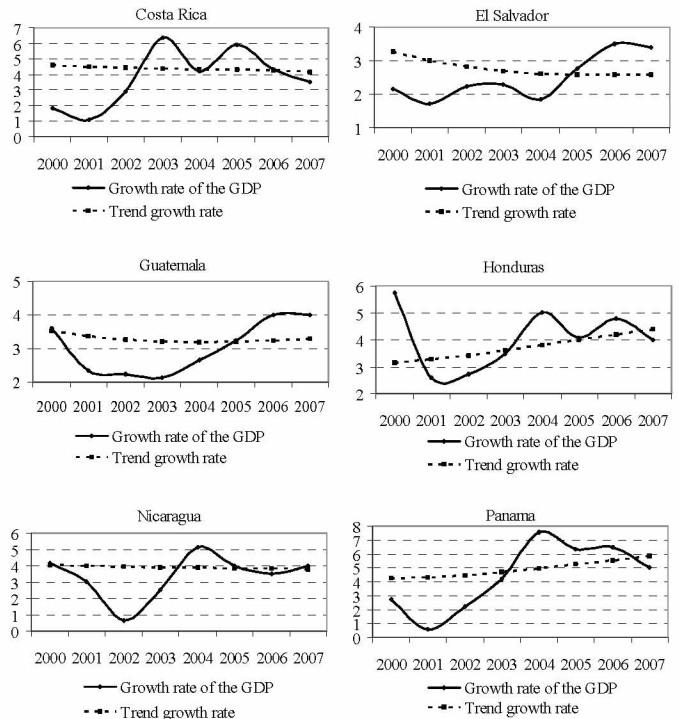
(Growth rates)

Central American Isthmus	GDP	Export of goods and services
2001	1.7	-2.4
2002	2.3	0.3
2003	3.6	1.5
2004	4.0	9.0
2005	4.4	8.6

Source: ECLAC, based on official figures.

The internal demand was as dynamic as the previous year, growing 4.5%. On one hand, regional consumption expanded in importance as a source of growth, and is without a doubt sustained by the increasingly abundant inflow of family remittances to Central America. In this sense, the growth of private consumption stands out (4.7%), which expanded by one third of one percentage point more than in 2004. Government consumption rose 2.5%, overcoming the slide experienced in 2004. Moreover, the increase in gross investment reached 4.5%, almost half a percentage point more than the previous year. The above average increase in investments is notable, in the case with Costa Rica and Guatemala (6.9%), Nicaragua (6.7%), El Salvador (5.7%) and Panama (5%); which stands in contrast with the drop for this figure in Honduras (-8.2%), after a year of extraordinary growth.

Graph 18
CENTRAL AMERICAN ISTHMUS: GROWTH
RATE OF THE GDP AND TREND GROWTH
RATE, 2000-2007

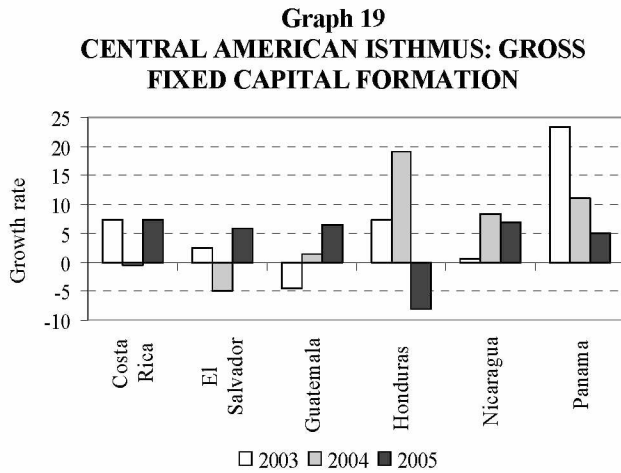


Source: ECLAC, based on official figures.

Analyzing the global supply, imports expanded significantly. Part of this expansion was due to the rise in international petroleum prices, but the purchase of intermediary and capital goods in the sub-region also had an influence, which was reflected in production. The manufacturing sector reverted to the slowdown of the previous year, and reached growth of 5.8%, mainly because of the good performance of Costa Rica and Honduras. The agricultural sector expanded at a rate of 2.9% and El Salvador's performance was also noteworthy (5.8%), despite the damage done to this sector by the torrential rains brought by Hurricane Stan, as well as the eruption of the volcano Ilamatepec in October of 2005.

In addition, there was a significant increase in the construction sector, especially compared with the drop in 2004. Development in this sector varied from country to country. Expansion was especially strong in Nicaragua (6%), followed by El Salvador (3.4%), which contained and reversed 11.4% drop in 2004 Honduras (3%) and Guatemala (2.9%).

Construction in Panama barely increased (1%), while in Costa Rica it dropped 0.2%.



Source: ECLAC, based on official figures.

The mining and quarry sectors lost steam and barely grew at 0.9%. In contrast, other sectors like the basic services continued growing with vigor. Telecommunications, transportation, and banking and financial services in general experienced a considerable dynamism, especially in Panama. Finally, the tourism sector stands out for its excellent performance in all of the countries of the Isthmus.

b) Prices, remuneration and employment

Even when the regional interannual rate of inflation in 2005 saw the same variation as in 2004 (8.1%), the increase was almost two percentage points higher than that recorded by all of the countries in Latin American and the Caribbean (6.3%). A distinctive feature of this past year was the lower convergence of inflation rates for countries in the region. In 2004 price levels rose overall, while in 2005 only three countries (Costa Rica, Nicaragua and Panama) had increases that were higher than the previous year, with Costa Rica's two digit rate (14.1%) standing out.

It is also significant that the annual average variation of the Consumer Price Index (CPI) rose

from 7% in 2004 to 8.3%. It is still worth noting that inflation is in the one digit range.

Macroeconomic discipline helped moderate the variation of prices. In addition, the evolution of exchange rates with the appreciation of the national currency in several countries, tempered to a certain extent the effect of the rise of the price of imported goods. In this context, said rise was mainly associated with the new increase in international oil prices and that of its derivatives, and the supply problems of certain agricultural goods for domestic consumption, as well as to adjustments in the rates of certain public services (transportation, electricity and water), though with regard to the latter two groups, it was to a lesser degree and only in some countries. On average, the prices of food products helped to ease inflationary pressures, as opposed to the previous year.

Lastly, the fact that in some cases a greater inflationary inertia was observed should be highlighted. This could be associated with the indexation of labor, trade and financial contracts to the exchange rate. The adjustments of prices and rates could also be greatly connected to considerations of future expectations or past inflationary behavior.

Information on employment in the region shows that economic expansion was reflected in a very slight improvement of the labor market situation. The big exception was Panama, where the urban unemployment rate fell from 14.1% to 12%. Some improvement also occurred in Honduras and Nicaragua. In the other countries of the region, unemployment stayed the same, and in some cases slightly increased. This shows that much higher growth rates are needed (around 6%), in order to substantially improve the labor market situation.

At the same time, the lack of revision of the minimum salaries in some countries or the agreed increases, as well as scant increases in nominal salaries, all lead to a drop in real purchasing power, since inflation was relatively high. In several countries, the real salary barely grew as compared to the levels seen at the beginning of the decade.

5. Prospects for 2006

Global growth continues to be relatively robust...

Estimates for world-wide growth in 2006 point towards a greater figure than the one recorded in 2005 (4.9%), which represents a vigorous growth above the average of the last ten years. Global growth would benefit from dynamism in two main engines, namely, the United States and developing Asian countries, both with similar growth to that achieved in 2005. A slightly improved performance for the European Union and Japan as compared to the previous year is also expected. International trade should strengthen, from 7.1% in 2005 to 8% in 2006.

Table 6

PROJECTIONS OF GDP GROWTH FOR THE WORLD, THE UNITED STATES AND GLOBAL TRADE IN 2006 MADE BY DIFFERENT INTERNATIONAL ORGANIZATIONS AND RESEARCH CENTERS

	United Nations	OECD	International Monetary Fund	The Economist Intelligence Unit
Growth of global GDP	4.8	...	4.9	5.0
Growth of global trade	7.0	9.3	8.0	8.5
GDP growth for the United States	3.1	3.6	3.4	3.3

Note: The source for the United Nations is World Economic Situation and Prospects 2006 (July 2006); for the IMF, World Economic Outlook (April 2006); for the OECD, Economic Outlook (March 2006); for the EIU, Country Forecast (July 2006).

...but the countries of Latin America and the Caribbean will not participate fully in it.

Growth estimates for Latin America and the Caribbean predict slightly higher growth than in 2005 (5% versus 4.5%), with less heterogeneity among nations. Compared with developing countries, however, this represents an inferior performance. Indeed, developing countries should grow 6.2% and economies in transition, 6%. Both should benefit from the high price of commodities and robust global demand.

The global economic situation continues to be benign...

An abundance of liquidity persists in the global economy, given exceptionally low interest rates, and this is reflected in the historic lows recorded on the EMBI + index (*Emerging*

Markets Bond Index +). It is foreseen that financing conditions will continue to be favorable during 2006 in spite of turbulences in May and June. However, the high price of commodities should drop by a narrow margin. Finally, investments should show greater dynamism, since idle installed capacity is being reduced.

... however, new risks will be added to the old ones.

As has already been noted, international petroleum prices will continue to be high for the next two years, and thus the impact on the global economy could be more serious than it has been until now. Global imbalances originating in insufficient American savings, and reflected in the fiscal and external deficit, will remain and will tend to expand in 2006. If there is a crash landing rather than a soft one, projections for global growth could

fall considerably. Two new risks may be added to the ones already mentioned. Real estate markets are growing weak in several developed countries, and combined with the rise in interest rates, this could cause a loss of confidence and a disorderly adjustment of global imbalances. Finally, a possible bird flu epidemic could have unpredictable and potentially serious macroeconomic consequences.

For the economies of the Central American Isthmus, the situation will not change substantially...

The economies of the Isthmus should face conditions similar to those of 2005. On the plus side, a robust external demand is expected, accompanied by the arrival of foreign direct investment, in the form of remittances and tourism in abundant amounts, even higher than in 2005. On the negative side, the prices of commodities and especially of petroleum will remain high. Since the sub-region is a net importer of these products, the terms of trade will continue to deteriorate.

...therefore a slightly higher growth than in 2005 is expected.

The growth of 2005 will be slightly exceeded in 2006 (4.7%). Even more important, the dispersion of rates around the average will continue to diminish. The extremes of high and low rates, which were very pronounced in 2004, and slightly less so in 2005, should diminish even more. Another notable trend is the slow but persistent increase in the dynamism of the Central American average. At the same time, growth in Panama records an average of 6.8% in the three-year period (2004-2006).

Two countries have hold elections...

Honduras and Costa Rica have chosen new governments and have announced some changes with respect to economic policy. Some stalled projects, like fiscal reform in Costa Rica, now have a higher chance of passing.

Table 7

CENTRAL AMERICAN ISTHMUS: GDP GROWTH PROJECTIONS FOR 2006

(Variation rates)

	2004	2005	2006 a/
Central American Isthmus	4.0	4.4	4.7
Central America	3.3	4.0	4.4
Costa Rica	4.2	5.9	5.5
El Salvador	1.8	2.8	3.5
Guatemala	2.7	3.2	4.0
Honduras	5.0	4.1	4.8
Nicaragua	5.1	4.0	3.5
Panama	7.6	6.4	6.5

Source: ECLAC, estimates based on official figures.

a/ Projection.

...but mostly a continuation in economic policy is foreseen...

The mix of macroeconomic policies should not suffer any brisk changes. In the area of fiscal policy, consolidation efforts should continue, with the strong likelihood that new administrations will adopt fiscal reforms. Monetary policy will continue seeking a reasonable balance between supporting economic activity and controlling inflation. Thus, inflation will remain at a level higher than the international rate, though below 10%. Exchange policy will not be able to contain the appreciation process, and therefore competitiveness will continue to grow weaker. One can predict a good performance in the export sector, but as in previous years, this

would not translate in more dynamic growth for the rest of the economy.

...and the integration process and FTAs will move forward.

The Central American integration process foresees the completion of preparations towards the creation of a Customs Union. The DR-CAFTA will also come into effect for most of the countries. In November, the beginning of negotiations towards a free trade agreement between Central American countries and the European Union is expected to start. Panama will take part in the negotiations; it has recently showed a greater willingness to join the process of Central American integration.

NOTES

¹ In this report, the Central American Isthmus refers to six countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), while Central America excludes Panama.

² See the end of this chapter.

³ Measured as a simple average.

⁴ See ECLAC, *Effects in Guatemala of torrential rains and Hurricane Stan, October 2005* (LC/MEX/R.895) and *Effects in El Salvador of torrential rains, Hurricane Stan and the eruption of the volcano Ilamantepec (Santa Ana), October 2005 and project profiles* (LC/MEX/R.892).

⁵ For more information, see ECLAC (2005), *Preliminary Overview of the Economies of Latin America and the Caribbean* (LC/G.2292-P/E), Santiago, Chile, December.

Statistical Annex

Table A

CENTRAL AMERICAN ISTHMUS: MAIN ECONOMIC INDICATORS

Country	2000	2001	2002	2003	2004	2005
Area (km²)						
Costa Rica	50 700	50 700	50 700	50 700	50 700	50 700
El Salvador	21 041	21 041	21 041	21 041	21 041	21 041
Guatemala	108 889	108 889	108 889	108 889	108 889	108 889
Honduras	111 900	111 900	111 900	111 900	111 900	111 900
Nicaragua	130 000	130 000	130 000	130 000	130 000	130 000
Panama	75 517	75 517	75 517	75 517	75 517	75 517
Population						
Thousands of inhabitants						
Costa Rica	3 925,3	4 008,3	4 089,6	4 169,7	4 248,5	4 325,8
El Salvador	6 276,0	6 396,9	6 517,8	6 638,1	6 757,4	6 874,9
Guatemala	11 225,4	11 503,7	11 791,1	12 087,0	12 390,5	12 700,6
Honduras	6 485,5	6 655,9	6 828,0	7 001,1	7 174,2	7 346,5
Nicaragua	5 071,7	5 205,0	5 341,9	5 482,3	5 626,5	5 774,4
Panama	2 948,0	3 004,0	3 060,1	3 116,3	3 172,4	3 228,2
Population growth rates						
Percentages						
Costa Rica	2,4	2,1	2,0	2,0	1,9	1,8
El Salvador	2,0	1,9	1,9	1,8	1,8	1,7
Guatemala	2,4	2,5	2,5	2,5	2,5	2,5
Honduras	2,7	2,6	2,6	2,5	2,5	2,4
Nicaragua	2,8	2,6	2,6	2,6	2,6	2,6
Panama	1,9	1,9	1,9	1,8	1,8	1,8
Economically active population						
Thousands of inhabitants						
Costa Rica	...	2 964,5	3 060,8	3 167,2	3 250,5	3 349,7
El Salvador	4 778,0	4 947,2	5 028,6	5 066,9	5 240,8	...
Guatemala	3 615,7	3 771,8	4 923,6	5 065,4	4 990,0	...
Honduras	-	2 381,7	2 444,8	2 556,5	2 592,2	2 651,3
Nicaragua	...	3 653,2	...	3 870,3	3 977,7	4 096,7
Panama	1 952,7	2 010,2	2 054,3	2 098,9	2 143,4	2 216,2
Net participation rate						
Percentage of EAP						
Costa Rica	53,6	55,8	55,2	55,5	54,4	56,8
El Salvador	52,3	53,3	51,2	53,4	51,7	...
Guatemala	56,3	56,9	61,4	60,9	56,1	...
Honduras	...	51,8	50,9	51,3	50,6	...
Nicaragua	...	52,0	...	53,3	53,1	53,8
Panama	59,9	60,5	62,6	62,8	63,3	63,5
Open unemployment						
Percentage of active workforce						
Costa Rica	5,2	6,1	6,4	6,7	6,5	6,6
El Salvador	7,0	7,0	6,2	6,9	6,8	7,8
Guatemala	...	...	3,1	3,4	3,1	...
Honduras	-	3,9	3,8	5,1	5,9	4,1
Nicaragua	...	10,7	...	7,0	6,5	5,6
Panama	13,5	14,0	13,5	13,1	11,8	9,8
Gross domestic product						
Millions of current dollars						
Costa Rica	15 946,5	16 403,4	16 844,3	17 514,2	18 557,0	20 020,8
El Salvador	13 134,1	13 812,7	14 306,7	15 046,7	15 821,6	16 974,0
Guatemala	19 307,9	21 004,0	23 336,3	24 923,2	27 355,2	32 061,5
Honduras	5 954,4	6 327,4	6 508,4	6 866,2	7 452,4	8 301,2
Nicaragua	3 938,1	4 102,4	4 026,0	4 101,5	4 496,4	4 910,1
Panama	11 620,5	11 807,6	12 272,4	12 933,2	14 204,2	15 466,7

/Continued

Table A (Conclusion)

Country	2000	2001	2002	2003	2004	2005
Current dollars						
Per capita GDP						
Costa Rica	4 062,5	4 092,4	4 118,8	4 200,4	4 367,9	4 628,2
El Salvador	2 092,8	2 159,3	2 195,0	2 266,7	2 341,4	2 469,0
Guatemala	1 720,0	1 825,9	1 979,1	2 062,0	2 207,8	2 524,4
Honduras	918,1	950,6	953,2	980,7	1 038,8	1 129,9
Nicaragua	776,5	788,2	753,7	748,1	799,1	850,3
Panama	3 941,8	3 930,7	4 010,5	4 150,2	4 477,5	4 791,1
Nominal exchange rate ^{a/}						
Costa Rica	308,19	328,87	359,82	398,66	437,94	477,79
El Salvador	8,75	8,75	8,75	8,75	8,75	8,75
Guatemala	7,76	7,85	7,81	7,93	7,94	7,62
Honduras	15,01	15,65	16,61	17,54	18,41	19,00
Nicaragua	12,68	13,44	14,25	15,11	15,94	16,73
Panama	1,00	1,00	1,00	1,00	1,00	1,00
Human development index ^{b/}						
Costa Rica	0,829	0,832	0,834	...	...	...
El Salvador	0,713	0,719	0,720	...	...	...
Guatemala	0,642	0,652	0,649	...	...	...
Honduras	...	0,667	0,672	...	...	...
Nicaragua	0,643	0,643	0,667	...	...	...
Panama	0,791	0,788	0,791	...	...	...
Percentage of households						
Poverty						
Costa Rica	20,6	20,3	20,6	18,5	21,7	21,2
El Salvador	38,5	38,8	36,8	36,1	34,6	0,0
Guatemala	...	...	56,2	...	...	...
Honduras	...	64,5	...	63,5	...	...
Nicaragua	...	60,9	...	...	...	...
Panama	...	...	...	...	...	...
Number of households living below the poverty line ^{c/}	1990	1994	1999	2002		
Costa Rica	26,3	23,1	20,3	20,3		
El Salvador	-	54,2 ^{d/}	49,8	48,9 ^{e/}		
Guatemala	-	69,4 ^{f/}	61,1 ^{g/}	60,2		
Honduras	80,8	77,9	79,7	77,3		
Nicaragua	-	73,6 ^{h/}	69,9 ^{g/}	69,3 ^{e/}		
Panama	43,1 ^{i/}	36,1	30,2	34,0		

Source: ECLAC, based on data collected in household surveys.

a/ For: Costa Rica and El Salvador, colons; Guatemala, quetzals; Honduras, lempiras; Nicaragua, cordobas, and Panama, balboas per U.S. dollar, respectively.

b/ The HDI is measured on a scale of 0 to 1; the closer a reading is to 1, the greater the degree of development.

c/ This data may not coincide with national statistics as the former are calculated based on the poverty line as estimated by ECLAC. Includes people living below the poverty line or living in extreme poverty.

d/ Figures corresponding to 1995.

e/ Figures corresponding to 2001.

f/ Figures corresponding to 1989.

g/ Figures corresponding to 1998.

h/ Figures corresponding to 1993.

i/ Figures corresponding to 1992.

Table 1

CENTRAL AMERICAN ISTHMUS: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005 a/
	Growth rates					
Economic activity and prices						
Gross National Product b/	3,0	1,7	2,3	3,6	4,0	4,4
Per capita GDP b/	0,6	-0,6	0,0	1,3	1,7	2,1
Gross fixed capital formation	-4,6	-4,6	0,4	5,0	3,8	4,5
CPI (December-December)	5,9	6,3	5,7	5,6	8,1	8,1
	Percentages					
Fiscal deficit/GDP (weighted)	2,5	3,0	2,6	3,0	2,3	1,9
	Millions of dollars					
External sector						
Current account balance	-3 913,2	-3 278,6	-3 527,8	-4 035,2	-4 838,3	-4 708,3
Income balance	-2 610,0	-2 029,7	-1 747,4	-2 707,2	-2 816,6	-2 696,9
Net current transfers	4 088,8	5 080,7	5 918,2	6 754,3	8 074,8	9 604,6
Financial and capital account c/	4 040,3	3 952,7	3 602,1	4 550,2	5 350,2	6 176,0
Net foreign direct investment	1 984,2	2 005,2	1 718,2	2 067,1	2 735,2	2 908,5
Overall balance	127,1	674,0	74,3	515,1	511,9	1 467,6
Net resource transfer	1 753,2	2 213,3	2 278,9	2 246,9	2 935,1	3 533,1
External public debt	24 992,1	26 181,6	27 553,3	29 723,8	30 315,7	29 703,9
	Indices (2000 = 100)					
Terms of trade of goods	100,0	99,3	97,7	94,4	92,3	90,3

Source: ECLAC, based on official figures.

a/ Estimated figures.

b/ 2000 constant-dollar prices.

c/ Includes errors and omissions.

Table 2
CENTRAL AMERICAN ISTHMUS: MAIN ECONOMIC INDICATORS
(Growth rates)

	2000	2001	2002	2003	2004	2005 a/
Gross domestic product b/						
Central American Isthmus	3,0	1,7	2,3	3,6	4,0	4,4
Central America	3,0	1,9	2,4	3,5	3,3	4,0
Costa Rica	1,8	1,1	2,9	6,4	4,1	5,9
El Salvador	2,2	1,7	2,2	2,3	1,8	2,8
Guatemala	3,6	2,3	2,2	2,1	2,7	3,2
Honduras	5,7	2,6	2,7	3,5	5,0	4,1
Nicaragua	4,2	3,0	0,6	2,5	5,1	4,0
Panama	2,7	0,6	2,2	4,2	7,6	6,4
Per capita GDP						
Central American Isthmus	0,6	-0,6	0,0	1,3	1,7	2,1
Central America	0,6	-0,4	0,0	1,1	1,0	1,7
Costa Rica	-0,6	-1,0	0,9	4,4	2,2	4,1
El Salvador	0,2	-0,2	0,3	0,4	0,0	1,0
Guatemala	1,2	-0,1	-0,2	-0,4	0,2	0,7
Honduras	3,0	0,0	0,1	0,9	2,5	1,6
Nicaragua	1,4	0,4	-1,9	-0,1	2,4	1,3
Panama	0,8	-1,3	0,4	2,3	5,7	4,5
Gross fixed capital formation						
Central American Isthmus	-4,6	-4,6	0,4	5,0	3,8	4,5
Central America	-4,0	0,2	1,4	2,1	2,4	4,4
Costa Rica	-0,9	2,4	6,5	7,2	-0,5	7,3
El Salvador	4,6	1,4	2,2	2,5	-5,0	5,7
Guatemala	-8,4	2,3	4,3	-4,4	1,5	6,4
Honduras	-8,3	-7,6	-6,1	7,3	19,1	-8,0
Nicaragua	-8,2	-2,8	-11,6	0,6	8,3	6,8
Panama	-7,2	-25,6	-5,7	23,3	11,1	5,0

Source: ECLAC, based on official figures.

a/ Estimated figures.

b/ 2000 constant-dollar prices.

Table 3

CENTRAL AMERICAN ISTHMUS: TRADE INDICATORS OF GOODS, FOE

	2000	2001	2002	2003	2004	2005 a/
	Millions of dollars					
Export of goods, fob						
Central American Isthmus	20 441	19 310	19 082	20 286	22 603	25 291
Central America	14 602	13 318	13 767	15 214	16 469	18 103
Costa Rica	5 813	4 923	5 270	6 163	6 370	7 100
El Salvador	2 963	2 892	3 020	3 153	3 337	3 432
Guatemala	3 082	2 860	2 819	3 060	3 430	3 855
Honduras	2 012	1 935	1 977	2 090	2 398	2 652
Nicaragua	732	708	681	749	935	1 064
Panama	5 839	5 992	5 315	5 072	6 133	7 188
Import of goods, fob						
Central American Isthmus	-26 773	-26 785	-27 978	-29 897	-34 387	-38 921
Central America	-19 791	-20 096	-21 618	-23 623	-26 666	-30 375
Costa Rica	-6 024	-5 743	-6 537	-7 252	7 791	-9 242
El Salvador	-4 703	-4 824	-4 885	-5 439	-5 999	-6 440
Guatemala	-4 742	-5 142	-5 791	-6 179	-7 189	-8 127
Honduras	-2 670	-2 769	-2 806	-3 035	-3 677	-4 188
Nicaragua	-1 653	-1 617	-1 599	-1 720	-2 010	-2 378
Panama	-6 981	-6 689	-6 350	-6 274	-7 722	-8 546
	Growth rates					
Export of goods, fob						
Central American Isthmus	4,5	-5,5	-1,2	6,3	11,4	11,9
Central America	2,3	-8,8	3,4	10,5	8,2	9,9
Costa Rica	-11,6	-15,3	7,0	16,9	3,4	11,5
El Salvador	16,9	-2,4	4,4	4,4	5,8	2,9
Guatemala	10,8	-7,2	-1,4	8,5	12,1	12,4
Honduras	14,5	-3,8	2,2	5,7	14,7	10,6
Nicaragua	16,8	-3,4	-3,7	9,9	24,9	13,8
Panama	10,4	2,6	-11,3	-4,6	20,9	17,2
Import of goods, fob						
Central American Isthmus	7,5	0,0	4,5	6,9	15,0	13,2
Central America	8,3	1,5	7,6	9,2	12,9	13,9
Costa Rica	0,5	-4,7	14,0	10,8	7,4	18,6
El Salvador	20,9	2,6	1,3	11,4	10,3	7,4
Guatemala	13,4	8,4	12,6	6,6	16,4	13,1
Honduras	6,4	3,7	1,3	8,2	21,1	13,9
Nicaragua	-2,6	-2,2	-1,1	7,6	16,9	18,3
Panama	5,3	-4,2	-5,1	-1,2	23,1	10,7
	Indices (2000 = 100)					
Terms of trade of goods, fob/fob						
Central American Isthmus	100,0	99,3	97,7	94,4	92,3	90,3
Central America	100,0	97,6	96,0	93,4	91,2	89,4
Costa Rica	100,0	98,4	96,9	95,5	91,9	89,5
El Salvador	100,0	102,5	101,6	97,7	96,8	94,5
Guatemala	100,0	96,7	95,8	93,0	92,1	91,9
Honduras	100,0	94,8	92,0	88,0	87,2	84,1
Nicaragua	100,0	88,4	87,0	84,1	82,5	80,9
Panama	100,0	102,7	101,6	97,2	95,3	93,2

Source: ECLAC, based on official figures.

a/ Estimated figures.

Table 4

CENTRAL AMERICAN ISTHMUS: BALANCE OF PAYMENT INDICATORS

(Millions of dollars)

	2000	2001	2002	2003	2004	2005 a/
Balance of the current account						
Central American Isthmus	3 913,2	-3 278,6	-3 527,8	-4 035,2	-4 838,3	-4 708,3
Central America	-3 240,7	-3 108,3	-3 423,3	-3 532,5	-3 711,0	-3 890,6
Costa Rica	-690,7	-602,9	-856,9	-880,0	-795,8	-959,5
El Salvador	-430,5	-150,3	-405,1	-702,3	-631,8	-786,5
Guatemala	-1 049,0	-1 252,9	-1 234,9	-1 039,1	-1 188,3	-1 302,6
Honduras	-232,1	-302,5	-236,9	-259,9	-399,4	-42,3
Nicaragua	-838,4	-799,7	-698,5	-651,1	-695,7	-799,8
Panama	-672,5	-170,3	-95,5	-502,7	-1 127,3	-817,7
Trade balance of goods and services						
Central American Isthmus	-5 392,0	-6 329,6	-7 698,6	-8 082,3	-10 096,5	-11 616,0
Central America	-5 102,7	-6 523,3	-7 631,6	-8 075,1	-9 783,6	-11 691,0
Costa Rica	468,4	-74,5	-592,5	-313,0	-563,9	-1 001,9
El Salvador	-1 974,5	-2 182,9	-2 104,6	-2 393,5	-2 739,4	-3 079,6
Guatemala	-1 707,9	-2 165,3	-2 892,7	-3 183,3	-3 875,0	-4 466,3
Honduras	-845,8	-1 061,8	-1 012,5	-1 107,8	-1 428,7	-1 712,2
Nicaragua	-1 042,8	-1 038,8	-1 029,2	-1 077,5	-1 176,6	-1 431,0
Panama	-289,3	193,7	-67,0	-7,2	-312,9	75,0
Net current transfer balance						
Central American Isthmus	4 088,8	5 080,7	5 918,2	6 754,3	8 074,8	9 604,6
Central America	3 911,8	4 854,6	5 674,4	6 507,9	7 846,8	9 361,2
Costa Rica	93,4	150,9	175,5	208,8	212,4	269,5
El Salvador	1 797,1	2 298,3	2 022,9	2 114,3	2 567,7	2 864,6
Guatemala	868,2	996,8	1 976,2	2 461,9	3 005,7	3 492,3
Honduras	746,9	929,2	968,7	1 105,8	1 387,8	1 984,4
Nicaragua	406,2	479,4	531,1	617,1	673,2	750,4
Panama	177,0	226,1	243,8	246,4	228,0	243,4
Financial and capital account b/						
Central American Isthmus	4 040,3	3 952,7	3 602,1	4 550,2	5 350,2	6 176,0
Central America	3 445,0	3 149,8	3 360,6	4 314,6	4 618,3	4 683,5
Costa Rica	538,5	616,1	1 019,9	1 218,9	876,1	1 350,5
El Salvador	385,0	-27,4	281,6	1 018,5	579,3	727,6
Guatemala	1 703,3	1 726,7	1 256,7	1 588,7	1 797,0	1 552,6
Honduras	178,4	302,0	300,5	33,3	772,3	258,7
Nicaragua	639,8	532,4	501,9	455,2	593,6	794,1
Panama	595,3	802,9	241,5	235,6	731,9	1 492,5
Overall balance						
Central American Isthmus	127,1	674,0	74,3	515,1	511,9	1 467,6
Central America	204,3	41,4	-71,7	782,2	907,3	792,8
Costa Rica	-152,2	13,1	163,0	338,9	80,3	390,9
El Salvador	-45,5	-177,7	-123,5	316,2	-52,5	-58,9
Guatemala	654,4	473,8	21,8	549,6	608,7	250,0
Honduras	-53,7	-0,5	63,6	-226,6	372,9	216,5
Nicaragua	-198,6	-267,3	-196,6	-195,9	-102,1	-5,7
Panama	-77,2	632,6	146,0	-267,1	-395,4	674,8

Source: ECLAC, based on official figures.

a/ Estimated figures.

b/ Includes errors and omissions.

Table 5

CENTRAL AMERICAN ISTHMUS: PUBLIC DEBT INDICATORS

	2000	2001	2002	2003	2004	2005 a/
	Millions of dollars					
Stock of external public debt						
Central American Isthmus	24 992,1	26 181,6	27 553,3	29 723,8	30 315,7	29 703,9
Central America	19 386,5	19 919,0	21 204,3	23 217,2	23 096,5	22 124,2
Costa Rica	3 150,6	3 242,5	3 337,7	3 753,0	3 883,7	3 625,8
El Salvador	2 831,3	3 147,7	3 987,1	4 717,2	4 777,9	4 976,1
Guatemala	2 643,7	2 925,0	3 119,1	3 467,2	3 843,8	3 723,2
Honduras	4 101,0	4 229,6	4 397,8	4 684,0	5 200,5	4 451,6
Nicaragua	6 659,9	6 374,2	6 362,6	6 595,8	5 390,6	5 347,5
Panama	5 605,7	6 262,6	6 349,0	6 506,6	7 219,2	7 579,7
	Percentage of GDP					
Stock of external public debt						
Central American Isthmus	35,8	35,6	35,6	36,5	34,5	30,4
Central America	33,3	32,3	32,6	33,9	31,3	26,9
Costa Rica	19,8	19,8	19,8	21,4	20,9	18,1
El Salvador	21,6	22,8	27,9	31,4	30,2	29,3
Guatemala	13,7	13,9	13,4	13,9	14,1	11,6
Honduras	68,9	66,8	67,6	68,2	69,8	53,6
Nicaragua	169,1	155,4	158,0	160,8	119,9	108,9
Panama	48,2	53,0	51,7	50,3	50,8	49,0
	Millions of dollars					
Stock of internal public debt						
Central American Isthmus b/	9 559,1	10 281,7	11 909,9	12 291,9	13 529,8	14 077,4
Central America b/	7 358,1	8 084,0	9 682,0	10 082,2	10 722,6	11 388,9
Costa Rica	4 090,4	4 378,2	4 579,9	4 497,5	4 896,4	4 838,9
El Salvador	1 965,8	2 345,2	2 379,7	2 386,0	2 504,7	2 727,6
Guatemala	1 118,1	1 164,5	1 050,6	1 375,4	1 659,7	2 161,8
Honduras	183,8	196,0	206,4	397,7	322,9	322,5
Nicaragua c/	...	...	1 465,4	1 425,6	1 338,9	1 338,2
Panama	2 201,0	2 197,7	2 228,0	2 209,7	2 807,3	2 688,5
	Percentage of GDP					
Stock of internal public debt						
Central American Isthmus b/	13,7	14,0	15,4	15,1	15,4	14,4
Central America b/	12,6	13,1	14,9	14,7	14,6	13,8
Costa Rica	25,7	26,7	27,2	25,7	26,4	24,2
El Salvador	15,0	17,0	16,6	15,9	15,8	16,1
Guatemala	5,8	5,5	4,5	5,5	6,1	6,7
Honduras	3,1	3,1	3,2	5,8	4,3	3,9
Nicaragua c/	...	...	...	34,8	29,8	27,3
Panama	18,9	18,6	18,2	17,1	19,8	17,4

Source: ECLAC, based on official figures.

a/ Estimated figures.

b/ Weighted average.

c/ Before 2003 Nicaragua not included.

Table 6

CENTRAL AMERICAN ISTHMUS: INTRARREGIONAL EXPORTS

(Millions of dollars)

	2000	2001	2002	2003	2004	2005 a/
Value of exports to the rest of the Central American Isthmus						
Central American Isthmus	2 856,1	3 185,6	3 090,8	3 277,4	3 703,4	4 178,1
Central America	2 744,5	3 062,2	2 976,6	3 183,1	3 610,8	4 071,7
Costa Rica	663,2	675,9	633,5	696,5	797,7	904,4
El Salvador	776,1	771,6	785,4	792,5	867,5	964,2
Guatemala	870,0	1 103,0	1 059,9	1 156,2	1 319,2	1 477,5
Honduras	268,5	328,6	297,1	310,2	373,8	432,1
Nicaragua	166,6	183,2	200,7	227,7	252,6	293,5
Panama	111,6	123,3	114,2	94,3	92,6	106,4
Growth rates						
Central American Isthmus	6,4	11,5	-3,0	6,0	13,0	12,8
Central America	6,4	11,6	-2,8	6,9	13,4	12,8
Costa Rica	4,0	1,9	-6,3	9,9	14,5	13,4
El Salvador	15,1	-0,6	1,8	0,9	9,5	11,1
Guatemala	1,8	26,8	-3,9	9,1	14,1	12,0
Honduras	3,1	22,4	-9,6	4,4	20,5	15,6
Nicaragua	8,3	10,0	9,5	13,5	10,9	16,2
Panama	7,3	10,5	-7,4	-17,4	-1,8	14,9

Source: ECLAC, based on official figures from the Central Banks and the Comptroller General of the Republic of Panama.

a/ Estimated figures.

Table 7

CENTRAL AMERICAN ISTHMUS: EVOLUTION OF THE VALUE ADDED
OF IN-BOND ASSEMBLY PLANT ACTIVITY AND FREE TRADE ZONES

	2000	2001	2002	2003	2004	2005 a/
Millions of dollars						
Central American Isthmus	2 738,3	2 007,4	2 066,8	2 941,5	2 832,9	2 643,3
Central America	2 729,5	2 005,8	2 066,2	2 940,7	2 832,9	2 643,3
Costa Rica	1 241,6	450,6	521,2	1 176,0	916,6	663,2
El Salvador	456,3	489,7	474,9	493,8	463,6	413,8
Guatemala	373,8	396,2	345,8	428,1	490,8	485,0
Honduras	575,4	560,8	612,8	710,0	795,0	886,4
Nicaragua	82,4	108,5	111,5	132,8	167,0	194,9
Panama	8,8	1,6	0,6	0,8	-	-
Growth rates						
Central American Isthmus	-11,3	-26,7	3,0	42,3	-3,7	-6,7
Central America	-11,5	-26,5	3,0	42,3	-3,7	-6,7
Costa Rica	-31,2	-63,7	15,7	125,6	-22,1	-27,6
El Salvador	20,5	7,3	-3,0	4,0	-6,1	-10,7
Guatemala	29,9	6,0	-12,7	23,8	14,6	-1,2
Honduras	6,9	-2,5	9,3	15,9	12,0	11,5
Nicaragua	10,5	31,7	2,8	19,1	25,8	16,7
Panama	1 660,0	-81,8	-62,5	33,3	-	-

Source: ECLAC, based on official figures.

a/ Estimated figures.

Table 8

CENTRAL AMERICAN ISTHMUS: FOREIGN TRAVEL ACCOUNT BALANCE

(Millions of dollars)

	2000	2001	2002	2003	2004	2005 a/
Total						
Income	2 847,8	2 804,7	2 974,1	3 391,7	3 948,0	4 589,0
Expenditures	-1 218,8	-1 162,3	-1 209,0	-1 377,5	-1 653,7	-1 824,5
Balance	1 629,1	1 642,4	1 765,1	2 014,2	2 294,4	2 764,5
Costa Rica						
Income	1 302,4	1 173,3	1 160,7	1 293,1	1 458,5	1 722,6
Expenditures	-485,4	-364,4	-344,9	-353,2	-405,7	-423,0
Balance	817,1	808,9	815,8	939,9	1 052,9	1 299,6
El Salvador						
Income	216,9	201,1	245,2	383,1	440,8	542,9
Expenditures	-165,2	-195,3	-191,1	-229,6	-302,2	-346,7
Balance	51,7	5,8	54,1	153,5	138,6	196,2
Guatemala						
Income	482,3	561,5	619,6	620,7	776,4	864,4
Expenditures	-181,8	-225,5	-275,6	-312,0	-390,6	-445,1
Balance	300,5	336,0	344,0	308,7	385,8	419,3
Honduras						
Income	259,8	256,4	301,0	350,0	429,3	472,2
Expenditures	-119,6	-127,6	-149,2	-200,0	-227,0	-248,3
Balance	140,2	128,8	151,8	150,0	202,3	223,9
Nicaragua						
Income	128,6	135,3	134,6	160,2	192,0	207,1
Expenditures	-78,4	-76,0	-69,4	-75,0	-89,3	-90,3
Balance	50,2	59,3	65,2	85,2	102,7	116,8
Panama						
Income	457,8	477,1	513,0	584,6	651,0	779,8
Expenditures	-188,4	-173,5	-178,8	-207,7	-238,9	-271,1
Balance	269,4	303,6	334,2	376,9	412,1	508,7

Source: ECLAC, based on official figures.

a/ Estimated figures.

Table 9

CENTRAL AMERICAN ISTHMUS: GARMENT EXPORTS
TO THE UNITED STATES *a/*

	2000	2001	2002	2003	2004	2005	Enero-mayo	
							2005	2006
Millions of dollars								
Central American Isthmus	6 829,5	7 001,3	7 173,9	7 301,5	7 712,0	7 505,8	3 086,5	2 668,5
Central America	6 822,9	6 994,6	7 168,3	7 296,8	7 708,1	7 501,8	3 084,7	2 667,1
Costa Rica	843,8	790,4	745,0	603,0	526,4	491,5	195,8	179,3
El Salvador	1 640,7	1 670,9	1 712,3	1 758,6	1 760,0	1 657,6	670,2	490,4
Guatemala	1 530,5	1 657,7	1 709,7	1 814,9	2 007,2	1 872,2	806,4	705,1
Honduras	2 462,0	2 485,1	2 555,5	2 622,1	2 800,4	2 744,4	1 122,0	973,0
Nicaragua	345,8	390,6	445,8	498,2	614,1	736,1	290,4	319,2
Panama	6,6	6,7	5,5	4,7	3,8	4,0	1,8	1,4
Growth rates								
Central American Isthmus	13,7	2,5	2,5	1,8	5,6	-2,7		-13,5
Central America	13,8	2,5	2,5	1,8	5,6	-2,7		-13,5
Costa Rica	0,6	-6,3	-5,7	-19,1	-12,7	-6,6		-8,4
El Salvador	20,6	1,8	2,5	2,7	0,1	-5,8		-26,8
Guatemala	20,5	8,3	3,1	6,2	10,6	-6,7		-12,6
Honduras	9,8	0,9	2,8	2,6	6,8	-2,0		-13,3
Nicaragua	21,8	12,9	14,1	11,8	23,3	19,9		9,9
Panama	-45,2	1,4	-18,0	-14,5	-18,6	4,5		-21,2

Source: ECLAC, based on official figures from the National Trade Data Bank, US Department of Commerce.

a/ Refers to chapters 61 and 62 of the Harmonized System, which includes clothing items and accessories.

Table 10

CENTRAL AMERICAN ISTHMUS: FOREIGN TRADE OF FOB
GOODS WITH MEXICO

	Millions of dollars					Growth rates			
	2003	2004	2005	January-May		2003	2004	2005	January-May
				2005	2006 a/				2006 a/
FOB Exports									
Central American Isthmus	902,5	1 294,6	1 505,1	534,3	554,1	37,3	43,4	16,3	3,7
Central America	864,7	1 250,7	1 426,7	527,5	547,0	39,0	44,6	14,1	3,7
Costa Rica	584,2	852,3	883,2	315,6	309,7	40,3	45,9	3,6	-1,9
El Salvador	44,3	50,2	58,5	24,0	25,4	21,7	13,2	16,6	5,8
Guatemala	151,1	230,0	221,8	82,2	135,9	29,5	52,3	-3,6	65,3
Honduras	47,0	65,8	104,5	37,8	46,9	85,0	40,1	58,7	24,1
Nicaragua	38,1	52,4	158,6	67,8	29,2	40,5	37,7	202,7	-57,0
Panama	37,8	43,9	78,4	6,9	7,1	7,1	16,1	78,8	2,6
FOB Imports									
Central American Isthmus	1 840,0	2 025,4	2 783,1	999,2	1 362,8	4,2	10,1	37,4	36,4
Central America	1 520,2	1 709,6	2 319,7	782,4	1 134,3	4,0	12,5	35,7	45,0
Costa Rica	352,5	387,3	420,7	162,0	200,8	-5,5	9,9	8,6	24,0
El Salvador	286,4	317,2	471,6	152,6	217,7	-1,8	10,8	48,7	42,6
Guatemala	590,1	672,5	863,7	314,7	361,6	7,6	14,0	28,4	14,9
Honduras	160,6	182,1	239,6	88,2	108,6	3,2	13,4	31,6	23,1
Nicaragua	130,7	150,6	324,1	64,9	245,5	40,6	15,2	115,2	278,4
Panama	319,8	315,8	463,3	216,8	228,5	5,2	-1,3	46,7	5,4
Trade balance									
Central American Isthmus	-937,6	-730,8	-1 278,0	-464,9	-808,7	15,4	22,1	-74,9	-74,0
Central America	-655,6	-458,9	-893,1	-254,9	-587,2	21,9	30,0	-94,6	-130,3
Costa Rica	231,7	465,0	462,6	153,7	108,9	434,1	100,7	-0,5	-29,1
El Salvador	-242,0	-267,1	-413,1	-128,6	-192,3	5,2	-10,3	-54,7	-49,5
Guatemala	-439,0	-442,5	-641,9	-232,5	-225,7	-1,7	-0,8	-45,1	2,9
Honduras	-113,6	-116,2	-135,1	-50,4	-61,7	12,8	-2,3	-16,3	-22,4
Nicaragua	-92,6	-98,2	-165,5	3,0	-216,4	-40,7	-6,0	-68,6	-7 383,9
Panama	-282,0	-271,9	-384,9	-209,9	-221,5	-5,0	3,6	-41,6	-5,5

Source: ECLAC, based on official figures from Mexico's Instituto Nacional de Estadística, Geografía, e Informática (INEGI).

a/ Preliminary figures.

Table 11

CENTRAL AMERICAN ISTHMUS: CENTRAL GOVERNMENT INDICATORS

(Percentages)

	2000	2001	2002	2003	2004	2005 a/
Total revenues/GDP	15,2	15,2	15,5	15,7	15,7	15,7
Costa Rica	12,5	13,4	13,3	13,9	13,6	13,8
El Salvador	12,1	11,9	12,5	13,2	13,2	13,6
Guatemala	11,0	11,1	11,4	11,0	10,8	10,2
Honduras	18,7	19,9	19,4	19,6	20,3	20,5
Nicaragua	18,8	17,0	19,5	21,2	21,8	21,2
Panama	18,2	17,7	16,8	15,4	14,4	15,2
Total expenditures/GDP	18,2	18,9	18,3	19,0	18,2	17,8
Costa Rica	15,5	16,4	17,6	16,8	16,3	15,9
El Salvador	14,3	15,5	15,7	15,5	14,4	14,6
Guatemala	12,8	12,9	12,4	13,3	11,8	11,7
Honduras	23,7	25,2	24,7	25,8	23,7	23,2
Nicaragua	23,6	24,1	20,8	23,2	23,3	23,1
Panama	19,3	19,4	18,8	19,2	19,8	18,4
Fiscal deficit/GDP	- 3,0	- 3,7	- 2,8	- 3,2	- 2,5	- 2,1
Costa Rica	-3,0	-2,9	-4,3	-2,9	-2,7	-2,1
El Salvador	-2,3	-3,6	-3,1	-2,3	-1,1	-1,0
Guatemala	-1,8	-1,9	-1,0	-2,3	-1,0	-1,5
Honduras	-4,9	-5,3	-5,3	-6,2	-3,4	-2,7
Nicaragua	-4,7	-7,1	-1,3	-2,0	-1,5	-1,8
Panama	-1,1	-1,7	-1,9	-3,8	-5,4	-3,2

Source: ECLAC, based on official figures.

a/ Estimated figures.

Table 12

CENTRAL AMERICAN ISTHMUS: CREDIT INDICATORS ^{a/}

(Real growth rates)

	2000	2001	2002	2003	2004	2005 ^{b/}
Domestic credit						
Costa Rica	15,5	4,1	9,0	5,2	18,7	-8,4
El Salvador	4,5	0,9	-5,6	-2,5	-1,4	0,7
Guatemala	10,3	-1,3	6,9	-0,7	-0,7	13,7
Honduras	12,4	3,5	-2,3	23,3	-4,2	12,8
Nicaragua	5,4	13,2	0,6	5,9	-1,1	-3,7
Panama	3,5	3,6	-5,7	0,9	9,3	8,4
Credit to private sector						
Costa Rica	17,8	11,0	10,7	9,1	3,9	13,0
El Salvador	0,6	-4,1	5,0	4,3	0,2	3,3
Guatemala	9,3	4,7	1,0	-0,9	6,7	11,8
Honduras	3,1	3,1	-0,5	5,1	5,8	9,7
Nicaragua	20,4	-47,3	10,9	21,1	16,7	20,4
Panama	5,5	3,9	-4,6	1,7	7,1	9,6

Source: ECLAC, Central American Monetary Council.

^{a/} Based on end-of-year nominal balance.^{b/} Estimated figures.

Table 13

CENTRAL AMERICAN ISTHMUS: NOMINAL INTEREST RATES

(Percentages)

	Costa Rica a/		El Salvador b/		Guatemala c/		Honduras d/		Nicaragua e/		Panama f/	
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
2004												
January	21,11	13,50	6,80	3,37	14,00	4,48	20,24	8,20	16,05	5,80	8,81	2,33
February	20,97	13,50	6,61	3,36	13,93	4,43	20,12	8,23	13,11	5,85	8,34	2,22
March	20,96	13,50	6,40	3,44	13,89	4,39	20,00	8,25	14,55	4,92	8,15	2,18
April	20,90	13,50	6,23	3,41	13,97	4,41	20,17	8,21	13,37	5,59	8,04	2,11
May	20,91	13,50	6,05	3,47	13,93	4,46	19,98	8,23	12,91	4,75	8,02	2,11
June	21,01	13,75	6,35	3,42	13,89	4,00	19,94	8,16	12,38	5,18	7,89	2,16
July	21,24	13,75	6,39	3,29	13,79	13,93	19,82	8,00	14,40	4,87	7,87	2,15
August	21,23	14,00	6,17	3,25	13,83	13,89	19,68	8,12	12,59	5,06	7,86	2,14
September	21,42	14,25	6,27	3,23	13,76	13,97	19,72	8,15	13,35	4,68	8,22	2,11
October	21,48	14,25	5,97	3,26	13,75	13,93	19,72	8,05	13,24	4,16	8,46	2,13
November	21,41	14,25	5,96	3,26	13,56	13,89	19,67	8,04	13,41	4,09	8,51	2,16
December	21,35	14,25	6,43	3,29	13,50	13,79	19,45	8,04	12,54	3,61	8,44	2,14
2005												
January	21,28	14,50	6,85	3,23	13,52	4,56	19,36	8,11	14,03	4,28	8,41	2,16
February	21,47	14,75	6,79	3,24	13,52	4,58	19,33	8,10	12,49	5,23	8,51	2,19
March	21,69	15,00	6,95	3,24	13,49	4,53	19,06	8,08	12,35	4,20	8,72	2,35
April	21,84	15,00	6,53	3,43	13,07	4,57	18,94	8,09	13,60	4,33	8,34	2,35
May	22,18	15,75	6,80	3,38	13,04	4,59	19,05	8,12	13,27	4,70	8,32	2,73
June	22,60	15,75	6,98	3,44	13,02	13,52	19,07	8,05	11,94	4,84	8,37	2,72
July	22,52	15,50	6,90	3,40	12,90	13,52	18,80	8,19	11,65	4,61	8,04	2,71
August	22,26	15,50	7,03	3,38	12,88	13,49	18,49	8,14	12,72	4,29	8,07	2,71
September	22,07	15,25	6,72	3,42	12,78	13,07	18,48	8,15	10,63	4,99	8,07	2,71
October	22,00	15,25	6,87	3,41	12,72	13,04	18,39	8,17	9,96	4,55	8,05	2,67
November	22,04	15,25	6,94	3,65	12,78	13,02	18,64	8,12	13,20	4,88	8,07	2,72
December	22,10	15,25	7,03	4,02	12,67	12,90	18,36	8,05	9,37	5,34	7,99	2,73
2006												
January	21,99	15,25	7,79	4,08	12,72	4,62	18,39	8,06	12,73	4,51	8,21	2,73
February	22,02	15,25	7,53	3,97	12,74	4,65	18,42	8,05	12,44	5,14	8,20	2,74
March	22,11	15,25	7,43	4,12	12,76	4,65	18,22	8,01	12,52	4,85	8,24	2,68
April	22,04	15,25	7,35	4,02	12,74	4,69	18,01	7,61	8,20	5,36	8,11	2,97
May	21,53	13,75	7,63	4,13	12,72	4,70	17,65	7,35	8,50	5,37	8,08	3,02
June	20,72	13,50	7,15	4,39	12,72	4,70						
July												
August												
September												
October												
November												
December												

Source: ECLAC, based on official figures.

a/ Deposit basic rate, estimated by Costa Rica's Central Bank, lending rate to industry in national currency.

b/ Monthly adjusted average banking interest rate: lending rates on credits of up to one year, deposit rates on credits of up to 180 days.

c/ Adjusted average of the banking system.

d/ National financial-system weighted average: lending rate; deposit rates as an average of savings rates, time limited deposits and certificates of deposits.

e/ Average interest-rate; short-term lending rate; three-month deposit rate.

f/ Average interest-rate; one-year lending rate; three-month deposit rate.

Table 14

CENTRAL AMERICAN ISTHMUS: PRICE INDICATORS

(Growth rates)

	2000	2001	2002	2003	2004	2005 a/
Consumer price index (December to December)						
Central American Isthmus	5,9	6,3	5,7	5,6	8,1	8,1
Central America	5,8	6,3	5,4	5,3	7,8	7,6
Costa Rica	10,2	11,0	9,7	9,9	13,1	14,1
El Salvador	4,3	1,4	2,8	2,5	5,4	4,3
Guatemala	5,1	8,9	6,3	5,9	9,2	8,6
Honduras	10,1	8,8	8,1	6,8	9,2	7,7
Nicaragua	6,6	4,7	4,0	6,6	8,9	9,6
Panama	0,7	0,0	1,8	1,7	1,6	3,4
Consumer price index (Annual average)						
Central American Isthmus	6,2	6,5	5,8	5,3	7,0	8,3
Central America	5,9	6,5	5,7	5,1	6,9	7,9
Costa Rica	11,0	11,3	9,2	9,4	12,3	13,8
El Salvador	2,3	3,8	1,9	2,1	4,5	4,7
Guatemala	6,0	7,3	8,1	5,6	7,6	9,1
Honduras	11,0	9,7	7,7	7,7	8,1	8,8
Nicaragua	7,1	6,0	4,0	5,1	8,4	9,6
Panama	1,5	0,3	1,0	1,4	0,5	2,9
Food price index (December to December)						
Costa Rica	9,5	11,5	10,2	10,0	14,6	16,5
El Salvador	138,4	138,4	140,7	141,5	142,8	144,2
Guatemala	4,5	13,9	6,2	7,1	12,7	12,4
Honduras	8,7	8,0	2,3	5,0	9,3	6,7
Nicaragua	5,5	6,4	1,2	7,1	11,2	10,5
Panama	2,6	-3,6	-0,4	2,4	2,7	4,0
Food price index (Annual average)						
Costa Rica	9,8	10,7	10,1	9,4	13,7	16,4
El Salvador	7,0	4,0	6,7	3,2	7,9	3,8
Guatemala	4,3	10,0	10,5	5,7	10,3	13,2
Honduras	7,6	8,7	3,9	3,6	6,8	10,0
Nicaragua	4,7	7,2	2,9	3,7	10,1	11,4
Panama	0,5	-0,4	-0,7	1,3	1,3	4,3

Source: ECLAC, based on official figures.

a/ Preliminary figures.

Table 15

CENTRAL AMERICAN ISTHMUS: NOMINAL AND REAL EXCHANGE RATE

(National monetary unit with respect to dollar) a/

	2000	2001	2002	2003	2004	2005 b/
Nominal exchange rate						
Costa Rica	308,19	328,87	359,82	398,66	437,94	477,79
El Salvador	8,75	8,75	8,75	8,75	8,75	8,75
Guatemala	7,76	7,85	7,81	7,93	7,94	7,62
Honduras	15,01	15,65	16,61	17,54	18,41	19,00
Nicaragua	12,68	13,44	14,25	15,11	15,94	16,73
Panama	1,00	1,00	1,00	1,00	1,00	1,00
Real exchange rate, 1995 constant prices						
Costa Rica	191,94	189,30	192,73	199,53	200,38	198,63
El Salvador	8,18	8,10	8,08	8,09	7,96	7,86
Guatemala	6,08	5,90	5,51	5,42	5,18	4,71
Honduras	8,09	7,91	7,91	7,94	7,91	7,76
Nicaragua	8,73	8,98	9,32	9,60	9,58	9,49
Panama	1,07	1,09	1,10	1,11	1,13	1,14

Source: ECLAC, based on official figures.

a/ For Costa Rica and El Salvador, colons; Guatemala, quetzals; Honduras, lempiras; Nicaragua, cordobas, and Panama, balboas.

b/ Preliminary figures.