COSTA RICA

1. General trends

In the 1990s, Costa Rica made a major effort to diversify its exports in order to capitalize on its competitiveness position, the second strongest in Latin America. The overall drop in international demand over the past two years, however, which was especially marked in 2001, had a negative impact on external sales by the firm Intel, resulting in a severe contraction in exports. Thus, after having slowed down in 2000, GDP rose by 0.9% –or 2.7% excluding Intel– and per capita income stagnated. Inflation reached 11%, while the fiscal deficit widened to 3%. Open unemployment rose to 6.1% and real wages showed a modest increase. The external imbalance was equivalent to 4.6% of GDP owing to the erosion of the terms of trade, but international reserves were up slightly. Measures to step up the rate of currency devaluation failed to prevent the colón from appreciating.

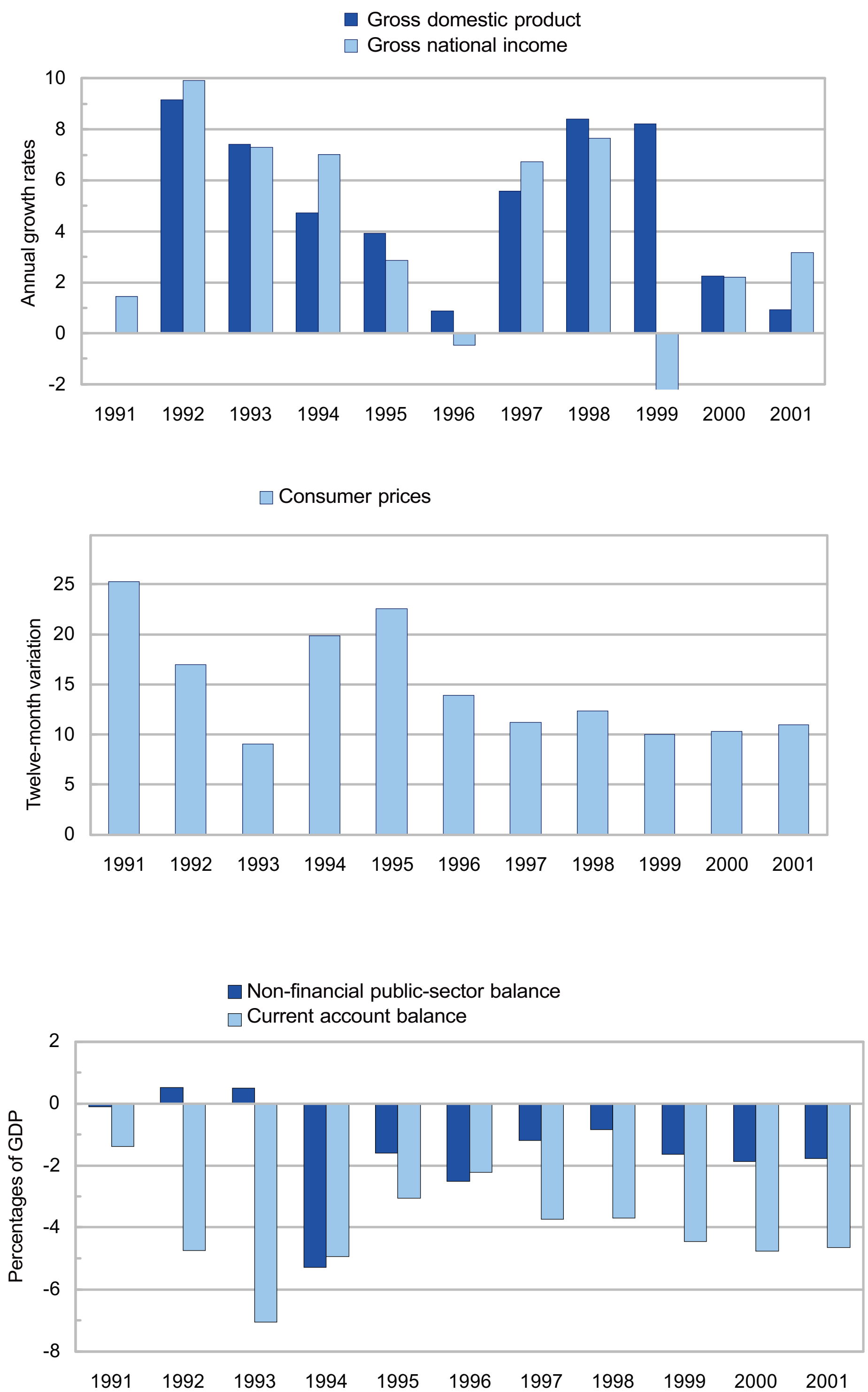
THE REDUCTION in exports, especially of manufactures, bananas and coffee, acted as a drag on GDP growth, and hence on import growth. Tourism revenues declined beginning in mid-September. The growth in domestic demand, which softened the impact of the drop in exports, was due to increases in housing construction and government consumption. Investment in machinery and equipment went down, reflecting the unfavourable economic outlook. Increases in utility rates and in oil prices pushed inflation up slightly. The stagnation of per capita income and the upsurge in unemployment curbed private consumption and eroded the population's level of well-being.

Fiscal policy helped bring about an increase in receipts by further simplifying the tax system and improving tax administration, but expenditure in this area rose quickly. Interest on the public debt grew by 22%, and the corresponding payments absorbed a significant share of the budget. Consequently, the imbalance in government finances, which has not been covered on a sustainable basis, remained the primary obstacle to stabilization.

Monetary policy was more flexible in the first few months: the legal reserve requirement was lowered, interest rates fell and the government obtained external resources and paid off its quasi-fiscal obligations with the Central Bank; financing thus became more readily available. In the second half of the year, credit standards were tightened, interest rates rose and the rate of currency devaluation increased.

Developments in 2002, an election year that witnessed a change of government, reflect the unfavourable international context of limited demand, low prices, sluggish tourism activity and reduced direct investment. This situation will probably dampen productive activity, increase the public deficit and the external imbalance, and keep investment and private consumption low. The faster depreciation of the colón, together with the rise in fuel prices, is likely to increase inflationary pressures.

Figure 1
COSTA RICA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Macroeconomic policy

The country met its economic policy targets with regard to inflation, the external imbalance and international reserves. However, the projected levels of fiscal imbalance and GDP growth did not materialize.

Costa Rica has a relatively high level of competitiveness among the Latin American countries. There remain, however, structural obstacles that hinder growth: the cost of infrastructure services, the fiscal imbalance, cumbersome regulations and controls that need to be streamlined, and a dearth of competition in the financial, electricity and telecommunications markets. Any measure that would make management more efficient in those areas would encourage investment and enhance national competitiveness.

(a) Fiscal policy

The imbalance in government finances continued to be the main obstacle to stabilization. Despite the efforts made to increase tax collection, the central government deficit was equivalent to 3% of GDP and necessitated an increase in both external and domestic borrowing. The low tax ratio does not appear to provide a sustainable foundation for government finances; meanwhile, agreement has not yet been reached on a new fiscal covenant.

Fiscal policy was hampered by high debt-servicing payments and earmarked expenditure. Overall public-sector finances, however, improved slightly; the financial deficit was equivalent to 2.9% of GDP, almost one point lower than its 2000 level. The strongest improvements in performance were exhibited by the Costa Rican Electricity Institute, owing to the rate increase, and by the Central Bank.

Despite the slowdown in economic activity, the central government's current income rose by 18.7% thanks to the adoption of the Tax Simplification and Efficiency Act and to improvements in tax administration, which resulted in higher receipts of sales, income and fuel taxes and of taxes on alcoholic beverages. Delayed payments carried over from the previous year were another factor that increased receipts of sales and income taxes. The abolition of the system of tax credit certificates boosted receipts of corporate income taxes. The application of the Tax Rules and Procedures Code also had a positive impact, as did the adoption of the Financial Administration and Public Budgets Act, which is based on the government's single-window principle. The tax burden rose to 13.4%.

Spending increased faster than it had in 2000, as current expenditure rose by 18%. Wage increases for teachers and public safety employees drove up payroll expenditure, even though the central government's share of total employment fell. Despite lower interest rates, debt interest payments climbed significantly, reaching 4% of GDP. Public debt servicing continued to consume a large share of the budget. An effort was made to reduce interest payments by swapping domestic debt for external debt with longer terms and fixed yields. The new resources obtained were used to pay off debt amounting to 57% of GDP. Pension expenditure increased owing to the larger number of participants in pension systems. There was also an increase in transfers to the private sector, despite the elimination of tax credit certificates.

Meanwhile, capital expenditure contracted, scarcely amounting to 34% of interest payments. Real investment, both by the central government and by public agencies, fell off sharply. There were delays in the rural telephony programme and in public works concessions to private investors.

(b) Monetary policy

Monetary policy was aimed at keeping inflation at 10% and the Central Bank's net international reserves at US$ 1.371 billion. For the first few months the authorities allowed some flexibility in monetary policy to boost credit and stimulate domestic demand. The issuance of monetary stabilization bonds was reduced by 50% in comparison to the preceding year, and the reserve requirement came down to 7% after having declined by two percentage points in May and September. This, together with the lowering of international interest rates, led to a reduction in domestic lending rates, especially for housing and construction, at the end of May. Credit for consumption, housing and construction continued to expand.

In the second half of the year, the uncertainty created by the slowdown in international markets, the forthcoming elections, the tightening of credit standards beginning in May –especially for dollar-denominated loans– and dwindling demand reduced the growth in private credit from 30% the previous year to 23%, despite the two-point reduction in lending rates. As financing to the public sector contracted considerably as a result of the government's aforementioned payment to the Central Bank, nominal domestic credit grew by 14%, which is less than half the 2000 rate.

Table 1
COSTA RICA: MAIN ECONOMIC INDICATORS

	1993	1994	1995	1996	1997	1998	1999	2000	2001[a]
	Annual growth rates [b]								
Growth and investment [b]									
Gross domestic product	7.4	4.7	3.9	0.9	5.6	8.4	8.2	2.2	0.9
Per capita gross domestic product	4.0	1.6	1.0	-1.8	2.9	5.7	5.7	-0.1	-1.3
Gross domestic product, by sector									
Goods	6.1	4.0	5.5	-1.2	5.5	11.0	15.8	-2.3	-3.0
Agriculture	3.7	3.3	7.3	1.8	1.5	8.2	4.5	0.6	1.6
Mining	-13.7	8.1	-3.7	-4.8	12.9	9.2	-6.0	6.3	7.6
Manufacturing	6.5	3.8	4.1	0.5	7.7	11.4	24.7	-4.3	-7.3
Construction	11.9	7.2	7.6	-17.9	6.1	17.4	-1.6	3.4	12.2
Basic services	9.8	7.6	6.2	4.3	8.9	8.3	6.7	11.4	8.4
Electricity, gas and water	3.5	7.5	3.1	2.6	5.5	8.7	6.2	6.1	5.1
Transport, storage and communications	12.1	7.7	7.3	4.8	9.9	8.1	6.9	13.0	9.4
Other services	6.2	4.6	2.8	0.7	4.7	6.3	3.9	3.7	2.2
Commerce, restaurants and hotels	9.3	5.1	3.5	-0.6	6.1	8.5	2.4	1.7	1.6
Financial establishments, insurance, real estate and business services	3.7	5.3	2.4	2.1	4.8	4.7	7.6	7.4	4.1
Consumption	9.3	6.2	2.8	2.0	5.1	5.0	2.1	2.4	1.6
General government	4.9	1.9	-0.3	-0.6	4.6	2.2	1.8	1.5	2.1
Private	10.0	6.9	3.3	2.4	5.1	5.4	2.2	2.6	1.5
Gross domestic investment	13.5	1.5	-5.4	-10.4	24.9	26.3	-15.6	-2.6	17.8
Exports of goods and services	8.0	3.8	11.1	6.2	8.6	26.7	21.3	-1.6	-6.4
Imports of goods and services	14.7	5.2	2.9	2.7	14.7	25.2	0.4	-3.1	0.2
	Percentages of GDP [c]								
Gross national income	98.0	100.2	99.2	98.0	99.2	98.6	89.1	89.1	91.0
Gross domestic investment	20.5	20.0	18.2	16.1	19.0	22.1	17.3	16.5	19.4
National saving	13.4	14.6	14.6	12.5	14.2	16.6	11.9	11.6	13.0
External saving	7.2	5.4	3.6	3.6	4.8	5.5	5.4	5.0	6.5
	Percentages								
Employment and wages									
Labour force participation rate [d]	52.6	53.1	53.9	52.2	53.8	55.3	54.8	53.6	55.8
Open unemployment rate [e]	4.1	4.2	5.2	6.2	5.7	5.6	6.0	5.2	6.1
Real average wage (index: 1995=100)	98.3	102.0	100.0	97.9	98.7	104.3	109.2	110.1	112.3
	Growth rates								
Prices (December-December)									
Local consumer prices	9.0	19.9	22.6	13.9	11.2	12.4	10.0	10.3	11.0
Industrial producer prices [f]	6.2	19.9	21.9	13.3	10.1	8.8	11.3	10.2	8.6
External sector									
Terms of trade (index: 1995=100) [c]	84.5	93.9	100.0	94.9	100.6	103.9	102.8	95.8	94.5
Nominal exchange rate (colones per dollar)	142.2	157.1	179.7	207.7	232.6	257.2	285.7	308.3	328.5
Real effective exchange rate for imports (index: 1995=100)	102.7	103.0	100.0	98.4	101.1	102.9	107.5	107.7	106.0
	Millions of dollars								
Balance of payments									
Current account	-679	-520	-357	-264	-480	-521	-697	-751	-750
Trade balance (goods and services)	-583	-533	-266	-229	-357	-166	1.023	410	-65
Exports	3,482	3,815	4,451	4,828	5,349	6,882	8,205	7,692	6,909
Imports	4,065	4,348	4,717	5,056	5,707	7,047	7,183	7,289	6,973
Capital and financial accounts [g]	703	415	537	186	696	371	1,177	597	762
Overall balance	24	-105	180	-77	216	-150	480	-154	12
Variation in reserve assets (- indicates an increase)	-24	105	-180	78	-216	150	-480	154	-12

Table 1 (concluded)

	1993	1994	1995	1996	1997	1998	1999	2000	2001[a]
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	41.6	39.2	36.0	27.8	24.1	24.1	23.3	23.7	23.5
Net interest (as a percentage of exports) [h]	4.2	2.2	2.7	2.2	1.8	1.3	1.1	1.4	2.7
	Percentages of GDP								
Central government									
Current income	12.4	12.0	12.7	12.9	12.8	12.9	12.5	12.7	13.6
Current expenditure	12.3	15.7	14.7	15.5	14.1	14.0	13.9	14.3	15.2
Saving	0.0	-3.6	-2.0	-2.6	-1.3	-1.1	-1.3	-1.5	-1.6
Capital expenditure (net)	1.6	1.8	1.5	1.4	1.7	1.4	1.0	1.5	1.3
Financial balance	-1.5	-5.5	-3.5	-4.0	-3.0	-2.5	-2.3	-3.0	-3.0
Non-financial public sector balance	0.5	-5.3	-1.6	-2.5	-1.2	-0.8	-1.6	-1.9	-1.8
	Growth rates								
Money and credit									
Net international reserves	4.9	4.6	41.6	-2.0	21.8	-2.4	55.6	-6.8	-4.3
Net domestic credit	31.5	27.6	3.3	46.3	17.9	37.6	7.2	34.1	14.1
To public sector	2.7	28.6	30.8	127.1	32.3	19.5	-21.7	-0.4	-45.3
To private sector	36.1	15.7	30.9	18.7	26.2	51.0	18.3	30.1	23.2
Money (M1)	7.8	31.1	-0.4	17.5	43.2	12.3	20.6	16.2	9.7
Local currency savings and time deposits	40.1	10.6	17.3	30.1	1.7	22.5	13.2	23.1	0.3
M2	25.2	18.7	9.6	25.1	17.2	17.8	16.4	20.0	4.4
Dollar deposits	10.3	20.9	29.6	33.1	22.6	39.7	22.0	23.6	17.6
	Annual rates								
Real interest rate (annualized, %)									
Deposit rate	6.5	3.8	0.6	-0.2	-0.1	0.9	3.9	2.2	0.5
Lending rate	18.4	17.3	10.8	7.4	8.2	9.6	14.3	12.6	11.4
Equivalent interest rate in foreign currency [i]	16.7	17.6	22.7	17.1	14.0	12.6	14.2	13.3	11.6

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on constant 1991 colones. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population. [e] Percentages of the economically active population. [f] In 1993 the use of the wholesale price index was discontinued and was replaced with an industrial producer price index. [g] Includes errors and omissions. [h] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. These export figures include the *maquila* industry. [i] Interest rate on deposits, deflated by the variation in the exchange rate.

Dollar loans expanded by 35% owing to the seven-point differential in relation to credits denominated in colones, and represented 51% of the loan portfolio. State banks hold almost 58% of the total portfolio. The leading items in the portfolio were personal loans for consumption, housing and construction, which grew during the year by 24%, 55% and 35% respectively, and accounted for 50% of total lending. The fact that many of these loans are in dollars increases the exchange-rate risk.

Interest rates tended to fall in the first half of the year and rise in the second. The reference rates of the joint auctions held by the Central Bank and the government declined by half a percentage point in April, rose by half a point in August and rose again by two points in November, thus increasing the premium on investments in colones and offsetting the steeper currency devaluation.

Average nominal borrowing rates declined to 15.1% in response to lower demand for resources on the part of the Central Bank and the government. Lending rates dipped but remained high, with annual averages of 24.9% in State banks and 28.1% in private banks.

The monetary authority took various measures to make financial intermediaries more efficient and flexible (supervision of reserves, adjustment of minimum capital

Table 2
COSTA RICA: MAIN QUARTERLY INDICATORS

	1999				2000				2001 [a]				2002 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)	9.5	9.0	8.3	6.3	4.7	3.4	0.8	0.1	0.6	0.1	1.5	1.5	1.1
Consumer prices (12-month variation, %)	10.7	10.6	8.6	10.0	12.0	10.5	11.5	10.3	10.6	12.1	11.7	11.0	8.9
Exports (millions of dollars)	1,687	1,679	1,639	1,657	1,635	1,600	1,366	1,249	1,295	1,290	1,233	1,186	1,218
Imports (millions of dollars)	1,671	1,538	1,571	1,575	1,612	1,618	1,567	1,591	1,617	1,703	1,582	1,662	1,696
International reserves (millions of dollars)	1,184	1,440	1,354	1,460	1,440	1,282	1,363	1,318	1,401	1,359	1,370	1,330	1,490
Real effective exchange rate [b] (index: 1995=100)	105.2	107.4	108.8	108.7	106.8	108.0	108.0	107.9	106.4	105.5	105.8	106.1	105.2
Money (M1) (change from same quarter of preceding year)	1.1	6.7	13.8	9.7	8.7	11.1	6.3	5.4	4.7	1.9	0.6	-1.2	2.8
Real interest rates (annualized, %)													
Deposit rate [c]	2.1	4.0	5.4	4.1	2.2	2.3	1.9	2.4	2.0	-0.8	0.1	0.5	-7.6
Lending rate [d]	11.6	14.4	16.4	14.8	13.1	12.8	11.5	12.9	12.9	10.1	11.0	11.1	3.2

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports. [c] 180-day deposits. [d] Short-term loans.

requirements and tax collection services). However, spreads increased by one point despite the reduction of the reserve requirement; this illustrates the problems symptomatic of an uncompetitive and inefficient market. Late in the year, banks suffered the effects of the economic slowdown.

The nominal growth of total liquidity (9.8%) was much more modest than in previous years. In particular, fixed-term deposits in local currency declined, since they offered a lower investment premium. Currency outside banks expanded by 10% and current-account deposits, by 9%, reflecting the lower rate of productive growth and the more profitable options available in public securities. The outstanding factor in liquidity growth was the increase in dollar deposits (18%) in view of their higher relative yield and the faster rate of devaluation.

The Central Bank received a debt payment of 161 billion colones from the government; another payment of 180 billion is scheduled for 2002. In addition, it improved its liability profile by auctioning fixed-term certificates of deposit denominated in dollars in an amount of US$ 367 million and directly placing US$ 400 million, mainly with national financial intermediaries. The Central Bank's deficit shrank to 1.2% of GDP.

(c) Foreign exchange and trade policy

Foreign exchange policy continued to focus on maintaining export competitiveness through a crawling-peg system, with daily mini-devaluations intended to compensate for the difference between Costa Rica's inflation rate and those of its main trading partners. In the first half of the year, the exchange rate was devalued by an average of 8 hundredths per day; then the rate of devaluation rose to 10 hundredths in July and 12 in October. At the end of 2001, the cumulative nominal devaluation amounted to 7%, which in real terms meant a 1.6% appreciation of the colón. Bond placements abroad by the government and the Central Bank strengthened the exchange market, as the supply of foreign exchange from exports dwindled.

Trade policy has been one of the pillars of Costa Rica's economic policy. The country has an open system with a weighted average tariff of 5.5%. It has expanded the scope of its trade by promoting the conclusion of a number of agreements or treaties.

Early in the year, the free trade agreement with Chile was approved. On 7 March 2002 the free trade agreement with the Dominican Republic came into force, under which a zero tariff is applied to 95% of Costa Rican products. In April the authorities signed a free trade agreement with Canada, which provides 86% of Costa Rican products with immediate tariff-free access to the Canadian market.

At the Fourth Ministerial Conference of the World Trade Organization (WTO), the participants decided to postpone for five years the implementation of the Agreement on Subsidies and Countervailing Measures. As a result, firms that benefit from incentives under the free zone system will continue to do so for that period.

3. The main variables

(a) Economic activity

The impetus for productive activity came from domestic demand, and especially from investment in construction, government consumption and the slight increase in private consumption, which had multiplier effects on services and some branches of manufacturing.

Per capita consumption contracted as a result of the cumulative stagnation of real income over the past two years and the higher rate of unemployment. The increase in fixed investment (3%) was mainly in middle-income housing, business premises and, to a lesser extent, tourism. This variable was boosted by lower interest rates, readily available credit and favourable input prices. Owing to the significant build-up in inventories, gross domestic investment rose by 18%. Foreign direct investment remained strong, but the investment outlook darkened in certain sectors, such as agriculture, as reflected by the reduction in capital goods imports.

GDP rose by only 0.9% owing to the slide in external demand for high-technology products and clothing and to the slump in prices for coffee, bananas and other agricultural products, though construction, basic services and financial services expanded significantly. Agriculture and other services, which accounted for 53% of GDP, grew slightly. Excluding the performance of Intel, GDP rose by 2.7%.

The agricultural sector expanded by 1.6%. Trade liberalization, the cutback in producer services, higher costs and slack external demand weakened production, reduced the amount of land under cultivation and raised the default rate on agricultural credit. In this context, products aimed at the domestic market showed low productivity, while non-traditional exports performed better. In 2001 the strength of the latter group of products –especially pineapple and melon– boosted the sector and made up for the downturn in traditional exports and products for domestic consumption.

Banana and coffee production, which account for 29% of agricultural GDP, declined over the past two years. The banana supply shrank because of low productivity and the reduction in the land area planted, which, in turn, reflected producers' low profit margins and delays in the extension of credit for this activity. As for coffee, the price slump (41% in 2001) induced farmers to roll back their cultivation systems, such as fertilization, and, in some cases, to abandon areas already planted, so that productivity declined. There were also losses due to rains at the end of the year.

Once again, basic grains did not perform well. As lower international prices for rice tended to favour imports, local producers called for substantial tariff hikes in March 2002; this prompted protests from the United States government.

The steep drop in external demand was particularly hard on the high-technology electronics industry –causing free-zone activities to decline by nearly 22%– and on the textile and maquila industries, which fell by 19%. The food industry also felt the effect of low primary production.

This situation was aggravated by the low levels of domestic and Central American demand. In manufacturing, value added declined in almost all segments (7.3%). Construction-related industries, however, were particularly robust, and the furniture and rubber segments showed positive growth. The overall result was that employment in the sector fell off by 13%, especially in free-zone activities, textiles, leather, footwear and food.

Construction, particularly of middle-income housing, benefited from the favourable credit conditions, which stimulated investment demand. In addition, hotels and shopping centres were built and highways were resurfaced. The sector's 12% expansion helped to boost other productive activities –industry, mining and finance–, as well as employment and income. Its strong links with the rest of the economy make the construction sector one of the main sources of growth; in 2001 it directly employed 6.7% of the working population.

Basic services were very dynamic, expanding by 8.4%. Transport, storage and communications services grew by 9.4%, mostly because telecommunications expanded as increasing links were formed with the international economy. Tourism-related activities exhibited an upswing and continued to benefit a growing number of small businesses.

(b) Prices, wages and employment

For the past few years, inflation has held steady at approximately 11%, while underlying inflation has averaged 9%. Despite the sluggishness of economic activity, inflation did not fall, owing mainly to the structural deficit of the central government and the Central Bank.

In 2001 inflation, measured by the consumer price index, stood at 11%, in line with the target set by the Central Bank. In the first half of the year, rate hikes for electricity, water, telephone and transport services (due to higher fuel prices, in the case of transport) pushed up the consumer and industrial price indices. In the second half of the year, fuel derivatives prices and electricity rates declined, but the faster rate of currency devaluation counteracted the effect of these reductions.

Real wages rose slightly. At the beginning of January a 5.1% minimum wage hike went into effect, and on 26 June a 7.7% increase was granted. Public-sector employees received a 4% increase in July and a 2.6% increase in October.

Open unemployment rose to 6.1% and total underemployment, to 13.7%. The sectors most affected were manufacturing (textiles) and agriculture for export (coffee and bananas). Rural unemployment, at 6.5%, again exceeded the average rate. Underemployment was concentrated primarily in the poorest regions: Chorotega, Brunca and Pacífico Central.

In 2001 the authorities adopted a reform of the Labour Code prohibiting discrimination on the basis of gender, age, ethnicity or religion.

(c) The external sector

In the 1990s Costa Rica made strenuous efforts to diversify its exports. As a result, non-traditional exports increased their share of the total from 53% to 85%. The downturn in international demand over the past two years, however, caused a significant contraction in external sales, especially in 2001.

The external gap remained at the preceding year's level and the current-account deficit widened to 4.6% of GDP. The trade account deteriorated drastically, and overall merchandise exports fell off by 14%. In the face of increased competition, Intel sales plunged by 51% in 2001, the second consecutive year of building the computer and semiconductor markets. The main traditional products (coffee and bananas) suffered from price slumps and reductions in export volume. Nearly all other non-traditional exports declined for the second year in a row, especially industrial and maquila products and plants, flowers and foliage, in response to greatly reduced international demand. Pineapple exports, however, grew briskly. Exports to Central America grew slightly, increasing their share of the total to 11%; this illustrates the relative importance of this market.

Merchandise imports, especially of consumer goods and construction materials, were up by almost 3%. The rise in consumer goods imports reflected the replenishment of inventories, after two years of reductions in external purchases, and the prospect of faster currency devaluation. Imports of capital goods contracted by 5%. The value of fuel purchases also declined (13%), owing to the fall in prices.

With respect to services exports, tourism has performed very strongly over the past four years, growing by more than 80%. In 2001 the income generated by this sector rose steadily up to August, then fell in the last quarter. The number of tourists was 5.6% higher than the preceding year's figure, though it fell by 7% in the final quarter, mostly because of the decline in tourist arrivals from the United States. Communications, software services, data processing, medical and surgical services and electronic casinos also expanded.

Net current transfers stayed close to their 2000 level. As free-zone firms reduced their exports, and thus received lower profits, payments abroad of direct investment income were 50% lower than in 2000. As a result, the current-account deficit amounted to US$ 750 million.

Capital flows, which exceeded their 2000 level by 14%, reflected an increase in foreign direct investment (9.4%) and the placement of central government bonds. These inflows exceeded public debt repayments and the purchase of bonds abroad by resident private investors. In 2001 foreign direct investment, mainly from the United States, was channelled into industry (52% of the total), the hotel/tourism sector (27%) and shopping centres.

Capital flows also reflected commercial debt and loans contracted by the banking sector, including outflows from national investors who bought US$ 40 million in bonds issued by the Salvadoran government. The central government obtained external resources, most notably through a US$ 250 million bond issue in March. This made it possible to finance the current-account deficit and increase reserves slightly. The Central Bank's net international reserves thus rose to US$ 1.33 billion, or 3.6 months' worth of imports.