

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



Distr.
LIMITED

LC/MEX/L.854
30 July, 2008

ORIGINAL: SPANISH

**THE CENTRAL AMERICAN ISTHMUS: ECONOMIC EVOLUTION
DURING 2007 AND PROSPECTS FOR 2008**

INDEX

	<u>Page</u>
1. General trends of the recent evolution	1
2. The evolution of the external sector	3
3. Economic policy	12
a) Fiscal policy.....	12
b) Monetary and exchange-rate policy.....	14
c) Trade policy.....	18
4. Production, prices, remunerations, and employment.....	20
a) Economic activity.....	20
b) Prices, remunerations, and employment.....	23
5. Prospects for 2008	25
<u>Statistical Annex</u>	31

Index of Tables

Table

A-1 Main indicators, 2000-2007.....	33
1 Main indicators, 2000-2007.....	35
2 Main economic indicators, 2000-2007	36
3 Trade indicators of goods, fob, 2000-2007.....	37
4 Balance of payment indicators, 2000-2007.....	38
5 Public debt indicators, 2000-2007	39
6 Interregional exports, 2000-2007.....	40
7 Evolution of the value added of in-bond assembly plant activity and free trade zones, 2000-2007.....	41
8 Foreign travel account balance, 2000-2007	42
9 Apparel exports to the United States, 2000-2007	43
10 Foreign trade of fob goods with Mexico, 2003-2007	44
11 Central Government indicators, 2000-2007.....	45
12 Credit indicators, 2000-2007	46
13 Nominal interest rates, 2005-2007.....	47

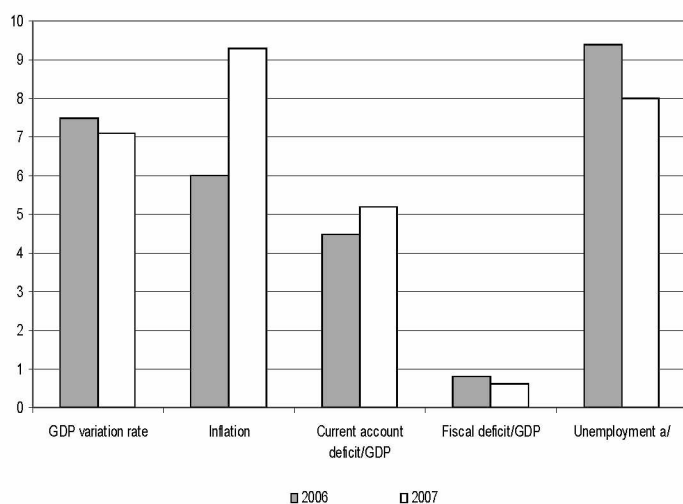
	<u>Page</u>
14 Price indicators, 2000-2007	48
15 Nominal and real exchange rate, 2000-2007	49
16 Sovereign risk ratings	50

THE CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: ECONOMIC EVOLUTION DURING 2007 AND PROSPECTS FOR 2008

1. General trends of the recent evolution

Economic activity in the Central American Isthmus ¹ and the Dominican Republic in 2007 expanded 7.1%, four tenths less than in 2006. Thus, the economic growth of the subregion ² was one and a half percentage points greater than the registered average of Latin America and the Caribbean. In terms of GDP per capita, growth was 5%. This performance represents a continuation of the expansionary phase of the economic cycle that began in 2004, characterized by an improvement in the majority of the economic and social indicators and linked to the positive evolution of the U. S. economy during this period. However, the deterioration in the external macroeconomic context—in particular, the decrease in the rate of growth of the U. S. economy and the price increase in petroleum and certain raw materials—has adverse repercussions for the evolution and prospects of the subregion in 2008. Consequently, for this year, a deceleration of the growth of economic activity is envisioned within the context of inflationary pressures in the subregion.

Graph 1
CENTRAL AMERICAN ISTHMUS AND
THE DOMINICAN REPUBLIC: MAIN
MACROECONOMIC INDICATORS
IN 2006 AND 2007
(Percentages)



Source: ECLAC, based on official figures.

a/ Calculated on the basis of available data (four countries).

Some key macroeconomic indicators started to deteriorate ...

Three of the five macroeconomic indicators, presented in graph 1, showed a slight deterioration in 2007 compared to the performance of the previous year. The economic growth—though still high for the traditional patterns of the subregion—was modestly lower than in the previous year. At the same time, the current account deficit in the balance of payments widened from 4.5% of GDP to 5.7%. This is a warning sign, since due to this negative result, the economies of the subregion are more vulnerable to external shocks.

Yet, the most worrying result was the increase of the inflation rate which on average grew from 6% in 2006 to 9.3% in 2007, and continued at this high rate in the first part of 2008. The deterioration of this magnitude strongly intensified the trade-offs the central banks face and raised the cost of living of the

population, above all hurting those in lower income strata. A substantial part of the inflation growth derives from external factors, particularly the increases in international prices of petroleum and food, leaving the central banks with little or no influence. As a consequence, the macroeconomic policy options are very restricted in a situation where inflationary pressure is intensifying and growth of economic activity starts to decelerate.

In contrast, two indicators continued to improve. The fiscal deficit decreased from the equivalent of 0.8% of GDP in 2006 to 0.6% in 2007. This performance is the continuation of the fiscal consolidation process for the fourth consecutive year. The situation of the labor market also continues to improve, which is reflected by the reduced unemployment rate. Although calculated with data from only four countries, the trend is positive and strong, as shown by the fall in the average from 9.4% in 2006 to 8% in 2007.

... in an external environment that shows signs of deterioration

The dynamism of exports in 2007 was greater than that of 2006 due to a strong boost in demand from the United States, the most important trading partner of the subregion. Nevertheless, imports grew at even higher rates thus widening the external trade deficit. Furthermore, family remittances grew at notably lower rates than in the previous year, probably as a reflection of more restrictive U. S. migration policy, as well as the crisis in the U. S. real estate and construction sectors, both significant employers of migrants from the subregion. Another negative factor was the deterioration of external financing conditions, illustrated by the increase in the spreads of the EMBI+ index (Emerging Markets Bond Index). Though there was substantial liquidity at international level and the lowest historical minimum of country risks was reached in June 2007, they have trended upwards since then despite the decrease of interest rates in the United States.

Capital inflow in some cases was stimulated by elevated differentials of the interest rates and the scarce or decreasing exchange

rate volatility. This converted some countries into attractive destinations for international arbitrage operations. Besides this, the flows of Foreign Direct Investment (FDI) have been the most abundant for a decade (4.8% of GDP), helping to expand the productive capacity of the economies and partly as a response to the favorable conditions stipulated in the Free Trade Agreement (FTA) between the Central American countries, the Dominican Republic and the United States (DR-CAFTA). Another beneficial element was the net transfer of resources (NTR) to the region, traditionally positive, which was equivalent to 1.7% of GDP in 2007. The deterioration of the terms of trade continued with a fall of 1.3% mainly due to the aforementioned increases of international petroleum and food prices.

Macroeconomic policy faces difficult dilemmas

The inflation rate accelerated during the year, above all, in the last quarter of 2007 and in the beginning of 2008 monetary policy was tightened. The decision to fight inflation at any price was not taken in any country, but monetary policy became more restrictive in almost all countries. Those countries which at the beginning of the year sought to discourage short-term capital inflows by reducing the interest rate, towards the end of the year, had to abandon this objective and modify their course. Due to the abundance of foreign exchange, the real exchange rate appreciated with respect to the U. S. dollar. Given that the imports of the countries of the subregion are mostly dollar denominated, this appreciation helped mitigate inflationary pressure. The region's fiscal policy emphasis on discipline and consolidation reduced the pressure on aggregate demand, which had a modest countercyclical effect.

For 2008 a notable slowdown of growth is predicted as well as a general deterioration of economic conditions

The international context in 2008 will be far less favourable for high rates of economic

growth. The U. S. economy will be performing below its potential and its 2007 levels, dragging down the growth of those countries whose export sectors are highly dependent on the U. S. such as those of Central America and the Dominican Republic. It has already been ruled out the so-called “smooth landing” scenario for the U. S. economy, which occurs when there is a deceleration of the growth rate to lessen inflationary pressures but avoiding a recession. At the moment, the situation of the United States is characterized by the urgent need of economic authorities to avoid a worsening of the internal financial problem and the need to mitigate the recessionary trends leaving the fight against inflation as a lower priority.

Though global liquidity continues to be abundant, the access of developing countries to financing will be more expensive as investors increase their preference for less risky assets. Both the price of petroleum and the price of food and other raw materials will remain high and maintain the inflationary pressure experienced at the end of 2007. Family remittances, one of the pillars of consumption growth in the Central American Isthmus and the Dominican Republic in the previous period, will further decelerate in 2008. External

demand will weaken in accordance with the lower dynamism of the world economy.

Due to uncertainty concerning the depth of the deterioration of external economic conditions and its effect for the economies of the subregion, it is difficult to make a precise forecast at the beginning of the year. It is most probable that conditions will be reevaluated by economic agents at various times during the year influencing key decisions such as the level of investment, consumption and savings. The main risk in this situation is two-fold: i) a disorderly unwinding of global imbalances which would result in a rapid and substantial depreciation of the U. S. dollar compared to other currencies (see box 5). In this case, economic conditions would quickly worsen with an accelerated downturn in which case a macroeconomic response coordinated at international level would be necessary and ii) a general deterioration in investment prospects —above all in export sectors— given a prolonged stagnation of the United States economy. If these risks are avoided, the economies of the subregion will on average be expected to obtain a growth of 4.9% in 2008, which is in any case considerably below the 7.1% of 2007.

2. The evolution of the external sector

In 2007, the current account of balance of payments of the Central American Isthmus and the Dominican Republic recorded a deficit of 8,988 billion dollars (equivalent to 5.7% of GDP), a figure more than one percentage point above that of 2006 (4.5%). This outcome was the result of a trade deficit of 20,340 billion dollars (13% of GDP), which rose mainly due to a higher petroleum bill (7.6% of the GDP). Inflows from family remittances reached 14,677 billion dollars (equivalent to 9.4% of GDP) and covered 72% of the trade deficit which was once again an important factor in alleviating the current account. For 2008, taking into account the deterioration of external conditions, lower dynamism of exports and imports is expected, and a greater deceleration in the transmission of remittances in the subregion than was experienced in 2007.

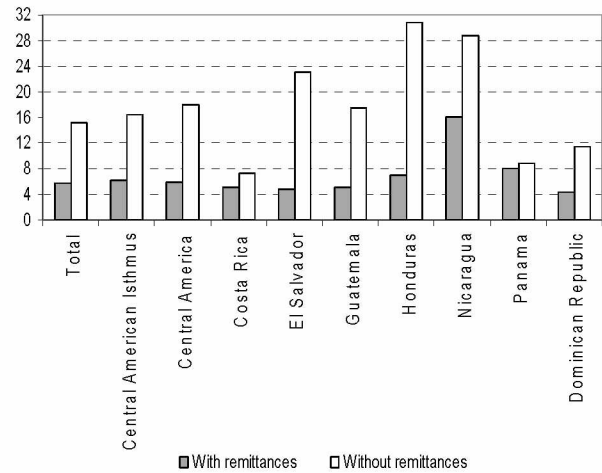
For the sixth consecutive year, the total value of exports in the subregion (41,961 billion dollars) increased, reaching a growth

rate of 11.3%, half a percentage point higher than in 2006. This figure was very close to the average growth rate for Latin America

and the Caribbean (12%). Guatemala and Costa Rica achieved an increase of its exports higher than 14%. Nicaragua, El Salvador and Panama export values grew by around 10%, whereas the Dominican Republic displayed the lowest growth rate (6.6%).

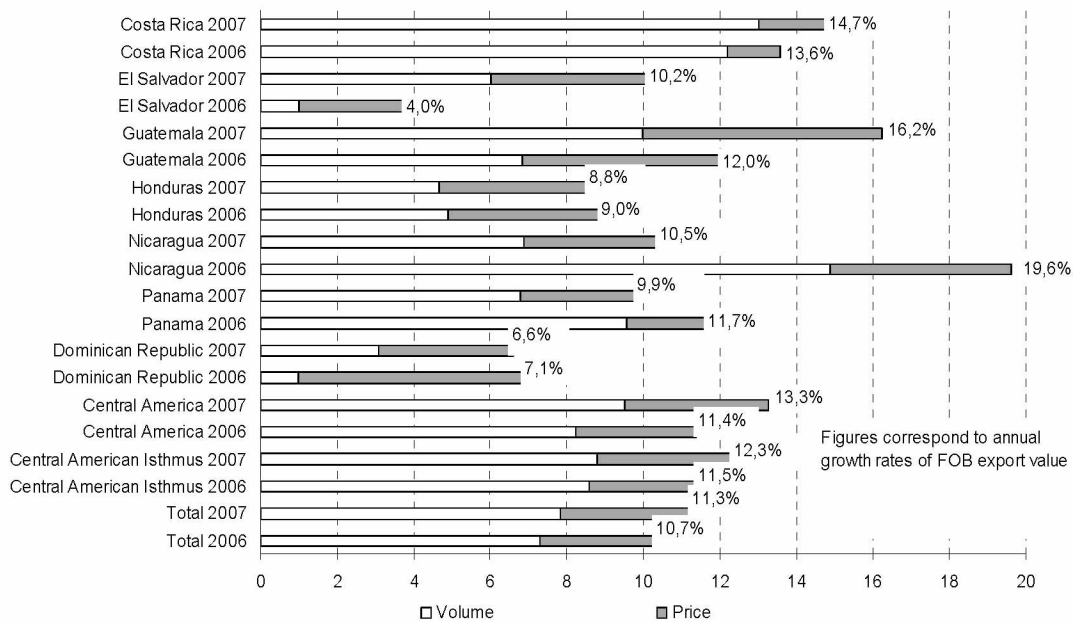
As was the case in the previous year, and in contrast to the majority of other countries of Latin America and the Caribbean, the export growth of the economies of the Central American Isthmus during 2007 was due more to an increase in volume exported than in prices, 7.8 and 3.5 percentage points respectively, of the total growth of the value of exports, although important differences in this performance were observed between countries. In Honduras, both effects were almost equal, whilst in the Dominican Republic price increases were predominant, a fact explained by the increased price of ferronickel.

Graph 2
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: CURRENT ACCOUNT DEFICIT AS A PERCENTAGE OF GDP, 2007 a/



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

Graph 3
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: PERCENTAGE VARIATION OF FOB EXPORTS OF GOODS, BY UNIT PRICE AND VOLUME, 2006-2007



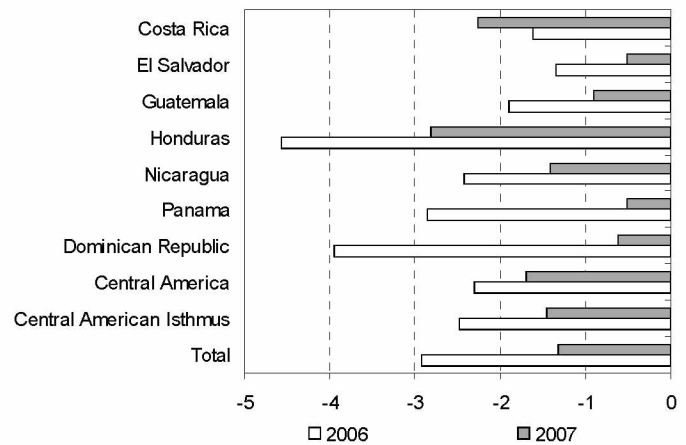
Source: ECLAC, based on official figures.

The Central American Isthmus and the Dominican Republic endured a continued deterioration of the terms of trade (-1.3%), although it was a lower figure than in 2006. Honduras and Costa Rica were the countries that experienced the worst deterioration in the subregion with rates of 2.8% and 2.3% respectively. As in previous years, the prices for goods produced and exported by the countries of the subregion, of which the majority are manufactured goods, continued to decline. At the same time, in contrast to the majority of the southern countries of the continent that benefited from the international price increase of raw materials, the Central American Isthmus and the Dominican Republic have not done so as they are net importers of those products (see graph 5).

In 2007, the exports of manufactured goods of the Central American Isthmus and the Dominican Republic to the United States, classified in chapters 61 and 62 of the Harmonized System (apparel), registered a reduction of 6.1% compared to 2006, continuing a three year trend of deterioration. There were noteworthy falls of 31.8% in the Dominican Republic (which has displayed a negative export performance in this area for the last seven years), 13.1% in Guatemala and 9.1% in Costa Rica. This contrasts with the growth

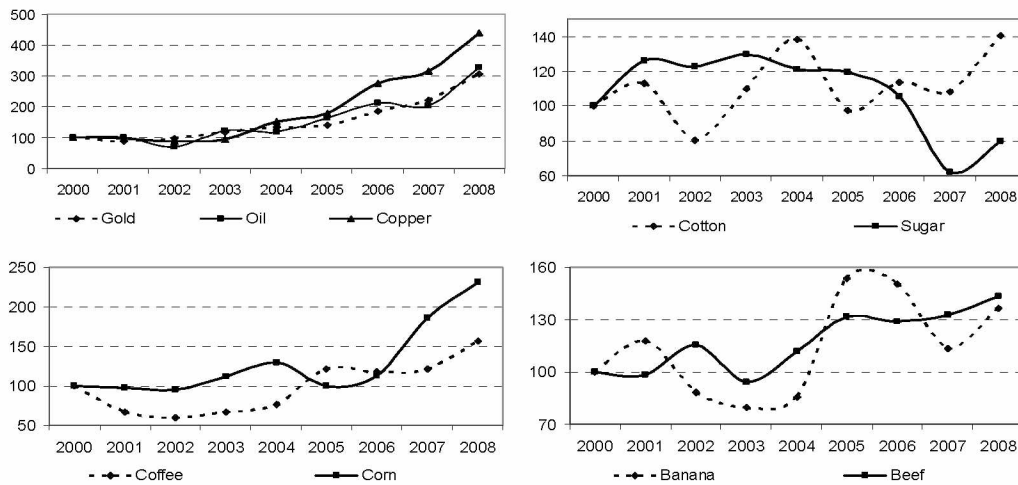
result of 10% in Nicaragua, which profited mainly from the privileges granted by the DR-CAFTA. Continually increasing competition from Asia and the elimination of the textile and apparel agreements (which were replaced by the Multi-fiber Agreement) affected almost the entire subregion, despite the fact that DR-CAFTA came into effect. These factors drove a restructuring of the sector in the countries analyzed.

Graph 4
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: TERMS OF TRADE, 2006 AND 2007
 (Percentage variation)



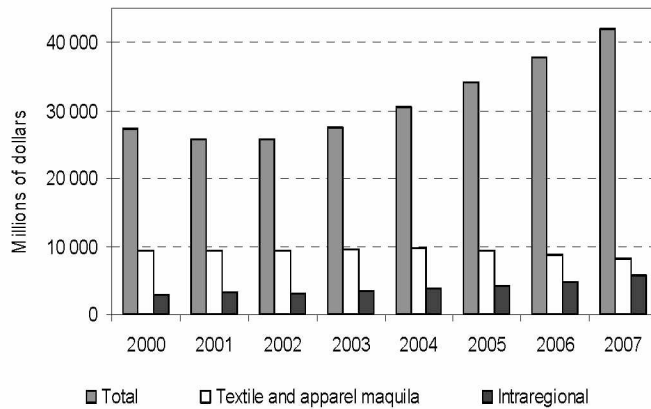
Source: ECLAC, based on official figures.

Graph 5
SELECTED EXPORT COMMODITY PRICES, FEBRUARY, 2000-2008
 (Index 2000 = 100, based on stock prices in dollars)



Source: ECLAC, based on official figures.

Graph 6
CENTRAL AMERICAN ISTHMUS AND THE
DOMINICAN REPUBLIC: EVOLUTION OF
EXPORTS OF GOODS, 2000-2007



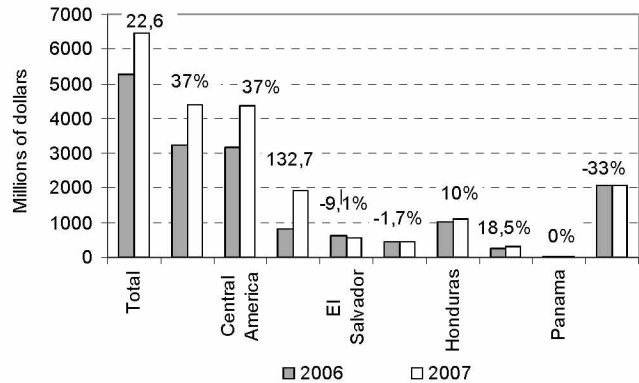
Source: ECLAC, based on official figures.

Intraregional exports grew by 19.8% in 2007, seven percentage points higher than in 2006. The subregional trade in recent years has exhibited unprecedented dynamism, and that fortifies the process of integration in the subregion. By analyzing the trade with Mexico, it can be shown that the value of the exports of the subregion increased by 13.7%. However, the value of imports from Mexico rose by 25.2%. This meant that the trade balance for the subregion with respect to Mexico showed a deficit of 3,191 billion dollars, which is equivalent to an increase of 32.8% compared to 2006.

In 2007, the net value added of in-bond assembly plants and free trade zones (*maquila*) in the Central American Isthmus and the Dominican Republic showed strong improvements (22.6%) compared to the previous year, mostly due to the remarkable increase in Costa Rica (132.7%), and lesser increases in Nicaragua (18.5%) and Honduras (10%). Decreases were observed in Panama (-33.3%), El Salvador (-9.1%) and Guatemala (-1.7%). This positive performance of the subregion, on average, contrasts with the negative results of the in-bond assembly plants of simple garments. At the same time the results confirm the existence of a restructuring process where companies pursue strategies of either greater vertical integration through the so-called “full package”, providing a greater value added and higher chances of sur-

vival or greater diversification towards products in other sectors, as is the case in Costa Rica.

Graph 7
CENTRAL AMERICAN ISTHMUS AND THE
DOMINICAN REPUBLIC: VALUE ADDED
OF IN-BOND ASSEMBLY PLANTS
AND FREE TRADE ZONES,
2006-2007



Source: ECLAC, based on official figures.

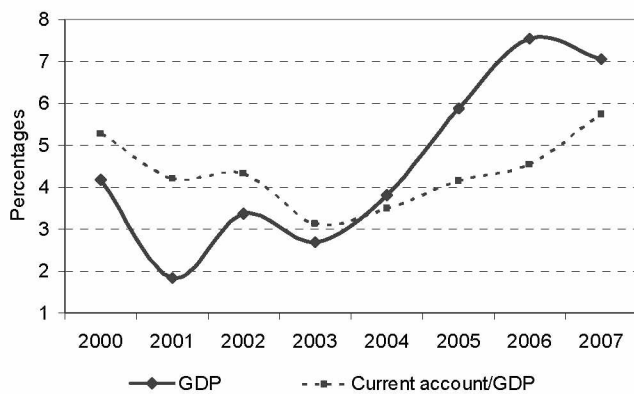
Regional imports of goods totaled 68,163 billion dollars in 2007, rising by 14.1%, two percentage points less than that of 2006. The increased prices of foods, intermediate goods, oil and fuels continued to drive up the value of imports. It should also be noted that for the second year in a row, the imports were largely directed towards the purchase of capital goods, which will extend the productive capacity of the economies.

The relation between the GDP growth and the current account deficit of the balance of payments changed only slightly in the period 2004-2006, allowing the economies to grow at continually higher rates and achieve external deficit levels similar to those of previous years. However, in 2007, the slight downturn of GDP growth accompanied by a growing current account deficit led to a worsening of both indicators. Consequently, the vulnerability of the economies of the subregion to external shocks continues to be high, which is an important consideration given the economic slowdown of the United States in 2008. The challenge will be to maintain GDP growth in a situation where external restrictions increase.

Including 2007, the Central American Isthmus and the Dominican Republic has achieved

six years of consecutive growth in the revenue of the balance of payments account for travel abroad (tourism), which represents a surplus of 3,422 billion dollars. In particular, foreign currency inflows for Panama, Honduras and Nicaragua grew by 23.4%, 22.6% and 12.9% respectively. In the last two years the majority of the countries of the Isthmus have given priority to boosting the tourism sector whose income currently represent around 5% of the GDP of the subregion.

Graph 8
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: EVOLUTION OF THE CURRENT ACCOUNT DEFICIT AND GDP, 2000-2007 a/



Source: ECLAC, based on official figures.

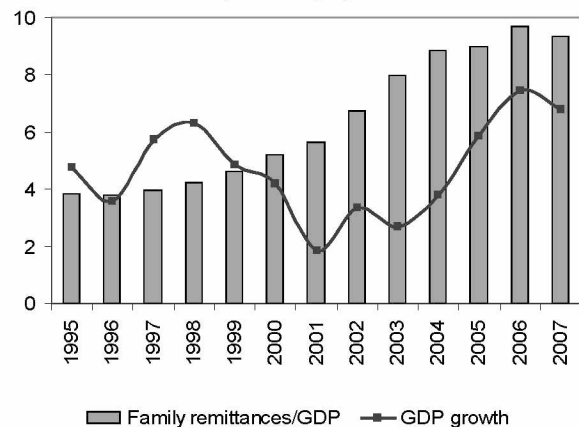
a/ The current account deficit is expressed in positive terms for a better understanding of the graph.

Since 2002, family remittances of the Central American Isthmus and the Dominican Republic have shown continual growth in absolute terms. However, in 2007, their growth rate fell significantly to 9.2% compared to 18.4% in 2006, equivalent to 14,677 billion dollars. Despite that, remittances continued to provide a higher amount of foreign exchange than the corresponding external revenues from indebtedness and investments.

At the same time family remittances represented a slightly lower proportion of GDP, 9.4% in 2007 compared to 9.7% in 2006. Nevertheless, remittance income continued to rise and this offset a great deal of the subregion's trade deficit, and by doing so, mitigated to some extent the current account deficit of the balance of payments.

Remittance inflows were concentrated towards El Salvador and Honduras, and to a lower extent, Guatemala and Nicaragua. In 2007, they reached highly elevated proportions of GDP in Honduras (24%) and El Salvador (18%). In contrast, the inflow of remittances as proportion of GDP were moderate in the Dominican Republic and low in Costa Rica and Panama (see graph 10). In general, family remittances relieved the trade deficit, but at the same time contributed to the appreciation of national currencies and consequently had a negative impact on the performance of the non-traditional export sector. Indeed, Honduras, Guatemala and Nicaragua —the economies receiving the highest revenue from remittances — have experienced continued appreciation of their currencies since 2003. However, in these economies the income has had a revitalizing effect on economic growth.

Graph 9
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT AND FAMILY REMITTANCES, 1995-2007 (Percentages)

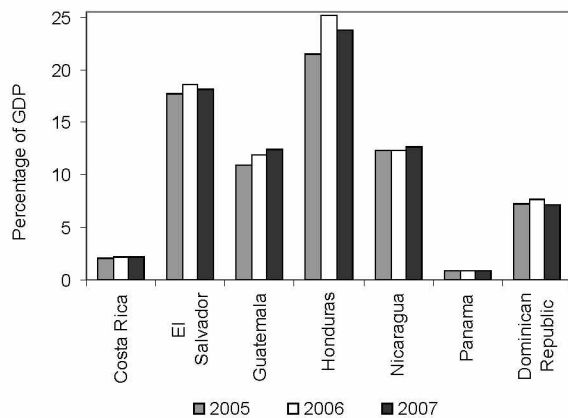


Source: ECLAC, on the basis of official figures.

During 2007, family remittances to El Salvador, Guatemala, Honduras and Nicaragua showed a decline in their growth rate (see graph 11). The problems in the real estate sector of the U. S. economy, which have persisted in 2008, had negative repercussions by reducing remittances sent by Central Americans to their home countries due to their loss of employment or decreased income. Additionally, this reduction may also have been influenced by the apparent

increase in deportations of illegal Central American immigrants from the United States. Due to the slowdown of the United States economy in 2008, it is predicted that the growth rate of family remittances to the subregion will decrease from 9% in 2007 to around 5% or even less, in 2008.

Graph 10
FAMILY REMITTANCES, 2005-2007



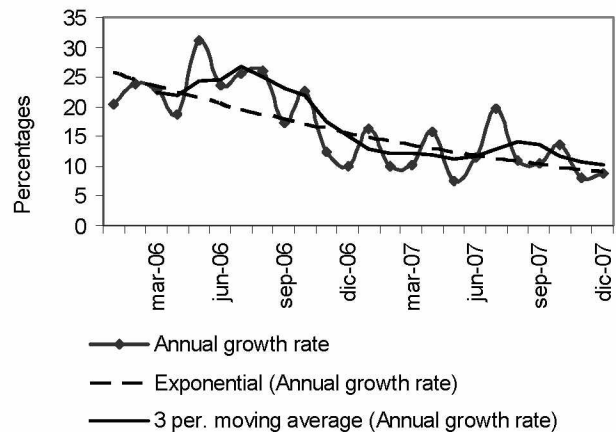
Source: ECLAC, based on official figures.

In 2007, financial flows and investment of the Central American Isthmus and the Dominican Republic, registered a positive balance of 11,352 billion dollars, an amount 42% above that of 2006. This was equivalent to 7.2% of GDP in 2007 (5.8% in 2006), the highest proportion since 2000 and continued an increasing trend since 2004. The inflow of foreign direct investment (FDI) was an important contributor to this performance, with minor contributions from the net inflows of short and medium-term capital (bank loans) and a modest reduction of net borrowing of foreign debts.

FDI in the Central American Isthmus and the Dominican Republic rose in 2007 to 7,461 billion dollars (equivalent to 4.8% of GDP, the best performance in a decade), an amount 13% higher compared to that of 2006 (see graph 12). The top performer was Costa Rica, which registered a record of FDI of 1,657 billion dollars (6.4% of GDP) destined mostly for the real estate and tourism sectors. Also in 2007, and for the first time since 2000, there was significant inflow to El Salvador (5.4% of GDP), mainly towards the financial and communication sectors.

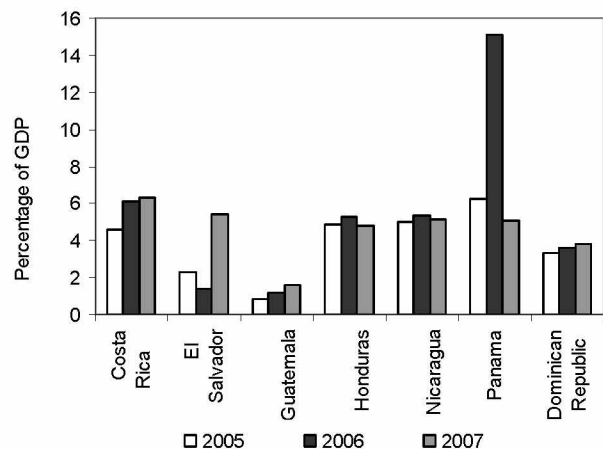
In Guatemala the foreign investment was concentrated towards the communication, commercial and chemical industry sectors, whilst in Honduras the FDI went to the communication and transport sectors as well as in-bond assembly plants. In each case the FDI amounted to around 500 million dollars. In Nicaragua, FDI remained at about 300 million dollars and was directed towards service sectors and in-bond assembly plant companies.

Graph 11
MONTHLY FAMILY REMITTANCES:
EL SALVADOR, GUATEMALA,
HONDURAS AND NICARAGUA
(January 2006 – December 2007)



Source: ECLAC, based on official figures.

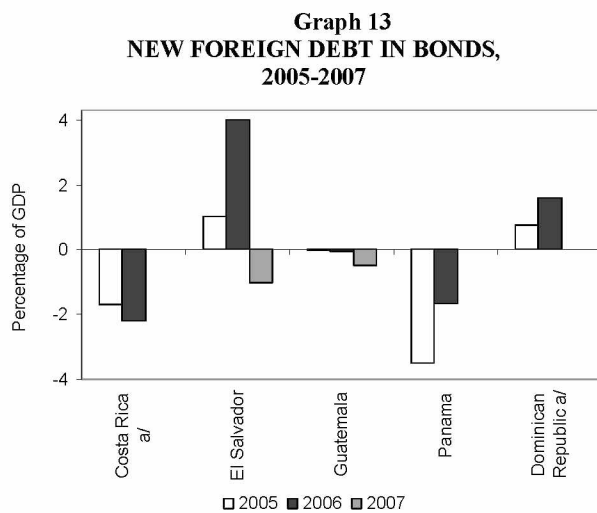
Graph 12
NET FOREIGN DIRECT INVESTMENT,
2005-2007



Source: ECLAC, based on official figures.

In Panama investment flows increased to 1,825 million dollars in 2007, mainly concentrated in the real estate and hotel sector. FDI inflows in the Dominican Republic topped 1,555 million dollars, continuing a growth trend that began in 2004, and mainly oriented towards the real estate, tourism and telecommunication sectors.

The net flow of foreign debt (bonds) was negative with 1,800 billion dollars and corresponded to a debt reduction in El Salvador and Guatemala (see graph 13). In recent years, the majority of the governments have decided to finance the fiscal deficit with debt issues in the local market. Honduras and Nicaragua, for their part, do not issue bonds in international financial markets as they are committed to the Initiative for Debt Reduction for Highly Indebted Poor Countries (HIPC). In Panama, new debt issued has been used to restructure its foreign debts.



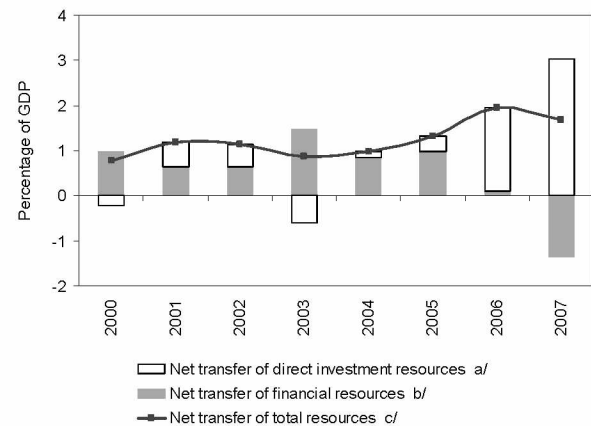
Source: ECLAC, based on official figures.

a/ 2007 no information available.

With respect to foreign bank debt, Panama (1,800 billion dollars) and Guatemala (1,100 billion dollars) recorded the largest increases in their commercial bank debts followed by Costa Rica and the Dominican Republic.

The total net transfer of resources (NTR) towards the Central American Isthmus and the Dominican Republic was positive as has been a tradition for the subregion. In 2007, the NTR was equivalent to 2.3% of GDP (see graph 14). In contrast to previous years, this result was due to the higher rate of direct investment component in the NTR (2.6% of GDP) and a small but negative NTR entry for financial accounts (-0.3% of GDP).

Graph 14
CENTRAL AMERICAN ISTHMUS AND THE
DOMINICAN REPUBLIC: NET TRANSFER
OF RESOURCES BY COMPONENT,
2000-2007



Source: based on official figures.

a/ Corresponds to net inflow of foreign direct investment (FDI), minus repatriation of net profits.

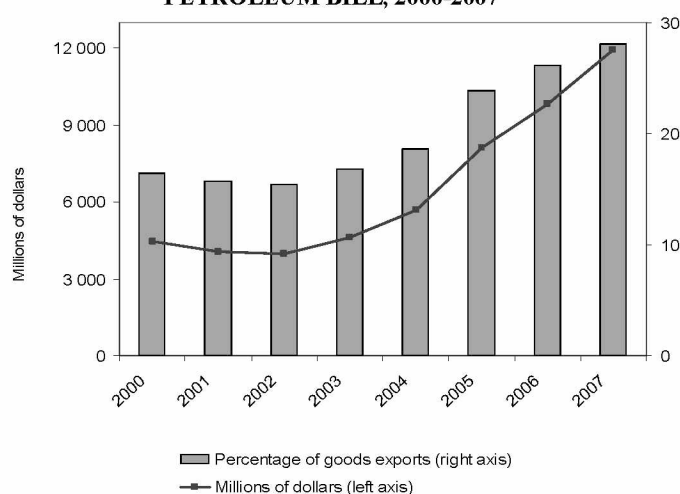
b/ Corresponds to inflow of capital, other than FDI, minus net payment of interest.

c/ Corresponds to NTR of direct investment plus NTR of financial resources.

Box 1**EFFECT OF PRICE INCREASE IN PETROLEUM IN THE CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC**

The subregion of the Central American Isthmus and the Dominican Republic continued to suffer from the price increases in petroleum and petroleum derivatives. The petroleum bill continued to grow and in 2007 increased to an unprecedented amount of almost 12,000 million dollars. This amount contributed to half the trade deficit of goods in the subregion. Furthermore, it was equivalent to 28% of goods exports.

Graph 15
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
PETROLEUM BILL, 2000-2007



Source: ECLAC, based on official figures.

The greatest price increase in petroleum was recorded in the fourth quarter of 2007, and in many cases it corresponded to shipment and inventories which were to be used in early 2008. During the first two quarters of 2007, the international petroleum price was lower than in 2006, however on average over the entire year, the price was 9% higher in 2007 than in 2006. Consequently, if prices continue to rise, the greater effects are not likely to be felt until the third quarter of 2008.

Table 1
AVERAGE PETROLEUM PRICES (WTI)
(Dollars per barrel)

	2006	2007	Variation (%)
I	63.34	58.10	-8
II	70.58	64.91	-8
III	70.60	75.19	7
IV	60.06	90.81	51
Average	66.14	72.32	9

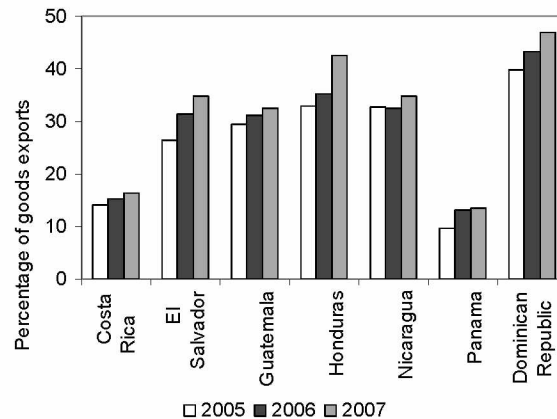
Source: US Department of Energy.

/Continued

Box 1 (Concluded)

In terms of individual countries, the Dominican Republic and Honduras continued to be the most affected. In both cases, a proportion close to 45% of the foreign currency generated by exports had to be earmarked for the purchase of crude oil and derivatives. The impact was also significant in El Salvador, Guatemala and Nicaragua, where the petroleum bill was equivalent to 35% of foreign sales. The differences between these countries are related to the degree of dependence each economy has with respect to the production of electricity by means of the use of petroleum derivatives.

Graph 16
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
PETROLEUM BILL, 2005-2007



Source: ECLAC, based on official figures.

In previous years, the Dominican Republic faced an electrical-energy generation crisis caused by the installation of power plants that consume a very costly type of fuel and thus have a higher generation costs. For this reason, in coming years they hope to be able to substitute some of the current plants with others that have a lower generation cost, among those, low sulfur content carbon power plants that are more environmentally friendly.

Petrocaribe is an Energy Cooperation Agreement proposed by the Bolivarian Republic of Venezuela, which at its beginning in July 2005, included 14 Caribbean countries, with the aim to resolve the asymmetries in the access to energy resources through a trading scheme that would be favourable for the countries of the Caribbean region. Within the subregion analyzed here, Nicaragua and the Dominican Republic are members of the Petrocaribe Initiative. Honduras expects Congress to ratify its accession and commence imports of Venezuelan petroleum during 2008. The new government of Guatemala is currently considering its entry into Petrocaribe and will announce its decision in the first half of 2008.

An evaluation of sovereign debt instruments by qualifying international companies in 2007 shows a general improvement. In the beginning of 2007, *Standard & Poor's* (S&P) raised its classification for Guatemalan bonds denominated in local currency from BB to BB+. For Panama, both S&P and *Fitch Ratings* im-

proved their outlook for the stability of foreign currency bonds. For *Fitch Ratings*, this was due to the fact that Panama has shown good economic performance in the last four years. If the country maintains its current growth rate and prudent fiscal management, it could achieve "investment grade" status in the next two years.

In the case of the Dominican Republic, *Moody's Investors Service* modified their classification of foreign currency denominated sovereign debt from B3 to B2, and in the beginning of 2008, S&P raised its classification from B to B+. For the remaining countries of the Central American Isthmus, the classification of international sovereign risk for long-term debt instru-

ments remained constant in 2007. However, in 2008, the positive trend in sovereign risk classification could change due to the fact that the current growth cycle is finishing and also the forecast of possible turbulences in the international financial system, with both factors leading to a so-called “flight to quality” of investors.

3. Economic policy

As in previous years, the main objectives of macroeconomic policy were to reduce variation in prices and continue economic growth close to its potential. The first objective was unattainable and inflation took off in almost all of the countries analyzed. On the other hand, the growth was close to potential and in some cases even above this level, producing for its part certain inflationary pressures. Fiscal policy continued to contribute to macroeconomic stability, achieving results better than that of 2006. Exchange-rate policy was once again aimed at the reduction of nominal volatility, with a great variety of exchange-rate regimes.

a) Fiscal policy

In 2007, for the fourth year in a row, there was an improvement in the fiscal outcome of the subregion. The fiscal deficit of the central governments decreased on average from 2.3% of GDP in 2003 to 0.6% in 2007. Compared to 2006, the reduction was 0.2

percentage points of GDP. The growth in economic activity was reflected in the continuing rise of fiscal revenue. Total expenditures showed great dynamism compared to previous years. In general, strong fiscal discipline lowered pressure on aggregate demand thus helping to contain the expansion phase of the economic cycle.

Table 2
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
FISCAL INDICATORS IN 2006 AND 2007
(Percentage of GDP)

	Fiscal result/deficit of the central govern- ment/ GDP		Stock of external public debt		Stock of internal public debt	
	2006	2007	2006	2007	2006	2007
Costa Rica	-1.1	-1.3	16.0	10.3	22.7	21
El Salvador	-0.4	-0.4	30.5	27.3	14.3	14.8
Guatemala	-1.9	-1.0	13.1	12.8	8.8	9.5
Honduras	-1.3	-2.4	32.8	19.6	4.6	3.8
Nicaragua	0.1	-0.9	85.4	36.3	23.3	20.8
Panama	0.2	0.5	45.5	41.5	15.6	12.2
Dominican Republic	-0.2	0.4	20.3	18.3	3.1	2.4

Source: ECLAC, based on official figures.

A deterioration in the fiscal outcome occurred in three countries (Costa Rica, Honduras and Nicaragua) and in one (El Salvador) there was no variation at all. In the remaining three countries (Guatemala, Panama and Dominican Republic) there was a fiscal improvement. As a great number of fiscal reforms had already been carried out in the current decade, revenue growth in 2007 was primarily due to economic expansion and improvements in fiscal practices.

With respect to this last cause, significant progress was achieved thanks to the joint efforts of the countries in the subregion. For instance, Costa Rica and Panama signed the Protocol of Cooperation Procedures and the Exchange of Customs Information with the aim to coordinate efforts in the fight against customs fraud and contraband. Another noteworthy effort is the establishment of a specific unit on the part of the Guatemalan Superintendency of Tax Administration (SAT) to investigate complaints of fiscal fraud, smuggling, money-laundering and financing of terrorism and drug trafficking. Better efficiency in tax collection in the Dominican Republic was guaranteed by the introduction of fiscal vouchers in the operations of the transfer of goods or the provision of services.

Nevertheless, there continued to exist weaknesses in the fiscal systems, with some causes common to all countries and some country-specific. Among the common causes, the low tax burden has to be mentioned, which to a great extent occurs because of low collection levels of direct taxes, and therefore virtually eliminating the progressive character of the tax systems. Another weakness common among the majority of the countries, is the scant public investment, particularly in infrastructure. This situation must be urgently addressed if the subregion is to achieve higher systemic competitiveness.

Another problem is the great magnitude of tax expenditures that, although differing from one country to another, are an important element of the loss of fiscal revenue. The major issue in this case concerns the tax revenue loss that the treasury accepts in order to grant discretionary tax exemptions (tax incentives) for specific sectors. The most extreme case is that of Guatemala, where the tax expenditures surpass the total tax burden. One of the main reasons for this situation is the *“race to the bottom”* with tax

incentives used to attract investment, generally foreign investment in predetermined sectors. This race initiates a competition in the reduction of tax burdens, in a way that the countries, in absence of tax cooperation and tax coordination structures, grant continually more generous tax incentives and face the consequential reduction of their fiscal revenue. Within this conceptual framework, the recent passing of the law on international services on the part of El Salvador has an aim of attracting investment in the service sector. Investors are exempted from tax payment on income for at least 15 years, and in some cases also exempted from local tax payments and the value added tax (VAT). The remaining countries of the subregion now consider themselves obliged to match the incentives, which will eliminate the advantage of the country which was the first to offer such benefits.

Among the specific weaknesses in the countries, it must be mentioned that the programme of tax reform in Costa Rica has failed to move forward and has remained stagnant for several years now. For its part, Honduras faces an increasingly serious crisis concerning the financial situation of its two biggest public companies (Hondutel and the National Electrical Energy Company). In the Dominican Republic, problems in the electrical sector compelled the government to grant enormous subsidies (around 600 million dollars a year), diminishing the treasury's capability to channel these resources into activities with greater social benefits. Finally, Nicaragua continues to depend strongly on donations to finance its budget.

The stock of the public debt maintained the downward trend that began in 2004. Public debt averaged 31.1% of GDP in 2007, which is a decrease of 18 percentage points of GDP in the last four years and a six point decline from 2006. The greatest part of this fall was recorded in two countries, Honduras and Nicaragua, which profited from different initiatives for reducing their debts. The latest initiative was the debt decrease contracted with the Inter-American Development Bank, which in 2007 meant a fall in the public debt for Honduras of around 1,500 million dollars. The result of this and other initiatives is a reduction in foreign public debt for Honduras from the equivalent to 69.8% of GDP in 2004 to only 19.4% of GDP in 2007. In Nicaragua, there

was greater progress made reducing the debt from 169% of GDP in 2000 to 36.3% in 2007. Towards the end of the year 2007, the Government of Nicaragua declared its intention to buy back more than 1,330 million dollars of its foreign public debt at a price of 4.5% of the nominal value of the securities with contributions from various donor countries. This would provide additional relief from foreign public debt for the country.

In other countries, particularly those that recorded high GDP growth, even if they did not register a change in the total amount of the debt there was still a strong decline in their indicator of indebtedness. Thus, foreign public debt was reduced by almost six percentage points of GDP in Costa Rica and four percentage points in Panama. In terms of domestic public debt, there have been no significant variations, on average, in neither their stock nor in their participation in GDP. Domestic debt continued to be very important in Costa Rica and Nicaragua, representing nearly two thirds and one third, respectively, of all debt in each country.

The prospects in the fiscal area in 2008 are far more complicated than in the previous years. Given that the elasticity of tax revenue to GDP is on average greater than one, a slowdown of GDP growth would result in a greater than proportional reduction of tax revenue. In addition, public expenditures tend to increase when economic activity decelerates to mitigate the adverse effects on the most vulnerable parts of the population. This combination of factors points to a likely deterioration of the fiscal results in 2008. Fortunately, fiscal accounts were strengthened during the boom period of the last four years, creating greater space for a countercyclical fiscal policy, if economic activity suffers a major slowdown.

b) Monetary and exchange-rate policy

The conduct of monetary policy was complicated due to strong foreign exchange inflows and in some cases, due to the trade-off between inflation and exchange-rate targets. Inflationary pressures drove the central banks to raise interest rates and widen the sterilization operations to slow down the rapid growth of monetary aggregates. Despite this, the large inflow of

foreign exchange in the first half of 2007, tended to surpass the possibilities of sterilization. The interventions stemmed partly from concerns about the appreciation of the real exchange-rate and the deterioration of competitiveness, and were also motivated by a policy to accumulate precautionary reserves.

It is worth mentioning that the large amount of financial resources directed towards the countries of the subregion cushioned the impact of imported inflation by stimulating the appreciation of the currencies in the subregion. As shown in table 3, every currency in the subregion appreciated against the U. S. dollar. However a more varied situation appears when an indicator showing the variation of the total effective real-exchange rate is used. In half of the countries (Costa Rica, El Salvador and Panama), two of them with the U. S. dollar as their national currency, a depreciation of the total effective real-exchange rate occurred, mainly caused by the loss of purchasing power of the U. S. dollar versus the Euro and the Yen. In the other countries a slight appreciation of the total effective real-exchange rate was recorded.

The different performance by country in terms of the variation of the total effective real-exchange rate is partly due to the different exchange-rate regimes. At present, the countries of the subregion show considerable diversity in this respect, from strict pegging to other currencies through intermediate solutions up to a relatively free float. This is not surprising considering the different inflationary history of each country, its degree of financial development, openness to trade and the flow of capital, the dollarization level, the trade policies and the coordination of the fiscal and monetary measures.

Panama and El Salvador adopted the U. S. dollar as legal currency at different times. Honduras and Nicaragua apply a strategy of fixed explicit objectives for the exchange-rate. Honduras has an exchange-rate regime of sliding parity with respect to the U. S. dollar. Nicaragua uses an exchange-rate policy of daily mini-devaluations consistent with a pre-announced annual devaluation rate as an anchor for inflation expectations. Costa Rica recently decided to substitute the daily adjustment of the nominal

exchange-rate of the colon with respect to the U. S. dollar with an exchange-rate band that has moderate initial bandwidth, but which in time would allow for a more flexible exchange rate. Furthermore, the regime is a transitional one

towards a more flexible floating and a strategy of inflation targeting. The Dominican Republic and Guatemala, for their part, follow flexible exchange rate regimes, although with certain interventions.

Table 3
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
REAL EXCHANGE RATE, 2000-2007
(National monetary units per dollar) a/

Country	2000	2001	2002	2003	2004	2005 b/	2006 b/	2007 c/
Index of the real bilateral exchange rate with the U. S. dollar (2000 = 100)								
Costa Rica	100.0	98.6	100.4	104.0	104.4	103.5	102.6	97.5
El Salvador	100.0	99.1	98.8	99.0	97.3	96.1	95.3	93.8
Guatemala	100.0	97.0	90.7	89.1	85.2	77.5	74.8	72.7
Honduras	100.0	97.7	97.9	98.2	97.8	95.9	93.9	90.3
Nicaragua	100.0	102.8	106.7	109.9	109.7	108.7	107.9	104.9
Panama	100.0	102.5	103.1	104.0	106.2	106.8	107.6	106.2
Dominican Republic	100.0	97.4	99.1	132.8	128.5	92.1	97.2	94.1
Index of the real total effective exchange rate (2000 = 100) d/								
Costa Rica	100.00	97.0	97.3	103.3	106.8	108.3	106.1	106.6
El Salvador	100.00	99.6	99.5	100.0	100.2	101.6	102.0	102.7
Guatemala	100.00	95.7	88.5	88.6	85.9	79.9	77.4	77.2
Honduras	100.00	97.1	96.9	98.4	100.0	100.0	98.8	97.4
Nicaragua	100.00	101.1	103.3	107.0	108.9	108.1	108.4	111
Panama	100.00	102.9	101.2	103.2	108.4	110.6	112.0	113.7
Dominican Republic	...	...	...	...	...	...	...	...

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.

c/ Estimated figures.

d/ Average from January to October. The index of the total real effective exchange rate is calculated by weighting the indices of the real bilateral exchange rate of each trade partner by trade participation —exports plus imports— with that partner in the country's total trade. A currency depreciates in real effective terms when this index increases, and it appreciates when this index decreases.

Net international reserves continued to grow on average, but at a lower rate than in the recent past. Nevertheless, the situation varied significantly among the countries. In Costa Rica reserves increased 33% and in El Salvador 15%. In contrast, in Honduras the net international reserves fell slightly and in Guatemala and Nicaragua they grew at very low rates. In 2007, the monetary aggregates on average grew at similar rates to those of the previous year. However, this

average is the result of high growth of monetary aggregates (close to one-third increase) in the case of Costa Rica, and lower growth in the other countries. Credit on average accelerated its expansion from a nominal rate of 15% in 2006 to 20% in 2007. All of this increase was caused by loans to the private sector, as loans to the public sector recorded a negative variation rate.

The case of Costa Rica is interesting due to its attempt to achieve two aims at the same time.

The Central Bank tried to reduce inflation in 2007 and at the same time to discourage the foreign exchange inflows by investors who took advantage of the differential between the domestic and international interest rates. To achieve this second objective, the Bank lowered the interest rate of monetary policy from 9.75% to 6%. This adjustment changed the rate structure of the Central Bank financial instruments and contributed to a general decrease in active and passive interest rates in commercial banks. However, it must be noted that in this case inflation exceeded the target level (8%) by two percentage points. This forced the monetary authority to reverse its activity towards the end of the year.

The Dominican Republic was another country that had a relaxed monetary policy. As a result, the nominal interest rates of the banking system decreased only in these two countries. In the other countries, the monetary situation became more restrictive over the course of the year. This was especially noteworthy in Guatemala, where the monetary authorities increased the interest rate in five separate occasions, increasing to 6.25% in December.

Even so, the results in terms of the inflation rate were not as expected. In general the subregion recorded an inflation rate growth that went from 6% in 2006 to 9.3% in 2007. The only country that recorded the same inflation rate in both years was El Salvador (4.9%). In the majority of countries inflation increases were driven by external factors such as the increased international price of petroleum and food. Important domestic reasons for the inflationary pressure can only be identified in Panama, which, with a rate of growth of GDP of 11.2% in 2007 clearly exceeded its potential product and for which a part of the inflation was due to the overheating of the economy.

In the other cases there is no overheating and the monetary policy in each case is at a crossroads. Failure to react to the price increase with a more restrictive policy risks a loss of credibility for allowing inflationary pressures to spiral out of control. However, a more restrictive monetary policy is likely to be largely ineffective as the reasons for the pressure are

largely external factors beyond the control of the monetary authorities.

The prospects for 2008 appear to further intensify this dilemma. The sustainability of the expansion of economic activity will depend mainly upon external conditions, particularly on the slowdown of the world economy and global trade, the contraction of the demand of products and services from the subregion, the international price growth and the deterioration of the terms of trade. At the domestic level, the stability of the underlying fiscal positions, the strength of the internal financial sectors and the inflation containment are key factors.

Inflation has once again become a matter of concern in the subregion and in the world. In 2008, the dilemma between inflation and appreciation continues to depend on various factors, among which is the monetary policy of the Federal Reserve System (FED) of the United States. Continued declines in interest rates by the FED would make any increase in the interest rates of the central banks within the region more costly—in terms of resultant exchange rate appreciation—with respect to the dollar. At the same time, there is an increasingly stronger argument that much of the inflationary pressure is due to the effects of high prices in food and energy due to the expansion of emerging economies, especially China and India, and the continued search for substitutes for fossil fuels (biofuels). Consequently, it is possible that some countries are currently in a juncture characterized by economic slowdown, exchange rate appreciation and an increase in inflation. In these cases, economic authorities should use all available instruments, both orthodox and unorthodox, to partially counteract these adverse trends.

In 2007, the majority of the indicators of the banking system strengthened. The improvement in the quality of the activities has been reflected in the decrease in the rate of defaulted loans and a slight increase of the provisions for portfolio loss. In this way, greater volumes of loans and the noticeable increase of margins of intermediaries helped elevate the utility of banks in almost all countries of the Central American Isthmus and the Dominican Republic (see table 4).

Table 4
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC, BANKING SYSTEM INDICATORS, 2006-2007

Financial indicators	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama		Dominican Republic	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
	(December)		(December)		(November)		(October)		(December)		(December)		(December)	
a) Patrimony/total asset	10.2	9.9	11.9	11.9	8.5	9.1	8.1	8.5	9.7	9.7	12.0	12.4	10.0	9.5
b) Non-performing portfolio provisions/primary capital a/	-8.1	-5.7	-3.0	-3.8	2.3	0.0	17.5	9.6	-15.0	-11.1	-0.5	-0.6	-15.1	-11.0
c) Non-performing portfolio/total credit	1.5	1.2	2.0	2.1	2.8	1.9	4.9	3.8	2.0	2.5	1.3	1.1	4.5	4.0
d) Portfolio/non-performing portfolio provisions loss	167.1	147.3	117.3	120.5	90.0	99.8	65.3	76.6	176.2	143.0	142.3	153.2	144.7	134.5
e) Total deposits/total credit	131.3	109.6	93.3	99.8	154.2	127.5	111.0	101.4	129.7	118.2	120.1	120.0	117.6	118.9
f) Annualized administrative expenditure/average asset	4.9	4.9	2.9	2.9	3.8	4.4	4.8	4.8	5.5	6.0	0.9	0.9	7.6	7.1
g) Total asset (billions of dollars)	13 571.0	17 069.7	11 314.0	12 537.0	13 559.1	15 140.7	8 107.2	9 614.8	2 868.9	3 190.8	45 086.0	56 325.0	10 454.0	12 922.0
h) Total asset/number of banks (billions of dollars)	848.2	1 004.1	1 028.5	1 139.7	565.0	688.2	506.7	534.2	409.8	455.8	585.5	771.6	950.4	1 076.9
i) Total asset 5 top banks/total asset	76.2	74.3	90.6	89.5	70.9	77.5	63.8	62.6	94.4	93.7	45.0	45.7	92.7	87.4
j) Profit before income tax/average patrimony	25.0	20.8	16.4	12.9	18.2	23.3	24.3	25.9	24.7	34.2	14.1	15.6	28.0	27.7
k) Profit before income tax/average asset	2.4	2.1	1.9	1.5	1.6	2.0	2.0	2.2	2.3	3.3	1.8	2.0	2.7	2.6
l) Implicit margin of financial intermediation b/	9.2	n.a.	6.8	6.6	11.5	12.1	9.6	8.7	12.1	12.9	2.6	2.2	13.0	12.2
m) Financial availabilities + investment/total liability	44.5	35.1	28.8	24.9	49.8	40.0	31.8	26.9	44.7	38.1	39.7	40.9	44.9	42.4
n) Number of banks	16	17	11	11	24	22	16	18	7.0	7.0	77	73	11	12

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

a/ Non-performing portfolio: Costa Rica, El Salvador, Honduras, Nicaragua and Panama, loans with payments 90 days or more overdue. Guatemala, loans with expired deadline.

b/ (Annualized financial income from intermediation/average total credit balance) – (Annualized financial expenditure annualized from intermediation/average balance of public deposits).

n.a.: Non available.

However, the recent process of regional financial sector integration, which strengthened competitiveness, efficiency and economies of scale, has also increased the possibility of the spread of a crisis and contagion to financial systems in neighbouring countries. Furthermore, other important factors of vulnerability remain such as the high level of dollarization in the economies, maturity mismatches in the general balances, the liabilities resulting from the retirement systems, the lax definition of default loans and the mostly passive supervision. It is therefore a fundamental necessity that the subregion continues to develop consolidated and integrated supervision both at the domestic and regional levels.

c) Trade policy

The efforts of the Central American countries to form a Central American Customs Union received some important impetus. In June, the Central American countries, with the exception of Costa Rica, subscribed to the Framework Convention for the establishment of a Customs Union. In October, Costa Rica announced its accession to this Framework Convention.

Panama also expressed its intention to adhere to the conformation of the Customs Union as part of its strategic orientation towards the Central American integration process, and also announced its intention to join the Secretariat for Central American Economic Integration (SIECA, according to the Spanish acronym) Likewise, Panama completed negotiations for an FTA (free trade agreement) with various Central American countries, which it hopes to be able to ratify soon.

All these steps for Panama are conditions for incorporation into the Central America-European Union Association Agreement (AACUE, according to the Spanish acronym), whose negotiation started in October in San Jose. During this first round of talks it was agreed that the European

Union (EU) would take into account the asymmetries between the economic areas. Panama participated in this round as an observer.

The Central American countries, with the exception of Costa Rica, have also made clear their intention to negotiate a free trade agreement with the Caribbean Community (CARICOM). They adopted a decision to begin talks not from a clean slate but to take the FTA signed by Costa Rica and the CARICOM in 2003 as a fundamental basis. Furthermore, El Salvador, Guatemala and Honduras signed an FTA with Colombia, which will permit the four countries to increase their mutual trade and promote investments.

Costa Rica, the only country which has not ratified the DR-CAFTA (Free Trade Agreement between the Dominican Republic, Central America and the United States), called a referendum to approve it in October. This was necessary due to the polarization caused by the FTA. In the plebiscite the option to ratify the FTA won and the voting process was peaceful and respectful.

Costa Rica also played an important role in the middle of the year, when it broke off more than 60 years of diplomatic relations with the Chinese province of Taiwan and established relations with the People's Republic of China. Thus, Costa Rica took an important step towards taking advantage of the trade and investment potential with one of the biggest emerging economies in the world. China is the second largest trading partner of Costa Rica, only surpassed by the United States.

Finally, it should be mentioned that the World Trade Organization (WTO) decided to extend the term for granting subsidies to the exports from free trade zones until 31 December 2015. This decision offers the opportunity for the Central American countries to prepare their economies to be more competitive, once these exceptions to the WTO regulations expire.

Box 2**FREE TRADE AGREEMENTS AND REGIONAL INTEGRATION: THE CASE OF CENTRAL AMERICA**

The recently approved DR-CAFTA (Dominican Republic-Central America Free Trade Agreement between the Dominican Republic, Central America and the United States) and its coexistence with the regional Central American integration process, which dates back to more than four decades, present a unique opportunity for studying the degree to which both kinds of agreements can be complementary to each other or to the extent they may be mutually exclusive.

The trade of the Central American countries is concentrated on the market established by the DR-CAFTA. About 65% of the region's exports in 2005 were to countries covered by the agreement. This percentage decomposes into about 40% directed towards the United States and 25% to intraregional trade³¹. With respect to the region's imports, there has been a diversification of the origin of imports, but again there is a high component of imports to each country coming from the other nations that are part of the DR-CAFTA.

The importance of DR-CAFTA for Central America and the Dominican Republic rests in making permanent the preferential access that the region already had to the U. S. market and which was granted to them by the Generalized System of Preferences, the Caribbean Basin Initiative and the broadening of this last agreement. (GSP, CBI, CBTPA). This is particularly important for the apparel sector, which had become vulnerable since the end of the textile and apparel agreement because the countries which potentially compete with Central America and the Dominican Republic do not have quota restrictions for entering the U. S. market. Added to this is the fact that China's accession to the WTO allows them to compete with any other economy in the United States (and other nations) under the most favored nations (MFN) tariff scheme of the WTO.

Hopefully the DR-CAFTA will also encourage investment into Central America and the Dominican Republic, considering the greater security of access to the U. S. market, as well as offering better conditions for the said investment.

One of the existing concerns with respect to the impact of the DR-CAFTA on regional integration is the competition presented by the exports of goods from the United States to the region. About the half of the products which Central America and the Dominican Republic imports from the United States could be imported at lower tariffs compared to the start of the FTA. However, the exports of this last country to its counterparts in the DR-CAFTA did not strongly coincide with the intraregional exports and so they do not expect a strong change in this sense in the manufacturing area. At the same time the argument should not be rejected that the greater access to the region could produce a triangulation of the products from third party countries in order to take advantage of the better market access, which indeed could be harmful for the industries of Central America and the Dominican Republic.

It is important to note that the advantage of intraregional trade is that the traded products are mainly manufactured and not simply assembled, and therefore usually contribute greater value added and more opportunities for the small and medium-sized enterprises than those exports directed to other geographical zones. The DR-CAFTA provides some opportunities to intensify the regional integration as it can accumulate inputs from all countries (which has not previously been permitted) in its exports to the United States by stimulating investments in different parts of the production chain of the regional exports, above all in the textile-apparel area. However, to take advantage of this potential, better national capabilities are necessary, especially with regard to suppliers.

Equally important or even more so than the opening of trade resulting from the DR-CAFTA, are the improvements in the quality of the regional institutions and the harmonization of standards and this is helping to deepen the Central American Common Market (CACM). In this sense, there are quite clear synergies between the two trade conventions.

The new push towards tighter regional integration is due as much to the interest of the countries to fulfill that long-desired goal, as to the need to approach the DR-CAFTA negotiations as a block. Likewise, it responds to the requirements of the EU in the sense of wanting to negotiate an Association Agreement with Central America constituted in a Customs Union, instead of doing so country by country.

/Continued

Box 2 (Concluded)

The efforts to achieve higher regional integration by means of a Customs Union, and at the same time a DR-CAFTA which supports the development of the countries of the region, would require complimentary agendas for each, both within the Central American and Dominican Republic region with the aim of supporting the countries that are economically less developed, and in the interior of every country. In other words, the process should be accompanied by an expansion of infrastructure, development of human capital, strengthening of technological capacities and greater security in the entire region, among other things.

Source: ECLAC, "Integración regional e integración con Estados Unidos. El rumbo del comercio centroamericano y de República Dominicana," Claudia Schatan, Gabrielle Friedinger, Alfonso Mendieta, Indira Romero, *Serie Estudios y Perspectivas* N° 93, México, 2008.

a/ In contrast, the trade between Central America and the Dominican Republic is very small (about 2% of the total amount of their trade).

4. Production, prices, remuneration, and employment

a) Economic activity ³

In 2007, the economies of the Central American Isthmus and the Dominican Republic expanded on average by 7.1%, one and a half percentage points higher than the average for Latin America and the Caribbean. Nevertheless, this variation represents a growth rate almost half a percentage point less than that of the previous year and only Panama, Honduras, Guatemala and El Salvador registered higher growth rates in 2007. Panama (11.2%) and the Dominican Republic (8%) were the economies with the highest growth rates whilst Nicaragua, for the second year in a row, displayed the lowest growth of the subregion (3.5%).

An important fact for the subregion is that in the last four years the real product has been above the potential product. ⁴ Growth in this period was more balanced than in the past decade, in the sense of that not just the foreign demand growing at high rates, but also the domestic demand showing dynamism. Even though the export increase (10% on average) played a significant role in the dynamism of the GDP, the growing family remittances allowed unprecedented consumption levels for some strata of the population that are less wealthy. On the other hand, the same family remittances resulted in an increase of imports higher than the increase of the exports, emphasizing the vulnerability of the economies to external shocks.

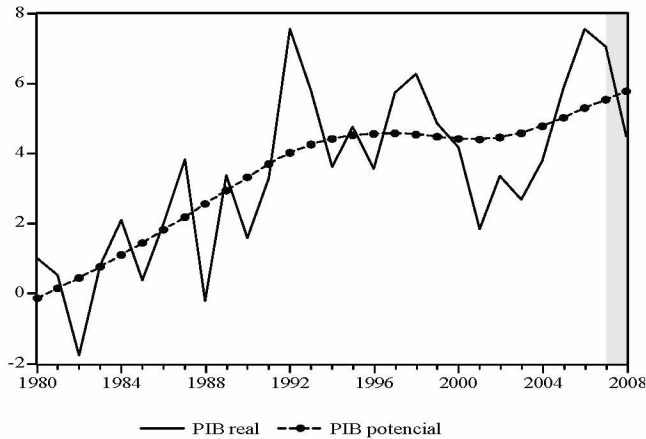
The real product —although higher than the potential product in 2007— began to show a reversal of its trend which after various years of

a positive gap, will grow significantly slower in 2008 (see graph 17). At the same time, this augurs a period of more macroeconomic difficulties and a higher level of uncertainty for the entire population, complicating decisions that have a greater long term effect. In particular, it is very probable that the deceleration of the U. S. economy in 2008 will have an adverse effect for the subregion on the flows of foreign currency, namely the inflow of investment and remittances. This will reinforce the trend of the real product to fall below the potential one for the subregion.

In 2007, the exports of goods and services from the Central American Isthmus and the Dominican Republic increased 9.7% at constant 2000 prices, a rate one and a half percentage points above that of the previous year. The growth of foreign demand therefore remains an important

source for economic expansion in the subregion. This fact underlines the challenges export companies will face in 2008 due to the weakening of foreign demand, especially U. S. demand.

Graph 17
CENTRAL AMERICAN ISTHMUS AND THE
DOMINICAN REPUBLIC: REAL GDP AND
POTENTIAL GDP, 1980-2008

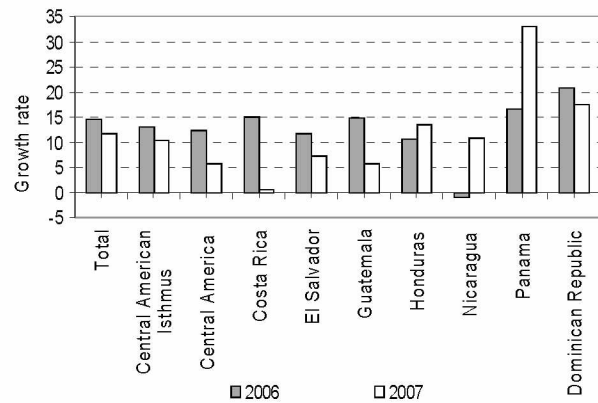


Source: ECLAC, based on official figures.

The advance in domestic demand by 8% showed a greater dynamism than the previous year. This performance was due to a large increase in consumption (7.3%), on the strength of higher inflows of family remittances to Central America. Both private and public consumption grew at rates above 5%. The fixed gross investment maintained its rhythm from the previous year, growing more than 11% and continuing the trend in the expansion of installed capacity. In this area it is noteworthy that in almost all countries of the Isthmus and the Dominican Republic their investment was very close to the average, and that only Costa Rica recorded a slowdown from 14.9% in 2006 to 0.7% in 2007.

In terms of aggregate supply, the imports of goods and services grew 11.3% in 2007, more than two percentage points higher than that of 2006. This expansion was due largely to increases in the international prices of food and petroleum, and also because of the purchase of intermediate inputs and capital in the subregion.

Graph 18
CENTRAL AMERICAN ISTHMUS AND THE
DOMINICAN REPUBLIC: FIXED GROSS
INVESTMENT, 2006 AND 2007



Source: ECLAC, based on official figures.

The analysis of the sources of variation in GDP in 2007 shows the importance of consumption, given its contribution of 6.3 percentage points to the total growth figure. This implies strong repercussions for the public policy as a great part of this dynamism was provided by imports. Hence, there is a widening gap between imports and exports of goods of these countries, a pattern that is not sustainable outside the short term. Investment added 2.2 percentage points to total growth, and exports another 4 percentage points. However, the imports subtracted 5.5 percentage points from total growth, thus making the total contribution of the external sector negative.

By areas of economic activity, the manufacturing industry reached a growth rate of 4.6%, half a percentage point lower than the last years, with a stand out performance by Nicaragua (7.3%). By increasing just 4.2% compared to 6.6% in 2006, the agriculture sector returned to a more moderate growth trajectory, similar to the one of the period 2003-2005. In this area the cases of El Salvador (8.6%) and Costa Rica (6.8%) were above average. The mining industry also registered a moderate performance by growing 4.1% in 2007.

Basic services, telecommunications, transportation and banking and financial services once again continued to progress steadily,

reaching an average growth rate of 10%. These sectors continue to expand at higher than average growth rates, widening their participation in the structure of the economy. After the service sector, construction presented the highest growth of the economic sectors in the subregion (7.2%), but this was slower expansion than the previous year, with a growth slowdown of almost eight percentage points. The expansion was especially substantial in Panama (19.6%), Costa Rica (18.2%), and in Guatemala (16%). In Nicaragua, for its part, services increased 8.5%, reversing the fall in 2006.

Two other noteworthy pieces of news are related to the investment in infrastructure. In 2007 work began on widening the Panama Canal to add another set of locks to the two already existing ones. That will double the capacity of inter-ocean transportation once it is completed in 2014. The predicted costs for the enlargement are estimated at around 5,250 million dollars. Another massive infrastructure project is the Santo Domingo metro construction. This building site, whose first stage will be completed in the first quarter of 2008, will substantially relieve the problem of overcrowded traffic in the Dominican capital.

Box 3

DISASTERS AFFECT DEVELOPMENT SUSTAINABILITY IN 2007

Aggravate disparity, defer development programs and social goals, and have differential negative effects on gender and between ethnic and cultural groups, altering social cohesion

In balance, in Latin America and the Caribbean, the year presented extreme occurrences in atypical periods which resulted in severe consequences for the affected populations, their means of living, the production sectors, general welfare and the economies. In the case of Bolivia, El Niño caused damages and losses of more than 443.3 million dollars. This required budgetary reassignments and investment repositioning in the affected countries in order to increase the current expenditures to tackle the emergency, and increase investment to replenish the damaged property and assets.

Mexico suffered successive and accumulated effects from hurricane Dean, which passed simultaneously with two other hurricanes in its two ocean coasts, culminating in October in intense rains in the States of Tabasco and Chiapas reaching historical records (in more than 100 years); all at such a magnitude that the amount of damage will not be able to be quantified for some months and to an extent comparable to that in Mexico City after the earthquake in 1985 and in Cancun in 2005 after hurricane Wilma. The financial mechanisms the country is counting on for disasters a/ will probably be insufficient.

In Central America, hurricane Felix severely scourged the Atlantic coast of Nicaragua with environmental impacts and adverse consequences for the welfare and livelihood in areas of the country with high vulnerability, poverty and marginality. The effect on Honduras was much slighter.

Finally, hurricane Noel, which occurred very late in the Atlantic cyclone season, hit territories and countries of the Caribbean severely —among those the Dominican Republic, Haiti and Cuba— in which Cuba quantified damages due to disasters in 2007 at more than 500 million dollars.

All these occurrences hinder the progress towards objectives such as the Millennium Development Goals. This is clear evidence of the lost opportunity to generate synergies between more sustainable development processes, the recuperation of situations of environmental degradation and the reduction of risks of disasters, all of which lead to a vicious cycle of damages, losses, and decreased resources for investment that are diverted towards reconstruction, making the growth process even more untenable. Due to the differential impact on men and women and in communities with diverse ethnical and cultural characteristics, they also affect the coverage of social politics and increase tension in the regional social cohesion process, by aggravating in some cases fragile political equilibriums or by revealing persistent and unresolved historical conflicts.

a/ Natural Disaster Fund (FONDEN) managed by the Department of the Treasury and Public Credit, the fund for the replacement of dwellings in the social interest after disasters in the Secretariat of Social Development (SEDESOL) and the Support Fund for small farming after the disaster in the Secretary of Agriculture, Ranching, Rural Development, Fisheries, and Food supply (SAGARPA).

Table 5
POPULATION AFFECTED BY DISASTERS IN 2007

	Severally affected	Total affected	National total	Percentage of affected persons
Total	1 813 576	9 271 114	137 925 554	6.7
Bolivia	244 437	562 594	9 119 152	6.2
Belize	6 140	37 703	311 480	12.1
Dominica	11 608	...	68 282	17
Saint Lucia	22 738	103 945	162 414	64
Dominican Republic	75 305	6 037 871	8 541 337	70.7
Haiti	329	193 382	8 790 091	2.2
Nicaragua	14 833	345 650	5 142 098	6.7
Mexico (Tabasco)	1 438 186	1 989 969	105 790 700	1.9

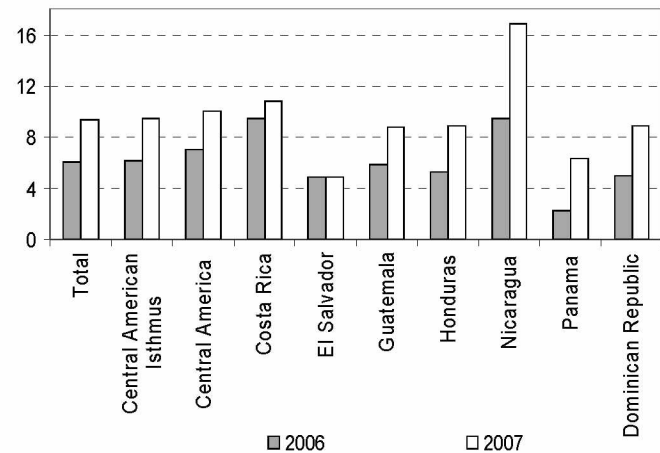
Source: ECLAC Estimations, based on evaluated events.

b) Prices, remuneration, and employment

After two years of decline, in 2007, the average inflation rate from December to December in the Central American Isthmus and the Dominican Republic grew more than three percentage points compared to 2006, and stood at 9.3%. Thus, inflation was also more than three percentage points higher than the average level registered in Latin America and the Caribbean. In contrast to the previous year, a greater deviation of the inflation rate among the countries of the subregion is predicted, as in two of those countries inflation exceeded single digits, a situation which has not been observed in the period of 2001-2006. The extremes of inflation changed from 2.2% and 9.4% in 2006, to 4.9% and 16.9%, in 2007.

Such a result was recorded despite the macroeconomic discipline and the appreciations of the national currencies in various countries, which have been insufficient to attenuate the price increase of imported products. In this context, the internal price increase was mainly associated with the international price increase of food, oil and their derivatives. The only exception was Panama, where the overheating of the economy played an important role for the price increase.

Graph 19
CENTRAL AMERICAN ISTHMUS AND THE
DOMINICAN REPUBLIC: INFLATION
RATE, 2006 AND 2007



Source: ECLAC, based on official figures.

In the first months of 2008, inflationary pressures increased even further. For the seven countries, the variation in prices measured by the Consumer Price Index (CPI) for the 12 months until February 2008, compared to what have been recorded in December 2007, rose in five countries, in Guatemala it remained steady and in the Dominican Republic it dropped slightly.

The economic expansion was reflected once again in an improvement in the labor markets situation. The open unemployment rate in the majority of the countries in the subregion decreased and a slight increase of nominal sala-

ries was recorded in some economies to offset the effect of growing prices of food and fuels. However, these measures were insufficient to contain the fall of the real salaries, given the inflation upturn.

Box 4

TRENDS OF INTERNATIONAL OIL AND FOOD PRICES AND THEIR EFFECTS ON INFLATION

Various factors contributed to the recent sustained increase of international food prices. In the first place, the changes in the global production structure with the breakthrough of large countries like China and India, had repercussions through the constant increase in the demand for food. With the massive rise of the middle class in these countries, food habits have changed towards a greater consumption of meat and dairy products. The high growth of GDP in Africa also allowed greater food consumption in that continent. Consequently, the global per capita consumption increased due to growing revenue and international trade.

Secondly, energy prices have already shown sustained increases for several years. As it is one of the principal inputs in food production (fertilizer and transportation), one part of increase in the international price of food is a consequence of the rise of the production costs. Thirdly, climate impacts are reflected in more frequent extreme natural occurrences, which adversely affect food production. Finally, alternative uses for agricultural products such as raw material for bio-fuels, is raising food prices.

In total, the demand for food is rising at higher rates than historical trends, while the supply of food tends to stagnate. This could be characterized as a structural change in the conditions of the food markets. Seeing that these trends could be maintained in the medium term, it is reasonable to expect a noteworthy increase in international food prices in the coming years. Similar trends are expected in the petroleum market, which has already experienced momentous growth in the last five years.

These trends represent a big challenge for the monetary policy. Due to the external origin of the inflationary pressure, restrictive policy does not have much effect on inflation. Furthermore, in the developing countries, food represents a greater proportion of consumption for the population in comparison to the consumption patterns of industrialized countries. Consequently, the low income social strata are the most affected part of the population due to the inflation increase. Finally, within the inflation figure, the food burden is much higher in developing countries than industrialized countries. Therefore, the increase in international prices of food is reflected mostly in the domestic inflation, or in other words, the pass-through from the imported inflation to the domestic inflation is much higher.

In El Salvador, in mid-November of 2007, the minimum wage rose 3% in the case of the in-bond assembly plant industry and 5% for other economic activities. Nevertheless, this increase did not compensate for the previous fall of the real wage, which on average shrunk 4% from January to October. In Guatemala, the daily minimum wage for agricultural activities was 44.58 quetzals, whereas for non-agricultural activities it was at 45.82 quetzals.

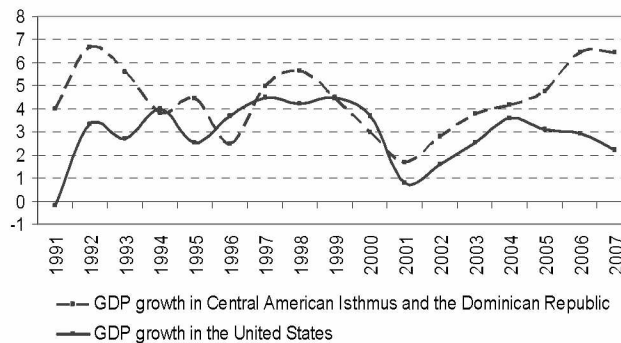
Nevertheless, the cost of a basic food basket was 55.16 quetzals a day, which could not be covered with the minimum wage and due to the inflation, the real minimum wage was reduced 1%. In the beginning of 2007, in Honduras, the average daily minimum wage had a nominal change of 9.6% and in the Dominican Republic the minimum wage of the private sector, frozen since the end of 2005, rose 11.3%.

5. Prospects for 2008

The prospects for the analyzed countries depend crucially on the economic cycle of the United States...

The economies of the Central America and the Dominican Republic, and to a lesser extent that of Panama, are strongly dependent upon the economic cycle of the United States. The main channel for this dependency is the U. S. demand for products imported from the subregion. Among these products, the most vulnerable ones are manufactured products because they possess higher income elasticity than food products. Moreover, another important channel of dependency are family remittances which have financed the consumption upturn in the countries in the last four years. Finally, the inflow of FDI from U. S. companies is a third channel which links the economic cycle of the countries of the area with the U. S. economy. As shown in graph 20, the economic cycle of the Central American Isthmus and the Dominican Republic is highly synchronized with the U. S. GDP growth.⁵

Graph 20
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: GDP GROWTH RATES COMPARED WITH THAT OF THE U. S. ECONOMY, 1991-2007



Source: ECLAC, based on official figures.

Box 5

THE ECONOMIC CRISIS OF THE UNITED STATES: DIAGNOSIS AND PROSPECTS

The actual economic crisis in the United States started with a deterioration of the situation in the real estate market more than one year ago. The real estate bubble was reflected in unsustainable price levels, which caused the correction. Added to this was the so-called *subprime* mortgage crisis (mortgage of low *quality*) in mid-2007, where investors became aware that this segment of the market would be the first one to show indicators of default due to the correction of the prices in the real estate market.

Thus, the U. S. economy started to suffer from a mechanism which for various years financed the consumption, but now works in reverse. It is the so called wealth effect, that is, the consumption change caused by a change in wealth. In other words, increasing the value of the persons' assets makes them feel wealthier. Consequently, people adjusted their consumption

/Continued

Box 5 (Continued)

upwards, thinking that this value was permanently higher. In the concrete case of the real estate sector bubble of the United States, the presumed unstoppable increase of the real estate prices permitted millions of people to run debts against the value of their house without recognizing that the sustainability of such debts depended on the continuation of the price increase of their houses.

Economic growth depended crucially on this wealth effect. When the mechanism was exhausted a serious problem occurred. The wealth effect works in the opposite direction in a similar way: changing the level of the perceived permanent value of assets for the affected persons causes them to adjust their consumption. The price reduction of real estate changed the relation between the value of the debts and the value of the dwellings, leaving at the beginning of 2008 about 8.8 million families or around 10% of the total with a negative net worth. This figure has doubled compared to the one registered a year ago, and is at the highest level since the Second World War.

Added to this mechanism is the crisis of confidence within the financial system. **a/** Recent financial innovations resulted in a much less transparent system. The “securitization” of more risky financial instruments with those bearing a lower risk has hidden the real risk level and investors began buying these instruments. The risk evaluation agencies contributed to the confusion by granting the instruments investment grade ratings although in reality they contained an important component which did not pass a normal process of scrutiny. It was also directly related to the *subprime* mortgages with which the mortgage loans had been granted to persons who did not fulfill the conditions to pay them. Consequently, the supervision and the regulation in this market segment were insufficient. **b/**

The crisis of confidence within the financial system occurred due to the fact that no one knows exactly where these irrecoverable loans are now. As a result, financial institutions have become far more conservative, which had repercussions on the reduction of available loans among the financial institutions to companies and consumers. At present, the loan crisis does not just affect the mortgage markets but also vehicle loans, credit cards, and even student loans. What started as liquidity crisis in a segment of the market is later perceived as a solvency crisis in the same market and has expanded to other market segments. As a result, banks have suffered losses which in February 2008, surpassed 120,000 million dollars, thus making them even more conservative in loans procedures.

Macroeconomic policy reacted relatively quickly. Hundreds of billions of dollars were injected into the U. S. economy to relieve the loan crisis. The interest rate of the Central Bank was also reduced in five separate occasions, dropping from 5.25% in August 2007 to 2.25% in March 2008. In the area of fiscal policy, an aid package was passed to the value of 168,000 million dollars, which will be in force for two years. More than 90% of the package is foreseen to be spent during 2008.

Nevertheless, it should be emphasized that in this economic cycle, macroeconomic policy does not have as much room for maneuver compared with the recession of 2001. The interest rates were higher in that downturn, and they were reduced 550 percentage points in a short period. This important incentive for the economy cannot be repeated, as the interest rate of the FED was at only 5.25% before the current crisis. In terms of fiscal policy, the margin for movement is a lot more restricted. The economic stimulus given to the economy during the previous crisis was equivalent to almost 6% of GDP (from a surplus of 2.5% of GDP in 2000 to a deficit of 3.2% in 2004). This time around, fiscal policy begins from a much lower base, with a fiscal deficit already close to 2% of the GDP.

To this, two other aggravating factors can be added. Firstly, inflation stands at a higher level than the FED target (4.1% in 2007), and the FED intervention interest rate is negative in real terms. With oil prices exceeding the level of 100 dollars per barrel, and the food prices and other raw materials at high levels, the Central Bank faces an increasingly difficult dilemma between the fight against inflation and support for the real sector of the economy. Another factor is the gradual loss of value experienced by the dollar compared to other currencies. The FED has to consider that with this devaluation and the deterioration of the U. S. economic situation, the confidence in the dollar could be considered as seriously diminished, which could cause panic and a flight to other currencies. This, indeed, put a floor to the reduction of interest rates by introducing a third dimension to the aforementioned trade-off.

Some indicators show that the crisis in the first quarter of 2008 had already started to affect the real economy. As a result of this, the number of new jobs in February was negative with a loss of 63,000 workplaces. Trade registered a fall of 0.6% in February. This was in line with the low levels of consumer expectations. The importance of these facts emanates from the very high contribution of consumption (about 72%) to the U. S. GDP. Inventories increased 0.8% in January, which can be interpreted as an involuntary stock accumulation by companies. The financial sector also continued to face great difficulties,

/Continued

Box 5 (Concluded)

with some important institutions on the verge of bankruptcy. Another negative fact is that in 2007 about 45% of defaulted mortgages were not *subprime* but *prime* (good-quality) mortgages, or mortgages with a government guarantee.

Among analysts, there is no unanimous view concerning the reasons for the current crisis. The majority consider it a normal recessive phase of the economic cycle, similar to the ones in 1991 and 2001. In this case, the measures taken in terms of macroeconomic policy up to now will be sufficient to achieve a recovery in the second half of 2008. However, there are other analysts who consider this crisis as a different kind, caused by the insufficient saving rates of the United States. As consumption has been higher than income for many years, the deficit was financed with savings from the rest of the world, and that was reflected in the high deficit of the current account of the balance of payments. This caused a continually larger imbalance at the international level. Thus the consumption of the United States served as the driving force for the growth of the rest of the world and this has functioned well for many years but now this seems to be exhausted and is reaching its end. *c/*

In this more pessimistic analysis the measures that try to maintain U. S. personal consumption levels are unsustainable. What is needed is coordinated action at the international level to increase the consumption in the rest of the world, with an increase in savings in the United States. *d/* By doing so, more balanced and more sustainable global growth will be achieved. In addition, a greater fiscal incentive will be needed, in the form of public investment in infrastructure. Finally, under this scenario, the entire world will be adversely affected by the U. S. crisis. *e/*

The worldwide stock market losses in the first months of 2008 showed that the contagion from the United States has already reached the rest of the world. Although, until now, no significant slowdown of the other economies has been observed, the fact that they have lost trillions of dollars in the stock market in the first quarter points towards a strong negative wealth effect which sooner or later will have consequences for the reevaluation of the sustainability of previous trends and will affect economic growth in the rest of the world.

- a/* Reinhart and Rogoff encountered many similarities, both qualitative and quantitative, of the current financial crisis in the United States with 18 cases of financial crisis in industrialized countries during the postwar period. See, Reinhart, Carmen M., Kenneth S. Rogoff, "Is the 2007 U. S. Subprime Financial Crisis so Different? An International Historical Comparison", NBER Working Paper Series N° 13761, National Bureau of Economic Research, Cambridge, Massachusetts, 2008.
- b/* According to the analysis of Dimitri B. Papadimitriou, Grez Hannsgen y Gennaro Zezza, "Cracks in the Foundations of Growth", Public Policy Brief N° 90, The Levy Economics Institute of Bard College, Annandale-on-Hudson, USA, 2007, the oversight in the loans area was recently very lax compared to other historical periods.
- c/* For more information about imbalances in the world economy, see "Symposium on Coping with Structural Imbalances in the Global Economy", International Journal of Political Economy, Vol. 36, N° 4, Winter 2007-2008. For more information concerning the differences between the current system and the system of Bretton Woods, and the sustainability of both systems, see Barry Eichengreen, "Global Imbalances and the Lessons of Bretton Woods", The MIT Press, Cambridge, Massachusetts, 2007.
- d/* For more information about this proposal, see UN DESA, "World Economic Situation and Prospects 2008", United Nations, New York, 2008.
- e/* See, Roubini, N., "The Coming Financial Pandemic: Why America's Economic Crisis Will Infect the World", Foreign Policy, March-April, 2008.

The uncertainty concerning the impact of the U.S. crisis on the rest of the world is very high

In contrast to previous years, the uncertainty concerning the impact of this crisis on the rest of the world is very large. This uncertainty is partly due to a hypothesis of "decoupling", which considers the driving forces for growth in other parts of the world sufficiently "decoupled" from what is happening in the United States so as to minimize the possibility of a general deterioration of

the economic situation. However, in a globalized world, the linkages between the different economies of the world are now much stronger than before, and the economic problems in one part of the world are quickly transmitted to other parts of the world. In a concrete example, a lower U. S. demand for imports will reduce the exports of countries like China, Mexico, Central America, for which the U. S. market is the main destination. For the same reason, the imports of these countries will be reduced, producing a

second wave of effects, mostly regionally as the production processes are today more regionally integrated than before, and because the imported component is a higher proportion of the total of inputs in the production process. This is especially the case in Asia, where China imports raw materials or intermediate goods from its regional business partners and exports final goods to the United States and Europe. Consequently, the impact of the crisis on the rest of the world will be palpable, but it is impossible to evaluate the magnitude and the significance of the impact at this stage.

The countries of the Central American Isthmus and the Dominican Republic are better prepared than before for the external shock...

As shown in this document, the external vulnerability of the countries of the subregion has been reduced substantially, although with great differences between the countries. Firstly, foreign debts are much lower now than during the U. S. recession of 2001, and at the same time they are more diversified with respect to the type of currency. Their temporal profile has also improved, with a lower proportion of short-term debts. Secondly, international net reserves are at higher levels than before, and cover various months of imports. Thirdly, fiscal deficits are smaller, and so there is lesser need for financing. A great part of this financing is obtained from sources in the domestic market without the need to seek outside contributors. Fourthly, some countries of the region have diversified their export destinations, whereby now, they are less dependent on the U. S. market. Finally, macroeconomic policy enjoys a greater credibility now compared to some years ago and this allows greater room for policy intervention to mitigate the effects of the external shocks.

... but important vulnerabilities still persist

Among the persisting vulnerabilities, probably the most important is the enormous trade deficit. In various countries, this has reached unprecedented levels, above 20% of GDP. Until now, these deficits were financed to a great extent by family remittances, but this could change in the future. A deficit of the cur-

rent account of around 5% of GDP is manageable in a boom period, but when the international economic situation deteriorates, this could be a great source of instability. Another type of vulnerability is related with investment flows and family remittances. These two sources are by far the most important in financing the deficits in the exchange of goods and services, but now, there are no guarantees that they will continue doing so. Finally, despite recent efforts to reach fiscal consolidation, some countries continue to be weak in this respect.

Due to the adverse change of the external conditions, a substantially lower growth rate than in 2007 is expected

The deterioration of external conditions signifies a lower growth rate of the countries in the subregion. Excluding Panama, the countries' real product will stand below their potential product. In some cases, the slowdown could be more significant, up to three points of GDP compared to the growth registered in 2007. Obviously, these forecasts do not take into account the possible actions of the economic authorities who could mitigate the growing slowdown. The estimations for 2008 represented in table 6 have as a hypothesis a growth rate of 1% in the U. S. economy.

Table 6
CENTRAL AMERICAN ISTHMUS AND THE
DOMINICAN REPUBLIC: GDP GROWTH
IN 2006 AND 2007, AND PROJECTIONS
FOR 2008
(Variation rate)

	2006	2007	2008
Total	7.5	7.1	4.9
Central American Isth-	6.4	6.7	4.8
Central America	6.0	5.7	4.2
Costa Rica	8.8	6.8	4.5
El Salvador	4.2	4.7	4.0
Guatemala	5.0	5.7	4.5
Honduras	6.0	6.3	4.5
Nicaragua	3.7	3.5	3.5
Panama	8.7	11.2	8.0
Dominican Republic	10.7	8.0	5.0

Source: ECLAC, based on official figures and own estimations.

The projections by different international organizations for global growth are not presented here for two reasons. Firstly, the projections vary greatly between different sources, in accordance with the degree of uncertainty which prevails at this point concerning the course of the global economy. Secondly, the figures will be revised this year at various times to incorporate the changes and new occurrences.

Some policy recommendations are general and others depend on the specific situation in each country

In the current situation, the constant monitoring is essential. The authorities should be prepared to act with greater rapidity than in the previous period in case of changes of economic conditions. Since in the beginning of 2008 clear signs for the slowdown in the economic growth had still not developed, in the first part of the year the emphasis of the majority of the countries should be on containment of inflation. However, in order not to aggravate the problem of a slowdown which will be stronger in the second part of the year, it is better to use the heterodox means than to opt for a more restrictive monetary policy. In particular, the general increase of wages should be controlled if possible, especially in the public sector, so as to avoid an indexation problem that would cause a price and wage spiral. Another action, where public finances permit, could be the subsidy of energy and transporta-

tion to mitigate the effect of the international price increase of petroleum and gas. In cases where the government counts with strategic food reserves, they could intervene in the market to prevent price increases due to speculation. Finally, agreements to avoid price increases for some key goods or services, or the products of a sector, could play an important role in the fight to keep inflation under control. This last point is of the highest priority due to the differentiated impact and regressive character of inflation that has greater effects on the poorer social strata, and due to the loss of macroeconomic policy credibility involved.

In the second half of the year, the macroeconomic policy should begin to be more strongly countercyclical, in accordance with the deceleration of GDP. Obviously, the room for this kind of policy differs strongly from one country to the other, for which reason the economic authorities should know clearly the monetary and fiscal space within which they can act. The only country which should have a restrictive fiscal policy is Panama, as it does not count on monetary policy and faces a clear overheating of its economy.

Finally, governments should not forget the differential social effects stemming from an economic slowdown. In particular, low income strata are more vulnerable than upper income strata with respect to the deterioration of economic conditions, and therefore, it is necessary to implement a social policy which takes these asymmetries into consideration.

FOOTNOTES

¹ The Central American Isthmus refers to six countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), whilst Central America denotes the same countries but does not include Panama. From this year, the Dominican Republic is included in the analysis of the economic evolution of the Central American Isthmus for two fundamental reasons. Firstly, the country participates in an ever more active manner in the process of Central American integration, and is already a member of various integration organizations. For example, the Dominican Republic is an associate member of the System of Central American Integration, SICA (in Spanish, el Sistema de Integración Centroamericana) and has a free trade agreement with the Central American Common Market, MCCA (in Spanish, el Mercado Común Centroamericano). Secondly, the productive structure of the Dominican Republic possesses various features that are very similar to those of the Central American countries; among others, an open economy, a strong presence of *maquila* enterprises that are free trade import and reexporting firms, high migration of its population to other developed countries and consequential family remittances, tourism development and a vulnerability to natural disasters, among other characteristics.

² Due to the inclusion of data for the Dominican Republic, the rates in this report are not comparable to those of previous reports.

³ An important milestone in 2007 was the publication of new national accounts for Guatemala and Honduras. The change in the base year was imperative especially in the case of Guatemala that had been utilizing a base year of 1958. After 50 years the productive structure is not the same and thus the national accounts were not reflecting with any precision the economic reality of the country. In the case of Guatemala, with their old estimation the GDP was overvalued by around 15% whilst in the case of Honduras the GDP was undervalued by 19.3%.

⁴ The potential product is defined as the GDP that would be obtained in an economy that efficiently utilizes its available resources in a predetermined period. The potential GDP is estimated here according to the methodology of the Hodrick and Prescott filter.

⁵ For a more detailed discussion of the Central American cycle and its dependence on the US cycle, see Shaun K. Roache, "Central America's Regional Trends and U. S. Cycles", IMF Working Paper N° 50, International Monetary Fund, 2008.

Statistical Annex

Table A-1

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: MAIN INDICATORS, 2000-2007

Country	2000	2001	2002	2003	2004	2005	2006	2007
Area (km ²)								
Costa Rica	50 700	50 700	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	21 041	21 041
Guatemala	108 889	108 889	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	111 900	111 900
Nicaragua	130 000	130 000	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	75 517	75 517
Dominican Republic	48 442	48 442	48 442	48 442	48 442	48 442	48 442	48 442
Population (thousands of inhabitants)								
Costa Rica	3 925,3	4 008,3	4 089,6	4 169,7	4 248,5	4 325,8	4 401,8	4 476,6
El Salvador	6 276,0	6 396,9	6 517,8	6 638,1	6 757,4	6 874,9	6 990,7	7 105,0
Guatemala	11 225,4	11 503,7	11 791,1	12 087,0	12 390,5	12 700,6	13 018,8	13 344,8
Honduras	6 485,0	6 656,0	6 828,0	7 001,0	7 174,0	7 347,0	7 496,2	7 648,5
Nicaragua	5 105,7	5 181,5	5 252,0	5 319,7	5 387,3	5 457,2	5 529,8	5 603,2
Panama	2 948,0	3 004,0	3 060,1	3 116,3	3 172,4	3 228,2	3 284,0	3 339,8
Dominican Republic	8 262,7	8 411,3	8 562,5	8 716,5	8 873,3	9 032,9	9 195,4	9 360,7
Population growth rate								
Costa Rica	2,3	2,1	2,0	2,0	1,9	1,8	1,8	1,7
El Salvador	2,0	1,9	1,9	1,8	1,8	1,7	1,7	1,6
Guatemala	2,4	2,5	2,5	2,5	2,5	2,5	2,5	2,5
Honduras	6,3	2,6	2,6	2,5	2,5	2,4	2,0	2,0
Nicaragua	3,4	1,5	1,4	1,3	1,3	1,3	1,3	1,3
Panama	1,9	1,9	1,9	1,8	1,8	1,8	1,7	1,7
Dominican Republic	1,8	1,8	1,8	1,8	1,8	1,8	1,8	1,8
Economically active population (EAP) (thousands of inhabitants)								
Costa Rica	...	2 964,5	3 060,8	3 167,2	3 250,5	3 349,7	3 349,7	4 443,1
El Salvador	4 778,0	4 947,2	5 028,6	5 066,9	5 240,8	5 330,4	5 462,1	...
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	2 722,7	2 921,4
Nicaragua	...	3 653,2	...	3 870,3	3 977,7	4 096,7	4 203,6	...
Panama	1 952,7	2 010,2	2 054,3	2 121,9	2 169,2	2 216,2	2 263,0	2 309,8
Dominican Republic	3 532,5	3 558,0	3 701,8	3 731,7	3 933,7	3 992,2	4 100,4	...
Net participation rate (percentage of EAP)								
Costa Rica	53,6	55,8	55,2	55,5	54,4	56,8	56,6	57,0
El Salvador	52,3	53,3	51,2	53,4	51,7	52,4	52,6	...
Guatemala	56,3	56,9	61,4	60,9	56,1	...	...	...
Honduras	...	51,8	50,9	51,3	50,6	49,2	50,7	51,1
Nicaragua	...	52,0	...	53,3	53,1	53,8	52,4	...
Panama	59,9	60,5	62,6	62,8	63,3	63,5	62,6	62,7
Dominican Republic	55,2	54,3	55,1	54,7	56,3	55,9	56,0	...
Open unemployment (percentage of active workforce)								
Costa Rica	5,2	6,1	6,4	6,7	6,5	6,6	6,0	4,6
El Salvador	7,0	7,0	6,2	6,9	6,8	7,2	6,6	...
Guatemala	...	...	3,1	3,4	3,1	...	1,8	...
Honduras	-	3,9	3,8	5,1	5,9	4,1	3,5	2,9
Nicaragua	...	10,7	...	7,0	6,5	5,6	5,2	...
Panama	13,5	14,0	13,5	13,1	11,8	9,8	8,7	6,4
Dominican Republic	13,9	15,6	16,1	17,0	18,4	17,9	16,2	15,6

/Continued

Table A-1 (Concluded)

Country	2000	2001	2002	2003	2004	2005	2006	2007
Gross domestic product (millions of current dollars)								
Costa Rica	15 946,7	16 403,6	16 844,5	17 517,5	18 595,3	19 907,6	22 521,6	26 236,3
El Salvador	13 134,1	13 812,7	14 306,7	15 046,7	15 798,3	17 070,2	18 653,6	20 372,6
Guatemala	19 307,9	18 724,6	20 805,4	21 952,2	23 998,7	27 321,9	30 324,0	33 364,9
Honduras	5 954,4	6 327,4	6 508,4	6 866,2	7 454,2	8 299,3	9 236,2	10 390,9
Nicaragua	3 938,1	4 102,4	4 026,0	4 101,5	4 464,7	4 854,6	5 300,8	5 675,3
Panama	11 620,5	11 807,6	12 272,4	12 933,2	14 179,3	15 464,7	17 133,8	19 739,8
Dominican Republic	23 996,7	24 895,0	26 352,7	21 041,5	21 679,7	33 682,6	35 729,7	41 157,2
Per capita GDP (current dollars)								
Costa Rica	4 062,5	4 092,4	4 118,9	4 201,2	4 376,9	4 602,0	5 116,4	5 860,7
El Salvador	2 092,8	2 159,3	2 195,0	2 266,7	2 337,9	2 483,0	2 668,4	2 867,4
Guatemala	1 720,0	1 627,7	1 764,5	1 816,2	1 936,9	2 151,2	2 329,3	2 500,2
Honduras	918,2	950,6	953,2	980,7	1 039,1	1 129,6	1 232,1	1 358,6
Nicaragua	771,3	791,7	766,6	771,0	828,7	889,6	958,6	1 012,9
Panama	3 941,8	3 930,7	4 010,5	4 150,2	4 469,6	4 790,5	5 217,4	5 910,5
Dominican Republic	2 904,2	2 959,7	3 077,7	2 414,0	2 443,2	3 728,9	3 885,6	4 396,8
Nominal exchange rate a/								
Costa Rica	308,2	328,9	359,8	398,7	437,9	477,8	511,3	516,6
El Salvador	8,8	8,8	8,8	8,8	8,8	8,8	8,8	8,8
Guatemala	7,8	7,8	7,8	7,9	7,9	7,6	7,6	7,7
Honduras	15,0	15,7	16,6	17,5	18,4	19,0	19,0	19,0
Nicaragua	12,7	13,4	14,3	15,1	15,9	16,7	17,6	18,4
Panama	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0
Dominican republic	16,2	16,7	17,6	29,4	41,9	30,3	33,3	33,1
Human development index b/								
Costa Rica	0,829	0,832	0,834	0,838	0,841	0,846	...	...
El Salvador	0,713	0,719	0,720	0,722	0,729	0,735	...	...
Guatemala	0,642	0,652	0,649	0,663	0,673	0,689	...	...
Honduras	...	0,667	0,672	0,667	0,683	0,700	...	...
Nicaragua	0,643	0,643	0,667	0,690	0,698	0,710	...	...
Panama	0,791	0,788	0,791	0,804	0,809	0,812	...	...
Dominican Republic	0,727	0,737	0,738	0,749	0,751	0,779	...	...

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

a/ Costa Rica and El Salvador, colons; Guatemala, quetzals; Honduras, lempiras; Nicaragua, cordobas, Panama, balboas, and the Dominican Republic, pesos per dollar.

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

Table 1

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
MAIN INDICATORS, 2000-2007

	2000	2001	2002	2003	2004	2005	2006 a/	2007 b/
	Growth rates							
Economic activity and prices								
Gross domestic product c/	4,2	1,8	3,4	2,7	3,8	5,9	7,5	7,1
Per capita GDP c/	1,3	-0,3	1,3	0,6	1,7	3,8	5,5	5,0
Gross fixed capital formation	-0,5	-4,4	3,0	-2,9	1,1	4,6	13,8	14,8
CPI simple average (December-December)	6,6	5,6	6,1	10,8	10,9	7,9	6,0	9,3
	Percentages							
Fiscal deficit/GDP d/	1,6	2,2	2,0	2,3	2,1	1,6	0,8	0,6
	Millions of dollars							
External sector								
Current account balance	-4 953,6	-4 024,9	-4 371,3	-3 109,6	-3 715,8	-5 255,6	-6 298,1	-8 987,6
Income balance	-3 651,2	-3 121,4	-2 904,7	-4 187,3	-4 625,8	-4 640,4	-4 542,9	-5 604,1
Net current transfers	5 995,1	7 114,5	8 186,7	9 098,5	10 700,8	12 572,6	14 621,1	16 252,3
Financial and capital account e/	5 033,0	5 217,9	3 874,7	3 064,4	4 479,3	7 198,1	8 014,3	11 352,1
Net foreign direct investment	2 937,1	3 084,3	2 635,0	2 726,8	3 723,7	4 423,4	6 660,5	7 418,3
Overall balance	79,4	1 193,0	-496,6	-45,2	919,8	2 174,7	2 049,4	2 432,5
Net resource transfer	1 683,2	2 390,3	1 422,4	-530,4	617,6	3 019,7	3 737,0	5 852,7
External public debts	28 669,9	30 358,2	32 089,8	35 807,2	36 695,4	36 428,7	35 870,3	32 376,1
	Indices (2000 = 100)							
Terms of trade of goods	100,0	99,4	98,2	94,9	93,1	90,9	88,3	87,1

Source: ECLAC, based on official figures.

a/ Preliminary figures

b/ Estimated figures.

c/ Based on figures in dollars at constant 2000 prices.

d/ Weighted average.

e/ Includes errors and omissions.

Table 2

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
MAIN ECONOMIC INDICATORS, 2000-2007

(Growth rates)

	2000	2001	2002	2003	2004	2005	2006 a/	2007 b/
Gross domestic product c/								
Total	4,2	1,8	3,4	2,7	3,8	5,9	7,5	7,1
Central American Isthmus	3,0	1,7	2,8	3,8	4,2	4,7	6,4	6,7
Central America	3,0	1,9	2,9	3,7	3,5	4,2	6,0	5,7
Costa Rica	1,8	1,1	2,9	6,4	4,3	5,9	8,8	6,8
El Salvador	2,2	1,7	2,3	2,3	1,9	3,1	4,2	4,7
Guatemala	3,6	2,3	3,9	2,5	3,2	3,5	5,0	5,7
Honduras	5,7	2,6	2,7	3,5	5,0	4,1	6,0	6,3
Nicaragua	4,1	3,0	0,8	2,5	5,3	4,3	3,7	3,5
Panama	2,7	0,6	2,2	4,3	7,4	7,2	8,7	11,2
Dominican Republic	7,9	2,3	5,0	-0,4	2,7	9,2	10,7	8,0
Per capita GDP								
Total	1,3	-0,3	1,3	0,6	1,7	3,8	5,5	5,0
Central American Isthmus	-0,1	-0,5	0,6	1,6	2,1	2,6	4,4	4,7
Central America	-0,2	-0,3	0,7	1,5	1,4	2,1	3,9	3,7
Costa Rica	-0,5	-1,0	0,8	4,4	2,3	4,0	6,9	5,0
El Salvador	0,2	-0,2	0,4	0,4	0,1	1,3	2,5	3,0
Guatemala	1,2	-0,1	1,3	0,0	0,6	0,9	2,4	3,1
Honduras	-0,5	0,0	0,1	0,9	2,5	1,6	3,9	4,2
Nicaragua	0,6	1,5	-0,6	1,2	4,0	3,0	2,3	2,1
Panama	0,8	-1,3	0,4	2,4	5,5	5,3	6,8	9,3
Dominican Republic	6,0	0,5	3,2	-2,2	0,9	7,3	8,8	6,1
Gross fixed capital formation								
Total	-0,5	-4,4	3,0	-2,9	1,1	4,6	13,8	14,8
Central American Isthmus	-5,0	-4,8	2,4	5,1	3,1	2,8	12,0	14,1
Central America	-4,4	-0,2	3,8	2,4	1,7	2,4	11,0	10,1
Costa Rica	-0,9	2,6	6,6	7,2	-0,5	4,3	11,1	15,0
El Salvador	5,2	1,5	3,3	2,5	-5,0	2,0	11,7	7,3
Guatemala	-8,8	1,8	9,3	-3,1	-0,5	4,3	14,7	5,7
Honduras	-7,6	-7,7	-5,9	7,3	19,3	-7,4	10,5	13,5
Nicaragua	-11,1	-5,4	-6,3	0,6	6,7	6,8	-1,1	10,8
Panama	-7,3	-25,7	-5,6	23,3	11,1	4,8	16,6	33,1
Dominican Republic	14,7	-3,2	4,5	-24,5	-6,7	12,2	20,7	17,4

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

c/ Based on figures in dollars at constant 2000 prices.

Table 3

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
TRADE INDICATORS OF GOODS, FOB, 2000-2007

	2000	2001	2002	2003	2004	2005	2006 a/	2007 b/
Millions of dollars								
Exports of goods, fob								
Total	27 205,5	25 741,3	25 823,0	27 463,8	30 543,8	34 049,1	37 690,6	41 960,7
Central American Isthmus	21 468,8	20 465,0	20 658,0	21 993,0	24 607,9	27 904,4	31 109,6	34 944,7
Central America	15 630,3	14 472,6	15 343,3	16 921,1	18 529,6	20 313,2	22 634,0	25 633,1
Costa Rica	5 813,4	4 923,2	5 269,9	6 163,0	6 369,7	7 099,6	8 067,5	9 257,2
El Salvador	2 963,2	2 891,6	3 019,8	3 152,6	3 336,7	3 428,8	3 567,3	3 930,8
Guatemala	3 961,3	3 827,2	4 162,1	4 459,4	5 033,6	5 381,0	6 025,1	7 001,3
Honduras	2 011,9	1 935,4	1 977,1	2 090,1	2 420,6	2 749,8	2 996,6	3 259,3
Nicaragua	880,6	895,3	914,4	1 056,0	1 369,0	1 654,1	1 977,5	2 184,5
Panama	5 838,5	5 992,4	5 314,7	5 071,9	6 078,3	7 591,2	8 475,6	9 311,6
Dominican Republic	5 736,7	5 276,3	5 165,0	5 470,8	5 935,9	6 144,7	6 581,0	7 016,0
Imports of goods, fob								
Total	-37 228,6	-36 617,9	-38 302,1	-39 117,9	-44 143,3	-51 373,1	-59 728,3	-68 162,9
Central American Isthmus	-27 750,1	-27 838,6	-29 464,4	-31 491,1	-36 253,3	-41 503,7	-47 647,3	-54 871,9
Central America	-20 768,7	-21 150,0	-23 114,6	-25 216,9	-28 636,7	-32 596,5	-37 446,1	-42 247,0
Costa Rica	-6 023,8	-5 743,3	-6 547,7	-7 252,3	-7 791,0	-9 242,0	-10 810,8	-11 819,7
El Salvador	-4 702,8	-4 824,1	-4 884,7	-5 439,3	-5 998,6	-6 533,6	-7 256,6	-8 048,8
Guatemala	-5 560,1	-6 008,0	-7 023,1	-7 463,2	-8 713,0	-9 625,8	-10 920,4	-12 512,0
Honduras	-2 680,4	-2 769,4	-2 806,1	-3 035,0	-3 676,7	-4 239,0	-5 036,6	-6 131,4
Nicaragua	-1 801,5	-1 805,1	-1 853,0	-2 027,0	-2 457,4	-2 956,1	-3 421,8	-3 735,1
Panama	-6 981,4	-6 688,6	-6 349,8	-6 274,2	-7 616,6	-8 907,2	-10 201,2	-12 624,9
Dominican Republic	-9 478,5	-8 779,3	-8 837,7	-7 626,8	-7 890,0	-9 869,4	-12 081,0	-13 291,0
Growth rates								
Exports of goods, fob								
Total	9,6	-5,4	0,3	6,4	11,2	11,5	10,7	11,3
Central American Isthmus	9,1	-4,7	0,9	6,5	11,9	13,4	11,5	12,3
Central America	8,6	-7,4	6,0	10,3	9,5	9,6	11,4	13,3
Costa Rica	-11,6	-15,3	7,0	16,9	3,4	11,5	13,6	14,7
El Salvador	16,9	-2,4	4,4	4,4	5,8	2,8	4,0	10,2
Guatemala	42,4	-3,4	8,8	7,1	12,9	6,9	12,0	16,2
Honduras	14,6	-3,8	2,2	5,7	15,8	13,6	9,0	8,8
Nicaragua	17,6	1,7	2,1	15,5	29,6	20,8	19,6	10,5
Panama	10,4	2,6	-11,3	-4,6	19,8	24,9	11,7	9,9
Dominican Republic	11,7	-8,0	-2,1	5,9	8,5	3,5	7,1	6,6
Imports of goods, fob								
Total	12,6	-1,6	4,6	2,1	12,8	16,4	16,3	14,1
Central American Isthmus	10,9	0,3	5,8	6,9	15,1	14,5	14,8	15,2
Central America	12,9	1,8	9,3	9,1	13,6	13,8	14,9	12,8
Costa Rica	0,5	-4,7	14,0	10,8	7,4	18,6	17,0	9,3
El Salvador	20,9	2,6	1,3	11,4	10,3	8,9	11,1	10,9
Guatemala	33,0	8,1	16,9	6,3	16,7	10,5	13,4	14,6
Honduras	6,8	3,3	1,3	8,2	21,1	15,3	18,8	21,7
Nicaragua	-1,0	0,2	2,7	9,4	21,2	20,3	15,8	9,2
Panama	5,3	-4,2	-5,1	-1,2	21,4	16,9	14,5	23,8
Dominican Republic	17,9	-7,4	0,7	-13,7	3,5	25,1	22,4	10,0
Indices (2000 = 100)								
Terms of trade of goods, fob/fob								
Total	100,0	99,4	98,2	94,9	93,1	90,9	88,3	87,1
Central American Isthmus	100,0	99,1	97,5	94,2	92,2	90,4	88,2	86,9
Central America	100,0	97,5	95,9	93,2	91,2	89,3	87,2	85,8
Costa Rica	100,0	98,4	96,9	95,5	91,9	88,3	86,9	84,9
El Salvador	100,0	102,5	101,6	97,7	96,8	96,8	95,5	95,5
Guatemala	100,0	96,7	95,8	93,0	92,1	91,3	89,6	88,7
Honduras	100,0	94,8	92,0	88,0	87,2	87,2	83,2	80,8
Nicaragua	100,0	88,4	87,0	84,1	82,5	81,4	79,4	78,3
Panama	100,0	102,7	101,6	97,2	95,3	93,5	90,8	90,4
Dominican Republic	100,0	100,9	101,5	97,9	96,7	93,5	89,8	89,3

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

Table 4

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
BALANCE OF PAYMENT INDICATORS, 2000-2007

(Millions of dollars)

	2000	2001	2002	2003	2004	2005	2006 a/	2007 b/
Balance of the current account								
Total	-4 953,6	-4 024,9	-4 371,3	-3 109,6	-3 715,8	-5 255,6	-6 298,1	-8 987,6
Central American Isthmus	-3 927,2	-3 284,1	-3 573,4	-4 145,8	-4 762,9	-4 777,8	-5 176,1	-7 226,6
Central America	-3 254,7	-3 113,8	-3 477,9	-3 566,3	-3 751,0	-4 018,5	-4 624,1	-5 649,9
Costa Rica	-690,7	-602,9	-856,9	-880,0	-795,8	-971,0	-1 122,3	-1 346,2
El Salvador	-430,5	-150,3	-405,1	-702,3	-631,8	-723,9	-699,7	-985,2
Guatemala	-1 049,0	-1 252,9	-1 234,9	-1 039,1	-1 210,7	-1 432,0	-1 592,1	-1 677,8
Honduras	-242,6	-302,6	-236,9	-281,7	-455,6	-146,7	-355,4	-726,9
Nicaragua	-841,9	-805,0	-744,1	-663,1	-657,1	-744,9	-854,6	-913,8
Panama	-672,5	-170,3	-95,5	-579,5	-1 011,9	-759,3	-552,0	-1 576,7
Dominican Republic	-1 026,4	-740,8	-797,9	1 036,2	1 047,1	-477,8	-1 122,0	-1 761,0
Trade balance of goods and services								
Total	-7 297,5	-8 017,9	-9 653,3	-8 020,8	-9 792,8	-13 187,8	-16 790,2	-20 339,5
Central American Isthmus	-5 410,0	-6 341,3	-7 737,9	-8 114,2	-10 129,4	-11 909,8	-13 956,1	-16 674,7
Central America	-5 120,7	-6 535,0	-7 670,9	-8 109,6	-9 922,2	-12 030,1	-14 443,9	-16 193,8
Costa Rica	468,4	-74,5	-592,6	-313,0	-563,9	-1 026,5	-1 403,5	-1 003,2
El Salvador	-1 974,5	-2 182,9	-2 104,6	-2 393,5	-2 739,4	-3 187,2	-3 670,6	-4 293,2
Guatemala	-1 707,9	-2 165,3	-2 892,7	-3 183,3	-3 937,0	-4 623,2	-5 330,6	-5 863,8
Honduras	-856,3	-1 061,9	-1 012,5	-1 129,6	-1 470,3	-1 751,5	-2 453,5	-3 336,3
Nicaragua	-1 050,3	-1 050,4	-1 068,5	-1 090,2	-1 211,6	-1 441,7	-1 585,7	-1 697,2
Panama	-289,3	193,7	-67,0	-4,6	-207,2	120,3	487,8	-480,9
Dominican Republic	-1 887,5	-1 676,6	-1 915,4	93,4	336,6	-1 278,0	-2 834,1	-3 664,8
Net current transfer balance								
Total	5 995,1	7 114,5	8 186,7	9 098,5	10 700,8	12 572,6	14 621,1	16 252,3
Central American Isthmus	4 092,8	5 087,0	5 917,4	6 762,6	8 173,3	9 875,5	11 587,8	12 942,2
Central America	3 915,8	4 860,9	5 673,6	6 516,2	7 953,7	9 630,2	11 329,9	12 683,5
Costa Rica	93,4	150,9	175,5	208,8	212,4	270,4	349,2	376,2
El Salvador	1 797,1	2 298,3	2 022,9	2 114,3	2 567,7	3 034,8	3 490,0	3 829,2
Guatemala	868,2	996,8	1 976,2	2 461,9	3 044,6	3 522,6	4 117,1	4 637,2
Honduras	746,9	929,2	968,7	1 105,8	1 374,0	1 978,6	2 518,1	2 925,9
Nicaragua	410,2	485,7	530,3	625,4	755,0	823,8	855,5	915,0
Panama	177,0	226,1	243,8	246,4	219,6	245,3	257,9	258,7
Dominican Republic	1 902,3	2 027,5	2 269,3	2 335,9	2 527,5	2 697,1	3 033,3	3 310,1
Financial and capital account c/								
Total	5 033,0	5 217,9	3 874,7	3 064,4	4 479,3	7 198,1	8 014,3	11 352,1
Central American Isthmus	4 054,9	3 962,1	3 631,6	4 647,0	5 265,7	6 261,5	7 024,5	9 066,1
Central America	3 459,6	3 159,2	3 390,1	4 334,6	4 649,2	4 827,4	6 296,9	6 867,8
Costa Rica	538,5	616,1	1 019,9	1 218,9	876,1	1 364,4	2 153,1	2 346,2
El Salvador	385,0	-27,4	281,6	1 018,5	579,3	665,0	771,2	1 168,5
Guatemala	1 703,3	1 726,7	1 256,7	1 588,7	1 819,4	1 686,0	1 870,8	1 846,3
Honduras	188,9	302,1	300,5	55,0	828,5	363,7	626,3	655,6
Nicaragua	643,8	541,7	531,4	453,5	545,9	748,3	875,4	851,2
Panama	595,3	802,9	241,5	312,4	616,5	1 434,1	727,6	2 198,3
Dominican Republic	978,1	1 255,8	243,1	-1 582,7	-786,4	936,6	989,8	2 286,0
Overall balance								
Total	79,4	1 193,0	- 496,6	- 45,2	919,8	2 174,7	2 049,4	2 432,5
Central American Isthmus	127,7	678,0	58,2	501,3	502,8	1 483,7	1 848,4	1 839,5
Central America	204,9	45,4	-87,8	768,4	898,2	808,9	1 672,8	1 217,9
Costa Rica	-152,2	13,1	163,0	338,9	80,3	393,5	1 030,8	1 000,0
El Salvador	-45,5	-177,7	-123,5	316,2	-52,5	-58,9	71,6	183,3
Guatemala	654,4	473,8	21,8	549,6	608,7	254,0	278,7	168,5
Honduras	-53,7	-0,5	63,6	-226,7	372,9	217,0	270,9	-71,3
Nicaragua	-198,1	-263,3	-212,7	-209,6	-111,2	3,4	20,8	-62,6
Panama	-77,2	632,6	146,0	-267,1	-395,4	674,8	175,6	621,6
Dominican Republic	-48	515	-555	-546	417	691	201	593

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

c/ Includes errors and omissions.

Table 5

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
PUBLIC DEBT INDICATORS, 2000-2007

	2000	2001	2002	2003	2004	2005	2006 a/	2007 b/
Millions of dollars								
Stock of external public debt								
Total	28 669,9	30 358,2	32 089,8	35 807,2	36 695,4	36 428,7	35 870,3	32 376,1
Central American Isthmus	24 990,5	26 182,1	27 553,4	29 820,2	30 315,7	29 616,2	28 604,1	24 829,1
Central America	19 386,5	19 919,3	21 204,3	23 316,6	23 096,5	22 036,5	20 815,8	16 629,1
Costa Rica	3 150,6	3 242,5	3 337,7	3 753,0	3 883,7	3 625,8	3 607,5	2 703,0
El Salvador	2 831,3	3 147,7	3 987,1	4 717,2	4 777,9	4 976,1	5 692,6	5 561,4
Guatemala	2 643,7	2 925,0	3 119,1	3 467,2	3 843,8	3 723,2	3 958,3	4 262,4
Honduras	4 101,0	4 229,6	4 397,8	4 783,4	5 200,5	4 363,9	3 030,7	2 041,7
Nicaragua	6 659,9	6 374,5	6 362,6	6 595,8	5 390,6	5 347,5	4 526,7	2 060,6
Panama	5 604,1	6 262,8	6 349,1	6 503,6	7 219,2	7 579,7	7 788,3	8 200,0
Dominican Republic	3 679,4	4 176,1	4 536,4	5 987,0	6 379,7	6 812,5	7 266,1	7 547,0
Percentage of GDP								
Stock of external public debt								
Total	30,5	31,6	31,7	36,0	34,6	28,8	25,8	20,6
Central American Isthmus	35,8	36,8	36,9	38,0	35,9	31,9	27,7	21,4
Central America	33,3	33,6	33,9	35,6	32,8	28,5	24,2	17,3
Costa Rica	19,8	19,8	19,8	21,4	20,9	18,2	16,0	10,3
El Salvador	21,6	22,8	27,9	31,4	30,2	29,2	30,5	27,3
Guatemala	13,7	15,6	15,0	15,8	16,0	13,6	13,1	12,8
Honduras	68,9	66,8	67,6	69,7	69,8	52,6	32,8	19,6
Nicaragua	169,1	155,4	158,0	160,8	120,7	110,2	85,4	36,3
Panama	48,2	53,0	51,7	50,3	50,9	49,0	45,5	41,5
Dominican Republic	15,3	16,8	17,2	28,5	29,4	20,2	20,3	18,3
Millions of dollars								
Stock of internal public debt								
Total	9 948,9	12 433,5	12 475,7	12 836,8	14 478,1	15 014,0	15 861,1	16 677,0
Central American Isthmus	9 486,1	11 832,6	11 965,4	12 240,1	13 480,0	14 039,2	14 748,1	15 674,4
Central America	7 358,1	9 694,6	9 793,2	10 082,1	10 722,4	11 387,6	12 083,7	13 268,9
Costa Rica	4 090,4	4 378,2	4 579,9	4 497,5	4 896,4	4 838,9	5 107,8	5 511,4
El Salvador	1 965,8	2 345,2	2 379,7	2 386,0	2 504,7	2 727,6	2 666,6	3 023,6
Guatemala	1 118,1	1 164,5	1 050,6	1 375,4	1 659,7	2 161,8	2 654,7	3 154,0
Honduras	183,8	196,0	206,4	397,6	322,8	322,4	421,1	398,3
Nicaragua	...	1 610,6	1 576,7	1 425,6	1 338,9	1 337,0	1 233,5	1 181,6
Panama	2 128,0	2 138,0	2 172,1	2 158,0	2 757,6	2 651,6	2 664,3	2 405,6
Dominican Republic	462,8	600,9	510,3	596,7	998,1	974,9	1 113,1	1 002,6
Percentage of GDP								
Stock of internal public debt								
Total	10,6	12,9	12,3	12,9	13,6	11,9	11,4	10,6
Central American Isthmus	13,6	16,6	16,0	15,6	16,0	15,1	14,3	13,5
Central America	12,6	16,3	15,7	15,4	15,2	14,7	14,0	13,8
Costa Rica	25,7	26,7	27,2	25,7	26,3	24,3	22,7	21,0
El Salvador	15,0	17,0	16,6	15,9	15,9	16,0	14,3	14,8
Guatemala	5,8	6,2	5,0	6,3	6,9	7,9	8,8	9,5
Honduras	3,1	3,1	3,2	5,8	4,3	3,9	4,6	3,8
Nicaragua	...	...	...	34,8	30,0	27,5	23,3	20,8
Panama	18,3	18,1	17,7	16,7	19,4	17,1	15,6	12,2
Dominican Republic	1,9	2,4	1,9	2,8	4,6	2,9	3,1	2,4

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

Table 6

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
INTERREGIONAL EXPORTS, 2000-2007

	2000	2001	2002	2003	2004	2005	2006 a/	2007 b/
Value of exports to the rest of the Central American Isthmus (Millions of dollars)								
Total	2 854,0	3 210,0	3 141,9	3 523,1	3 775,5	4 191,1	4 742,7	...
Central American Isthmus	2 854,0	3 185,4	3 107,0	3 302,3	3 747,2	4 158,6	4 690,9	5 620,8
Central America	2 744,5	3 062,3	2 992,8	3 208,0	3 654,6	4 052,4	4 567,8	5 513,9
Costa Rica	663,2	675,9	633,5	696,5	797,7	903,8	1 041,1	1 203,4
El Salvador	776,1	771,6	785,4	792,5	867,5	964,2	1 090,4	1 433,6
Guatemala	870,0	1 103,0	1 076,2	1 181,0	1 355,7	1 477,2	1 659,6	1 945,4
Honduras	268,5	328,6	297,1	310,2	380,6	412,3	419,3	529,6
Nicaragua	166,6	183,2	200,6	227,8	253,2	294,9	357,4	401,9
Panama	109,5	123,1	114,2	94,3	92,6	106,2	123,1	106,9
Dominican Republic	0,0	24,6	34,9	220,7	28,3	32,5	51,8	...
Growth rates								
Total	6,4	12,5	-2,1	12,1	7,2	11,0	13,2	...
Central American Isthmus	6,4	11,6	-2,5	6,3	13,5	11,0	12,8	19,8
Central America	6,4	11,6	-2,3	7,2	13,9	10,9	12,7	20,7
Costa Rica	4,0	1,9	-6,3	9,9	14,5	13,3	15,2	15,6
El Salvador	15,1	-0,6	1,8	0,9	9,5	11,1	13,1	31,5
Guatemala	1,8	26,8	-2,4	9,7	14,8	9,0	12,3	17,2
Honduras	3,1	22,4	-9,6	4,4	22,7	8,3	1,7	26,3
Nicaragua	8,3	10,0	9,5	13,6	11,1	16,5	21,2	12,4
Panama	7,5	12,5	-7,3	-17,4	-1,8	14,7	15,9	-13,2
Dominican Republic			42,0	532,9	-87,2	14,9	59,1	...

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

a/ Preliminary figures.

b/ Estimated figures.

Table 7

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: EVOLUTION OF THE VALUE
ADDED OF IN-BOND ASSEMBLY PLANT ACTIVITY AND FREE TRADE ZONES , 2000-2007

	2000	2001	2002	2003	2004	2005	2006 a/	2007 b/
Millions of dollars								
Total	4 582,5	3 362,9	3 783,7	4 810,0	4 967,7	4 839,6	5 245,3	...
Central American Isthmus	2 874,4	1 707,7	2 066,8	2 934,1	2 802,4	2 593,1	3 183,8	4 362,4
Central America	2 865,6	1 706,1	2 066,2	2 933,3	2 802,4	2 592,9	3 184,1	4 362,6
Costa Rica	1 241,6	450,6	521,2	1 178,0	917,3	663,7	823,2	1 915,9
El Salvador	456,3	489,7	474,9	493,8	463,6	418,4	620,5	564,0
Guatemala	509,9	96,6	345,8	418,7	439,2	319,4	463,0	455,2
Honduras	575,4	560,8	612,8	710,0	815,3	969,2	1 015,4	1 116,9
Nicaragua	82,4	108,5	111,5	132,8	167,0	222,2	262,0	310,5
Panama	8,8	1,6	0,6	0,8	0,0	0,2	-0,3	-0,2
Dominican Republic	1 708,1	1 655,2	1 716,9	1 875,9	2 165,3	2 246,5	2 061,5	...
Growth rates								
Total	0,0	-26,6	12,5	27,1	3,3	-2,6	8,4	...
Central American Isthmus	-6,9	-40,6	21,0	42,0	-4,5	-7,5	22,8	37,0
Central America	-7,1	-40,5	21,1	42,0	-4,5	-7,5	22,8	37,0
Costa Rica	-31,2	-63,7	15,7	126,0	-22,1	-27,6	24,0	132,7
El Salvador	20,5	7,3	-3,0	4,0	-6,1	-9,7	48,3	-9,1
Guatemala	77,2	-81,1	258,0	21,1	4,9	-27,3	45,0	-1,7
Honduras	6,9	-2,5	9,3	15,9	14,8	18,9	4,8	10,0
Nicaragua	10,5	31,7	2,8	19,1	25,8	33,1	17,9	18,5
Panama	1 660,0	-81,8	-62,5	33,3	-	-	-250,0	-33,3
Dominican Republic	14,1	-3,1	3,7	9,3	15,4	3,8	-8,2	...

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

Table 8

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: FOREIGN TRAVEL
ACCOUNT BALANCE, 2000-2007

(Millions of dollars)

	2000	2001	2002	2003	2004	2005	2006 a/	2007 b/
Total								
Income	5 708,0	5 603,0	5 704,5	6 525,1	7 083,8	8 027,4	9 042,2	...
Expenditure	1 641,4	1 636,0	1 521,4	1 739,7	1 480,7	1 634,0	1 643,4	...
Balance	7 349,5	7 239,0	7 225,8	8 264,8	8 564,5	9 661,5	10 685,6	...
Costa Rica								
Income	1 302,4	1 173,3	1 160,7	1 293,1	1 458,5	1 670,8	1 731,5	1 850,4
Expenditure	-485,4	-364,4	-344,9	-353,2	-405,7	-469,5	-485,3	-485,4
Balance	817,1	808,9	815,7	939,9	1 052,9	1 201,3	1 246,3	1 365,0
El Salvador								
Income	216,9	201,1	245,2	383,1	440,8	542,9	870,7	863,0
Expenditure	-165,2	-195,3	-191,1	-229,6	-302,2	-346,7	-517,8	-618,0
Balance	51,7	5,8	54,1	153,5	138,6	196,2	352,9	245,0
Guatemala								
Income	482,3	561,5	619,6	620,7	776,4	845,8	968,9	1 041,5
Expenditure	-181,8	-225,5	-275,6	-312,0	-390,6	-444,0	-494,4	-550,0
Balance	300,5	336,0	344,0	308,7	385,8	401,8	474,5	491,5
Honduras								
Income	259,8	256,4	301,0	355,6	413,5	463,5	488,3	598,8
Expenditure	-119,6	-127,6	-149,2	-210,6	-244,2	-262,1	-283,2	-311,5
Balance	140,2	128,8	151,8	145,0	169,3	201,4	205,2	287,3
Nicaragua								
Income	128,6	135,3	134,6	160,2	192,0	206,3	230,6	260,3
Expenditure	-78,4	-76,0	-69,4	-75,0	-89,3	-90,8	-97,0	-104,8
Balance	50,2	59,3	65,2	85,2	102,7	115,5	133,6	155,5
Panama								
Income	457,8	477,1	513,0	584,6	651,0	779,8	960,0	1 184,8
Expenditure	-188,4	-173,5	-178,8	-207,7	-238,9	-271,1	-271,2	-307,0
Balance	269,4	303,6	334,2	376,9	412,1	508,7	688,8	877,8
Dominican Republic								
Income	2 860,2	2 798,3	2 730,4	3 127,8	3 151,6	3 518,3	3 792,2	...
Expenditure	-309,0	-290,8	-295,3	-271,6	-309,8	-352,2	-332,8	...
Balance	2 551,2	2 507,5	2 435,1	2 856,2	2 841,8	3 166,1	3 459,4	...

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

Table 9

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: APPAREL
EXPORTS TO THE UNITED STATES, 2000-2007 a/

	2000	2001	2002	2003	2004	2005	2006	2007
Million of dollars								
Total	9 266,7	9 271,0	9 346,6	9 439,5	9 788,3	9 371,5	8 693,8	8 165,2
Central American Isthmus	6 829,5	7 001,3	7 173,9	7 301,5	7 712,0	7 505,8	7 125,6	7 096,4
Central America	6 822,9	6 994,6	7 168,3	7 296,8	7 708,1	7 501,8	7 122,4	7 092,9
Costa Rica	843,8	790,4	745,0	603,0	526,4	491,5	474,9	431,8
El Salvador	1 640,7	1 670,9	1 712,3	1 758,6	1 760,0	1 657,6	1 443,3	1 522,5
Guatemala	1 530,5	1 657,7	1 709,7	1 814,9	2 007,2	1 872,2	1 722,7	1 496,7
Honduras	2 462,0	2 485,1	2 555,5	2 622,1	2 800,4	2 744,4	2 577,7	2 648,1
Nicaragua	345,8	390,6	445,8	498,2	614,1	736,1	903,7	993,9
Panama	6,6	6,7	5,5	4,7	3,8	4,0	3,2	3,5
Dominican Republic	2 437,2	2 269,7	2 172,7	2 138,0	2 076,3	1 865,7	1 568,1	1 068,9
Growth rates								
Total	10,8	0,0	0,8	1,0	3,7	-4,3	-7,2	-6,1
Central American Isthmus	13,7	2,5	2,5	1,8	5,6	-2,7	-5,1	-0,4
Central America	13,8	2,5	2,5	1,8	5,6	-2,7	-5,1	-0,4
Costa Rica	0,6	-6,3	-5,7	-19,1	-12,7	-6,6	-3,4	-9,1
El Salvador	20,6	1,8	2,5	2,7	0,1	-5,8	-12,9	5,5
Guatemala	20,5	8,3	3,1	6,2	10,6	-6,7	-8,0	-13,1
Honduras	9,8	0,9	2,8	2,6	6,8	-2,0	-6,1	2,7
Nicaragua	21,8	12,9	14,1	11,8	23,3	19,9	22,8	10,0
Panama	-45,2	1,4	-18,0	-14,5	-18,6	4,5	-19,4	8,0
Dominican Republic	3,5	-6,9	-4,3	-1,6	-2,9	-10,1	-16,0	-31,8

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 AND THE DOMINICAN REPUBLIC: FOREIGN
TRADE OF FOB GOODS WITH MEXICO, 2003-2007

	Millions of dollars					Growth rates			
	2003	2004	2005	2006	2007 a/	2004	2005	2006	2007 a/
Fob exports									
Total	919,0	1 332,4	1 607,2	1 575,7	1 790,9	45,0	20,6	-2,0	13,7
Central American Isthmus	902,5	1 294,6	1 505,1	1 461,7	1 647,9	43,4	16,3	-2,9	12,7
Central America	864,7	1 250,7	1 426,7	1 338,8	1 534,0	44,6	14,1	-6,2	14,6
Costa Rica	584,2	852,3	883,2	789,1	740,5	45,9	3,6	-10,7	-6,2
El Salvador	44,3	50,2	58,5	58,6	61,6	13,2	16,6	0,1	5,2
Guatemala	151,1	230,0	221,8	355,6	457,3	52,3	-3,6	60,3	28,6
Honduras	47,0	65,8	104,5	78,1	183,3	40,1	58,7	-25,3	134,8
Nicaragua	38,1	52,4	158,6	57,4	91,2	37,7	202,7	-63,8	58,9
Panama	37,8	43,9	78,4	122,9	113,9	16,1	78,8	56,7	-7,4
Dominican Republic	16,5	37,9	102,1	114,0	143,0	129,3	169,6	11,7	25,4
Fob imports									
Total	2 206,9	2 455,4	3 325,8	3 978,5	4 981,3	11,3	35,4	19,6	25,2
Central American Isthmus	1 840,0	2 025,4	2 783,1	3 328,7	4 198,7	10,1	37,4	19,6	26,1
Central America	1 520,2	1 709,6	2 319,7	3 044,2	3 468,0	12,5	35,7	31,2	13,9
Costa Rica	352,5	387,3	420,7	521,8	687,1	9,9	8,6	24,0	31,7
El Salvador	286,4	317,2	471,6	496,9	516,7	10,8	48,7	5,4	4,0
Guatemala	590,1	672,5	863,7	935,4	1 151,8	14,0	28,4	8,3	23,1
Honduras	160,6	182,1	239,6	522,4	382,1	13,4	31,6	118,0	-26,8
Nicaragua	130,7	150,6	324,1	567,7	730,4	15,2	115,2	75,1	28,7
Panama	319,8	315,8	463,3	284,5	730,6	-1,3	46,7	-38,6	156,8
Dominican Republic	366,9	430,0	542,7	649,8	782,6	17,2	26,2	19,7	20,4
Trade balance									
Total	-1 287,9	-1 123,0	-1 718,6	-2 402,8	-3 190,5	12,8	-53,0	-39,8	-32,8
Central American Isthmus	-937,6	-730,8	-1 278,0	-1 867,0	-2 550,8	22,1	-74,9	-46,1	-36,6
Central America	-655,6	-458,9	-893,1	-1 705,4	-1 934,0	30,0	-94,6	-91,0	-13,4
Costa Rica	231,7	465,0	462,6	267,3	53,4	100,7	-0,5	-42,2	-80,0
El Salvador	-242,0	-267,1	-413,1	-438,3	-455,1	-10,3	-54,7	-6,1	-3,8
Guatemala	-439,0	-442,5	-641,9	-579,9	-694,4	-0,8	-45,1	9,7	-19,8
Honduras	-113,6	-116,2	-135,1	-444,3	-198,8	-2,3	-16,3	-228,9	55,3
Nicaragua	-92,6	-98,2	-165,5	-510,2	-639,1	-6,0	-68,6	-208,2	-25,3
Panama	-282,0	-271,9	-384,9	-161,6	-616,8	3,6	-41,6	58,0	-281,7
Dominican Republic	-350,4	-392,2	-440,7	-535,8	-639,7	-11,9	-12,4	-21,6	-19,4

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

a/ Preliminary figures.

Table 11

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: CENTRAL
GOVERNMENT INDICATORS, 2000-2007

(Percentages)

	2000	2001	2002	2003	2004	2005	2006 a/	2007 b/
Total revenue/GDP c/	14,9	15,3	15,5	15,5	15,7	16,0	17,1	17,6
Costa Rica	12,5	13,4	13,3	13,9	13,6	13,9	14,2	14,7
El Salvador	12,1	11,9	12,5	13,2	13,3	13,5	14,4	14,5
Guatemala	11,0	12,4	12,8	12,5	12,3	12,0	12,7	9,4
Honduras	18,7	19,9	19,4	19,6	20,3	20,5	21,2	22,1
Nicaragua	18,8	17,0	19,5	21,2	22,0	21,5	22,8	23,8
Panama	18,2	17,7	16,8	15,4	14,4	15,2	18,6	18,7
Dominican Republic	13,2	14,4	14,5	12,9	13,9	15,4	15,9	20,0
Total expenditures/GDP c/	16,9	17,9	17,4	17,9	17,5	17,3	17,3	18,3
Costa Rica	15,5	16,4	17,6	16,8	16,3	16,0	15,3	16,0
El Salvador	14,3	15,5	15,7	15,9	14,4	14,6	14,8	14,9
Guatemala	12,8	14,5	13,9	15,1	13,4	13,7	14,6	10,5
Honduras	23,7	25,2	24,7	25,8	23,7	23,1	22,5	24,5
Nicaragua	23,6	24,1	20,8	23,2	23,5	23,3	22,7	24,7
Panama	19,3	19,4	18,8	19,2	19,8	18,4	18,4	18,1
Dominican Republic	9,4	10,4	10,4	9,3	11,7	12,0	12,8	19,6
Fiscal deficit/GDP c/	-2,4	-3,2	-2,5	-2,7	-2,3	-1,8	-0,7	-0,7
Costa Rica	-3,0	-2,9	-4,3	-2,9	-2,7	-2,1	-1,1	-1,3
El Salvador	-2,3	-3,6	-3,1	-2,7	-1,1	-1,0	-0,4	-0,4
Guatemala	-1,8	-2,1	-1,1	-2,6	-1,1	-1,7	-1,9	-1,0
Honduras	-4,9	-5,3	-5,3	-6,2	-3,4	-2,6	-1,3	-2,4
Nicaragua	-4,7	-7,1	-1,3	-2,0	-1,5	-1,9	0,1	-0,9
Panama	-1,1	-1,7	-1,9	-3,8	-5,4	-3,2	0,2	0,6
Dominican Republic	0,8	0,2	-0,1	0,9	-0,8	-0,4	-0,2	0,4

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

c/ Simple average.

Table 12

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
CREDIT INDICATORS, 2000-2007 a/

(Real growth rates)

	2000	2001	2002	2003	2004	2005	2006 b/	2007 c/
Internal credit								
Costa Rica	14,2	4,7	8,9	4,5	18,4	-8,3	7,0	2,3
El Salvador	-88,0	0,9	-5,7	-3,0	-4,3	1,3	4,9	13,7
Guatemala	10,3	-1,3	6,9	1,7	-3,1	13,7	17,0	9,2
Honduras	12,4	3,5	-2,3	23,3	-4,2	12,8	20,0	26,9
Nicaragua	4,7	14,0	0,6	5,9	-1,1	-3,7	-15,8	-2,0
Panama	3,5	3,6	-5,7	0,9	9,3	8,5	9,8	8,6
Dominican Republic	8,5	6,3	17,4	15,1	-25,2	-12,2	-1,6	...
Private sector loans								
Costa Rica	17,8	11,0	10,7	9,1	3,9	13,0	16,7	10,7
El Salvador	-88,4	-4,1	4,4	4,3	-0,9	4,0	4,8	4,2
Guatemala	9,3	4,7	1,0	2,9	2,7	11,8	21,8	13,7
Honduras	3,1	3,1	-0,5	5,1	5,8	9,7	21,5	18,2
Nicaragua	20,4	-47,3	10,9	21,1	16,7	20,4	20,1	10,2
Panama	5,5	3,9	-4,6	1,7	7,1	9,6	10,7	8,8
Dominican Republic	12,6	18,9	8,9	-5,4	-23,5	1,8	9,5	...

Source: ECLAC and Central American Monetary Council.

a/ Based on end-of-year nominal wages.

b/ Preliminary figures.

c/ Estimated figures.

Table 13

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: NOMINAL
INTEREST RATES, 2005-2007

(Percentages)

	Costa Rica a/		El Salvador b/		Guatemala c/		Honduras d/		Nicaragua e/		Panama f/		Dominican Republic g/	
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
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	28,84	20,23
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	30,22	20,04
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	26,11	17,49
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	26,89	11,85
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	19,12	10,39
June	22,60	15,75	6,98	3,44	13,02	4,62	19,07	8,05	11,94	4,84	8,37	2,72	18,20	9,20
July	22,52	15,50	6,90	3,40	12,90	4,58	18,80	8,19	11,65	4,61	8,04	2,71	22,02	8,79
August	22,26	15,50	7,03	3,38	12,88	4,58	18,49	8,14	12,72	4,29	8,07	2,71	24,08	8,99
September	22,07	15,25	6,72	3,42	12,78	4,60	18,48	8,15	10,63	4,99	8,07	2,71	21,32	8,71
October	22,00	15,25	6,87	3,41	12,72	4,58	18,39	8,17	9,96	4,55	8,05	2,67	20,90	11,92
November	22,04	15,25	6,94	3,65	12,78	4,64	18,64	8,12	13,20	4,88	8,07	2,72	20,22	12,84
December	22,10	15,25	7,03	4,02	12,67	4,62	18,36	8,05	9,37	5,34	7,99	2,73	19,39	12,12
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	19,83	12,25
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	20,66	12,14
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	21,18	11,83
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	20,10	11,65
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	18,68	11,12
June	20,72	13,50	7,15	4,39	12,72	4,70	17,60	6,82	11,47	5,30	8,01	3,33	18,68	11,08
July	20,89	13,75	7,38	4,53	12,69	4,69	17,25	6,64	12,31	4,98	8,04	3,52	18,06	9,85
August	20,75	13,75	7,50	4,59	12,69	4,70	17,07	6,31	11,97	5,55	8,02	3,54	18,03	7,94
September	20,56	13,50	7,61	4,58	12,70	4,72	16,92	6,18	12,59	5,98	8,01	3,73	14,99	7,45
October	20,29	13,25	7,63	4,63	12,91	4,81	16,72	5,94	12,35	5,20	8,11	3,74	16,23	7,21
November	18,09	11,25	7,69	4,74	12,88	4,84	16,39	5,80	12,20	5,54	8,07	4,00	17,14	7,60
December	15,85	11,25	7,61	4,86	12,88	4,84	16,60	5,75	11,64	5,62	8,05	4,14	16,89	7,83
2007														
January	15,82	10,75	7,89	4,78	12,96	4,85	17,16	5,75	12,45	5,56	8,11	4,10	16,02	7,84
February	15,70	9,75	7,81	4,88	12,98	4,92	17,00	5,71	12,77	6,70	8,61	4,10	15,03	7,76
March	14,50	8,00	7,78	5,07	12,89	4,92	16,94	5,66	12,86	6,02	8,10	4,04	16,99	7,47
April	13,65	7,50	7,80	4,99	12,81	4,91	16,74	5,54	12,68	6,06	8,28	4,09	17,64	7,44
May	12,70	7,25	7,73	4,86	12,76	4,91	16,70	5,54	13,42	6,15	8,27	4,10	14,04	7,12
June	12,65	7,25	7,77	5,00	12,77	4,92	16,60	5,48	13,55	6,42	8,28	4,10	14,99	6,94
July	12,65	7,25	7,78	4,80	12,77	4,90	16,42	5,49	13,43	6,27	8,28	4,14	15,35	6,81
August	12,59	7,25	7,57	4,51	12,63	4,91	16,24	5,56	13,23	6,77	8,28	4,16	13,01	6,20
September	12,60	7,25	8,02	4,52	12,80	4,92	16,27	5,62	13,08	6,97	8,39	4,10	14,91	6,04
October	12,60	7,00	8,27	4,46	12,84	4,91	16,28	5,68	13,08	6,72	8,33	4,17	12,81	6,51
November	12,56	7,00	7,69	4,31	12,89	4,94	16,35	5,61	13,03	6,38	8,31	4,18	14,47	6,76
December	12,59	7,00	7,65	4,37	12,89	4,91	16,50	5,65	12,91	7,06	8,33	4,18	13,31	6,65

Source: ECLAC, based on official figures.

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

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

c/ Weighted average of the banking system.

d/ National financial-system weighted average: lending rate. Deposit rates as a weighted 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: short-term lending rate; three-month deposit rate.

g/ Average interest-rate: lending rate from 91 to 180 days; three-month deposit rate.

Table 14

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: PRICE
INDICATORS, 2000-2007

(Growth rates)

	2000	2001	2002	2003	2004	2005	2006 a/	2007 b/
Consumer price index (December to December)								
Total average	6,6	5,6	6,1	10,8	10,9	7,9	6,0	9,3
Central American Isthmus	6,1	5,8	5,4	5,5	8,0	7,9	6,2	9,4
Central America	7,2	7,0	6,2	6,3	9,2	8,8	7,0	10,0
Costa Rica	10,2	11,0	9,7	9,9	13,1	14,1	9,4	10,8
El Salvador	4,3	1,4	2,8	2,5	5,4	4,3	4,9	4,9
Guatemala	5,1	8,9	6,3	5,9	9,2	8,6	5,8	8,7
Honduras	10,1	8,8	8,1	6,8	9,2	7,7	5,3	8,9
Nicaragua	6,5	4,8	3,9	6,5	9,3	9,6	9,4	16,9
Panama	0,7	0,0	1,8	1,7	1,6	3,4	2,2	6,4
Dominican Republic	9,0	4,4	10,5	42,7	28,7	7,4	5,0	8,9
Consumer price index (annual average)								
Total average	6,7	6,7	5,3	8,4	13,3	7,6	6,7	7,0
Central American Isthmus	6,5	6,4	5,3	5,3	6,9	8,1	6,5	7,2
Central America	7,5	7,6	6,1	6,0	8,2	9,2	7,4	7,8
Costa Rica	11,0	11,3	9,2	9,4	12,3	13,8	11,5	9,4
El Salvador	2,3	3,8	1,9	2,1	4,5	4,7	4,0	4,6
Guatemala	6,0	7,3	8,1	5,6	7,6	9,1	6,6	6,8
Honduras	11,0	9,7	7,7	7,7	8,1	8,8	5,6	6,9
Nicaragua	7,1	6,0	3,8	5,3	8,5	9,6	9,1	11,1
Panama	1,5	0,3	1,0	1,4	0,5	2,9	2,5	4,2
Dominican Republic	7,7	8,9	5,2	27,4	51,5	4,2	7,6	5,7
Food price index (December to December)								
Costa Rica	9,5	11,5	10,2	10,0	14,6	16,5	-71,3	21,0
El Salvador	2,5	2,7	0,8	4,3	6,9	4,7	5,3	6,5
Guatemala	4,5	13,9	6,2	7,1	12,7	12,4	6,5	11,9
Honduras	8,7	8,0	2,3	5,0	9,3	6,7	5,6	13,7
Nicaragua	5,8	6,3	2,0	6,9	12,2	10,2	11,3	24,9
Panama	2,6	-3,6	-0,4	2,4	2,7	4,0	2,0	10,4
Dominican Republic	3,1	3,7	9,0	51,1	33,7	0,5	5,8	8,8
Food price index (annual average)								
Costa Rica	9,8	10,7	10,1	9,4	13,7	16,4	...	...
El Salvador	0,1	4,1	1,1	1,6	6,2	6,0	3,1	6,2
Guatemala	4,3	10,0	10,5	5,7	10,3	13,2	7,1	9,9
Honduras	7,6	8,7	3,9	3,6	6,8	10,0	4,2	9,6
Nicaragua	4,9	6,9	3,2	4,3	10,7	11,5	9,0	16,3
Panama	0,5	-0,4	-0,7	1,3	1,3	4,3	1,3	6,7
Dominican Republic	0,5	6,0	4,3	26,6	69,2	-1,6	4,1	6,6

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

Table 15

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC:
NOMINAL AND REAL EXCHANGE RATE, 2000-2007

(National monetary units per dollar) a/

	2000	2001	2002	2003	2004	2005	2006 b/	2007 c/
Nominal exchange rate								
Costa Rica	308,19	328,87	359,82	398,66	437,94	477,79	511,30	516,62
El Salvador	8,75	8,75	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	7,59	7,67
Honduras	15,01	15,65	16,61	17,54	18,41	19,00	19,03	19,03
Nicaragua	12,68	13,44	14,25	15,11	15,94	16,73	17,57	18,45
Panama	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Dominican Republic	16,18	16,69	17,59	29,37	41,93	30,28	33,30	33,13
Nominal exchange rate, 1995 constant prices								
Costa Rica	191,94	189,30	192,73	199,53	200,38	198,63	196,84	187,05
El Salvador	8,18	8,10	8,08	8,09	7,96	7,86	7,80	7,67
Guatemala	6,08	5,90	5,51	5,42	5,18	4,71	4,55	4,42
Honduras	8,09	7,91	7,91	7,94	7,91	7,76	7,60	7,31
Nicaragua	8,73	8,98	9,32	9,60	9,58	9,49	9,43	9,16
Panama	1,07	1,09	1,10	1,11	1,13	1,14	1,15	1,13
Dominican Republic	13,32	12,98	13,21	17,69	17,12	12,27	12,95	12,53

Source: ECLAC, based on official figures.

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

b/ Preliminary figures.

c/ Estimated figures.

Table 16

CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: SOVEREIGN RISK RATINGS

(Long-term)

Country	S&P				Moody's				Fitch			
	Date	Bonds in foreign currency	Perspectives	Bonds in national currency	Date	Bonds in foreign currency	Perspective	Bonds in national currency	Date	Bonds in foreign currency	Perspectives	Bonds in national currency
Costa Rica	Dec-07	BB	Stable	BB+	Dec-07	Ba1	Stable	Ba1	Dec-07	BB	Stable	BB+
	Jun-07	BB	Stable	BB+	Jun-07	Ba1	Stable	Ba1	Jun-07	BB	Stable	BB+
	Dec-06	BB	Stable	BB+	Dec-06	Ba1	Stable	Ba1	Dec-06	BB	Stable	BB+
	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	BB	Stable	BB+	Jun-05	Ba1	Negative	Ba1	Jun-05	BB	Negative	BB+
El Salvador	Dec-07	BB+	Stable	BB+	Dec-07	Baa3	Stable	Baa2	dec-07	BB+	Stable	BB+
	Jun-07	BB+	Stable	BB+	Jun-07	Baa3	Stable	Baa2	Jun-07	BB+	Stable	BB+
	Dec-06	BB+	Stable	BB+	Dec-06	Baa3	Stable	Baa2	Dec-06	BB+	Stable	BB+
	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	Dec-07	BB	Positive	BB+	Dec-07	Ba2	Positive	Ba1	Dec-07	BB+	Stable	BB+
	Jun-07	BB	Positive	BB+	Jun-07	Ba2	Positive	Ba1	Jun-07	BB+	Stable	BB+
	Dec-06	BB	Stable	BB	Dec-06	Ba2	Positive	Ba1	Dec-06	BB+	Stable	BB+
	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	Dec-05	BB+	Stable	BB+
	Jun-05	BB-	Stable	BB	Jun-05	Ba2	Stable	Ba1	Jun-05	BB+	Stable	BB+
Honduras	N/D	N/D	N/D	N/D	Dec-07	B2	Stable	B2	N/D	N/D	N/D	N/D
					Jun-07	B2	Stable	B2				
					Dec-06	B2	Stable	B2				
					Jun-06	B2	Stable	B2				
					Dec-05	B2	Stable	B2				
					Jun-05	B2	Stable	B2				
Nicaragua	N/D	N/D	N/D	N/D	Dec-07	Caa1	Stable	B3	N/D	N/D	N/D	N/D
					Jun-07	Caa1	Stable	B3				
					Dec-06	Caa1	Stable	B3				
					Jun-06	Caa1	Stable	B3				
					Dec-05	Caa1	Stable	B3				
					Jun-05	Caa1	Stable	B3				
Panama	Dec-07	BB	Positive	BB	Dec-07	Ba1	Stable	N/A	Dec-07	BB+	positive	BB+
	Jun-07	BB	Positive	BB	Jun-07	Ba1	Stable	N/A	Jun-07	BB+	Stable	BB+
	Dec-06	BB	Stable	BB	Dec-06	Ba1	Stable	N/A	Dec-06	BB+	Stable	BB+
	Jun-06	BB	Stable	BB	Jun-06	Ba1	Stable	N/A	Jun-06	BB+	Stable	BB+
	Dec-05	BB	Stable	BB	Dec-05	Ba1	Stable	N/A	Dec-05	BB+	Stable	BB+
	Jun-05	BB	Stable	BB	Jun-05	Ba1	Stable	N/A	Jun-05	BB+	Stable	BB+
Dominican Republic	Feb-08	B+	N/D	B+	Dec-07	B2	Stable	B2	Dec-07	B	positive	B
	Jun-07	B	Positive	B	Jun-07	B2	Stable	B2	Jun-07	B	positive	B
	Jun-06	B	Stable	B	Dec-06	B3	In revision	B3	Dec-06	B	positive	B
	Jun-05	B	Stable	B	Jun-06	B3	Stable	B3	Jun-06	B	Stable	B
					Dec-05	B3	Stable	B3	Dec-05	B-	Stable	B-
					Jun-05	B3	Stable	B3	Jun-05	DDD	Stable	CCC+

Source: Standard & Poor's (S&P), Moody's Investors Service and Fitch Ratings.

N/D: Not available.