Structural change and growth in Central America and the Dominican Republic

An overview of two decades, 1990-2011

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Economic Development

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Economic Commission for Latin America and the Caribbean (ECLAC)
Santiago, Chile, November 2014

ECLAC books

122

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Notes:
The following symbols have been used in the tables and figures in this publication:
- Three dots (...) indicate that data are not available or are not separately reported.
- A slash (/) indicates a crop year or fiscal year, e.g. 2007/2008).
- The use of a hyphen (-) between years (e.g. 1990-1998) indicates reference to the complete number of calendar years involved, including the beginning and end years.
- Reference to "tons" indicates metric tons and the word "dollars" refers to United States dollars, unless otherwise stated.
- Reference to annual rates of growth or variation signifies compound annual rates, unless otherwise specified.
- Individual figures and percentages in tables may not always add up to the corresponding total because of rounding.

United Nations publication
ISBN 978-92-1-121864-0 (print and pdf)
ISBN 978-92-1-056936-1 (ePub)
Sales No: E.14.II.G.11
LC/G.2600-P

Printed at United Nations, Santiago, Chile

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Foreword

At its thirty-fourth session, held in San Salvador in August 2012, the Economic Commission for Latin America and the Caribbean (ECLAC) examined the obstacles and challenges of development in Central America and the Dominican Republic. This book follows on from these reflections. It is based on the analytical framework that ECLAC put forward in *Structural Change for Equality: An Integrated Approach to Development*, where it was argued that the goal of development with equality in the region required far-reaching transformations in its economic structure. The present book also confirms the commitment of ECLAC to the systematic preparation of exhaustive studies on long-term trends in the subregion's development pattern, the most significant antecedent being the document "Centroamérica: el camino de los noventa", published in 1993 by the Commission's subregional headquarters in Mexico.

The analysis herein of the economies of Central America and the Dominican Republic centres on their evolution over the past two decades (1990-2011). It highlights the challenges the subregion shares with the rest of Latin America and the Caribbean, while at the same time identifying the dissimilarities resulting from its own heterogeneous history, its different production structures and the distinct form taken by its participation in the world economy, as well as its strong commitment to regional integration.

Of all the major obstacles that limited the subregion's growth in this period, what the study brings out most strongly are the weakness and volatility of fixed capital formation and the unfavourable evolution of its terms of trade. The situation has worsened yet further in recent years because of the instability of international financial markets and the

sluggishness of world trade and of economic activity in the industrialized economies. Remarkably, despite these obstacles, the subregion's real gross domestic product grew faster on average than that of the rest of Latin America in the two decades examined here. Notwithstanding this relative economic dynamism, major advances are still needed before the subregion can significantly alleviate the severe poverty and inequality afflicting many of its inhabitants, for the fact is that in several of these countries the bulk of the population lives in poverty and in conditions of extreme inequality.

Although inequality has declined in most of the subregion's countries in recent years, there is still a gulf between the quality of life of well-off segments and the vast majority of inhabitants living in conditions of exclusion and want. In each of the subregion's countries, just upward of 20% of the population receives over half of all income. The alarming differences in income and wealth have given rise to unacceptable contrasts in the areas of health, diet, education, employment, productivity, pay and overall well-being. The acute socioeconomic inequalities and labour market segmentations reflect, first, the structural heterogeneity resulting from the coexistence of high-productivity sectors with very low-productivity ones and, second, the lack of a development agenda based on policies geared towards equality and sustained long-term growth of economic activity and employment.

A major contribution of this book is its diagnosis of the barriers or limitations, resulting either from the subregion's production structure or from its position in the world economy, that have prevented the countries in the subregion from achieving higher rates of economic growth more consistently. Another contribution, and perhaps the most important one, are its economic policy recommendations to deal with the short- and long-term challenges facing the subregion if it is to attain sustainable, lasting development with equality. In the short run, the subregion's economies, like those of the rest of Latin America, will have to redouble their efforts to widen the room for manoeuvre of fiscal and monetary policy, enhance macroprudential measures and move towards the implementation of universal social programmes. All this in order to respond better to the volatility of international financial markets, the weakness of world trade and the frequency of adverse external shocks, with a view to reducing their adverse effects on the population, and especially on the poorest.

From a long-term perspective, it is imperative for the region's economies to strengthen their development agenda based on specific policies firmly geared to transforming their production structures and thereby closing productive and social divides in order to bring about productivity convergence and put an end to acute inequalities.

ECLAC hopes that this publication will provide an important input for the debate on the development agenda that Central America and the Dominican Republic should adopt, and for the economic and social policies needed to bring it to fruition in the near term.

Alicia Bárcena
Executive Secretary
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Chapter I

The current global economic context: will the international financial crisis be surmounted or revisited?

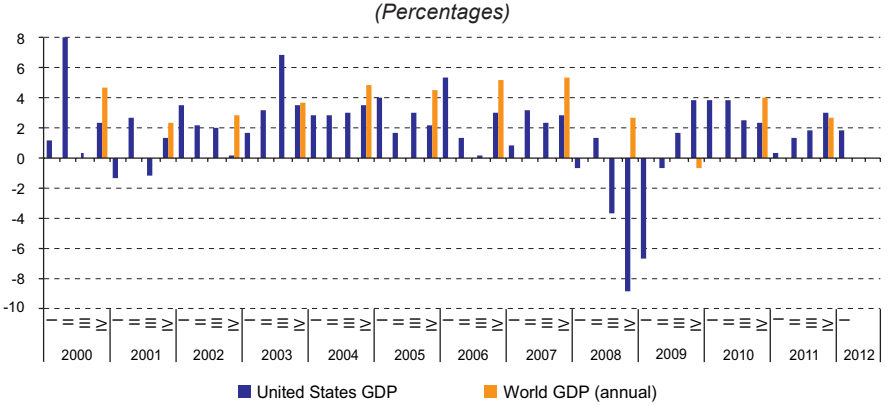
The post-Bretton Woods economic system, characterized by the dominance of the dollar as the global reserve currency, was shaken because of the international financial crisis. The collapse of the United States mortgage market in 2008-2009, coming on top of growing regional imbalances in world trade and inadequate financial market regulation, resulted in a loss of momentum for developed-world production activity and global trade, with vast repercussions for emerging economies including those in Latin America. Three years on from the financial crisis, the imbalances in world trade and the international financial system that helped unleash it have yet to be corrected. Furthermore, indicators all pointed to a renewed weakening of the global economy in 2013.

The rapid emergence of China, India and, to a lesser degree, Brazil and other developing nations as major actors in world trade and investment altered the global economic dynamics that had predominated since the Second World War. The systematic decline in the world trade share of the United States, rising private-sector debt and the deteriorating fiscal accounts undermined the country's potential for sustained growth, and thence its role in the global economy. The result was a progressively widening gap between private-sector spending and income, reflected in a rising current account deficit (financed out of global resources) and a sharp drop in the United States' saving rate, contrasting with the appearance of ever larger trade surpluses and a massive reserves build-up in China and other Asian

economies. The intensification of the process whereby emerging economies finance the burgeoning United States balance-of-payments deficit in a context of financial deregulation gave rise to profound and ultimately unsustainable global macroeconomic imbalances (ECLAC, 2009a). The lax monetary policy of the United States took real interest rates into negative territory and flooded the world with liquidity, hastening the build-up of the imbalances described.

The international financial crisis laid bare these imbalances and the intrinsic vulnerabilities of the global economy, which fully revealed themselves in 2008-2009 as lending contracted and production activity collapsed, a situation that remains unresolved (see figure I.1). Although world economic growth recovered in 2010, it slackened again in 2011. In 2012, the outlook deteriorated yet further with the worsening crisis in the European Union and deepening global macroeconomic imbalances. Combined with volatile large-scale capital flows, unstable exchange rates, considerable investment uncertainty and the ever-receding prospect of the world economy returning to a dynamic growth path, this seems to be the shape of the economic "new normality".

Figure I.1
United States quarterly GDP growth, 2000-2012 (first quarter) and annual world GDP growth, 2000-2011
(Percentages)

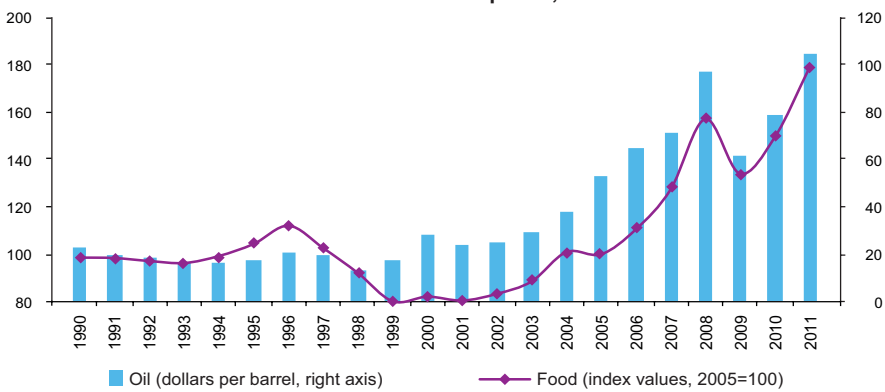


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United States Bureau of Economic Analysis, *International Economic Accounts*, seasonally adjusted figures, 2012.

The volatility of international raw material, food and oil prices has become another source of economic disequilibrium. International turbulence in this period has not been due only to the aftermath of the financial crisis. It is also associated with instability and episodes of substantial increases in the prices of foodstuffs and vital raw materials.

The food price index[1] held fairly steady between 1990 and 1995 (see figure I.2). Although it declined significantly between 1996 and 2001, it has risen quickly since then. It stood at just below 100 points in 1990, but started at 80 points in 2001 before rising to 160 in 2008. Following a temporary drop resulting from the international financial crisis, it began to rise again and reached 180 points in 2011, its highest level in three decades.

Figure I.2
International food and oil prices, 1990-2011



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *Primary Commodity Prices*, 2011.

As with food, the price of a barrel of oil has fluctuated sharply in the past two decades, but trended upward. Thus, it fell from an average of US$ 37 in 1980 to US$ 20 in 1999, but after 2000 it practically quadrupled, so that it averaged US$ 104 in 2011.

Global financial markets began a partial recovery in 2010, but volatility persisted, with uncertainty and turbulence continuing into 2011 and 2012. The 2008-2009 crisis wrought havoc with stock market indices and the availability of bank credit, and led to a considerable increase in sovereign bond risk premiums in most of the world's economies. There was some respite in 2010, since global financial markets partially recovered and there was a substantial flow of capital into emerging economies (IMF, 2012b). However, volatility in these markets has been recurrent and in 2012 the picture became more complicated.

The perception that some economies or banks were too big or complex to fail gave rise to the idea that their liabilities were implicitly guaranteed. In

[1] The coverage of the food price index includes cereal, vegetable oils, meals, meat, seafood, sugar, bananas and oranges (see IMF, 2011).

these circumstances, market forces (particularly in the financial system) did not work as expected: sovereign and credit risks were underestimated and misvalued, giving rise to large divergences in countries' fiscal and current account balances (IMF, 2012a).

In 2011, the difficulty of striking an agreement to resolve the financial and sovereign debt crisis in a number of European countries, combined with an insistence on fiscal retrenchment as the primary response, meant that the situation could not be corrected nor the economic outlook improved. At the same time, the stabilization programmes agreed upon in Ireland and Portugal helped to reduce country risk, as did the Greek debt negotiation in the first quarter of 2012. The situation continued to worsen, however, generating greater uncertainty, and this, combined with the fiscal retrenchment, complicated yet further the banks' deleveraging processes and brought on an excessive credit squeeze that led in turn to a vicious circle of recession and further credit and fiscal contraction. In consequence, the risk premiums of other affected countries, such as Italy and Spain, rose steadily. Even France and Germany were affected by the situation and their sovereign risk premiums also began to climb.

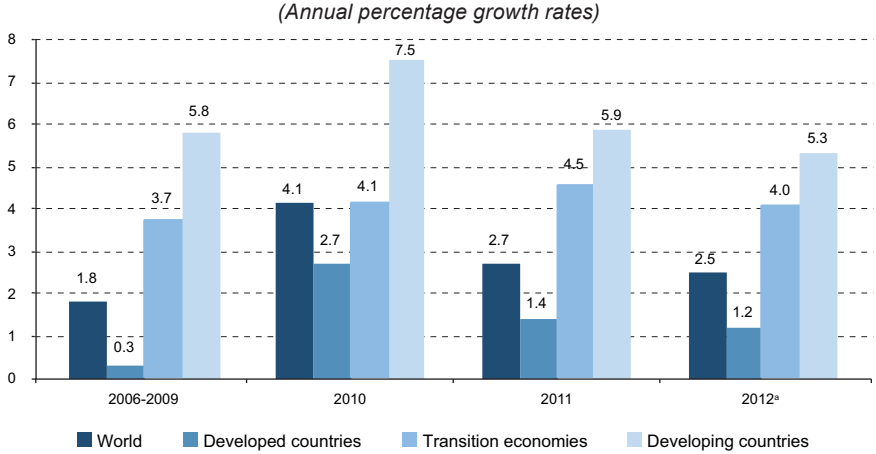
In December 2011, the European Central Bank implemented a vast programme of long-term (three-year) refinancing operations (repo rate), which also included a reduction in collateral requirements. This increased the liquidity of eurozone banks, allowing them to improve the quality of their portfolios by raising fresh funding and pledging higher-risk, non-liquid assets, i.e. eurozone government debt, as collateral. Over the first quarter of 2012, these measures contained the liquidity crisis affecting financial systems and temporarily stabilized the value of sovereign debt, as well as mitigating uncertainty and moderating the rise in risk premiums.

Although the purpose of the programme was to deal with the bank liquidity crisis, however, unlike similar programmes applied by Japan, the United Kingdom and the United States, in practice the liquidity problems linked to the existence of sovereign debt were not directly addressed. In a context of low growth and recession in some countries, a worsening public-sector deficit translated into financing needs that have so far been covered by a private-sector banking system that is increasingly reluctant to lend. Given that the European Central Bank has no legal power to finance countries' deficits directly, the system lacks a lender of last resort, which increases the uncertainty about how to finance the public deficit, especially in Italy and Spain. This has revealed the limitations of the strategy hitherto followed by the European Union to address the sustainability problems of the stabilization programme in Greece and the bank solvency programme in Spain. In summary, the difficult situation in the eurozone, resulting from interaction between a number of adverse underlying factors and the policies applied to deal with them, has become a matter of deep concern

because it affects global stability and growth. Without embarking upon a diagnosis of the underlying causes (which include misvaluation of risk, the contradictions inherent in a monetary union without a fiscal union, and the weakness of financial regulation frameworks and macroprudential policies), in 2012 the situation of several southern members of the European Union worsened and increased the risk of contagion to other countries.

Although a new international financial crisis is not expected to break out, today's uncertainty has translated into poorer global growth prospects. For example, despite the implementation of liquidity-boosting programmes in the United States, economic growth of just 2.1% was expected in 2012. The outlook for 2013 was less favourable, given the lack of political agreement on the public-sector borrowing limit and ways of dealing with it. Another aspect unfavourably influencing the global economic outlook is the slowing of Chinese growth, which was forecast at 8.3% in 2012, down from 9.2% in 2011. This was due both to declining demand for its exports because of lower growth in the developed economies and to problems in its real estate market, financial system and local government finances. Growth in India was expected to slow slightly to 6.7%, below the 7.1% achieved in 2011. In Japan, meanwhile, although GDP shrank by 0.7% in 2011, affected by the repercussions of that year's earthquake, a 1.7% expansion was expected in 2012. In summary, as figure I.3 illustrates, world growth was expected to be 2.5% in 2012, with developing economies expanding by 5.3% and developed ones by 1.2%, in a context of possible recession in the eurozone.

Figure I.3
GDP growth by region, 2006-2011 and projections for 2012 [a]
(Annual percentage growth rates)



Source: For the 2006-2011 data, United Nations, *World Economic Situation and Prospects*, New York, Department of Economic and Social Affairs, December 2011; for 2012: estimates by the Economic Commission for Latin America and the Caribbean (ECLAC).

[a] Estimates.

At the time of writing (December 2012), the greatest sources of risk for the global economy are the European situation, uncertainty, and the lack of a solid upturn in United States production activity. Latin America and the Caribbean need to pay particular heed to the fiscal implications of the political and economic situation in the United States since, unless there is political agreement at the highest level to prevent it, government spending cuts and tax rises will automatically come in at the beginning of 2013, introducing an additional recessionary element capable of choking off the incipient economic recovery.

It is worth stressing two further risks. The first is the possibility of a substantial rise in the oil price should geopolitical instability in the Middle East worsen. The second is that the eurozone crisis could deepen to the point where certain countries are forced to exit the European Union or there is even a disorderly break-up of the agreement. This would be serious because of its direct effects on production, trade and finance, and because of the possibility of international contagion. Unfortunately, this outcome is not altogether unlikely under current circumstances.

The turbulence in the global economy is also being reflected in the fluctuations of currency markets. Recently, the dollar, the yen and the renminbi have appreciated in real effective terms, while most other currencies have depreciated. The main emerging economies have carried on building up international reserves against the likely scenario of an uncontrolled European crisis.

Further shocks or even limitations, inconsistencies or omissions in the implementation of economic, regulatory or macroprudential policies would push some of the advanced economies towards what could be a long period of stagnation or recession. In the medium run, the threat of a debt spiral, stagnating production activity and falling prices is present in a number of economies. These conditions can be seen particularly in the eurozone, in a context of weak expansion of production activity, deteriorating fiscal balances, frozen bank credit and the ongoing sovereign debt problem.

In small, open economies, the impact of a new international crisis would be particularly severe, with long drawn-out, complex effects that would surely entail high economic and social costs. Although signs of recovery from the global financial collapse of 2008-2009 could be seen by 2010, there was still uncertainty about medium- and long-term prospects. The fundamental causes of macroeconomic imbalances have not been corrected, no solution has been found to the problem of a financial system where bank lending remains stagnant, and nor has there been any resolution of the eurozone crisis, so that the expectation must be that international markets will remain unstable and that economic activity will

not pick up strongly in the coming years. Since none of these processes can be brought to an end quickly, it may be several years before the world economy returns to strong growth.

Global instability and the dampening of external demand will particularly affect small, open economies, whose trade and financial transactions are heavily concentrated in Europe, the United States and, to a much lesser degree, Asia. Given this situation, it is particularly important for the countries of Latin America and the Caribbean to pursue a structural change in their productive systems in order to enhance their ability to compete on the basis of good-quality jobs, as well as to implement regulatory and macroprudential measures to ensure better financial intermediation (see chapter VI) and to strengthen public-sector revenues so that countercyclical policies can be applied without jeopardizing social spending and public investment (see chapters III and IV).

In 2013, all the region's economies to differing degrees, and especially those of Central America and the Caribbean, will need to redouble their efforts to expand their fiscal space and the room for manoeuvre in their economic, social and macroprudential policies in order to be able to cope with global instability and slower growth without worsening poverty and inequality. The difficulties of the United States, the uncertainty emanating from the eurozone, the volatility of capital flows and the likely reduction in remittances and in the pace of trade within the region and between it and other regions will constrain the potential for rapid, sustained expansion in developing economies. As a contribution to understanding the efforts required, the following chapters examine key aspects of the social and production structure of the subregion's countries and their macroeconomic policies. This analysis of the international environment confronting the subregion will serve to identify the tools available to each country, whether individually or in the context of regionally coordinated actions or agreements, for dealing with the major challenges involved in progressing along a path of development with equality.

Chapter II

Economic growth and stabilization in Central America and the Dominican Republic in 1990-2011

A. Stylized facts

From 1950 until the end of the 1970s, the three most dynamic decades of the last century for the region's development, the economies of Central America and the Dominican Republic expanded vigorously. The drivers of this growth were the increase in agricultural exports and industrialization, within the framework of a subregional integration strategy aimed at creating a common market. Central American governments pushed forward with this integration strategy, which played a key role in the expansion of both the domestic subregional market for locally produced consumer goods and exports of manufactures. Two of the most important instruments of this initiative were far-reaching liberalization of intraregional trade in industrialized products and the implementation of fiscal incentives and other promotion policies targeted on so-called integration industries.[1]

The Latin American development strategy gradually began to show signs of exhaustion, and in the early 1980s it was cut abruptly short by the outbreak of the international debt crisis. Sharply rising interest rates

[1] Chapters IV and V analyse changes in the region's involvement and integration in international markets.

and curtailed access to international financial markets, together with the commitment or obligation to meet external debt service payments, forced the economies of Latin America, and particularly Central America, to embark upon a long process of contractionary adjustment combined with episodes of high inflation: the Lost Decade. By the early 1990s, the region's economic recovery was evident, supported by external debt restructuring schemes and a pick-up in demand for their exports. This renewed dynamism lasted, with fluctuations and occasional currency and financial crises, throughout the 1990s and into the first decade of the present century when, in 2009, it was cut short by the international financial crisis, whose characteristics and general evolution were described in chapter I.

Central America and the Dominican Republic were affected by the international financial collapse and rising food and oil prices, which had long been a drag on the subregion's economic activity. Consequently, the subregion's GDP growth rate fell from 7.4% in 2007 to 4.4% in 2008 and just 0.8% in 2009. Even this modest growth compared favourably, however, with the 2% contraction suffered by Latin America that same year. Within the subregion, the scale of the slowdown varied. Economic growth in the Dominican Republic and Panama fell but remained above 3%, making these the only countries in the subregion where per capita GDP continued to rise. In Guatemala GDP grew by just 0.5% in 2009, while in the other countries it contracted. The GDP of El Salvador declined most in real terms (-3.1%). As regards per capita GDP in the subregion, the worst performance was in Honduras (-4.6%). All the subregion's economies came out of this crisis fairly quickly, and growth recovered in the next two years.

The 2009 financial crisis showcased the vulnerability of Latin American economies, and particularly those of the subregion, in the face of sudden, large-scale fluctuations in global markets or in international financial circuits. It destroyed the idea, championed by some because of the relatively strong growth of 2003-2008, that the Latin American economies had decoupled from the industrialized world. In the event, its effects and the continuing aftermath as the eurozone crisis worsened, combined with the impact on the region of the rise in oil and food prices of recent years, highlighted the importance of the external constraint on long-term economic growth in Latin America.

It should be noted that real GDP growth in the subregion averaged 4.6% a year in 1990-2011, well above the 1980s rate of 1.3% but slightly below that of the earlier decades from 1960 to 1980. The economic growth rate of Central America and the Dominican Republic in those 21 years was a point and a half higher than the Latin American average (3.2%) over the same period (see table II.1), something unprecedented since the 1960s.

Table II.1
Central America and the Dominican Republic: GDP growth, 1960-2011
(Real average annual percentage growth rates)

Country	1960-1970	1970-1980	1980-1990	1990-2000	2000-2008	2009	2009-2011	1990-2011
Panama	8.0	5.5	1.4	5.1	6.5	3.9	9.1	5.9
Dominican Republic	5.1	7.1	2.4	6.1	5.2	3.5	6.1	5.6
Costa Rica	6.0	5.6	2.4	5.2	5.0	-1.0	4.4	4.7
Guatemala	5.5	5.7	0.9	4.1	3.8	0.5	3.4	3.7
Honduras	4.5	5.4	2.4	3.3	5.0	-2.1	3.2	3.7
Nicaragua	6.9	0.4	-1.4	3.4	3.3	-1.5	4.6	3.3
El Salvador	5.6	2.3	-0.4	4.6	2.6	-3.1	1.4	3.2
Subregion	5.8	4.8	1.3	4.8	4.6	0.8	4.9	4.6
Latin America	5.5	5.9	1.4	3.1	3.6	-2.0	5.2	3.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

They were not uniformly dynamic, however. During 1990-2011, Panama (5.9%), the Dominican Republic (5.6%) and Costa Rica (4.7%) expanded particularly strongly, recording average annual growth rates as high as those of the emerging economies of Southern Africa, North Africa and East Asia. Growth was more moderate in the subregion's other economies: 3.7% in Guatemala and Honduras, 3.3% in Nicaragua and 3.2% in El Salvador.

The differences in the dynamism of the subregion's economies in the last two decades are a cause for concern because they have widened the income divides that already existed within it, since the most vigorous economies in those years were precisely the ones with the highest incomes to start with. In 1990, the per capita GDP (in current dollars) of Costa Rica and Panama considerably exceeded the subregional average (by 90% and 123%, respectively); that of the Dominican Republic was also greater, but by a much smaller margin (3%). By contrast, El Salvador's per capita GDP was 9% below the average and Guatemala's 13%, while in Honduras the gap was 40% and in Nicaragua it was widest of all at 56%. By 2011, income divergence was more acute. The three highest-income countries drew even further ahead and the rest fell further behind. That year, per capita GDP was 130% above the subregional average in Costa Rica, 124% in Panama and 45% in the Dominican Republic, and thus widened their gap vis-à-vis the poorest economies in the subregion. The shortfall

relative to the subregional average was only 4% in El Salvador but much larger in the other countries: 17% in Guatemala, 45% in Honduras and 68% in Nicaragua.

The external shock deriving from the international financial crisis of 2008-2009 not only checked growth in the subregion's economies but diminished their medium-run expansion capacity. Figure II.1 shows that the potential GDP growth rate of the subregion was two percentage points lower after 2009 than in 2005-2007.[2] This decline originated in a number of factors that are examined in subsequent chapters. The first was the drop in gross domestic investment in 2009, which has still not been fully reversed. Uncertainty about the world economy, low public investment and persistent volatility in financial and currency markets have discouraged or complicated a solid recovery. The second is the loss of momentum in the external sector because of the worsening recession in Europe, the sluggishness of the United States economy and the growth slowdown in Asia. Growth potential risks being weakened yet further if, as noted in the previous chapter, the deterioration in the eurozone should worsen, and if automatic fiscal adjustment measures should come into force in the United States in early 2013.

The lowered growth potential of the subregion is a central challenge for economic and social policy, as it is a huge impediment to much-needed progress towards development with equality. It is particularly important because, as noted in *Structural Change for Equality* (ECLAC, 2012b), Latin America has been among the least dynamic economies of emerging regions, especially in the last few decades, and is still one of the world's most unequal.

Furthermore, figure II.1 identifies a situation that calls for attention, at least at the subregional level. It is that the subregion's GDP has been outstripping its potential GDP, partly because of the decline in potential growth since 2009 and partly because of the rapid pick-up in economic activity in 2010-2011. If potential GDP does not recover and this gap persists, it must be expected that some domestic markets will experience pressures that may be so strong as to require correction to prevent balance-of-payment imbalances or to stabilize inflation. Figure II.1 provides data for the subregion; given the heterogeneity within it, they do not necessarily reflect the situation of individual economies.

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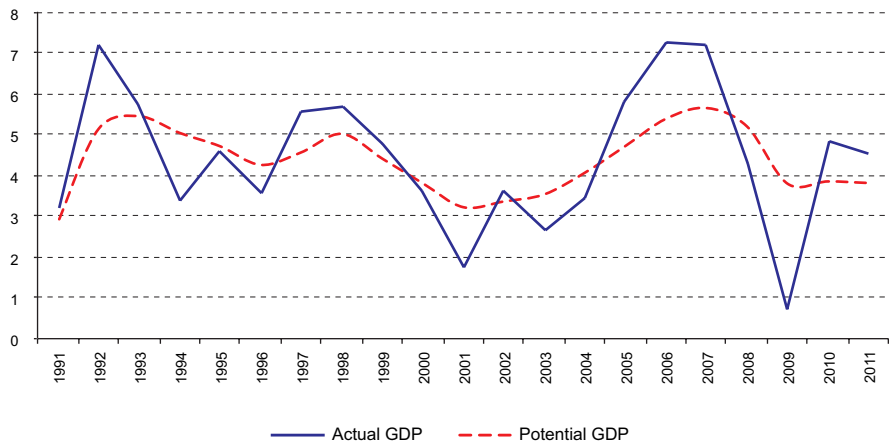
[2] The present study follows the methodology based on a Cobb-Douglas production function: $Y_t = B_t K_t^{A} L_t^{1-A}$, where Y is observed GDP, B is the Solow residual (usually interpreted as total factor productivity), K is capital, L is labour and ^{A} is the capital elasticity of output.

Figure II.1
Central America and the Dominican Republic: actual and potential growth in real GDP, 1991-2011
(Annual percentage growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Table II.2 presents the growth rates of the different components of aggregate supply and demand for the subregion in 1990-2011, divided into four subperiods. For the two decades as a whole, gross domestic investment ranks first among the main drivers of GDP growth, followed by exports. This is also the case in every subperiod, especially 1990-2000 and, albeit at substantially lower rates, in the upturn of 2010-2011. Consumer spending represents a large share of aggregate demand and grew at very similar rates to GDP itself, with the private-sector component showing greater vigour than the public-sector one. Import growth outstripped export growth over these two decades. Since there was a foreign trade deficit to begin with, the tendency created by this pattern in Central America and the Dominican Republic implied that more and more external resources were required to finance a trade deficit that was rising as a proportion of GDP. The tendency of the trade deficit to widen was even stronger than table II.2 suggests because, as analysed in chapter V, the subregion suffered a deterioration in its terms of trade over much of the period, something that by definition raises the unit value of imports relative to exports. This pattern of growth in goods and services exports and imports is found in almost all the subperiods considered, except 2000-2008, when they increased at practically the same rate. As chapter V points out, the tendency for exports to expand more slowly than imports increases the pressure of the balance-of-payments constraint on the subregion's long-run economic growth.

Table II.2
Central America and the Dominican Republic: real GDP growth, 1990-2011
(Average annual percentage growth rates)

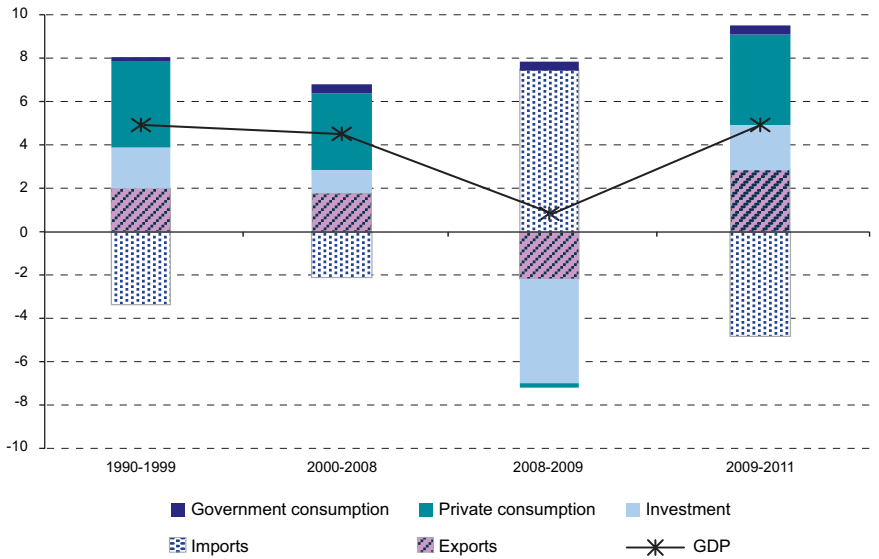
	1990-2000	2000-2008	2009	2009-2011	1990-2011
GDP	4.8	4.6	0.8	4.9	4.6
Gross domestic investment	8.0	4.9	-22.0	11.7	5.5
Total consumption	4.7	4.6	0.3	5.2	4.5
General government	3.1	3.5	4.9	3.8	3.4
Private consumption	5.0	4.7	-0.3	5.4	4.6
Exports of goods and services	5.8	4.8	-5.5	7.3	5.0
Imports of goods and services	7.6	4.7	-14.9	10.8	5.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

As regards the particular contributions of the different components of aggregate demand and supply to economic growth in the subregion during those years, the specific response or reaction of each of them to the 2009 crisis should be highlighted. What stands out here is the large contraction (22%) in investment in real terms. A drop of this size had not occurred for years and, as the following subsection shows, the ratio of investment to GDP has still not recovered, even though investment picked up again in 2010-2011.

Figure II.2 expands the foregoing analysis, using average growth rates and output shares to identify the exact contribution of demand components and imports to the economic growth of the subregion in selected subperiods between 1990 and 2011. Chapter IV presents a detailed analysis of these elements and the links between their determinants and the production structure. It should be noted that, as might be expected from the composition of GDP, the contribution of consumption (mainly in the private sector, as public-sector consumption is marginal) bulks largest in the evolution of aggregate demand and GDP. Investment and exports, considered to be the engines of growth, contributed 1.1% and 1.9%, respectively, to the average annual GDP growth of 4.6% seen during 1990-2011. However, as mentioned above, imports grew considerably faster than exports, which implies a negative net contribution of the external sector to overall economic growth. As later chapters will analyse, this merely indicates that the region's economic growth pattern entailed an import response to the rise in domestic demand whose dynamism far surpassed the effects of higher exports on the expansion of locally generated products.

Figure II.2
Central America and the Dominican Republic: contributions to real GDP growth, 1990-2011
(Percentage changes)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In 2000-2008, as the chart highlights, investment became a less important driver of economic growth than in the previous decade. The conclusions that can be drawn from table II.2 regarding the severity of the contraction of investment in 2009 and its negative impact on GDP are also borne out. Indeed, the collapse of investment and of imports coincided with the sharp economic slowdown that year. The chart also shows that the upturn in 2010-2011 was mostly due to the evolution of domestic demand, with investment making a larger contribution. This reveals a considerable difference from its evolution at the beginning of the period being studied. Once again, net exports did not contribute to subregional growth. This by no means implies that imports add little or nothing to economic growth. They evidently do make a valuable and undeniably important contribution to the workings of the subregion's economies, which are very open to international trade and generally small, making it hard for them to develop industries subject to economies of scale. Furthermore, there are imports that have no substitutes in the short or long run, such as oil, specialized capital goods and certain foodstuffs that are indispensable to the proper functioning of the subregion's economy. Moreover, imports have the potential to improve the supply of goods and services in terms of

quality, quantity and timeliness. They are a plus for economic development, provided they can be financed without unsustainable increases in the current account deficit.

Table II.3 shows that the current account deficit tended to increase systematically as a proportion of GDP in the subperiods selected. This upward trend, with some fluctuations at times when production activity was far from dynamic, rose in magnitude from the equivalent of 4.7% of GDP in 1990-2000 to 5.4% in 2000-2008. It is striking how this tendency intensified since the recent international financial crisis. Thus, after dropping to 2.8% of GDP in 2009, the deficit rose strongly in the next two years to reach 7.2% in 2011, the highest figure recorded in the period. Some of the determinants of its long-term behaviour, as examined in later chapters, are factors rooted in the limited degree of transformation undergone by the subregion's production structure or in its highly concentrated income distribution. Others, conversely, seem to have originated in policy decisions, for example on exchange rate management, or in the type of sectoral promotion policies adopted. The table also illustrates two major achievements in the economic performance of Central America and the Dominican Republic: the decline in inflation to single-digit levels and the reduction of the central government deficit to below 3% of GDP. These positive results deserve recognition, especially in a subregion that 20 years ago was prone to bouts of hyperinflation and general disarray in its public finances.

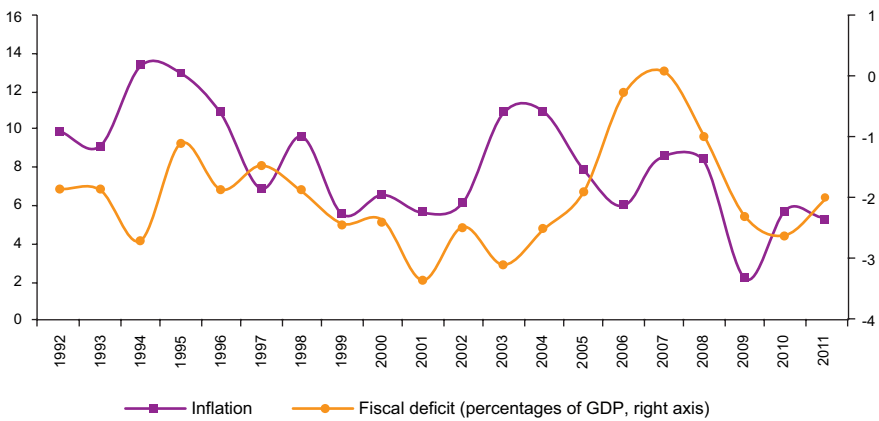
Table II.3
Central America and the Dominican Republic: selected macroeconomic indicators, 1990-2011
(Percentages)

	1990-2000	2000-2008	2009	2010	2011[a]
	Average annual growth rates				
GDP [b]	4.8	4.6	0.8	5.1	4.8
Fixed capital formation [b]	8.7	5.0	-15.4	8.0	7.2
Per capita GDP [b]	2.5	2.7	-0.9	3.3	3.1
CPI (simple averages)	10.9	8.6	3.5	4.7	6.7
	Percentages of GDP				
Current account balance	-4.7	-5.4	-2.6	-5.8	-7.2
Central government fiscal deficit	3.8	1.6	2.3	2.6	2.0
Private-sector deficit	1.0	3.8	0.3	3.2	5.2
Fixed capital formation [b]	18.7	19.6	17.9	18.4	18.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on constant 2005 dollars.

In fact, the subregion has persistently and significantly brought down both inflation and its fiscal deficit in the past two decades (see figure II.3). The key factor in this outcome, as discussed in chapter VI, has been the application of macroeconomic (monetary, exchange-rate and fiscal) policies whose main priority has been the control of inflation, despite upward pressure from the prices of oil and other basic inputs in the world market.

Figure II.3
Central America and the Dominican Republic: the fiscal balance and inflation, 1992-2011
(Annual rates of change and percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

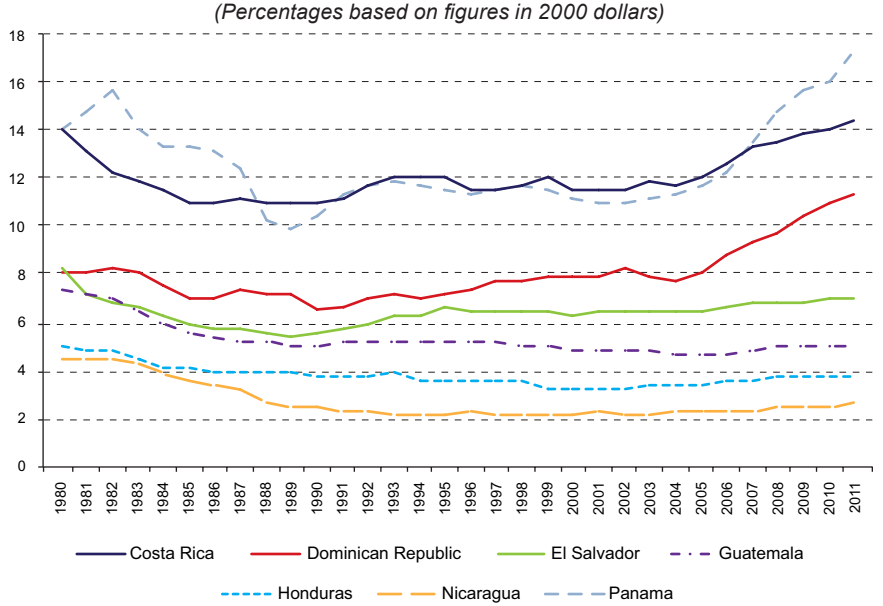
Inflation in Central America fell between 1990 and 2011, and reached single yearly digits. Although there were some spikes in 1994-1995, 2003-2004 and 2007-2008, they were not enough to exacerbate long-run inflationary pressures. Episodes of high volatility in international raw material and energy prices coincided with these peaks, as the scale of its imports of basic inputs makes the subregion vulnerable. In 2009, annual inflation fell to its lowest level (2.2%) in two decades, before stabilizing at around 6% in the next two years.

As figure II.3 itself illustrates, the fiscal deficit remained low as a proportion of GDP. However, the in-depth review presented in chapter VI reveals that behind this pattern of low fiscal deficits there are major problems of long standing in the public finances that require urgent corrective measures and far-reaching fiscal reforms. These shortcomings include the fragility and regressive character of tax revenues and of substantial items of public expenditure (including fiscal spending, i.e. special regimes), widespread tax evasion, low public investment in a context of marked

infrastructure inadequacies, the need to expand capital formation in general to boost growth, and weak capacity to apply countercyclical policies.

It is worth highlighting how far economic growth in 1990-2011 fell short of what was needed to close the per capita GDP gap between the countries of the subregion and the United States, the continent's most powerful industrialized economy and the subregion's main foreign trade and investment partner. Figure II.4 shows per capita GDP in the subregion's countries as a proportion of that in the United States. Panama, the Dominican Republic and Costa Rica are the countries that have most narrowed the gap with United States per capita GDP. The rest have not been able to do so. In fact, their relative gap is larger today than it was in the early 1980s.

Figure II.4
Central America and the Dominican Republic: per capita GDP as a proportion of United States per capita GDP, 1980-2011
(Percentages based on figures in 2000 dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank data.

This result is compounded by the great inequality that prevails in the subregion, which, with a Gini coefficient of 0.51, is one of the world's most unequal. At the same time, although poverty has declined in the past two decades, its incidence is heterogeneous and ranges from a fifth to three fifths of the population, with the share rising as high as four fifths in

rural areas. Lastly, although job creation in the subregion has outstripped the expansion of the economically active and working-age population, the jobs concerned are to a large extent of low quality and offer scant or no social protection. All this, plus the low average real wages that are the rule in Central America and the Dominican Republic, mean that much greater efforts are needed to spread the benefits of economic growth to the general population in order to lay the groundwork for sustainable development with equality in the long run (see chapter III).

To attain this objective, it is indispensable to put in place a comprehensive macroeconomic policy in which measures to strengthen the public finances and investment play a central role. Consequently, increasing public revenues in a progressive way must be a priority, given their transversal effects on the economy and their potential repercussions on income distribution and on capital formation via public investment. Another essential task is to implement more effective coordination of fiscal and monetary policies (see chapter VI).

B. Cycles and volatility

This section analyses the cyclical fluctuations experienced by the subregion's economies in 1990-2011 and the extent to which they caused volatility in variables crucial to economic performance.[3] This is a matter of importance given the current instability of international financial markets and the sluggishness in the production and trade activities of the most industrialized economies.

The analysis presented below sets out, first, to identify the phases of acceleration and deceleration in the business cycles in each of the subregion's economies in 1990-2011 and, second, to estimate the output gap (section B.1) by means of a comparative graphic analysis. Lastly, section B.2 undertakes a more detailed analysis of the most important aggregate supply and demand indicators, considering both those macroeconomic variables that are always included in analyses of this kind and others that may be particularly relevant to certain characteristics of the subregion or some of its economies.

[3] There has been a renewed interest in analysing the economic performance of the subregion and the effects of external shocks on it. This can be seen in various studies (Iraheta, 2008; Roache, 2008; IMF, 2012b) carried out to identify, first, the link between business cycles in Central America and the global economy, particularly the United States, and, second, the transmission channels of external shocks through, inter alia, trade, the financial sector and remittances.

1. Identifying cycles and gaps in Central America and the Dominican Republic

To begin with, cyclical GDP fluctuations were identified on the basis of acceleration and deceleration phases in the economies of Central America and the Dominican Republic during the 1990-2011 period, using annual GDP series.[4] Besides the phases themselves, the analysis also included the duration and number of episodes (see table II.4). Except in the case of Guatemala, acceleration phases lasted longer than deceleration phases in all the countries.

Table II.4
Central America and the Dominican Republic: acceleration and deceleration phases in business cycles, 1990-2011

Country	Acceleration	Average duration (years)	Deceleration	Average duration (years)
Costa Rica	1992-1993, 1997-1999, 2003-2007, 2010-2011	3.0	1990-1991, 1994-1996, 2000-2002, 2008-2009	2.5
El Salvador	1992-1995, 1997-1999, 2005-2007, 2010-2011	3.0	1990-1991, 1996, 2000-2004, 2008-2009	2.5
Guatemala	1997-2000, 2006-2007, 2010-2011	2.7	1990-1996, 2001-2005, 2008-2009	4.7
Honduras	1992-1993, 1995-1998, 2000, 2004-2008, 2010-2011	2.8	1990-1991, 1994, 1999, 2001-2003, 2009	1.6
Nicaragua	1994-1996, 1999-2000, 2004-2008, 2010-2011	3.0	1990-1993, 1997-1998, 2001-2003, 2009	2.5
Panama	1990-1993, 1997-1999, 2004-2008, 2010-2011	3.5	1994-1996, 2000-2003, 2009	2.7
Dominican Republic	1992-1993, 1996-2002, 2005-2007, 2010-2011	3.5	1990-1991, 1994-1995, 2003-2004, 2008-2009	2.0
Subregion [a]	1992-1993, 1997-1999, 2006-2008, 2010-2011	2.5	1990-1991, 1994-1996, 2000-2005, 2009	3.0

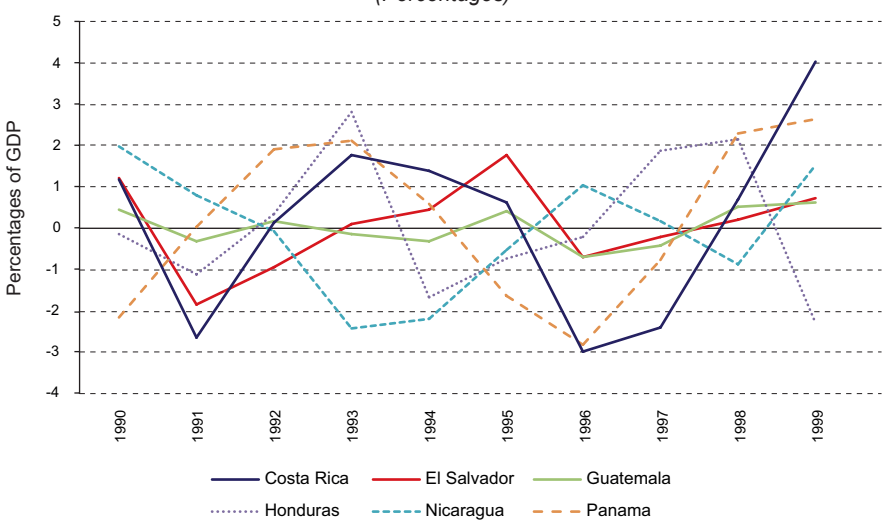
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Sum of the GDP of the countries in the subregion. Among these, the largest shares of subregional GDP were accounted for by the Dominican Republic (28.8%), Guatemala (19.8%) and Panama (15.0%).

[4] As is common with this type of analysis, the Hodrick-Prescott filter (Hodrick and Prescott, 1997) was used to calculate the trend of GDP time series and then the output gap, i.e. the difference between actual output and what the economy could produce in a scenario of full employment, given existing resources. Using a method that is standard in the business cycle literature, it was possible to identify the turning points (local peaks and troughs in time sections of about four years) of the GDP series in constant 2005 dollars with annual data from 1990-2011 for each country of Central America and the Dominican Republic. The turning points were then used to mark the phases of acceleration and deceleration in the output gap. An acceleration phase is a period when the GDP gap moves from a trough to a peak, while a deceleration phase is a period when the gap moves in the opposite direction. After this, the duration and intensity of phases of acceleration and deceleration in selected variables were estimated. Duration (in years) measures the persistence of either of the two phases between the turning points. Intensity is a measure of changes in the components of output relative to overall GDP between turning points.

On average, the subregion shows four episodes of acceleration and deceleration, with slight variations in some countries (Honduras and Guatemala). On the whole, the most sustained phases of acceleration have also been associated with long phases of deceleration. In comparison with Latin America as a whole (albeit using slightly different methodologies) the subregion had longer acceleration phases and shorter deceleration phases.[5]

Up to the end of the 1990s, there was clear divergence between the subregion's business cycles, as can be seen in figure II.5A. In the following decade, however, they gradually started to converge, especially towards 2005, when the cycles tended to be more evenly divided between acceleration and deceleration phases.[6] The evolution of the GDP cycle is marked, among other factors, by the fact that a considerable portion of the countries' foreign trade is within the subregion (31% on average in 2011).

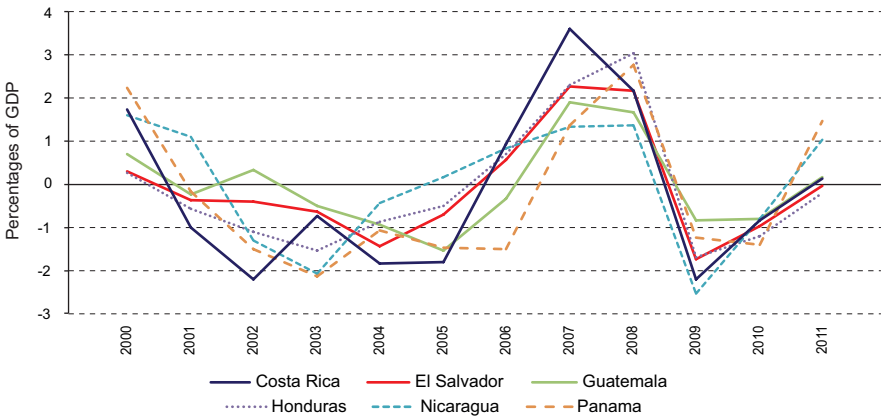
Figure II.5A
Central American GDP cycles: divergence of actual GDP from potential GDP, 1990-1999
(Percentages)



5 See ECLAC (2012b).

6 The Dominican Republic was not included in these figures because its performance differs considerably from that of the Central American countries. In fact the correlation between the Dominican output gap and those of the subregion's other countries is very low and not very significant (see table II.14).

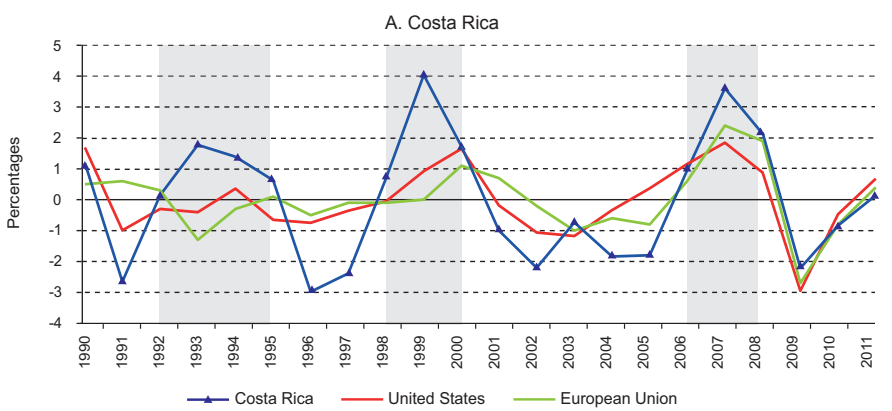
Figure II.5B
Central American GDP cycles, 2000-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

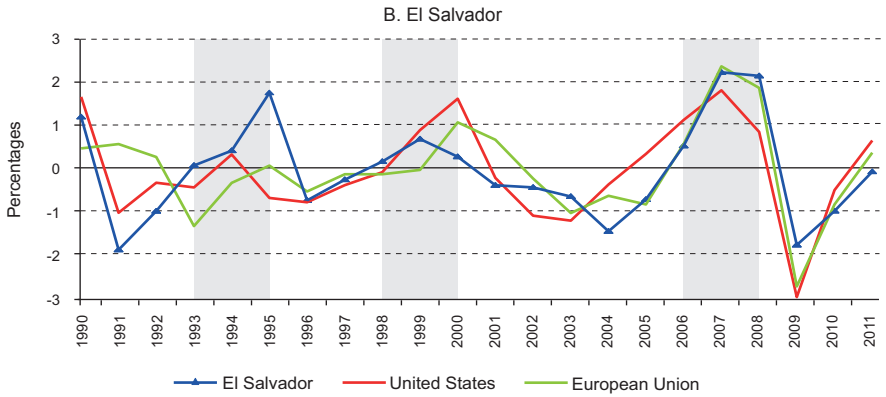
Figure II.6 shows the evolution of output gaps for Central America and the Dominican Republic,[7] as well as its relation with the output gaps the United States and the European Union; its two most important trade and investment partners.

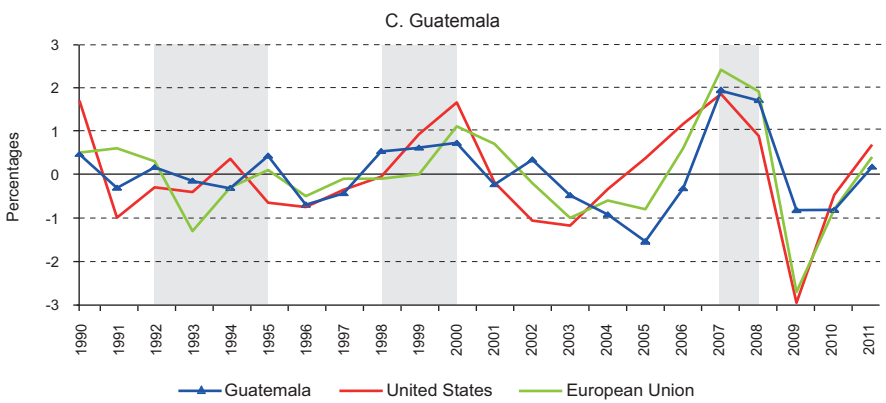
Figure II.6
Central America and the Dominican Republic: output gap of the subregion, the United States and the European Union, 1990-2011 [a b]
(Percentages of GDP)



7 The output gap was calculated with the Hodrick-Prescott filter (Hodrick and Prescott, 1997), using a value of $\lambda = 6.25$, and is defined as the difference between actual and potential output. A positive gap may alert the monetary and fiscal authorities to signs of overheating demand that could create inflationary pressures.

Figure II.6 (continued)





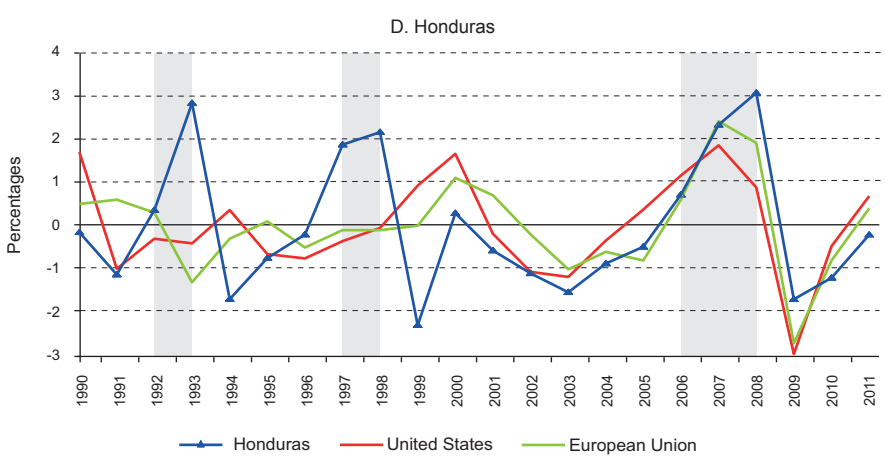
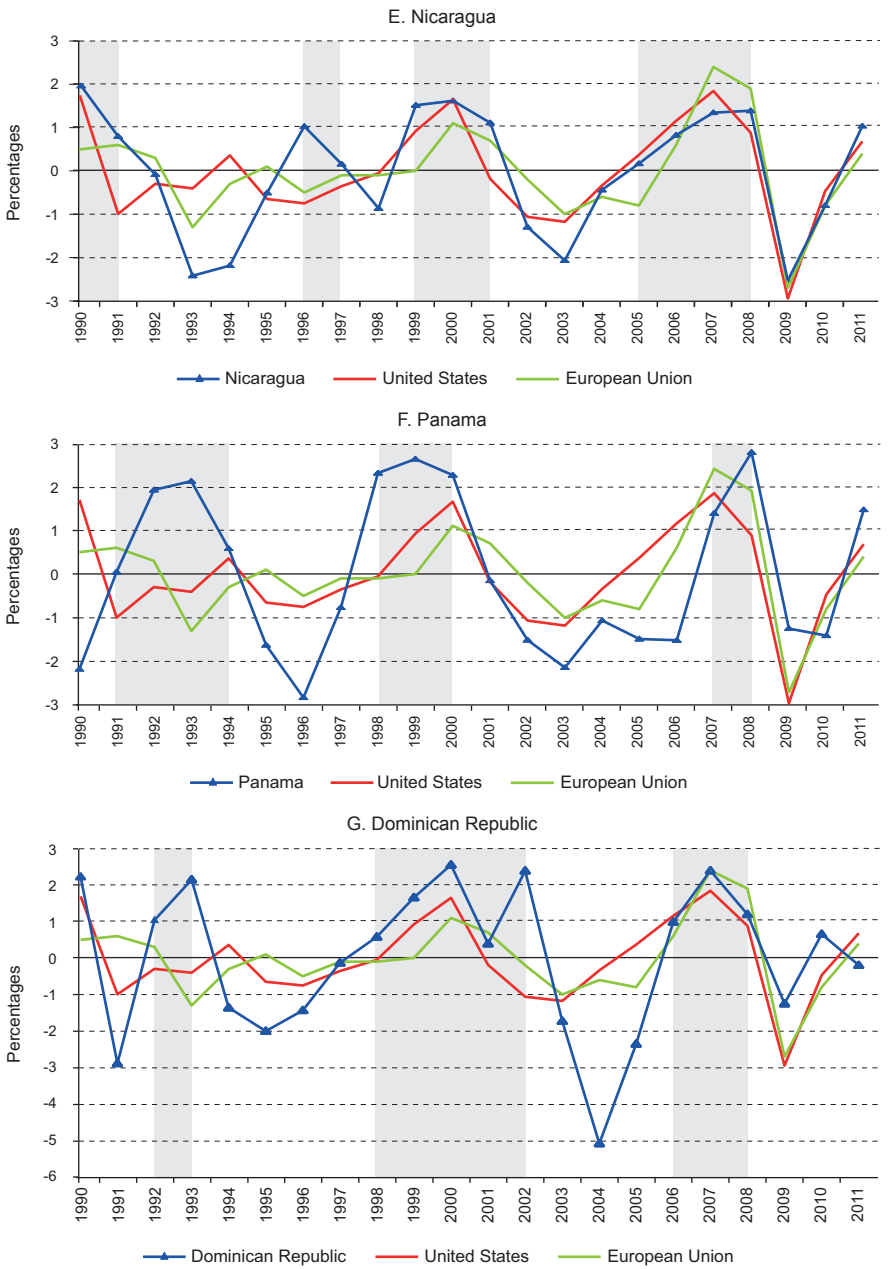


Figure II.6 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The shaded areas in the charts indicate the acceleration phases in each of the subregion's economies.
[b] Based on GDP series in constant 2005 dollars.

No systematic behaviour over time is observed in the output gaps of the economies of Central America and the Dominican Republic, except over short periods. In Costa Rica, El Salvador, Guatemala and Panama the gap narrowed between 1995 and 1998, while in the Dominican Republic and Honduras this happened between 1993 and 1998. In 2000-2007, the output gap widened in Costa Rica, El Salvador, Guatemala, Honduras and Panama. It is interesting to note that almost the same movements occurred in these periods in the European Union and the United States, with the GDP gap narrowing, albeit to a lesser degree or with a lag of one or two years.[8]

Figure II.6 shows no synchronicity either in the direction of movement or in the scale of the output gap, except towards the end of the 2000s. Correlation coefficients confirm that the relationship was weak, amounting in most cases to less than 0.5. The countries with the highest correlations were Costa Rica with El Salvador (0.780), with Guatemala (0.727), with the United States (0.705) and, to a lesser extent, with Panama (0.660). In turn, El Salvador had a correlation of 0.79 with Guatemala and smaller ones with the United States (0.687) and the European Union (0.661). Guatemala had correlations of barely more than 0.6 with Panama (0.604) and the Dominican Republic (0.633), and an even smaller one with the United States (0.552), although correlation with the European Union was high (0.769). Nicaragua's output gap correlation with its subregional partners, meanwhile, was almost non-existent, in contrast to its high correlations with the United States (0.699) and the European Union (0.748). Correlation was weak in all other cases.

The output gap was positive in 1998-2000 in Costa Rica, the Dominican Republic, El Salvador, Guatemala and Panama, and in fact for longer than this in the Dominican Republic. The other phase of increase, in which the subregion's countries did coincide, was from 2006 to 2008, with the greatest synchronization being between Costa Rica, the Dominican Republic, El Salvador, Honduras and Nicaragua, while the period was shorter for Guatemala and Panama. In 2009-2011 the output gap in the subregion was more homogeneously synchronized.

[8] Table II.5 presents correlations of output gaps for the countries in the subregion and with the European Union and United States.

Table II.5

Central America and the Dominican Republic: output gap correlation coefficients, 1990-2011

Country	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama	Dominican Republic	United States	European Union
Costa Rica	1								
El Salvador	0.780	1							
Guatemala	0.727	0.789	1						
Honduras	0.318	0.478	0.493	1					
Nicaragua	0.271	0.384	0.425	0.183	1				
Panama	0.660	0.330	0.604	0.449	0.173	1			
Dominican Republic	0.589	0.513	0.633	0.422	0.270	0.438	1		
United States	0.705	0.687	0.552	0.371	0.699	0.397	0.483	1	
European Union	0.507	0.661	0.769	0.443	0.748	0.417	0.398	0.753	1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the United States Bureau of Economic Analysis (BEA) and the World Bank.

2. Aggregate supply and demand cycles and selected indicators

Once the specific periods of the cycle acceleration and deceleration phases in each of the subregion's countries had been identified (see table II.4), the performance of each economy was analysed in terms of: (i) aggregate supply and demand components (consumption, investment and the external sector); (ii) institutional flow of funds; (iii) fiscal accounts; (iv) balance-of-payments and external-sector indicators; (v) inflation and real wages.[9]

(a) Aggregate supply and demand[10]

(i) Demand components and the cycle

Output in the subregion grew by 5.7% on average in acceleration phases as against just 2.1% in deceleration phases, a difference of 3.6 percentage points (see tables II.6 and A.1). The most dynamic economies presented larger differences between the two phases of the cycle, examples being Panama (5.4 percentage points of GDP), Costa Rica (4.6) and the Dominican Republic (4.5). It is important to note that these were also the most dynamic countries over the whole period, as reflected in their average GDP growth rates. Guatemala is a special case, presenting the smallest difference in the growth rates of output between its acceleration and deceleration phases (1.1).

Although output did not contract in the deceleration phase in any of the subregion's economies, there were great contrasts in the evolution of per capita GDP in the two phases, with declines (Honduras, Nicaragua and Costa Rica) or lower growth rates (Panama and the Dominican Republic). The slowdown or decline in economic activity translated into greater social vulnerability. Demand components show better average results in acceleration phases than in deceleration phases, both for the subregion as a whole and at the country level (see table II.7 and figure II.7).

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[9] Annex table A.IIC.1 gives a detailed presentation of these results, expressed as the average percentage change in each indicator by phase or as the difference (in percentage points of GDP) in their value at the end of consecutive acceleration or deceleration phases.

[10] This subject was analysed in section A.

Table II.6
Central America and the Dominican Republic: evolution of GDP and per capita GDP by phase of the economic cycle, 1990-2011 [a]
(Percentages)

Country	GDP [b]			Per capita GDP [b]		GDP: average annual growth rates in 1990-2011
	Acceleration (1)	Deceleration (2)	Difference (1-2)	Acceleration	Deceleration	
Panama	8.0	2.6	5.4	6.1	0.7	5.9
Dominican Republic	7.2	2.6	4.5	5.3	0.8	5.6
Costa Rica	6.7	2.1	4.6	4.8	-0.0	4.7
Guatemala	4.4	3.3	1.1	2.0	0.9	3.7
Honduras	4.9	1.2	3.6	2.3	-1.5	3.7
Nicaragua	4.7	1.3	3.3	2.5	-0.6	3.2
El Salvador	4.4	1.5	2.9	3.6	0.9	3.2
Subregion [c]	5.7	2.1	3.6	3.9	1.3	4.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Ranked by performance (average annual growth rates in 1990-2011).
[b] Percentage rates of change.
[c] Simple averages.

Table II.7

Central America and the Dominican Republic: demand components and business cycles, 1990-2011

(Percentage average annual rates of change)

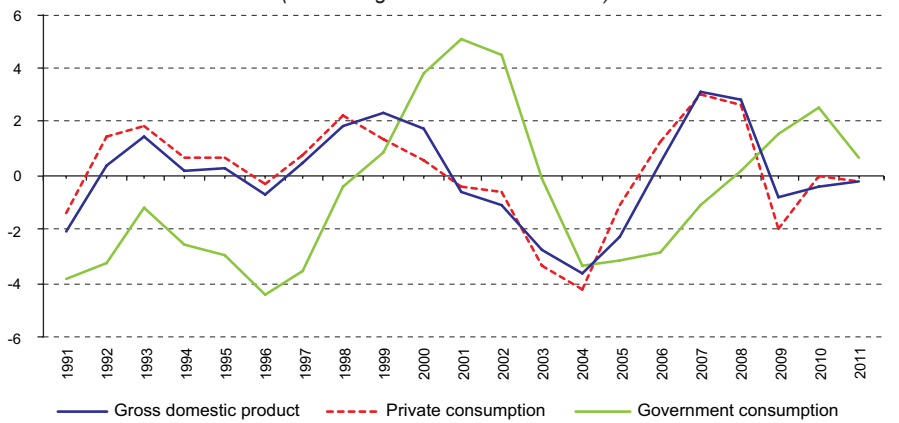
	Costa Rica		El Salvador		Guatemala		Honduras	
	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration
GDP	6.7	2.1	4.4	1.5	4.4	3.3	4.9	1.2
Total consumption	4.9	2.3	5.0	1.1	4.5	3.7	4.6	2.0
Private consumption	5.4	2.4	5.4	1.0	4.2	3.8	4.4	2.1
Public consumption	2.4	2.0	2.4	2.0	7.2	3.3	5.3	1.5
Total investment	10.3	-1.2	9.3	-2.0	6.9	2.4	10.2	-5.7
Private investment	3.0	-2.1	10.3	-2.3	8.6	2.9	11.1	-4.7
Public investment	0.5	3.6	6.1	-2.2	2.0	0.2	4.3	-4.2
Exports	12.1	1.5	11.1	3.0	5.4	2.7	5.6	-2.2
Imports	11.4	-0.2	12.2	0.0	9.7	3.7	6.3	-0.6
	Nicaragua		Panama		Dominican Republic		Subregion [a]	
	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration
GDP	4.7	1.3	8.0	2.6	7.2	2.6	5.7	2.1
Total consumption	3.8	3.4	7.0	2.5	7.7	2.8	5.4	2.5
Private consumption	3.2	6.0	7.3	1.9	7.6	3.1	5.4	2.9
Public consumption	7.2	-6.0	2.8	3.4	8.6	-0.6	5.1	0.8
Total investment	8.7	-1.4	22.4	-2.0	11.4	-3.5	11.3	-1.9
Private investment	8.3	0.6	21.8	-2.6	n.a.	n.a.	10.5	-1.4
Public investment	6.8	-4.3	26.7	1.6	n.a.	n.a.	7.7	-0.9
Exports	12.9	3.4	6.6	-0.1	5.5	3.3	8.5	1.7
Imports	9.5	4.5	7.5	-0.7	8.4	0.2	9.3	1.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Simple averages.

Note: n/a means not available.

Figure II.7
Business cycles and demand components in Central America and the Dominican Republic: GDP, private consumption and government consumption, 1991-2011
(Percentage variations from trend)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The average growth rate of private consumption in the subregion is almost twice as high in the acceleration stage (5.4%) as in the deceleration (2.9%). Nicaragua proves to be an exception, as it has an atypical value (6%) in the deceleration phase that is actually higher than the one recorded for the acceleration phase (3.2%). For public-sector consumption, the subregion presents a larger difference between these phases (5.1% and 0.8%), with a more marked slowdown in the deceleration phase.

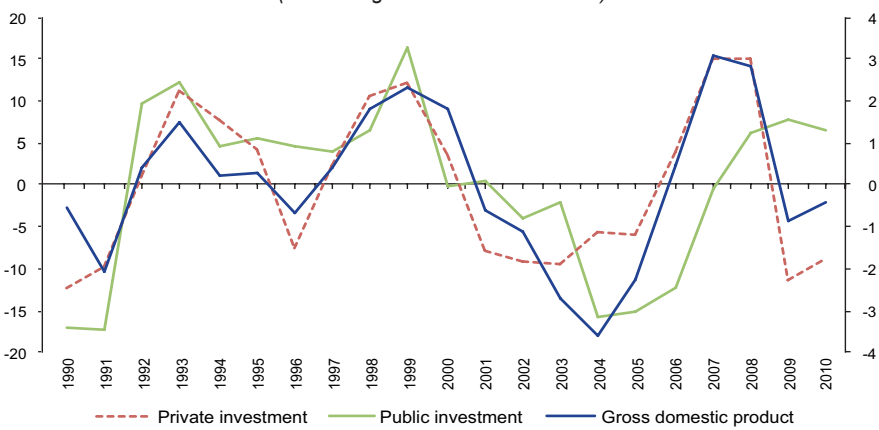
The behaviour of total investment is highly procyclical (11.3% and 1.9%). It is the only demand component to experience an outright collapse in deceleration phases in all the economies of the subregion. The exception is, once again, Guatemala (6.9% and 2.4%), where investment slowed but did not contract in the deceleration phase, perhaps because the gap between GDP growth rates in the acceleration and deceleration phases was not that great. This does not mean there is not a positive correlation over the whole period, as in the other countries.[11] In Guatemala, however, these phenomena have gone along with a downward trend in the investment coefficient (just 15% in 2009-2011).

In the external sector, exports (8.5% and 1.7%) and imports (9.3% and 1%) behave procyclically. Both variables contribute to the high level (close to 90%) of the trade openness ratio that marks the integration of the subregion into the world economy. Generally speaking, the subregion's

[11] A long-run analysis is presented further on.

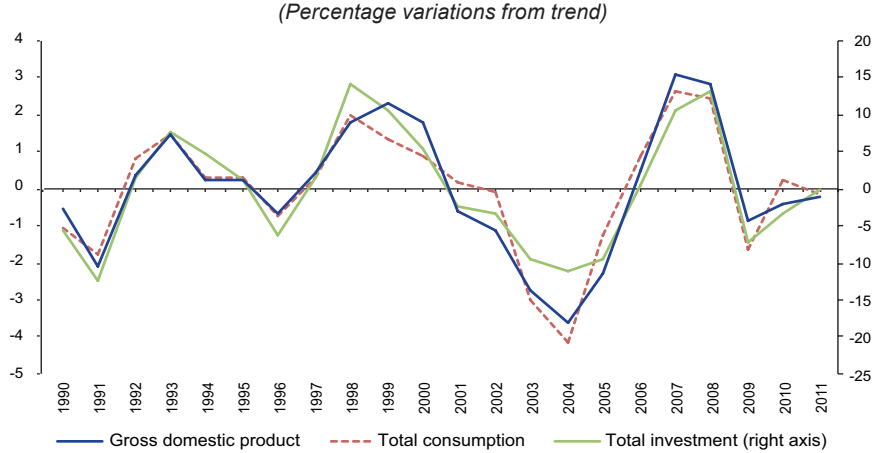
most dynamic non-primary exports have large components of imports. To some degree, this performance also reflects trade integration agreements (the Dominican Republic-Central America-United States Free Trade Agreement since 2004), and the importance of intraregional trade somewhat serves to offset downturns.

Figure II.8
Central America and the Dominican Republic: GDP cycles, public investment and private investment, 1990-2010
(Percentage variations from trend)



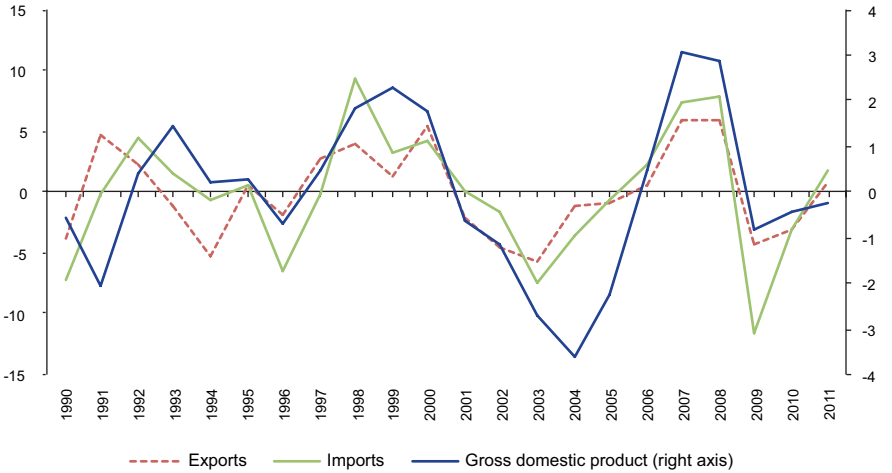
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure II.9
Central America and the Dominican Republic: GDP cycles, total consumption and total investment, 1990-2011
(Percentage variations from trend)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure II.10
Central America and the Dominican Republic: GDP, export and import cycles, 1990-2011
(Percentage variations from trend)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Going by the aggregate data, as the previous charts show, total consumption (or more precisely private consumption) is the demand component that best tracks the evolution of GDP. The external-sector indicators (exports and imports from 2000) also track the GDP cycle quite closely. Conversely, the evolution of public and private investment and of government consumption is far from matching that of GDP.

(ii) The volatility of demand components[12]

The purpose of this section is, first, to estimate the relative intensity or volatility of the phases in the demand components cycle relative to GDP[13] in the countries of the subregion and, second, to establish the relative duration of the acceleration and deceleration phases for these components relative to GDP. For the subregion, the most volatile of the demand aggregates were investment (4.50) and exports (2.96), while the most volatile of the specific components were public investment (5.57), with a correlation of 0.6, and government consumption (2.3), although the correlation of the latter is not very significant (just 0.07). As table II.7 shows, all the components'

[12] ECLAC (2012b, chap. III) provides a comparative analysis of these points in relation to the rest of Latin America.
[13] See the specific country tables in the annex.

movements are strongly related to those of GDP. Total consumption is slightly less volatile than GDP and has the highest correlation (95%).

The acceleration phases of the cycles in the major aggregate components have a shorter duration than the GDP cycle. Conversely, the deceleration phases of the component cycles are longer-lasting. When relative intensity is compared, the most dynamic components in acceleration phases are investment and the external sector, growing almost twice as fast as output. Interestingly, private consumption grows faster than GDP in deceleration phases, which could reflect the contribution of remittances at these times, partly offsetting the adverse evolution of other types of income.

The contribution of demand components to GDP is not homogeneous (last three columns of table II.8). The total consumption share was 90.1% in the early 1990s but had dropped 1.5 percentage points by 2011. Private consumption accounted for the bulk of this share, with government consumption lagging considerably as the public sector gradually withdrew from economic activity almost everywhere in the subregion. Investment was on an upward path, but this was cut short in 2008, and by 2011 it was still not back to pre-crisis levels. The GDP share of exports (averaging 39%) did not change greatly over the two decades (just 1 percentage point), in contrast to imports, whose share rose by more than 6 percentage points. The greater volatility of exports has been an obstacle to steady long-term development and growth. In acceleration phases, total consumption grew at much the same rate as output, with a relative intensity of 0.9. The most dynamic economies behaved quite heterogeneously, since whereas the relative intensity of consumption in Panama and Costa Rica (70%) indicates that it grew by significantly less than output, in the Dominican Republic it grew by 10% more, and much the same happened in Guatemala and El Salvador. If cycle duration is focused on, the ratio of total consumption to GDP in the subregion as a whole was 0.83; Guatemala, El Salvador and Panama were outliers, with a duration of just over 1 (see table A.IIC.2). During deceleration phases, consumption was strong relative to GDP (1.3), except in El Salvador, where it was 30% lower.

Table II.8

Central America and the Dominican Republic: intensity and duration of aggregate demand components by phase of the business cycle

Demand components	Standard deviation [a]	Intensity of change (volatility) [b]	Cross-correlation with GDP	Relative duration [c] (GDP=1) in phases of:		Relative intensity [d] (GDP=1) in phases of:		Structure *(percentages)* [e]		
				Acceleration	Deceleration	Acceleration	Deceleration	1990-1991	2008	2011
GDP	1.77	1.00	1.00	1.00	1.00	1 (=5.7%)	1 (=2.1%)	100.0	100.0	100.0
Total consumption	1.67	0.95	0.95	0.83	1.20	0.9	1.3	90.1	88.4	88.6
Private consumption	1.94	1.10	0.89	0.83	1.75	0.9	1.4	78.6	80.4	80.3
Public consumption	4.11	2.33	0.07	1.25	1.00	0.9	0.4	11.5	8.0	8.3
Total investment	7.96	4.50	0.94	0.83	1.20	2.0	-0.9	16.3	22.1	19.3
Public investment	10.08	5.57	0.60	0.69	0.86	1.6	-0.4	...	...	...
Private investment	9.38	5.18	0.84	0.75	1.08	1.6	-0.7	...	...	...
Exports	5.23	2.96	0.71	0.69	1.00	1.5	0.8	37.9	39.7	38.9
Imports	3.69	2.09	0.59	0.92	1.10	1.6	0.5	40.2	49.5	46.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Standard deviation of the component in 1990-2011, except for the investment breakdown (public and private), which covers 1990-2010.

[b] Standard deviation of the component relative to the standard deviation of GDP.

[c] To calculate the relative duration of the components in each phase, the length of the GDP cycle was normalized to 1.

[d] Growth rates for each component are expressed as a quotient of GDP growth in the phases concerned.

[e] The sum of the components is not 100% because statistical discrepancy is excluded.

At the same time, regarding the relative duration, total consumption shows a value of 1.2, i.e. once output began its upward cycle, consumption responded after a short delay. The swift response marks the case of Honduras; conversely, Costa Rica and Nicaragua presented a value of 1, while relative duration in Panama was 0.6 (see table A.IIC.2). Private consumption was a fundamental component in the dynamic and in the duration of cycles, owing to its sheer size and its economy-wide effects on demand. When its behaviour is reviewed with reference to public consumption, however, their respective paths are found to have shown some similarity in acceleration phases, with relative intensities of 0.9 and 1 (see table II.9).

Regarding duration, the cycle of the public component to have been 25% longer (1.25) in periods of accelerating output, while the figure for the private component was just 0.83. For the former, this finding is due mainly to the values yielded by Guatemala, the Dominican Republic, Costa Rica and, to a lesser extent, Honduras. For the latter, private consumption responded almost simultaneously to output changes in Panama, Guatemala and El Salvador (see table A.IIC.2). From the perspective of the duration of deceleration episodes, on the other hand, the public consumption cycle had a duration (1) similar to the GDP cycle everywhere in the subregion except Honduras and Guatemala, where it was greater (see table A.IIC.2). In turn, the private consumption cycle evidenced a significantly longer duration than the GDP cycle (1.75), i.e. its recovery periods were longer.

The intensity of private consumption growth relative to GDP growth in deceleration episodes was 1.6 in the subregion, whereas the figure for public consumption was just 0.2, owing to the collapse in Nicaragua and the Dominican Republic (see table II.9). Investment was the most volatile component of output (4.5) and showed a high degree of correlation and procyclical behaviour (see table II.9). The correlation of private consumption to GDP was large (0.84), although its proportional impact on total GDP volatility was variable.

On the whole, investment grew more strongly than GDP (intensity greater than 1), although in deceleration phases the signs were inverted everywhere except Guatemala (see table II.10). Deceleration phases had a greater relative duration (1.20) than acceleration phases (0.83), i.e. economies experienced a greater contraction of output owing to the time lag affecting investment plans (see table II.8). Unlike the other demand components, whose decelerations lasted at least as long as those of the output cycle, public investment had a shorter duration (0.86), perhaps because of its lesser correlation with GDP (0.60) at the time and its smaller share.

Table II.9

Central America and the Dominican Republic: relative intensity of growth in consumption components, by phase of the business cycle [a]

Country	Relative intensity						GDP (percentage change)		GDP [b] 1990-2011
	Total consumption		Public consumption		Private consumption				
	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	
Panama	0.7	1.5	0.3	1.3	0.9	0.7	8.0	2.6	5.9
Dominican Republic	1.1	1.1	1.2	-0.2	1.1	1.2	7.2	2.6	5.6
Costa Rica	0.7	1.1	0.4	1.0	0.8	1.1	6.7	2.1	4.7
Guatemala	1.0	1.1	1.6	1.0	1.0	1.1	4.4	3.3	3.7
Honduras	0.9	1.6	1.1	1.2	0.9	1.7	4.9	1.2	3.7
Nicaragua	0.8	2.1	1.5	-4.4	0.7	4.4	4.7	1.3	3.2
El Salvador	1.2	0.7	0.5	1.3	1.2	0.7	4.4	1.5	3.2
Subregion [c]	0.9	1.3	1.0	0.2	0.9	1.6	5.7	2.1	4.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The figures are ratios of growth rates for each component relative to GDP in the different phases of the business cycle.

[b] Average of years in each stage and average annual growth rate.

[c] Simple averages.

Table II.10
Central America and the Dominican Republic: relative intensity of growth in investment components, by phase of the business cycle [a]

Country	Relative intensity						GDP (percentage change)		GDP [b] 1990-2011
	Total investment		Public investment		Private investment				
	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	
Panama	2.8	-0.8	2.7	-1.0	3.3	0.6	8.0	2.6	5.9
Dominican Republic	1.6	-1.3	...	...	...	...	7.2	2.6	5.6
Costa Rica	1.5	-0.5	0.1	1.7	0.5	-1.0	6.7	2.1	4.7
Guatemala	1.6	0.7	0.5	0.1	2.0	0.9	4.4	3.3	3.7
Honduras	2.1	-4.6	2.3	-3.8	0.9	-3.4	4.9	1.2	3.7
Nicaragua	1.9	-1.1	1.8	0.4	1.5	-3.2	4.7	1.3	3.2
El Salvador	2.1	-1.3	2.3	-1.5	1.4	-1.4	4.4	1.5	3.2
Subregion	1.9	-1.3	1.6	-0.7	1.6	-1.3	5.7	2.1	4.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The growth rates for each component are expressed as a proportion of the GDP growth rate, taken as 1, in the phases concerned. The indicators are ranked by performance (average annual growth rates in 1990-2011).
[b] Average of years in each stage and average annual growth rate.

Both public and private investment responded with greater intensity relative to GDP in the acceleration phases. When total investment is considered, Panama (1.14) heads the ranking (see table A.IIC.2). In the deceleration phase, Honduras had the highest ratio relative to GDP (1.13), owing to the more energetic response of both its public and private components. In acceleration phases, the relative intensities of public and private investment were of similar magnitudes and almost double (1.6 times) that of GDP growth. In deceleration phases, conversely, both turned negative, though private investment much more so (1.3). In these phases, in the most active economies (Panama's for example) public and private investment showed the greatest relative intensity. However, a contrast was provided by El Salvador, the slowest-growing economy, whose public investment intensity was similar to Panama's (2.3 and 2.7), with the asymmetry between them coming rather from private investment (1.4 and 3.3). It is worth emphasizing that both Panama and Guatemala were differentiated from the rest of the subregion by showing positive changes in private investment during recessionary phases (0.6 and 0.9, respectively), albeit these were smaller than changes in overall GDP (see table II.10).

Imports were more dynamic than exports in both acceleration and deceleration phases (see table II.8). This also held true for intensity (except in Guatemala, where relative intensity was more than twice as great for imports as for output, while for exports the figure was 1.2) (see table II.11). Where relative duration is concerned, the value for exports relative to GDP was 0.69, with the highest figure in Guatemala (1.09), and the lowest in El Salvador and Nicaragua (see table A.IIC.2).

An analysis of the two most dynamic economies over the whole period, Panama and the Dominican Republic, reveals that the relative intensity of their exports was similar (0.8 in both cases). However, there was a greater contrast with imports in the acceleration stage, perhaps because of the way they participated in global trade; the Dominican Republic on the basis of tradable goods and Panama on the basis of services (financial services in particular). In the deceleration stage, exports were a compensating factor in Nicaragua (2.5), El Salvador (2) and the Dominican Republic (1.3), but marked a recessionary phase in Honduras (-1.8). Nicaragua's imports showed a considerable and atypical increase (3.3) in the deceleration phase, despite modest GDP growth (see table II.12).

Table II.11
Central America and the Dominican Republic: relative intensity of export and import growth by phase of the business cycle [a]

Country	Relative intensity				GDP (percentage change) [b]		
	Exports		Imports				
	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	1990-2011
Panama	0.8	0.0	0.9	-0.3	8.0	2.6	5.9
Dominican Republic	0.8	1.3	1.2	0.1	7.2	2.6	5.6
Costa Rica	1.8	0.7	1.7	-0.1	6.7	2.1	4.7
Guatemala	1.2	0.8	2.2	1.1	4.4	3.3	3.7
Honduras	1.2	-1.8	1.3	-0.5	4.9	1.2	3.7
Nicaragua	2.8	2.5	2.0	3.3	4.7	1.3	3.2
El Salvador	2.5	2.0	2.8	0.0	4.4	1.5	3.2
Subregion [c]	1.6	0.8	1.7	0.5	5.7	2.1	4.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The growth rates for each component are expressed as a quotient of the GDP growth rate, taken as 1, in the phases concerned. The indicators are ranked by performance (average annual growth rates in 1990-2011).
[b] Average of years in each stage and average annual growth rate.
[c] Simple averages.

There is a clear link between imports and GDP cycles. In addition, import ratios rose from 40% to 47% between 1990 and 2011. This dynamic import behaviour of imports occurred in all the countries except Panama. Throughout the period, too, the subregion's export to GDP ratio (averaging 38%) trended upward, except in the years subsequent to the 2009 crisis (see table II.12).

Table II.12
Central America and the Dominican Republic: ratios of exports and imports to GDP, selected years, 1990-2011
(Percentage simple averages)

	1990	2008	2011	1990-2011
Costa Rica				
Exports/GDP	28.2	47.8	46.7	40.7
Imports/GDP	37.2	53.7	51.6	47.8
El Salvador				
Exports/GDP	11.9	28.4	29.2	21.5
Imports/GDP	22.5	49.5	46.1	37.9
Guatemala				
Exports/GDP	23.9	24.8	24.8	25.8
Imports/GDP	24.6	38.1	37.8	36.9
Honduras				
Exports/GDP	59.4	52.5	49.8	54.1
Imports/GDP	63.4	77.6	65.4	68.7
Nicaragua				
Exports/GDP	12.9	35.6	41.4	24.5
Imports/GDP	33.0	66.4	68.9	52.5
Panama				
Exports/GDP	123.2	90.0	82.1	88.1
Imports/GDP	100.8	73.4	69.6	76.8
Dominican Republic				
Exports/GDP	27.9	23.7	22.9	28.8
Imports/GDP	31.1	34.0	31.0	35.7
Subregion				
Exports/GDP	37.9	39.7	38.9	37.9
Imports/GDP	40.2	49.5	46.6	46.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In acceleration phases, imports had an average relative duration of 0.92 in the subregion as a whole. The highest figure was for Costa Rica and the lowest for Nicaragua. This means that demand for imported products rose while the acceleration phases lasted, revealing these economies' high dependence on imported intermediate and final goods and materials (see table A.IIC.2).

(b) Credit in the acceleration and deceleration phases of the business cycle[14]

According to the information available for 2003-2011, the main credit and financial indicators reflected a degree of procyclicality in both the acceleration and the deceleration phases. As table II.13 shows, and as expected, acceleration phases coincided with greater availability (supply) of credit (26.1% of GDP) and greater dynamism (real-term growth of 9%). Conversely, the deceleration phases were marked by declines in both the growth rate of credit and its share of GDP. Although this was the case on average, there were great asymmetries within the subregion; in El Salvador and the Dominican Republic, the cumulative change in the credit ratio was negative (-2.4% and -3.5%, respectively). It will be recalled that a major banking crisis that occurred in the Dominican Republic in 2003. The opposite situation occurred in Costa Rica, Guatemala and Honduras, whose deceleration phases were not accompanied by a decline in lending ratios.

Table II.13
Central America and the Dominican Republic: credit indicators and phases of the business cycle, 2003-2011
(Percentages)

Country	Acceleration phases		Deceleration phases		Cumulative change [a]	Credit as share of GDP in 2011
	Credit as share of GDP	Real growth rates	Credit as share of GDP	Real growth rates		
Panama	130.6	10.5	121.9	-0.4	16.9	133.6
Dominican Republic	17.8	6.8	18.9	-7.9	-3.5	19.4
Costa Rica	34.1	10.9	43.6	6.2	14.1	41.5
Guatemala	24.9	11.7	22.2	0.5	7.1	25.7
Honduras	40.5	9.1	38.3	0.6	11.8	41.7
Nicaragua	31.5	11.2	27.7	-4.6	10.2	32.0
El Salvador	41.2	2.9	41.3	-1.1	-2.4	37.5
Subregion [b]	26.1	9.0	23.4	-1.0	4.3	25.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Cumulative annual changes in the ratio of credit to GDP in the 2003-2011 period.
[b] Simple averages.

(c) Institutional flow of funds in the acceleration and deceleration phases of the business cycle

As a rule, there is a correspondence between the balance-of-payments current account deficit and the rate of growth of the subregion's economies.

[14] For a more detailed analysis of the subregion's financial system, see chapter VI, section B, on monetary and financial policy and macroprudential regulation.

Deficits rise during acceleration phases and decline in deceleration phases. On average, the subregion's current account deficit rose by 3.8 percentage points of GDP in the acceleration phase and dropped by 2.9 points in the deceleration phase (see table II.14).

Table II.14
Central America and the Dominican Republic: changes in institutional fund flows by phase of the business cycle, 1990-2011 [a] [b]
(Percentages)

Country	Acceleration phases				Deceleration phases				GDP[d] 1990-2011
	Current account	Central government balance	Private saving-investment	GDP [c]	Current account	Central government balance	Private saving-investment deficit	GDP [c]	
Panamá	-7.8	-0.9	-6.9	8.0	5.1	-0.1	5.2	2.6	5.9
Dominican Republic	-4.4	1.0	-5.5	7.2	3.2	-2.8	6.0	2.6	5.6
Costa Rica	-3.1	1.7	-4.8	6.7	3.2	-1.9	5.1	2.1	4.7
Guatemala	-2.2	-0.5	-1.8	4.4	2.3	0.4	1.9	3.3	3.7
Honduras	-2.7	0.3	-3.0	4.9	1.3	-0.1	1.3	1.2	3.7
Nicaragua	-5.3	-0.1	-5.2	4.7	4.2	3.0	1.2	1.3	3.2
El Salvador	-1.2	1.2	-2.4	4.4	1.2	-1.5	2.7	1.5	3.2
Subregion [e]	-3.8	0.4	-4.2	5.7	2.9	-0.4	3.4	2.1	4.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Ranked by performance (average annual growth rates in 1990-2011).
[b] The indicators are expressed as the average percentage change by phase or as the difference (in percentage points of GDP) in the value of the indicator at the end of consecutive phases of acceleration or deceleration.
[c] Percentage rates of change.
[d] Average annual growth rates.
[e] Simple averages.

In the subregion, the central government balance tends to display countercyclical behaviour, actually of similar magnitude, in the acceleration and deceleration stages. The exceptions were Guatemala and Panama in acceleration phases, and Guatemala and Nicaragua in deceleration phases.

The tendency for the balance-of-payments current account deficit to rise and the fiscal deficit to fall in acceleration phases produced a financing gap which the private sector covered with a deficit of some 4.2 percentage points of GDP. This meant that the private sector's investment-saving balance tended to be greater in absolute terms in these phases, reflecting greater private-sector borrowing, as illustrated by the cases of Panama, the Dominican Republic, Nicaragua and Costa Rica. In deceleration phases, conversely, the gap also underwent a larger adjustment in these same economies, with the exception of Nicaragua, where it was slightly smaller.

Table II.15

Central America and the Dominican Republic: fiscal balances in phases of the business cycle, 1990-2011 [a]

(Percentages)

Country	Acceleration phases					Deceleration phases					2011		GDP [c] 1990-2011
	Revenue	Spending	Overall balance [b]	Primary balance	Public debt	Revenue	Spending	Overall balance [b]	Primary balance	Public debt	Revenue/ GDP	Spending/ GDP	
Panama	1.2	2.1	-0.9	-0.9	-6.4	-0.8	-0.7	-0.1	-0.2	5.1	23.8	21.9	5.9
Dominican Republic	2.0	1.5	1.0	1.0	0.1	-2.3	-0.2	-2.8	-2.2	9.6	13.5	16.1	5.6
Costa Rica	0.7	-1.0	1.7	1.0	-5.0	0.1	1.9	-1.9	-1.2	4.3	14.6	18.7	4.7
Guatemala	1.1	1.6	-0.5	-0.4	1.9	-0.1	-0.5	0.4	0.4	-2.5	11.8	14.7	3.7
Honduras	0.6	0.3	0.3	0.1	-17.6	-0.0	0.0	-0.1	-0.1	4.8	17.3	21.9	3.7
Nicaragua	1.4	1.4	-0.0	-1.3	-62.2	1.9	-1.1	3.0	4.2	4.0	23.0	22.6	3.2
El Salvador	0.6	-0.6	1.2	0.9	-4.9	0.2	1.7	-1.5	-0.9	4.8	15.4	17.7	3.2
Subregion [d]	1.1	0.7	0.4	0.0	-13.4	-0.2	0.2	-0.4	-0.0	4.3	17.1	19.1	4.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Ranked by performance (average annual growth rates in 1990-2011).

[b] Central government revenue minus spending.

[c] Average annual growth rates.

[d] Simple averages.

(d) Fiscal balances and business cycle acceleration and deceleration phases

Fiscal balance indicators (revenue and expenditure in particular) rose in acceleration phases (by 1.1 and 0.7 percentage points of GDP, respectively), partly owing to an increased tax take, especially from the external sector, associated with a higher level of economic activity (see table II.15). The change was systematically greater for revenue than for expenditure, except in Costa Rica and El Salvador.

Thus, other than in Nicaragua, the fiscal variables show that central government revenues expanded and contracted as a share of GDP in accordance with the pace of economic activity. Although central government spending at the subregional level increased relative to GDP, albeit by less than revenue, in Costa Rica and El Salvador it fell as a proportion of GDP in accelerations and expanded in decelerations.

In the subregion as a whole, tax pressure was still low in 2011 (17.1% of GDP) relative to the rest of Latin America and, even more so, to developed countries. In fact, tax resources have not been enough to finance the still insufficient and far from excessive level of government spending (19.1%). This structural fragility of fiscal revenues also implies that there has not been enough fiscal space for countercyclical policies to operate over the long run.

As for the evolution of primary balance during the cycle, it tracked economic activity, improving in acceleration phases and worsening in deceleration phases, other than in Guatemala, Nicaragua and Panama in the first phase and in the two former in the second phase. At the subregional level public debt indicators reflect a considerable contraction (13.4 percentage points of GDP) in acceleration phases and an increase (4.3 points) in deceleration phases. These movements do not seem to have been linked to debt service behaviour.

The decline in outstanding public debt largely reflects the debt forgiveness programme implemented for Nicaragua and Honduras as part of the Heavily Indebted Poor Countries (HIPC) initiative led by the World Bank and the International Monetary Fund (IMF). Debt levels, relative to GDP, in Costa Rica, El Salvador and Panama fell in acceleration phases and rose in deceleration phases, while the opposite pattern prevailed in Guatemala in both phases of the cycle. In the Dominican Republic, debt rose in relation to GDP in both phases, although more strongly in the deceleration phase.

Table II.16
Central America and the Dominican Republic: the balance of payments, external-sector indicators and business cycles, 1990-2011 [a b]
(Percentages)

Country	Goods balance	Current transfers balance	Financial account	Foreign direct investment balance	Portfolio balance	Real effective exchange rate [c d]	Terms of trade [d]	GDP [e] 1990-2011
Acceleration phases								
Panama	-6.2	-0.2	7.1	2.2	4.9	1.2	-1.0	5.9
Dominican Republic	-3.5	0.4	1.5	0.1	1.4	-2.3	-2.0	5.6
Costa Rica	-1.9	-0.2	3.0	0.8	2.1	-1.1	0.1	4.7
Guatemala	-2.4	0.4	2.4	0.6	1.9	-0.8	0.2	3.7
Honduras	-3.8	1.4	1.9	1.3	0.6	-2.0	2.1	3.7
Nicaragua	-5.1	-0.2	7.4	3.6	3.9	2.3	0.9	3.2
El Salvador	-2.5	1.5	3.1	1.5	1.5	-1.9	3.1	3.2
Subregion [f]	-3.6	0.4	3.8	1.4	2.3	-0.7	0.5	4.6
Deceleration phases								
Panama	2.7	-0.8	-3.8	-0.7	-3.1	0.8	-0.4	5.9
Dominican Republic	2.4	0.1	0.6	0.6	0.0	4.4	-0.9	5.6
Costa Rica	0.3	-0.3	-1.1	-0.1	-0.9	-0.4	-0.5	4.7
Guatemala	-0.1	2.3	-0.8	-0.1	-0.7	-4.1	1.2	3.7
Honduras	0.3	0.6	-1.3	-0.4	-0.9	0.2	-2.9	3.7
Nicaragua	0.1	3.2	-1.0	-0.2	-0.7	2.0	5.3	3.2
El Salvador	1.2	0.0	-2.3	-1.1	-1.2	0.0	-5.3	3.2
Subregion [f]	1.0	0.7	-1.4	-0.3	-1.1	0.4	-0.5	4.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Ranked by performance (average annual growth rates in 1990-2011).
[b] The first five columns are percentages of GDP.
[c] A negative change indicates appreciation of the currency concerned.
[d] Percentage rates of change.
[e] Average annual growth rates.
[f] Simple averages.

(e) The balance of payments and external-sector indicators in the phases of the business cycle[15]

Particularly since 2005, there has been a manifest increase in synchronicity between the subregion and the global economy or, more narrowly, the United States economy (see table II.16). Within the subregion, there has been some convergence in the macroeconomic policies and goals of the different countries, although certain national peculiarities still prevail, linked to their diverse patterns of migration and of integration in the global economy. Compared to the rest of Latin America, Central America and the Dominican Republic display common patterns of response to various external shocks, including the rise in prices for particular commodities. Nonetheless, there were some differences in their reactions to the 2008-2009 crisis.

The evolution of the current account, already analysed from the viewpoint of institutional flow of funds, is determined by the behaviour of the goods balance and, to a lesser extent, the services balance. The goods balance tended to fall in deceleration phases, and was offset in some economies (Panama and the Dominican Republic) by surpluses in the services balance.[16] In Guatemala and Nicaragua, the current transfers balance, composed mainly of remittances and donations, generally yielded better results in deceleration than in acceleration phases. In Costa Rica and Panama, the current transfers balance in acceleration phases was negative, on average.

The evolution of the financial account in acceleration and deceleration phases in the subregion (3.8 and -1.4, respectively) may be explained mainly by the performance of portfolio balances. The components of foreign direct investment (FDI) and portfolio investment were closely tied to the cycle. Portfolio investment tended to be more volatile, i.e. it grew faster in acceleration phases (2.3 and 1.4 percentage points of GDP, respectively) and contracted more sharply in deceleration phases (-1.1 and 0.3). Nicaragua and Panama showed the largest changes in FDI in acceleration phases, as well as relatively substantial contractions in deceleration phases. The largest shares of FDI in the subregion went to Costa Rica (22%), the Dominican Republic (24%) and Panama (25%).

From a long-term perspective, the subregion's terms of trade deteriorated in two periods. The first lasted from 1990 to 1998, in which

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[15] For a more detailed analysis, see chapter V on the balance of payments and the economic performance of the subregion.

[16] Changes in the services balance in acceleration and deceleration phases were not significant.

year they strengthened greatly. The second was a systematic decline that began at the end of the 1990s, and led to an apparent tendency to stabilize from 2009 onwards. By contrast, as mentioned earlier, the rest of Latin America showed an improvement in its terms of trade throughout the period, with a temporary pause in 2009. For the subregion, the terms of trade improved slightly (0.5%) in acceleration phases, but were offset by a deterioration of similar magnitude (-0.5%) in deceleration phases. At the country level, the terms of trade moved favourably in acceleration periods, especially in El Salvador and Honduras. However, the terms of trade of Panama and the Dominican Republic deteriorated in these phases, even though exports grew quite strongly then.

Our data shows that the terms of trade deteriorated in deceleration phases in virtually all the countries, but especially El Salvador and Honduras. This deterioration was due partly to the heavy dependence on imports of crude oil and lubricants typical of the subregion. For example, oil imports as a proportion of GDP rose from 2.8% in 1999 to 8.2% in 2008 before dropping slightly to 7.6% in 2011 —still a heavy financial burden for these economies. In 2011, the most critical cases in this regard were Nicaragua (17.2%) and Honduras (12.2%).

Note, however, that, once again, Panama and the Dominican Republic, the most dynamic economies in the subregion, saw their terms of trade deteriorate in acceleration phases, while Nicaragua and Guatemala registered a positive evolution in deceleration phases.

On a long view, the real exchange rate has shown a systematic tendency to appreciate since 1994, undermining the competitiveness of these countries' non-primary exports. The average appreciation in the subregion was 0.7% in the acceleration phase, a result somewhat attributable to the Dominican Republic, Honduras and El Salvador. The exceptions were Nicaragua and Panama. In the deceleration phase, only Guatemala and Costa Rica experienced a real appreciation, although Honduras also did so in the last five years of the period analysed here. However, the heterogeneity of the evolution of both indicators (real exchange rate and terms of trade) meant that no statistically conclusive assertion could be made about their behaviour in the different phases of the cycle.

(f) Acceleration and deceleration phases in the business cycle and inflation

Acceleration phases were accompanied by systematically lower inflation rates (7.8%) than deceleration phases (12.3%) (see table II.17), during which external shocks (particularly that of 2008) drove up food

and hydrocarbon prices. Such price shocks introduced a recessionary element into the subregion's economies, by prompting changes in domestic economic policy to curb inflation.

Table II.17
Central America and the Dominican Republic: inflation and growth by phase of the business cycle, 1990-2011 [a]
(Percentages)

Country	Acceleration phases		Deceleration phases		GDP [b] 1990-2011
	General inflation [b]	GDP [b]	General inflation [b]	GDP [b]	
Panama	2.5	8.0	1.3	2.6	5.9
Dominican Republic	6.4	7.2	24.7	2.6	5.6
Costa Rica	11.0	6.7	15.3	2.1	4.7
Guatemala	6.3	4.4	12.6	3.3	3.7
Honduras	11.9	4.9	14.8	1.2	3.7
Nicaragua [c]	10.4	4.7	10.5	1.3	3.2
El Salvador	6.0	4.4	6.8	1.5	3.2
Subregion [d]	7.8	5.7	12.3	2.1	4.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Ranked by performance (average annual growth rates in 1990-2011).
[b] Average annual growth rates.
[c] The hyperinflationary values of the early 1990s are excluded.
[d] Simple averages.

The countries with the highest inflation in acceleration phases were Costa Rica, Honduras and Nicaragua, with rates of 6.7%, 4.9% and 4.7%, respectively. The case of Panama is striking. It was the most dynamic economy in the acceleration stages, and also had the lowest inflation rate. The opposite cases in these phases were Nicaragua and Honduras, with inflation rates of 14.8% and 10.5%, respectively, while their output growth rates barely exceeded 1%.

Inflation has an obvious corollary in the purchasing power of households. We examined the behaviour of real minimum wages[17] over the last two decades as a proxy for such analysis (see table II.18, which also presents data also on the terms of trade and the real exchange rate).

[17] Lack of comparable information on average real wages at the national level for all the countries in the subregion limited the analysis to the evolution of real minimum wages.

Table II.18
Central America and the Dominican Republic: wages, exchange rates and terms of trade by phase of the business cycle, 1990-2011 [a]
(Percentages)

Country	Acceleration phases			Deceleration phases			Real wages [d] 1990-2011	GDP [d] 1990-2011
	Real minimum wages [b]	Terms of trade	Real effective exchange rate [c]	Real minimum wages [b]	Terms of trade	Real effective exchange rate [c]		
Panama	1.6	-1.0	1.2	1.9	-0.4	0.8	1.7	5.9
Dominican Republic	3.2	-2.0	-2.3	-3.2	-0.9	4.4	0.7	5.6
Costa Rica	1.7	0.1	-1.1	-0.4	-0.5	-0.4	0.8	4.7
Guatemala	-3.1	0.2	-0.8	0.4	1.2	-4.1	-2.1	3.7
Honduras	2.1	2.1	-2.0	9.0	-2.9	0.2	3.5	3.7
Nicaragua	-0.1	0.9	2.3	16.0	5.3	2.0	2.8	3.2
El Salvador	0.0	3.1	-1.9	0.3	-5.3	0.0	0.1	3.2
Subregion [e]	0.8	0.5	-0.7	3.4	-0.5	0.4	1.1	4.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The figures are for the average annual change in the phase concerned.
[b] Based on real minimum wage index values (2000=100).
[c] A negative change indicates currency appreciation.
[d] Average annual growth rates in 1990-2011.
[e] Simple averages.

In Central America and the Dominican Republic as a whole, real minimum wages increased in 1990-2011 (average annual growth rate of 1.1%), but with marked differences within the region. They fell by 2.1% in Guatemala, but showed substantial increases in Honduras (3.5%) and Nicaragua (2.8%), doubling the subregional average.

In acceleration phases, real wage growth was very low on average (0.8%) in the subregion. The behaviour was markedly heterogeneous, considering that the best-performing economies, Panama and the Dominican Republic, experienced very different rates of change in real wages (1.6% and 3.2%, respectively), sustained in the latter case by real currency appreciation (-2.3%), as both economies' terms of trade deteriorated.

The evolution of real wages in the dollarized economies of the subregion was similar in both phases of the cycle. In Panama they rose and in El Salvador they remained unchanged. The terms of trade deteriorated in both phases of the cycle in Panama, but not in El Salvador, where they improved in acceleration phases.

Again, in Nicaragua and Honduras the deceleration phase was accompanied by the largest increases in real minimum wages (16% and

9%, respectively), associated perhaps with an effort by the government to offset the social costs of the economic contractions. In Honduras, for example, extraordinary increases in the nominal minimum wage were enacted in 2008 (13%) and 2009 (39%).

In the Dominican Republic and Nicaragua, relative depreciation of the national currency (4% and 2%, respectively) accompanied the contraction phase of the cycle. These exchange-rate movements affected the evolution of real wages. In the Dominican Republic, real wages dropped (-3.2%), owing to a sharp inflationary spike (24.7%) (see table II.17), while in Nicaragua they rose 16% in real terms, associated with an improvement in the terms of trade (5.3%).

C. Gross fixed capital formation and economic growth

The international empirical evidence shows that high rates of economic growth are accompanied by high rates of investment in fixed capital (see Kuznets, 1973; Maddison, 1983; Levine and Renelt, 1992; Acevedo and Mora, 2008; Acosta and Loza, 2005; Sánchez-Fung, 2009). Indeed, investment affects the economies' long-term growth path because, in addition to being a driver of aggregate demand, it determines growth potential by expanding and modernizing the economies' production capacities.

As can be seen from table II.19, the countries with the highest average ratios of investment to GDP in 1990-2011 were Nicaragua (26.8%) and Honduras (25.2%), while El Salvador had the lowest one(15.5%). The full series of data on investment can be seen in annex table A.IIB.1.

Although average GDP growth in the subregion (4.6%) was quite similar to investment growth (4.2%), the latter was far more variable. Figure II.11 shows that the annual variation in fixed capital formation ranged from -30% to 30%, depending on the country, while in the case of GDP the range of fluctuation was far more moderate. Table II.19 shows that the coefficient of variation was 5.8 times larger for the fixed capital formation rate than for GDP in the subregion, with even larger differences in Guatemala, Panama and Honduras.

Table II.19

Central America and the Dominican Republic: GDP and gross fixed capital formation, 1990-2011 [a]

(Percentage growth rates and coefficients)

Country	GDP growth		Gross fixed capital formation growth		Gross fixed capital formation/GDP		Ratio of coefficients of variation (2/1)
	Mean *(percentages)*	Coefficient of variation (1)	Mean *(percentages)*	Coefficient of variation (2)	Mean *(percentages)*	Coefficient of variation	
Panama	6.0	0.5	5.7	4.3	18.6	0.25	8.6
Dominican Republic	5.7	0.6	4.6	3.0	17.5	0.15	5.0
Costa Rica	4.8	0.6	5.7	1.8	19.5	0.07	3.0
Guatemala	3.7	0.3	3.7	2.8	17.8	0.13	9.3
Honduras	3.7	0.7	3.3	4.8	25.2	0.15	6.9
Nicaragua	3.3	0.7	6.0	2.0	26.8	0.14	2.9
El Salvador	3.2	0.8	4.7	2.0	15.5	0.10	2.5
Subregion	4.6	0.4	4.2	2.3	18.8	0.11	5.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Coefficient of standard variation relative to the mean.

The investment/GDP ratio increased in the region from 1990 to 2008, albeit with fluctuations. The 2009 financial crisis led to substantial drops in this ratio (see table II.20), particularly in Honduras (-10.6%) and Nicaragua (-5.3%). It picked up again somewhat in the next two years, except in Guatemala, where it kept declining. In the Dominican Republic, it recovered in 2010 only to drop again in 2011. No country of the subregion has yet recovered its peak ratio of investment to GDP reached before the crisis.

Table II.20
Central America and the Dominican Republic: fixed investment as a share of GDP and annual changes, 2008-2011
(Percentages)

	2008	2009	2010	2011
Costa Rica				
Gross fixed capital formation/GDP	22.6	20.3	20.2	21.2
Annual change	1.7	-2.3	-0.1	1.0
El Salvador				
Gross fixed capital formation/GDP	16.0	13.3	13.5	14.8
Annual change	-1.1	-2.7	0.1	1.3
Guatemala				
Gross fixed capital formation/GDP	18.1	15.6	14.9	14.8
Annual change	-1.7	-2.5	-0.8	-0.1
Honduras				
Gross fixed capital formation/GDP	31.7	21.1	22.0	22.9
Annual change	0.7	-10.6	0.9	0.9
Nicaragua				
Gross fixed capital formation/GDP	29.1	23.8	24.5	26.8
Annual change	0.6	-5.3	0.6	2.4
Panama				
Gross fixed capital formation/GDP	25.9	23.4	24.2	…
Annual change	3.2	-2.5	0.9	…
Dominican Republic				
Gross fixed capital formation/GDP	19.3	15.9	17.3	16.2
Annual change	0.7	-3.4	1.5	-1.2
Central America and the Dominican Republic				
Gross fixed capital formation/GDP	21.3	17.9	18.4	…
Annual change	0.5	-3.4	0.5	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In 1990-2011, the growth rates of real GDP and of fixed capital formation were correlated, with coefficients ranging from 0.57 in Honduras to 0.82 in El Salvador (see table II.21). An example of this was the recent 2009 crisis, when plunging investment (-15.4%) accompanied low GDP growth in the subregion (0.8%), a pattern common to all the countries to

a greater or lesser degree (see table A.IIB.1). That same year, investment contracted most in Honduras (-34.9%), followed by Nicaragua (-19.3%), El Salvador (-19.2%), the Dominican Republic (-14.8%), Guatemala (-13.1%), Costa Rica (-11.1%) and Panama (-6.2%). The upturn in GDP growth in 2010 and 2011 was also accompanied by an investment recovery.

Table II.21
Central America and the Dominican Republic: coefficient of correlation between GDP growth and gross fixed capital formation, 1990-2011

Country	Coefficient
Panama	0.68
Dominican Republic	0.72
Costa Rica	0.71
Guatemala	0.67
Honduras	0.57
Nicaragua	0.64
El Salvador	0.82

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The literature recognizes that, on the whole, there is a positive relationship between GDP growth and the investment/GDP coefficient, but this does not seem to hold in the cases of Nicaragua and Honduras. Paradoxically, these two countries had the highest rates of gross fixed capital formation relative to GDP, but they were also among the countries with the lowest GDP growth rates. Although more in-depth study is required to explain this finding, a number of complementary hypotheses may be put forward. In principle, it could be that the efficiency of fixed capital investment was lower in both countries than in the rest of the subregion. Lower efficiency means that even though larger amounts may be invested, they are not fully employed in the best way to strengthen and modernize the country's production capacity. Labour productivity could also be lower in these countries, for example because workers are relatively less skilled. A third possibility is that investment in these two countries has been carried out in sectors with relatively lower productivity as compared to the sectoral allocation of fixed investment in the other countries, which thus achieve higher growth. Lastly, it could be that, owing to errors or omissions, the data collected do not reflect the true level of fixed investment in these countries.

Figure II.12 shows that, other than in Panama, the ratio of public investment to GDP tended to decline in 1990-2011, albeit with fluctuations. Again, figure II.13 shows that the ratio of private investment to GDP tended to increase up to 2008 in all the countries.

Figure II.11
Central America and the Dominican Republic: GDP and gross fixed capital formation growth, and ratio of investment to GDP, 1991-2011 [a]

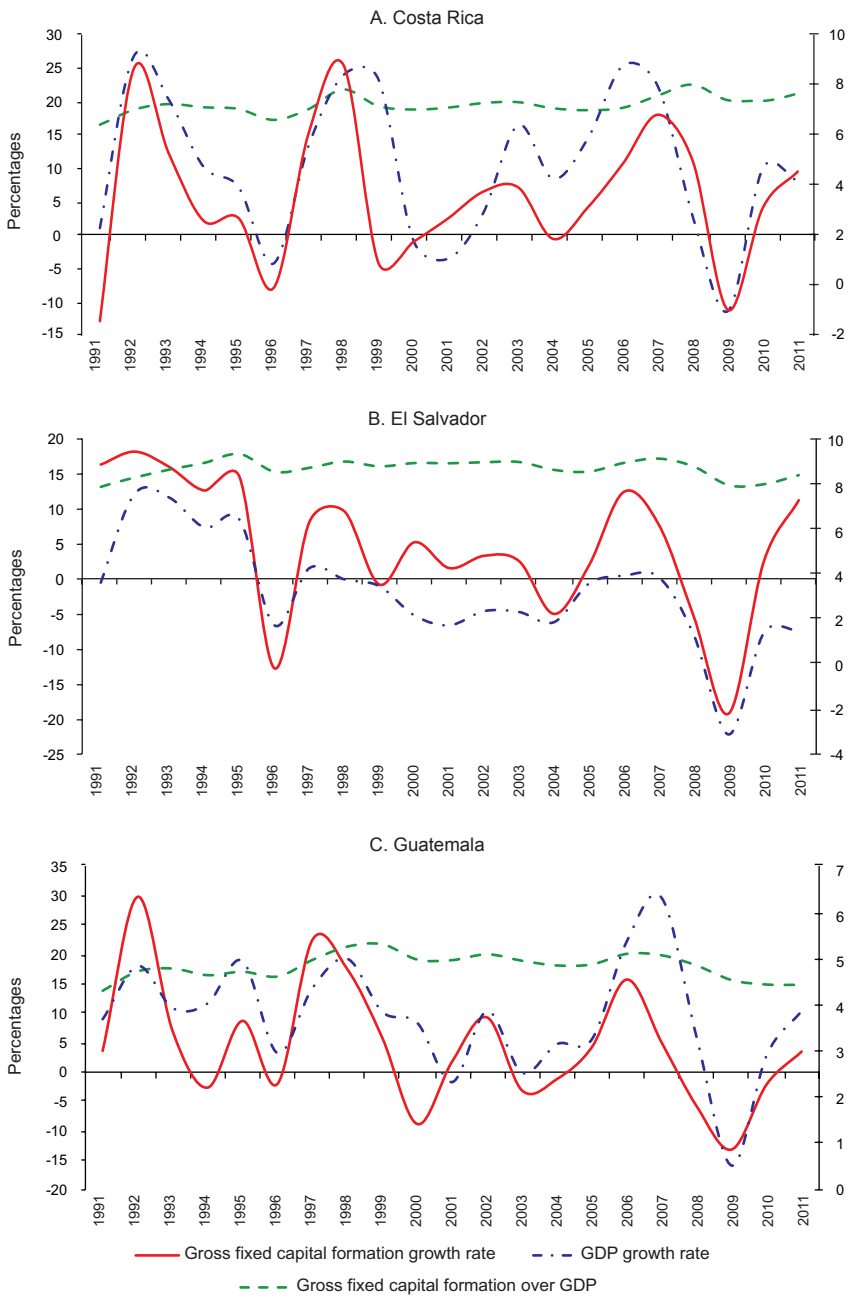


Figure II.11 (continued)

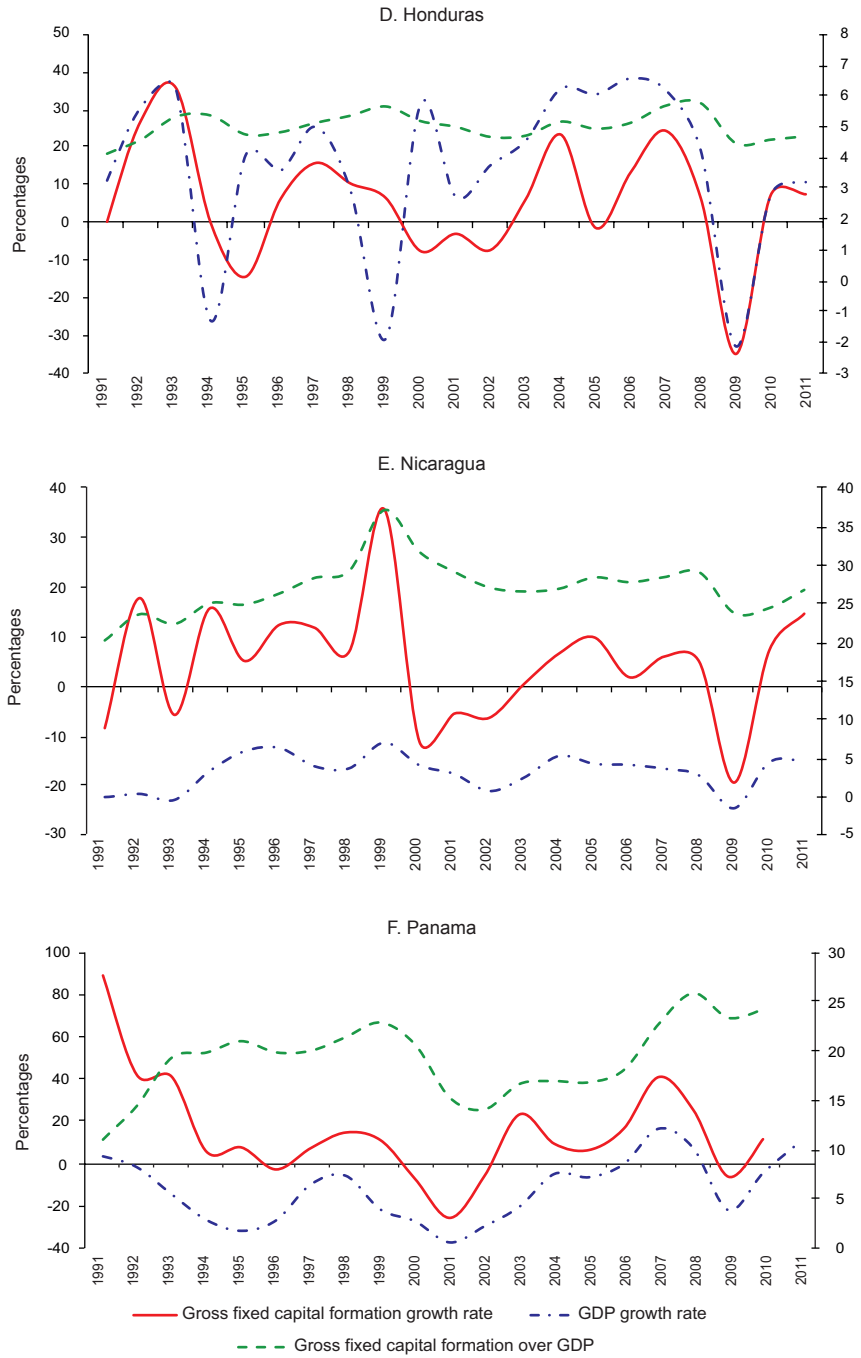
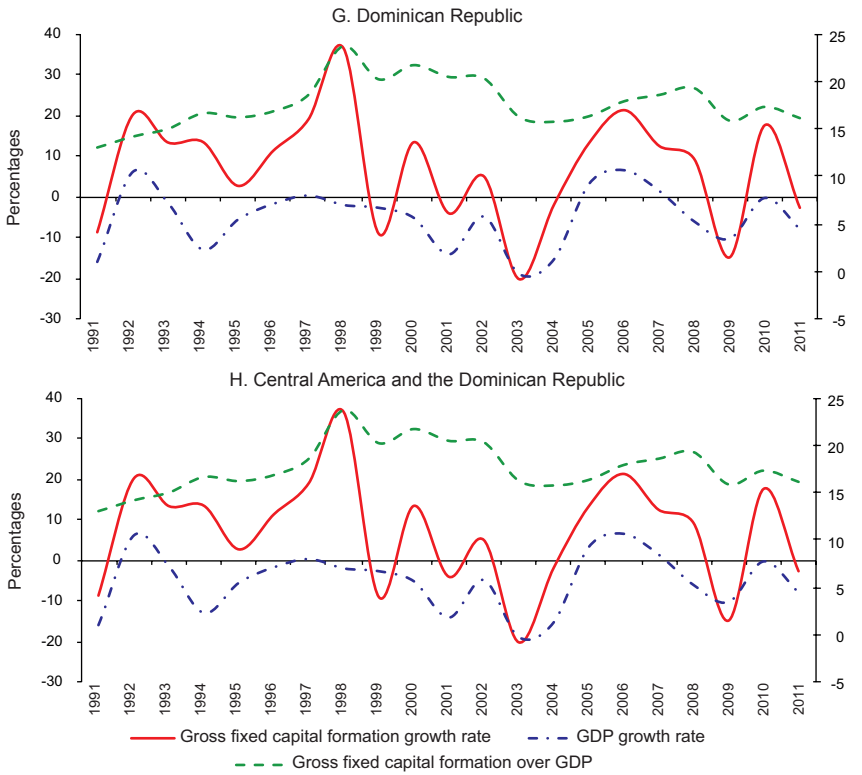
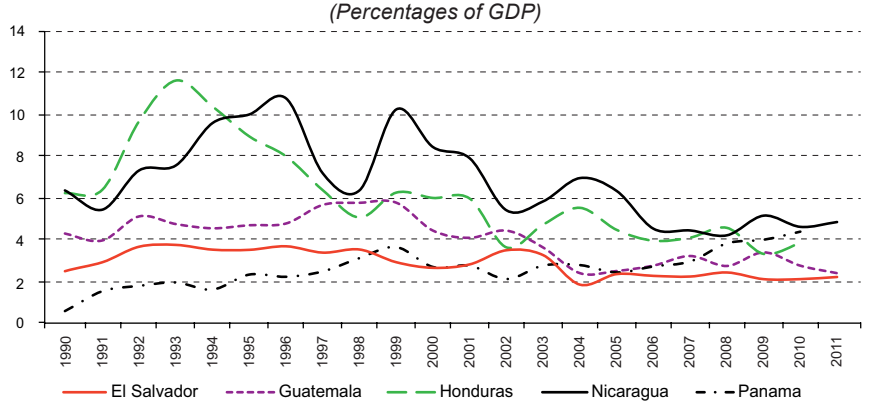


Figure II.11 (concluded)



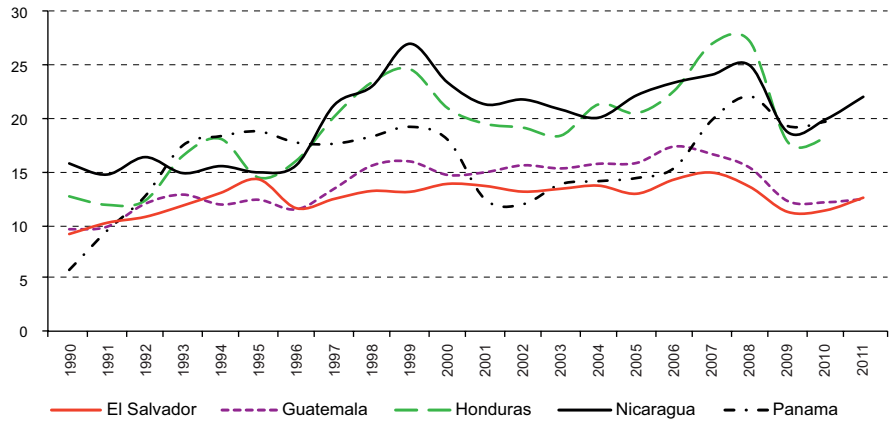
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The rate of GDP growth and the ratio of gross fixed capital formation to GDP are shown on the right axis and the gross fixed capital formation growth rate is shown on the left axis.

Figure II.12
Central America: public-sector gross fixed capital formation, 1990-2011
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure II.13
Central America: private-sector gross fixed capital formation, 1990-2011
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

As already mentioned, Nicaragua and Honduras display a different pattern from the rest of the subregion, with high investment ratios accompanied by low GDP growth. El Salvador and Guatemala exhibit GDP growth rates similar to those of Nicaragua and Honduras, but with considerably lower investment ratios. In 1990-2011, the public-sector investment ratio was about 3 percentage points of GDP higher in these latter two countries than in El Salvador and Guatemala, while their average private-sector investment ratio exceeded that of El Salvador and Guatemala by some 7 or 8 percentage points of GDP. Private-sector investment was between 3 and 5 times as high as public-sector investment in the countries of the subregion.

The distinction between public and private investment is of even greater interest in the light of the financial crisis that came to a head in 2009 and the subsequent recovery (see table II.22). In 2009, private investment as a proportion of GDP fell sharply in all the countries of the subregion, but particularly Honduras and Nicaragua, where it dropped by -9.4 and -6.2 percentage points of GDP, respectively, from the previous year. In the midst of the crisis, public investment played a fairly countercyclical role in Costa Rica, Nicaragua, Guatemala and Panama; in no case, however, did it rise by more than 1.5 percentage points of GDP. Since the crisis and until the time of writing, no active public-sector investment policy has been significantly pursued, while the private-sector investment ratio has not returned to pre-crisis levels.

Table II.22
Central America: changes in public and private investment from the previous year, 2009-2011
(Percentage points of GDP)

	Period		
	2009	2010	2011
Costa Rica			
Public	1.5	-0.5	-0.1
Private	-3.8	0.4	1.1
El Salvador			
Public	-0.3	0	0.1
Private	-2.3	0.1	1.2
Guatemala			
Public	0.7	-0.6	-0.4
Private	-3.1	-0.1	0.3
Honduras			
Public	-1.3	0.5	…
Private	-9.4	0.4	…
Nicaragua			
Public	0.9	-0.5	0.2
Private	-6.2	1.2	2.1
Panama			
Public	0.2	0.4	…
Private	-2.8	0.4	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Between 2001-2006 and 2007-2011 the coefficient of variation of gross capital formation increased significantly throughout the subregion except in Panama. The source of this increase was private investment, because the corresponding coefficient for public investment fell. In other words, the ratio between private investment and GDP became more volatile in all the countries except Panama, unsurprisingly given the steep fall in investment in 2009 and its subsequent recovery.

The above analysis is strengthened and given particular relevance by the document prepared by the inter-institutional working group at the request of the Council of Ministers of Finance of Central America, Panama and the Dominican Republic (COSEFIN).[18] It argues that the fiscal resources available for financing infrastructure and increasing public investment in the subregion are very limited. This limitation is due mainly to the low tax collection capacity, resulting in fiscal revenues that are much lower than in countries that have moved up the international competitiveness ranking.[19] Public investment as a proportion of GDP is indeed low in the subregion, and in some countries it is actually on a

[18] Investment and Financing Plan for Central America, Panama and the Dominican Republic (PIFCARD, 2010).

[19] The need for comprehensive fiscal reform is analysed in chapter VI.

downward trend. A second obstacle lies in institutional inadequacies and shallow debt markets. The efficient use of private-sector capital to expand and modernize infrastructure (as a way to support and supplement public investment) is a challenge that needs to be confronted. Comprehensive fiscal reform aside, it is urgent to create financing mechanisms to stimulate this type of investment in infrastructure.

In Central America,[20] 56.3% of investment is in machinery and equipment, with the other 43.7% going to construction. In the period analysed, investment in machinery and equipment averaged 10.9% of GDP at the subregional level, with construction representing 8.3%. Nicaragua and Honduras can show the highest average investment rates as a share of GDP, at 15.4% and 14.6%, respectively, for machinery and equipment, and 11.4% and 11.1% for construction. The evolution of the investment ratio in the subregion reflects a lack of dynamism in both components. For construction, the ratio of investment to GDP remained practically unchanged, while for machinery it rose moderately over the 1990-2011 period (see table II.23 and figures II.11 and II.12).

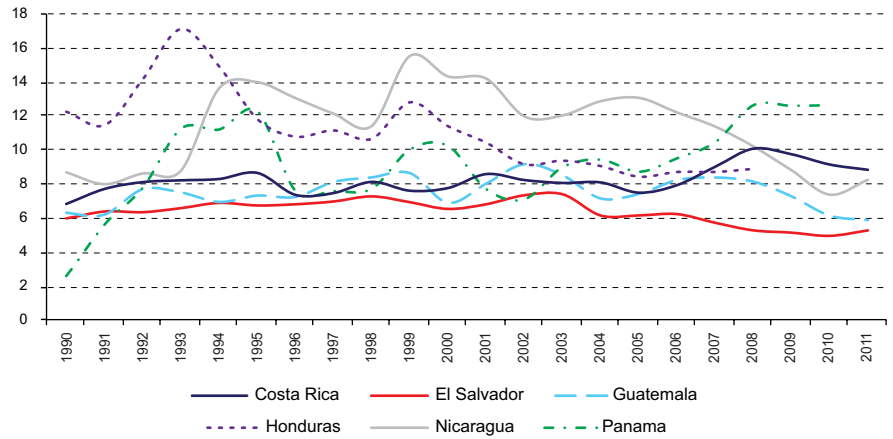
Table II.23
Central America: average gross fixed capital formation in construction and in machinery and equipment, 1990-2011
(Percentages of GDP)

	1990-2011	1990-2000	2000-2006	2007-2011
Costa Rica				
Construction	8.2	7.8	8.1	9.4
Machinery	11.3	11.1	11.2	11.6
El Salvador				
Construction	6.4	6.7	6.7	5.3
Machinery	9.1	8.7	9.5	9.7
Guatemala				
Construction	7.5	7.4	8.1	7.2
Machinery	10.3	10.2	11.0	9.5
Honduras				
Construction	11.1	12.6	9.2	8.8
Machinery	14.6	12.5	15.7	22.6
Nicaragua				
Construction	11.4	11.7	12.7	9.2
Machinery	15.4	14.8	15.0	17.3
Panama				
Construction	9.2	8.5	8.6	12.1
Machinery	9.4	9.4	7.7	12.0
Central America				
Construction	8.3	8.3	8.3	8.8
Machinery	10.9	10.4	10.9	13

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

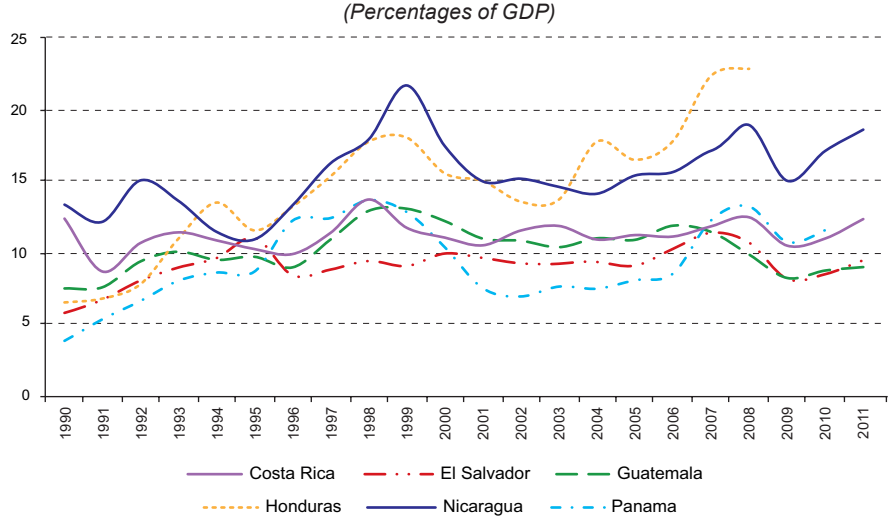
[20] The Dominican Republic is excluded because disaggregated data were unavailable.

Figure II.14
Central America: gross fixed capital formation in construction, 1990-2011
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure II.15
Central America: gross fixed capital formation in machinery and equipment, 1990-2011
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

It is interesting to differentiate between the investment in construction and in machinery in Nicaragua and Honduras and that taking place in El Salvador and Guatemala. The rate of investment in construction is

some 4 percentage points of GDP higher in the former two than in the latter. In the case of machinery, the difference is as great as 5.5 points. In other words, both components, construction and machinery, are important in explaining the difference between the investment ratios of Nicaragua and Honduras and those of El Salvador and Guatemala.

In 2009, the investment ratio for machinery dropped sharply in all the countries of the subregion. The decline ranged from -3.9 percentage points of GDP in Nicaragua to -1.7 points in Guatemala. The construction investment ratio also fell, but by much less (see table II.24). The explanation for this could lie in an effort by the various governments to contain the abrupt falls in investment spending triggered by the external shock. In the post-crisis stage, the ratio of machinery investment to GDP picked up in the subregion, while the ratio of investment in construction continued to fall. Thus, the financial crisis bore down on investment both in construction and in machinery and equipment. Three years on, this deterioration persists in a context of greater uncertainty and instability.

Table II.24
Central America: annual changes in construction and machinery investment, 2009-2011
(Percentage points of GDP)

	2009	2010	2011
Costa Rica			
Construction	-0.3	-0.6	-0.3
Machinery	-2.0	0.5	1.4
El Salvador			
Construction	-0.1	-0.2	0.3
Machinery	-2.5	0.3	1.0
Guatemala			
Construction	-0.9	-1.1	-0.3
Machinery	-1.7	0.7	0.3
Nicaragua			
Construction	-1.4	-1.4	0.9
Machinery	-3.9	2.1	1.5
Panama			
Construction	0.0	0.0	
Machinery	-2.5	0.8	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Domestic saving was the main source of finance for investment in the subregion, and ranged on average from 12.6% of GDP in Guatemala to 22.3% in Honduras. External saving, meanwhile, ranged from 3% of GDP

in the Dominican Republic to 6.5% in Honduras. Nicaragua was a special case in the period, as its domestic saving was very low, and averaged just 5.4% of GDP, while external saving (23.1%) was much higher than in the rest of the subregion (see figure II.16).

Figure II.16
Central America and the Dominican Republic: domestic and external financing of investment, 1990-2011
(Percentages of GDP)

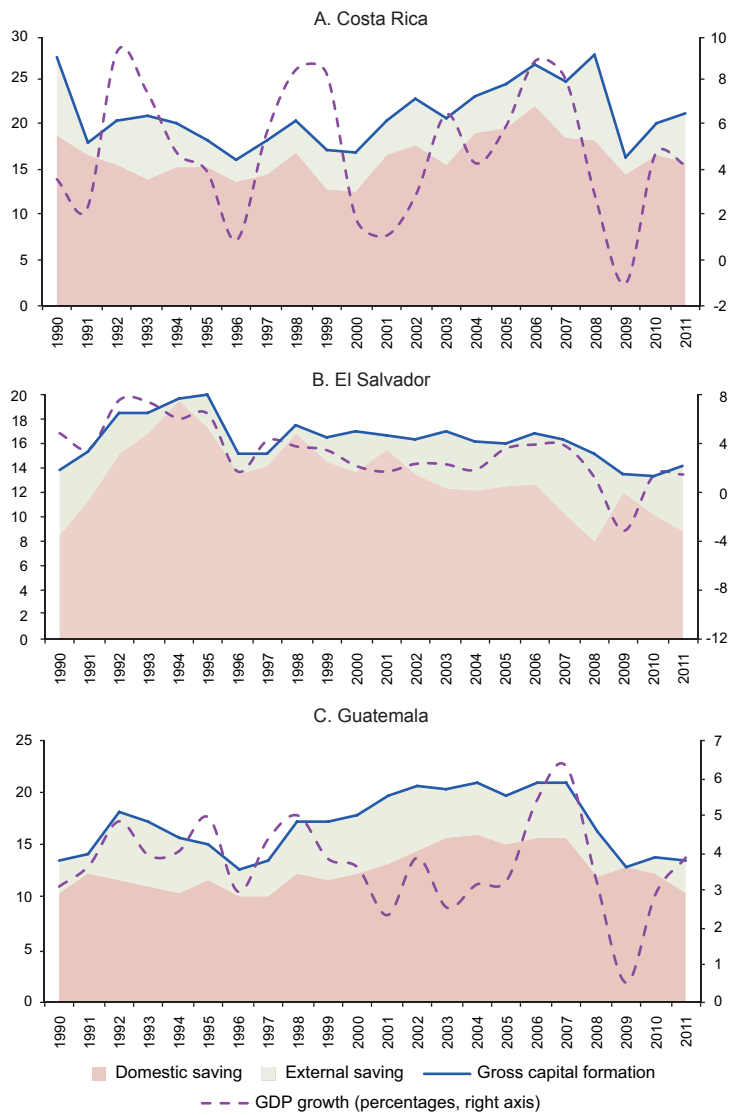


Figure II.16 (continued)

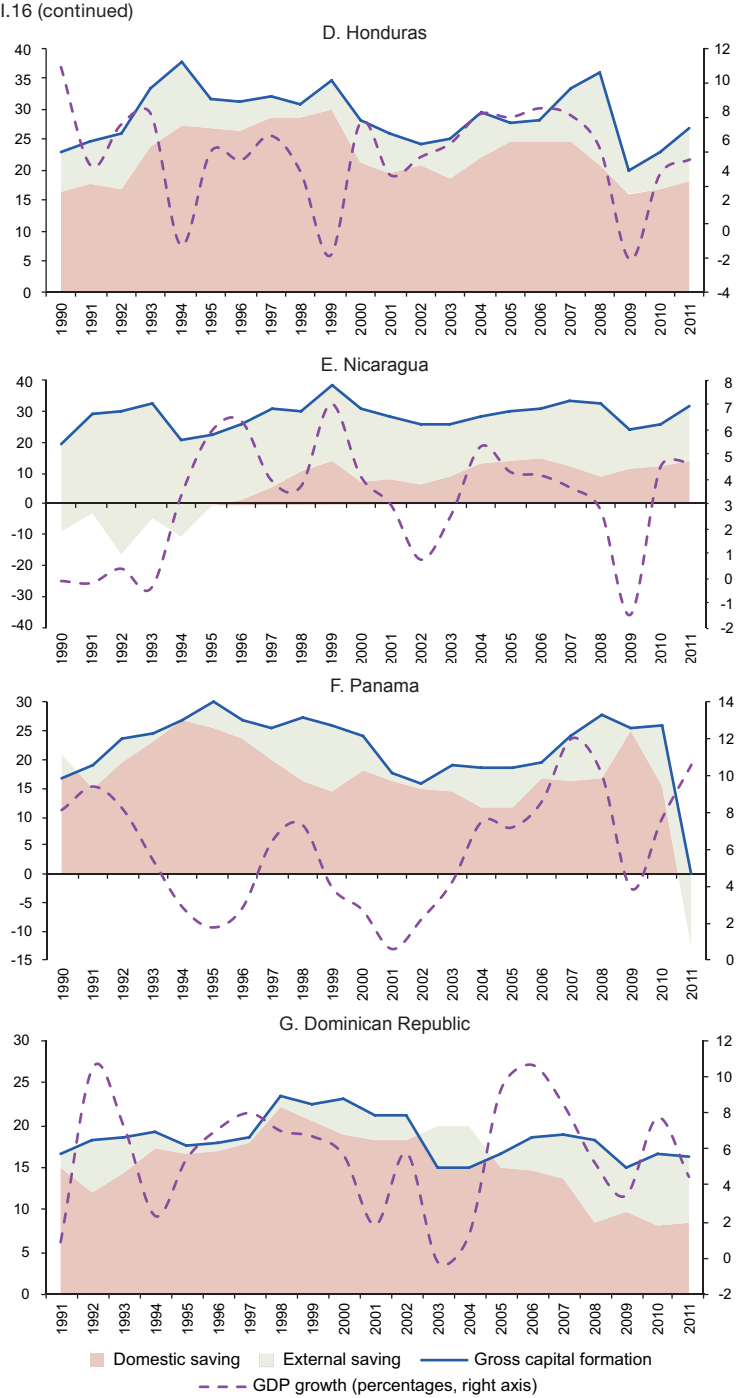
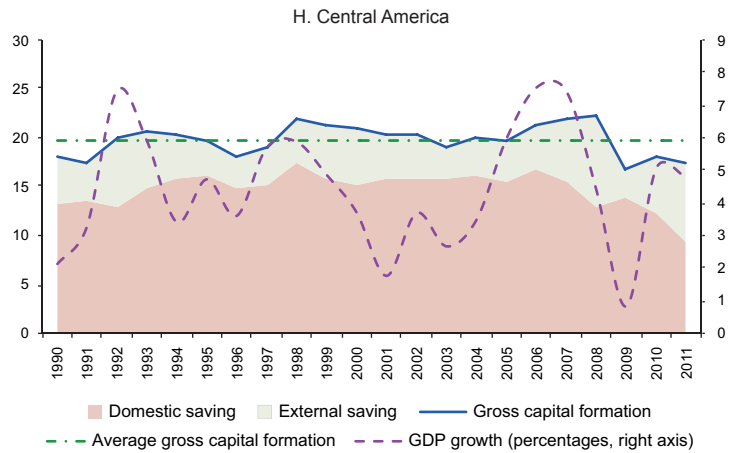


Figure II.16 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The national saving rate as a percentage of GDP tended to rise in Costa Rica, Guatemala and Nicaragua in 1990-2006, only to decline thereafter. The trend in El Salvador, Honduras, the Dominican Republic and Panama was downward throughout almost the whole of the period studied, albeit with fluctuations. One result of the crisis, lastly, was that the share of investment financed from outside sources fell in all the countries except the Dominican Republic, perhaps because of the difficulty of raising such financial capital on the international markets. In some of these countries, furthermore, alternative sources of finance were sought in domestic markets (see chapter V).

If the acceleration and deceleration phases of the business cycle are distinguished,[21] the countries with the highest average annual rates of economic growth in acceleration phases were Panama (8%), the Dominican Republic (7.2%) and Costa Rica (6.7%). Those with the highest rates of expansion in deceleration phases were Guatemala (3.3%), Panama (2.6%) and the Dominican Republic (2.6%), while activity in Honduras (1.2%), Nicaragua (1.3%) and El Salvador (1.5%) was less vigorous. Guatemala was the country with the smallest gap between average GDP growth rates in the acceleration and deceleration phases (1.1%), while Panama had the largest gap (5.4%), followed by Costa Rica (4.6%) and the Dominican Republic (4.5%) (see table II.25).

[21] This was carried out using the Hodrick-Prescott methodology. The subject is analysed in more detail in section C.

Table II.25

Central America and the Dominican Republic: GDP, investment and saving by phase of the business cycle, 1990-2011

(Percentage average growth rates)

	Costa Rica			El Salvador			Guatemala			Honduras		
	Acceleration	Deceleration	Difference	Acceleration	Deceleration	Difference	Acceleration	Deceleration	Difference	Acceleration	Deceleration	Difference
GDP	6.7	2.1	4.6	4.4	1.5	2.9	4.4	3.3	1.1	4.9	1.2	3.6
Gross fixed capital formation	10.3	-1.2	11.4	9.3	-2.0	11.4	6.9	2.4	4.5	10.2	-5.7	15.9
Public-sector gross fixed capital formation	…	…	…	6.1	-2.2	8.3	2.0	0.2	1.8	4.3	-4.8	9.1
Private-sector gross fixed capital formation	…	…		10.3	-2.3	12.5	8.6	2.9	5.7	11.1	-5.4	16.4
Gross fixed capital formation in construction	7.5	4.1	3.4	4.6	-0.1	4.7	2.3	4.0	-1.7	4.3	-1.9	6.2
Gross fixed capital formation in machinery	12.5	-4.8	17.3	12.6	-3.0	15.6	10.4	1.2	9.1	15.4	4.2	11.2
Domestic saving	7.4	2.7	4.7	5.2	19.8	-14.6	5.9	9.0	-3.1	17.0	2.9	14.1
External saving	43.3	-44.2	87.5	48.1	-30.8	78.9	56.0	-30.3	86.3	40.2	8.3	31.9

Table II.25 (concluded)

	Nicaragua			Panama			Dominican Republic		
	Acceleration	Deceleration	Difference	Acceleration	Deceleration	Difference	Acceleration	Deceleration	Difference
PIB	4.7	1.3	3.3	8.0	2.6	5.4	7.2	2.6	4.5
Gross fixed capital formation	8.7	-1.5	10.1	22.0	-1.5	23.5	11.4	-3.0	14.4
Public-sector gross fixed capital formation	6.8	-4.3	11.2	29.2	1.8	27.4	…	…	…
Private-sector gross fixed capital formation	8.3	0.6	7.7	23.9	-3.0	26.8	…	…	
Gross fixed capital formation in construction	8.1	-3.5	11.7	28.6	-3.6	32.2	…	…	…
Gross fixed capital formation in machinery	8.4	0.4	8.1	21.3	-1.2	22.5	…	…	…
Domestic saving	-7.1	28.4	-35.5	9.6	-11.2	20.8	14.8	10.2	4.6
External saving	16.3	-13.9	30.2	38.1	-6.8	44.9	29.5	-27.8	57.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

When the behaviour of investment is compared with that of GDP in the acceleration and deceleration phases, similarities and differences emerge. In acceleration phases, investment grew much more strongly than GDP. In deceleration phases, on the other hand, investment contracted while GDP kept on growing, albeit at lower rates than in acceleration phases. The conjunction of the two effects translated into greater volatility for investment growth rates than for GDP growth rates.

In periods of acceleration, Panama had the highest rate of growth of fixed capital formation (22%), followed by the Dominican Republic (11.4%), Costa Rica (10.3%) and Honduras (10.2%). It was in Honduras (-5.7%), the Dominican Republic (-3%) and El Salvador (-2%) that investment contracted most in phases of deceleration. Guatemala was the only country where investment grew in such phases.

The differential between average growth rates of investment within the subregion during acceleration and deceleration stages was much wider than in GDP growth rates, with the latter ranging from 1.1% to 5.4% in the subregion's countries and the former from 4.5% to 23.3%. Panama recorded the largest variation in investment growth rates between the two phases of the cycle (23.6%) and also the largest difference in GDP growth (5.4%). Conversely, Guatemala had the smallest range of investment variation between the two phases (4.6%) and the smallest difference between GDP growth rates (1.1%). In phases of acceleration, meanwhile, private investment grew faster on average than public investment everywhere but Panama. In deceleration periods, behaviour was not homogeneous across countries. In El Salvador and Honduras, public and private investment fell by similar percentages. In Nicaragua, public investment fell in deceleration phases and private investment rose. In Panama, on the other hand, public investment rose on average in deceleration phases and private investment fell.

The above analysis suggests that, by and large, public investment fell substantially in deceleration periods in most of the countries during 1990-2011. This marks a major difference from the situation before the 2009 crisis, as then public investment increased, albeit not by enough to fully offset the drop in private investment. In Costa Rica, El Salvador, Guatemala and Honduras, the growth rate for gross investment in machinery and equipment varied more sharply, whether because of stronger growth in phases of acceleration or a larger contraction in deceleration periods. In Nicaragua and Panama, growth rates for investment in construction fluctuated by more (see table II.25).

At the subregional level, external finance expanded at a rate that ranged from 16.3% in Nicaragua to 56% in Guatemala during economic acceleration phases. In deceleration phases it shrank in proportions that

ranged from -6.8% in Panama to -44.2% in Costa Rica. Honduras did not register any contraction in external saving in phases of economic deceleration. The countries' ability to raise external financing varied with the phase of the business cycle. Domestic saving was less strongly associated with the phases of the cycle than external saving, actually growing in deceleration periods everywhere but Panama.

To mitigate the subregion's dependence on external financing, which was particularly scarce in deceleration stages, and thus reduce the adverse effects of the business cycle on investment and on potential economic growth, it is necessary to strengthen national or regional private-sector investment and financing mechanisms, something that would involve a very important role for regional development banks. In an initial stage, it is crucial to develop long-term local-currency debt markets. Consequently, there is a clear need to harmonize criteria so that public debt securities can be issued in the seven countries of the subregion as a first step towards creating a more integrated public debt market. Implementing a measure like the one proposed here would do a great deal to deepen local capital markets.

Annex

Table A.IIB.1
Central America and the Dominican Republic: GDP growth rates, gross fixed capital formation (GFCF) and ratio of GFCF to GDP, 1991-2011

Year	Costa Rica			El Salvador			Guatemala			Honduras		
	GDP	Gross fixed capital formation	Gross fixed capital formation/ GDP	GDP	Gross fixed capital formation	Gross fixed capital formation/ GDP	GDP	Gross fixed capital formation	Gross fixed capital formation/ GDP	GDP	Gross fixed capital formation	Gross fixed capital formation/ GDP
1991	2.3	-12.8	16.4	3.6	16.2	13.1	3.7	3.7	13.8	3.3	0.2	18.3
1992	9.2	25.0	18.8	7.5	18.1	14.4	4.8	29.8	17.1	5.6	27.0	22.0
1993	7.4	12.3	19.6	7.4	15.9	15.6	3.9	6.9	17.6	6.2	35.8	28.1
1994	4.7	2.2	19.2	6.1	12.6	16.5	4.0	-2.6	16.5	-1.3	-0.1	28.4
1995	3.9	2.6	18.9	6.4	14.5	17.8	4.9	8.7	17.1	4.1	-14.4	23.4
1996	0.9	-7.8	17.3	1.7	-12.8	15.3	3.0	-2.0	16.2	3.6	6.3	24.0
1997	5.6	15.3	18.9	4.2	8.1	15.8	4.4	22.5	19.1	5.0	15.8	26.5
1998	8.4	25.5	21.8	3.7	9.6	16.7	5.0	17.4	21.3	2.9	10.3	28.4
1999	8.2	-4.1	19.4	3.4	-0.8	16.0	3.8	5.8	21.7	-1.9	6.5	30.8
2000	1.8	-0.9	18.8	2.2	5.2	16.5	3.6	-8.8	19.1	5.7	-7.6	26.9
2001	1.1	2.6	19.1	1.7	1.5	16.5	2.3	1.8	19.0	2.7	-3.0	25.4
2002	2.9	6.6	19.8	2.3	3.3	16.6	3.9	9.3	20.0	3.8	-7.3	22.7
2003	6.4	7.2	19.9	2.3	2.5	16.6	2.5	-3.1	18.9	4.5	6.2	23.1
2004	4.3	-0.5	19.0	1.9	-5.0	15.5	3.2	-1.2	18.1	6.2	23.4	26.8
2005	5.9	4.3	18.7	3.6	1.9	15.3	3.3	4.3	18.3	6.1	-1.4	24.9
2006	8.8	10.8	19.1	3.9	12.4	16.5	5.4	15.7	20.1	6.6	13.4	26.5
2007	7.9	18.1	20.9	3.8	7.7	17.1	6.3	5.0	19.8	6.2	24.4	31.0
2008	2.7	11.0	22.6	1.3	-5.4	16.0	3.3	-5.8	18.1	4.2	6.5	31.7
2009	-1.0	-11.1	20.3	-3.1	-19.2	13.3	0.5	-13.1	15.6	-2.1	-34.9	21.1
2010	4.7	4.1	20.2	1.4	2.4	13.5	2.9	-2.1	14.9	2.8	7.3	22.0
2011	4.2	9.6	21.2	1.5	11.2	14.8	3.9	3.5	14.8	3.2	7.5	22.9

Table A.IIB.1 (concluded)

Year	Nicaragua			Panama			Dominican Republic			Central America and Dominican Republic		
	GDP	Gross fixed capital formation	Gross fixed capital formation/ GDP	GDP	Gross fixed capital formation	Gross fixed capital formation/ GDP	GDP	Gross fixed capital formation	Gross fixed capital formation/ GDP	GDP	Gross fixed capital formation	Gross fixed capital formation/ GDP
1991	-0.2	-8.5	20.2	9.4	89.4	11.0	0.9	-8.5	13.1	3.3	2.2	14.2
1992	0.4	17.9	23.7	8.2	41.9	14.4	10.5	20.3	14.2	7.4	25.5	16.6
1993	-0.4	-5.7	22.4	5.5	41.1	19.3	7.2	13.4	15.0	5.9	16.3	18.3
1994	3.3	15.7	25.1	2.9	5.6	19.8	2.3	13.5	16.7	3.4	5.4	18.6
1995	5.9	5.2	24.9	1.8	7.7	21.0	5.5	2.7	16.2	4.7	4.2	18.5
1996	6.3	12.5	26.4	2.8	-2.8	19.9	7.1	11.4	16.9	3.6	-0.2	17.8
1997	4.0	11.9	28.4	6.5	7.3	20.0	8.0	19.1	18.6	5.7	15.5	19.5
1998	3.7	7.1	29.3	7.3	14.7	21.4	7.0	36.5	23.8	5.9	20.5	22.2
1999	7.0	35.7	37.2	3.9	11.1	22.9	6.7	-9.0	20.2	4.9	1.8	21.5
2000	4.1	-11.1	31.8	2.7	-7.3	20.6	5.7	13.5	21.7	3.7	-0.7	20.6
2001	3.0	-5.4	29.2	0.6	-25.7	15.2	1.8	-4.0	20.5	1.8	-3.8	19.5
2002	0.8	-6.3	27.1	2.2	-5.6	14.1	5.8	5.0	20.4	3.7	3.2	19.4
2003	2.5	0.6	26.6	4.2	23.3	16.7	-0.3	-20.2	16.3	2.7	-2.5	18.4
2004	5.3	6.7	27.0	7.5	9.4	16.9	1.3	-1.8	15.8	3.5	2.1	18.2
2005	4.3	9.9	28.5	7.2	6.4	16.8	9.3	13.3	16.4	6.0	5.9	18.2
2006	4.2	1.9	27.8	8.5	16.6	18.1	10.7	21.3	17.9	7.5	14.9	19.4
2007	3.6	6.1	28.5	12.1	41.0	22.7	8.5	12.5	18.6	7.4	15.3	20.8
2008	2.8	5.0	29.1	10.1	25.3	25.9	5.3	9.2	19.3	4.4	6.8	21.3
2009	-1.5	-19.3	23.8	3.9	-6.2	23.4	3.5	-14.8	15.9	0.8	-15.4	17.9
2010	4.5	7.3	24.5	7.6	11.6	24.2	7.8	17.6	17.3	5.1	8.0	18.4
2011	4.7	14.7	26.8	10.6	…	…	4.5	-2.7	16.2	4.8	…	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Table A.IIB.2

Central America and the Dominican Republic: public and private gross fixed capital formation as shares of GDP, 1990-2011

(Percentages)

Year	Costa Rica			El Salvador			Guatemala			Honduras		
	Total	Public	Private	Total	Public	Private	Total	Public	Private	Total	Public	Private
1990	19.3	4.0	15.3	11.7	2.6	9.2	13.8	4.3	9.6	18.8	6.2	12.6
1991	16.4	3.6	12.8	13.1	2.9	10.2	13.8	4.0	9.8	18.3	6.4	11.9
1992	18.8	...	...	14.4	3.7	10.8	17.1	5.1	12.0	22.0	9.7	12.3
1993	19.6	...	...	15.6	3.8	11.8	17.6	4.8	12.8	28.1	11.6	16.5
1994	19.2	...	...	16.5	3.5	13.0	16.5	4.5	11.9	28.4	10.4	18.0
1995	18.9	...	...	17.8	3.5	14.3	17.1	4.7	12.4	23.4	9.0	14.4
1996	17.3	...	...	15.3	3.7	11.6	16.2	4.8	11.5	24.0	8.0	16.0
1997	18.9	...	...	15.8	3.4	12.4	19.1	5.7	13.4	26.5	6.4	20.1
1998	21.8	...	...	16.7	3.5	13.2	21.3	5.8	15.5	28.4	5.1	23.3
1999	19.4	...	...	16.0	2.9	13.1	21.7	5.8	15.9	30.8	6.3	24.6
2000	18.8	...	...	16.5	2.7	13.8	19.1	4.4	14.7	26.9	6.0	20.9
2001	19.1	...	...	16.5	2.8	13.6	19.0	4.1	14.9	25.4	6.0	19.5
2002	19.8	...	...	16.6	3.5	13.1	20.0	4.4	15.6	22.7	3.6	19.1
2003	19.9	...	...	16.6	3.3	13.4	18.9	3.6	15.3	23.1	4.7	18.4
2004	19.0	3.4	15.6	15.5	1.8	13.7	18.1	2.4	15.7	26.8	5.5	21.3
2005	18.7	3.0	15.7	15.3	2.4	12.9	18.3	2.5	15.8	24.9	4.5	20.4
2006	19.1	2.9	16.1	16.5	2.3	14.3	20.1	2.8	17.3	26.5	4.0	22.5
2007	20.9	3.1	17.8	17.1	2.2	14.9	19.8	3.2	16.6	31.0	4.1	26.9
2008	22.6	4.3	18.2	16.0	2.4	13.6	18.1	2.7	15.3	31.7	4.6	27.1
2009	20.3	5.8	14.4	13.3	2.1	11.2	15.6	3.4	12.2	21.1	3.3	17.8
2010	20.2	5.3	14.8	13.5	2.1	11.4	14.9	2.8	12.1	22.0	3.9	18.1
2011	21.2	5.2	15.9	14.8	2.2	12.6	14.8	2.4	12.4	22.9	...	...

Table A.IIB.2 (concluded)

Year	Nicaragua			Panama			Dominican Republic
	Total	Public	Private	Total	Public	Private	Total
1990	22.0	6.4	15.6	6.4	0.6	5.8	14.4
1991	20.2	5.4	14.7	11.0	1.5	9.5	13.1
1992	23.7	7.3	16.3	14.4	1.8	12.7	14.2
1993	22.4	7.6	14.8	19.3	1.9	17.4	15.0
1994	25.1	9.6	15.5	19.8	1.6	18.3	16.7
1995	24.9	10.0	14.9	21.0	2.3	18.7	16.2
1996	26.4	10.8	15.6	19.9	2.2	17.7	16.9
1997	28.4	7.2	21.2	20.0	2.5	17.6	18.6
1998	29.3	6.4	22.9	21.4	3.1	18.3	23.8
1999	37.2	10.2	26.9	22.9	3.6	19.2	20.2
2000	31.8	8.4	23.3	20.6	2.7	18.0	21.7
2001	29.2	7.9	21.3	15.2	2.8	12.4	20.5
2002	27.1	5.4	21.7	14.1	2.1	11.9	20.4
2003	26.6	5.8	20.8	16.7	2.8	13.8	16.3
2004	27.0	7.0	20.0	16.9	2.8	14.1	15.8
2005	28.5	6.3	22.1	16.8	2.4	14.4	16.4
2006	27.8	4.5	23.3	18.1	2.7	15.3	17.9
2007	28.5	4.4	24.0	22.7	3.0	19.8	18.6
2008	29.1	4.2	24.9	25.9	3.8	22.0	19.3
2009	23.8	5.2	18.7	23.4	4.0	19.2	15.9
2010	24.5	4.6	19.9	24.2	4.4	19.7	17.3
2011	26.8	4.8	22.0	…	…	…	16.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Table A.IIB.3a

Central America: gross fixed capital formation in machinery and equipment as a share of GDP, 1990-2011

(Percentages)

Year	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama		Central America	
	Construction	Machinery	Construction	Machinery	Construction	Machinery	Construction	Machinery	Construction	Machinery	Construction	Machinery	Construction	Machinery
1990	6.8	12.4	6.0	5.8	6.3	7.6	12.3	6.5	8.7	13.3	2.5	3.8	6.6	7.8
1991	7.7	8.7	6.4	6.7	6.2	7.6	11.5	6.8	8.0	12.2	5.6	5.4	7.1	7.5
1992	8.1	10.7	6.3	8.1	7.7	9.4	14.2	7.8	8.6	15.0	7.8	6.6	8.3	9.1
1993	8.2	11.4	6.6	9.0	7.5	10.1	17.1	11.0	8.8	13.6	11.3	8.1	9.2	10.1
1994	8.3	10.9	6.9	9.6	7.0	9.5	14.9	13.5	13.6	11.5	11.2	8.6	9.0	10.2
1995	8.7	10.3	6.7	11.0	7.3	9.7	11.8	11.6	14.0	10.9	12.3	8.7	9.0	10.2
1996	7.4	9.9	6.8	8.4	7.2	9.0	10.8	13.2	13.1	13.3	7.6	12.2	7.9	10.2
1997	7.5	11.4	7.0	8.8	8.1	10.9	11.2	15.3	12.1	16.2	7.6	12.4	8.2	11.6
1998	8.1	13.7	7.3	9.4	8.4	12.9	10.7	17.7	11.4	17.9	7.7	13.7	8.4	13.3
1999	7.6	11.7	6.9	9.1	8.6	13.1	12.8	18.0	15.5	21.7	10.0	12.8	9.1	12.9
2000	7.8	11.1	6.5	10.0	6.9	12.2	11.4	15.5	14.3	17.4	10.2	10.4	8.4	11.9
2001	8.6	10.5	6.8	9.6	8.0	11.0	10.4	15.0	14.2	15.0	7.7	7.5	8.4	10.7
2002	8.2	11.6	7.3	9.3	9.2	10.9	9.2	13.6	12.0	15.2	7.1	7.0	8.5	10.6
2003	8.1	11.9	7.4	9.2	8.5	10.4	9.4	13.7	12.0	14.6	9.0	7.7	8.6	10.6
2004	8.1	10.9	6.2	9.4	7.2	11.1	9.1	17.8	12.9	14.1	9.4	7.5	8.0	11.0
2005	7.5	11.2	6.2	9.1	7.4	11.0	8.4	16.5	13.1	15.4	8.7	8.1	7.8	11.0
2006	7.9	11.1	6.2	10.3	8.2	11.9	8.7	17.8	12.2	15.6	9.5	8.6	8.3	11.7
2007	9.0	11.9	5.7	11.4	8.4	11.5	8.7	22.3	11.4	17.1	10.5	12.3	8.6	13.1
2008	10.1	12.5	5.3	10.7	8.1	9.8	8.9	22.8	10.2	18.9	12.6	13.2	9.1	12.9
2009	9.7	10.5	5.1	8.2	7.3	8.1	…	…	8.8	15.0	12.6	10.8	…	…
2010	9.1	11.0	5.0	8.5	6.1	8.8	…	…	7.4	17.1	12.6	11.6	…	…
2011	8.8	12.4	5.3	9.5	5.9	9.1	…	…	8.2	18.6	…	…	…	…

Table A.IIB.3b

Gross fixed capital formation in machinery and equipment as a share of GDP, averages by subperiod, 1990-2011

(Percentages)

Period	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama		Central America	
	Construction	Machinery	Construction	Machinery	Construction	Machinery	Construction	Machinery	Construction	Machinery	Construction	Machinery	Construction	Machinery
1990-2011	8.2	11.3	6.4	9.1	7.5	10.3	11.1	14.6	11.4	15.4	9.2	9.4	8.3	10.9
1990-2000	7.8	11.1	6.7	8.7	7.4	10.2	12.6	12.5	11.7	14.8	8.5	9.4	8.3	10.4
2001-2006	8.1	11.2	6.7	9.5	8.1	11.0	9.2	15.7	12.7	15.0	8.6	7.7	8.3	10.9
2007-2011	9.4	11.6	5.3	9.7	7.2	9.5	8.8	22.6	9.2	17.3	12.1	12.0	8.8	13.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Table A.IIC.1

Central America and the Dominican Republic: business cycles and selected variables, 1990-2011

(Average annual changes as percentages of GDP)

	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama		Dominican Republic		Central America and Dominican Republic [a]	
	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration
1. Supply and demand [b]																
GDP	6.7	2.1	4.4	1.5	4.4	3.3	4.9	1.2	4.7	1.3	8.0	2.6	7.2	2.6	5.7	2.1
Total consumption	4.9	2.3	5.0	1.1	4.5	3.7	4.6	2.0	3.8	3.4	7.0	2.5	7.7	2.8	5.4	2.5
Private consumption	5.4	2.4	5.4	1.0	4.2	3.8	4.4	2.1	3.2	6.0	7.3	1.9	7.6	3.1	5.4	2.9
Public consumption	2.4	2.0	2.4	2.0	7.2	3.3	5.3	1.5	7.2	-6.0	2.8	3.4	8.6	-0.6	5.1	0.8
Investment	10.3	-1.2	9.3	-2.0	6.9	2.4	10.2	-5.7	8.7	-1.4	22.4	-2.0	11.4	-3.5	11.3	-1.9
Private consumption	3.0	-2.1	10.3	-2.3	8.6	2.9	11.1	-4.7	8.3	0.6	21.8	-2.6	…	…	10.5	-1.4
Public consumption	0.5	3.6	6.1	-2.2	2.0	0.2	4.3	-4.2	6.8	-4.3	26.7	1.6	…	…	7.7	-0.9
Exports	12.1	1.5	11.1	3.0	5.4	2.7	5.6	-2.2	12.9	3.4	6.6	-0.1	5.5	3.3	8.5	1.7
Imports	11.4	-0.2	12.2	0.0	9.7	3.7	6.3	-0.6	9.5	4.5	7.5	-0.7	8.4	0.2	9.3	1.0

Table A.IIC.1 (continued)

	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama		Dominican Republic		Central America and Dominican Republic [a]	
	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration
2. Institutional fund flows																
Current account (X-M)	-3.1	3.2	-1.2	1.2	-2.2	2.3	-2.7	1.3	-5.3	4.2	-7.8	5.1	-4.4	3.2	-3.8	2.9
Central government balance (T-G)	1.7	-1.9	1.2	-1.5	-0.5	0.4	0.3	-0.1	-0.0	3.0	-0.9	-0.1	1.0	-2.8	0.4	-0.4
Private investment and saving balance (I-S)	-4.8	5.1	-2.4	2.7	-1.8	1.9	-3.0	1.3	-5.2	1.2	-6.9	5.2	-5.5	6.0	-4.2	3.4
3. Government balance																
Income	0.7	0.1	0.6	0.2	1.1	-0.1	0.6	-0.0	1.4	1.9	1.2	-0.8	2.0	-2.3	1.1	-0.2
Expenditure	-1.0	1.9	-0.6	1.7	1.6	-0.5	0.3	0.0	1.4	-1.1	2.1	-0.7	1.5	-0.2	0.7	0.2
Primary balance	1.0	-1.2	0.9	-0.9	-0.4	0.4	0.1	-0.1	-1.3	4.2	-0.9	-0.2	1.0	-2.2	0.0	-0.0
Debt service	-0.7	0.6	-0.3	0.6	0.1	-0.0	-0.2	-0.0	-0.8	1.1	-0.0	-0.1	-0.0	0.7	-0.3	0.4
Public debt	-5.0	4.3	-4.9	4.8	1.9	-2.5	-17.6	4.8	-62.2	4.0	-6.4	5.1	0.1	9.6	-13.4	4.3

Table A.IIC.1 (continued)

	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama		Dominican Republic		Central America and Dominican Republic [a]	
	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration
4. Balance of payments																
Goods balance	-1.9	0.3	1.2	-2.4	-3.8	0.3	0.1	-6.2	-3.5	2.4	1.0	5.1	-4.4	3.2	-3.8	2.9
Services balance	1.1	0.7	0.3	-0.1	-0.7	0.6	0.9	-0.7	-1.3	0.9	0.9	-0.1	1.0	-2.8	0.4	-0.4
Current transfers balance	-0.2	-0.3	-0.0	0.4	1.4	0.6	3.2	-0.2	0.4	0.1	0.7	5.2	-5.5	6.0	-4.2	3.4
Financial account	3.0	-1.1	-2.3	2.4	1.9	-1.3	-1.0	7.1	1.5	0.6	-1.4	-0.8	2.0	-2.3	1.1	-0.2
Foreign direct investment balance	0.8	-0.1	-1.1	0.6	1.3	-0.4	-0.2	2.2	0.1	0.6	-0.3	-0.7	1.5	-0.2	0.7	0.2
Portfolio balance	2.1	-0.9	-1.2	1.9	0.6	-0.9	-0.7	4.9	1.4	0.0	-1.1	-0.2	1.0	-2.2	0.0	-0.0
Overall balance	0.6	1.4	-1.2	0.4	-0.8	0.6	1.7	-0.4	-2.5	3.9	1.2	-0.1	-0.0	0.7	-0.3	0.4
Reserves	-0.2	-0.5	1.5	-0.4	0.9	-0.7	-0.2	1.4	1.8	-2.0	-0.2	5.1	0.1	9.6	-13.4	4.3

Table A.IIC.1 (concluded)

	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama		Dominican Republic		Central America and Dominican Republic [a]	
	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration	Acceleration	Deceleration
5. External sector [b]																
United States GDP	3.2	1.5	3.2	1.4	3.4	1.9	2.9	1.5	2.9	1.8	2.6	2.0	3.1	1.3	3.0	1.6
Terms of trade	0.1	-0.5	3.1	-5.3	0.2	1.2	2.1	-2.9	0.9	5.3	-1.0	-0.4	-2.0	-0.9	0.5	-0.5
International commodity prices	8.8	1.4	7.3	3.3	9.3	3.3	10.5	-3.7	15.4	-6.3	8.1	1.6	5.4	5.9	9.2	0.8
International food prices	3.9	2.5	3.5	3.0	3.1	3.4	6.3	-2.4	8.0	-2.7	4.2	1.7	1.7	6.5	4.4	1.7
International hydrocarbon prices	11.9	1.9	8.3	6.0	13.3	3.5	14.3	-4.5	21.5	-10.9	11.0	2.0	10.0	2.4	12.9	0.1
Nominal exchange rate	6.0	11.9	1.5	12.5	2.6	6.0	6.8	19.9	8.1	121.3	0.0	0.0	1.0	23.1	3.7	27.8
Real effective exchange rate	-1.1	-0.4	-1.9	0.0	-0.8	-4.1	-2.0	0.2	2.3	2.0	1.2	0.8	-2.3	4.4	-0.7	0.4
6. Prices [b]																
General inflation	11.0	15.3	6.0	6.8	6.3	12.6	11.9	14.8	10.4	10.5	2.5	1.3	6.4	24.7	7.8	12.3
Real wages	1.7	-0.4	0.0	0.3	-3.1	0.4	2.1	9.0	-0.1	16.0	1.6	1.9	3.2	-3.2	0.8	3.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Central America and the Dominican Republic, simple averages.

[b] Percentage rates of change.

Table A.IIC.2
Central America and the Dominican Republic: duration relative to GDP of aggregate demand components, by cycle, 1990-2011

Consumption										
Country	Acceleration phase					Deceleration phase				
	Total consumption	Private consumption	Public consumption	GDP (number years=1)	Memo GDP (number of years)	Total consumption	Private consumption	Public consumption	GDP (number years=1)	Memo GDP (number of years)
Costa Rica	0.91	1.00	1.00	1.0	3.0	1.09	1.00	0.83	1.0	2.5
El Salvador	1.08	1.08	0.44	1.0	3.0	0.90	0.90	0.93	1.0	2.5
Guatemala	1.18	1.09	2.00	1.0	2.7	0.82	0.91	1.50	1.0	4.7
Honduras	0.57	0.79	0.36	1.0	2.8	1.75	1.38	1.17	1.0	1.6
Nicaragua	0.60	0.80	0.61	1.0	3.0	1.04	0.80	0.73	1.0	2.5
Panama	1.14	1.29	0.65	1.0	3.5	0.64	0.87	0.47	1.0	2.7
Dominican Republic	0.76	0.83	1.08	1.0	3.5	0.94	1.20	0.90	1.0	2.0
Subregion	0.83	0.83	1.25	1.0	2.5	1.20	1.75	1.00	1.0	3.0
Investment										
Country	Acceleration phase					Deceleration phase				
	Total investment	Private investment	Public investment	GDP (number years=1)	Memo GDP (number of years)	Total investment	Private investment	Public investment	GDP (number years=1)	Memo GDP (number of years)
Costa Rica	1.00	0.91	0.91	1.0	3.0	1.00	0.91	1.21	1.0	2.5
El Salvador	0.72	0.67	0.67	1.0	3.0	0.60	0.67	0.67	1.0	2.5
Guatemala	1.00	0.86	1.00	1.0	2.7	1.00	0.86	0.86	1.0	4.7
Honduras	0.93	0.71	0.79	1.0	2.8	1.13	1.50	1.38	1.0	1.6
Nicaragua	0.52	0.52	0.48	1.0	3.0	0.63	0.63	0.69	1.0	2.5
Panama	1.14	1.14	1.26	1.0	3.5	0.93	0.75	0.49	1.0	2.7
Dominican Republic	0.83	0.00	0.00	1.0	3.5	0.86	0.00	0.00	1.0	2.0
Subregion	0.83	0.75	0.69	1.0	2.5	1.20	1.08	0.86	1.0	3.0

Table A.IIC.2 (concluded)

Country	External trade							
	Acceleration phase			Memo GDP (number of years)	Deceleration phase			Memo GDP (number of years)
	Exports	Imports	GDP (number years=1)		Exports	Imports	GDP (number years=1)	
Costa Rica	1.00	1.09	1.0	3.0	1.00	0.91	1.0	2.5
El Salvador	0.56	0.67	1.0	3.0	0.80	0.67	1.0	2.5
Guatemala	1.09	0.82	1.0	2.7	0.91	1.18	1.0	4.7
Honduras	0.61	0.60	1.0	2.8	0.89	1.25	1.0	1.6
Nicaragua	0.57	0.56	1.0	3.0	0.50	0.80	1.0	2.5
Panama	0.76	0.95	1.0	3.5	0.62	0.53	1.0	2.7
Dominican Republic	0.63	0.76	1.0	3.5	1.30	0.94	1.0	2.0
Subregion	0.69	0.92	1.0	2.5	1.00	1.10	1.0	3.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Chapter III

Labour markets, inequality and poverty

The previous chapter examined the broad trends and cyclical fluctuations that have characterized the subregion's macroeconomic performance. This analysis will now be supplemented by a review of the evolution of the main labour market indicators and their relationship to inequality and poverty. The emphasis will be on the comparative analysis of both the demographic evolution of the subregion's countries and their performance in terms of jobs, wages and labour productivity. The starting point for this analysis is the belief that the evolution of the labour market, and particularly its success in creating decent, well-paid jobs with social protection, is a core element in the growth dynamic of the region as it pursues robust development with equality.

A. Inequality and its determinants

There is a long-standing need in Latin America for greater equality in the distribution of wealth and the benefits of economic growth, for more gender equity, and for better access to high-quality jobs with incomes and social security consistent with decent living standards and the effective exercise of economic, social and cultural rights. The subregion of Central America and the Dominican Republic is no exception, as is revealed by the acute inequality and the poverty levels that still prevail there. Average per capita income of the richest decile in the subregion is between 10 and 22 times higher than the average for the population in the four poorest deciles, despite improvements over the past two decades in all the countries except Costa Rica and the Dominican Republic. The Gini coefficient performed

similarly over the period, with a decrease in income concentration in El Salvador, Honduras and Nicaragua, increases in Costa Rica and the Dominican Republic, and virtually no change in Guatemala. Income concentration in the subregion currently reflects a highly unequal society. This inequality, in turn, makes it harder to bring an end to poverty and set in train a long-term process of robust economic growth and development.

The main determinants of this inequality lie in the production and distribution structure of the economies of Central America and the Dominican Republic, the workings of their financial systems, the dynamic of their labour markets and the fragility and limitations of the fiscal and social policies that prevail there. The achievements and obstacles in the process of transforming the production and financial structure of the subregion will be analysed further on. Where fiscal policy is concerned, the pre- and post-tax Gini coefficient reveals a minimal redistributive impact, and in some cases an actual increase in inequality; evidence that fiscal policy has not been progressive enough and still faces very considerable redistribution challenges. These challenges are plain to see in table III.1, and in the fact that the population in the top three deciles captures over half of all income in all the subregion's countries (see figure III.1). The concentration of income and wealth is a serious problem in Latin America and the Caribbean; in fact, it is the world's most unequal region.

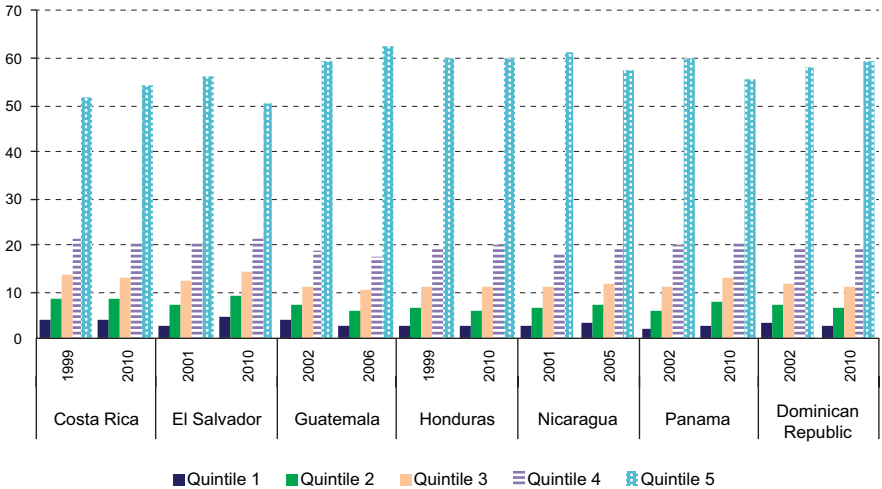
Table III.1
Central America and the Dominican Republic: inequality indicators, Gini coefficient and ratio between average per capita income in the top decile and the average for deciles 1 to 4, 1990-2010

Country	Year	$D^{10}/D^{(1\ to\ 4)}$ [a]	Gini
Panama	1991	16.8	n/a
	2010	14.4	0.519
Dominican Republic	2002	17.8	0.537
	2010	20.1	0.554
Costa Rica	1990	10.1	0.438
	2009	14.8	0.501
Guatemala	1989	23.6	0.582
	2006	22	0.585
Honduras	1990	27.4	0.615
	2010	20.7	0.567
Nicaragua	1993	26.1	0.582
	2005	17.2	0.532
El Salvador	1995	14.1	0.507
	2010	10.3	0.454

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of the respective countries' household surveys.

[a] $D^{(1\ to\ 4)}$ represents the 40% of households with lowest income, while D10 represents the highest-income 10%.

Figure III.1
Central America and the Dominican Republic: national income share by quintile, 1990-2010
(Percentages of the total)

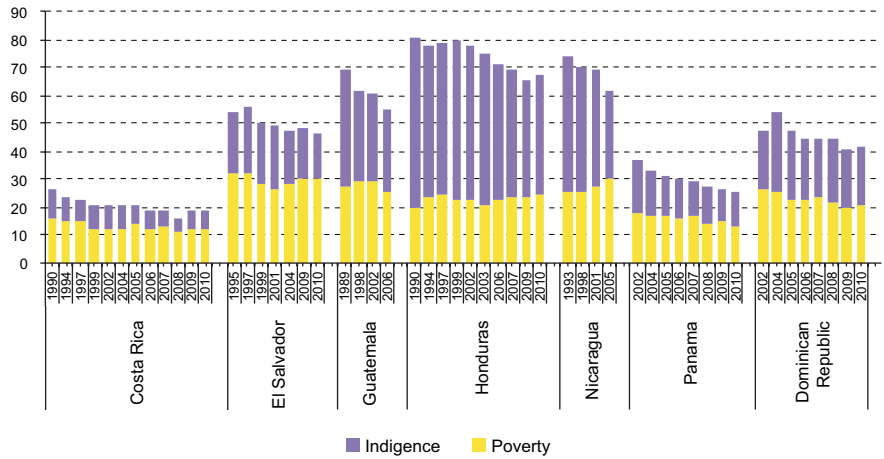


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of the respective countries' household surveys.

The goal of social policy in the subregion in recent years has been the reduction of poverty through targeted interventions, via conditional transfer programmes.[1] For over a decade, the implementation of such programmes, in a context of economic recovery and social policy reform, has gradually helped to reduce the incidence of poverty and improve health and education indicators, especially in rural areas. Nonetheless, these programmes have failed to make any significant impact on working conditions, whether in terms of employment quality or earnings. Despite the favourable effect of social programmes and the economic upturn, reducing the poverty that affects a huge proportion of the population remains a major challenge for the subregion. Between 1990 and 2010, the best results were achieved in Honduras, where poverty fell by 15 percentage points. However, a majority of its population are still poor.

[1] *Avancemos* ("Forward") in Costa Rica, with a history going back to 2000; *Programa Solidaridad* ("Solidarity Programme") in the Dominican Republic, since 2005; *Comunidades Solidarias* ("Solidarity in Communities") in El Salvador, since 2005; the *Mi Bono Seguro* voucher programme in Guatemala, with a history going back to 2007, changing to *Mi Familia Progresa* ("My Family Is Progressing") in 2009; the *Bono 10.000* voucher programme for education, health and nutrition in Honduras, with a history going back to 1990; *Red de Oportunidades* ("Opportunities Network") in Panama, since 2005; in Nicaragua, initiatives of this type have existed since 2005.

Figure III.2
Central America and the Dominican Republic: poor and indigent population, 1989-2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of the respective countries' household surveys.

An array of economic factors, including labour market segmentation, productive heterogeneity, weak fiscal revenues, tax systems with scant or no progressive impact on income distribution, and meagre public spending limit the achievements of social policy in reducing poverty and inequality. The first two factors are analysed in the following sections.

B. The heterogeneity of employment

The segmentation of labour markets is a determinant of inequality. It separates out the working-age population from different socioeconomic strata in terms of the assets available to them, the kinds of jobs they can aspire to, and the incomes and the social protection and security that come with them. These differences affect the economic well-being of the population and undermine social cohesion. The existence of segmented markets in the region is attributable, first, to sociodemographic factors and, second, to the links between the dynamic of the labour market and the production transformation processes which, in combination, impact economic and social development.

Labour market segmentation due to demographic factors contributes significantly to inequality, as can be seen by analysing the behaviour of this market separately for women, young people and other groups in society

that face major obstacles to securing favourable employment conditions. The particular difficulties young people face in obtaining formal jobs with adequate wages, good working conditions and high productivity may lead to the demographic dividend being wasted. Making good use of this dividend is a part, and perhaps an essential part, of the effort to increase the long-term social well-being of our societies and the total income of families. Given that most of the Central American countries have yet to enter this demographic stage, a unique opportunity will arise in future to expand the subregion's economic potential by designing employment policies that foster the incorporation of young people into the labour market with good quality jobs, adequate pay and social protection.

Table III.2
Central America and the Dominican Republic: dependency ratios and the demographic dividend, 2000-2050 [a]

Country	2000	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050
Panama	0.373	0.363	0.356	0.347	0.340	0.339	0.342	0.348	0.353	0.355	0.357
Dominican Republic	0.396	0.390	0.381	0.371	0.363	0.359	0.357	0.355	0.352	0.350	0.349
Costa Rica	0.371	0.341	0.321	0.311	0.310	0.316	0.327	0.336	0.341	0.351	0.366
Guatemala	0.481	0.474	0.459	0.441	0.419	0.395	0.372	0.352	0.335	0.323	0.316
Honduras	0.463	0.439	0.411	0.388	0.371	0.355	0.340	0.327	0.317	0.315	0.320
Nicaragua	0.445	0.418	0.389	0.369	0.359	0.349	0.338	0.331	0.329	0.332	0.340
El Salvador	0.406	0.393	0.375	0.359	0.345	0.335	0.327	0.326	0.332	0.342	0.346

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of demographic projections by the Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, 2012.

[a] The table shows the ratio between the number of inhabitants who are not of working age (those under 15 and over 64) and the total population. Where the dependency ratio is above 0.400 and declining, the background is left unshaded. Light grey shading indicates a ratio of below 0.400 and declining. In the remaining boxes, to the right of the table, the ratio is below 0.400 but rising.

By analysing the dynamics of both demographic and migratory factors, it is possible to quantify the job creation needs of Central America and the Dominican Republic. We put forward two different calculations: the needs identified between 1990 and 2011 and estimates of their expected evolution between 2010 and 2020. Table III.3 shows the relationship between employment and population, as well as the average annual rate of growth in the working-age population between 1990 and 2010 in each of the subregion's countries. As can be seen, working-age population growth over those 20 years was heterogeneous in the region. Guatemala, Costa Rica and Honduras recorded the highest average rates of labour force expansion in those two decades, at close to or above 3% a year. The slowest growth was in El Salvador (1.4%), partly as a result of high emigration. If the departure of nationals from the country continues at the same rate, internal

pressure to generate jobs in the labour market will remain less strong than in other countries of the subregion where migration is not as intensive. A similar demographic process is taking place in the Dominican Republic, where labour force growth rates were also relatively low in the period, as emigration abroad was likewise considerable. In Nicaragua, there is strong emigration to Costa Rica.

Table III.3
Central America and the Dominican Republic: employment to population ratio and average annual growth in the working-age population, 1990-2010
(Percentages)

Ratio of employment to population	1990	2000	2010
Panama	47.8	54.0	59.4
Dominican Republic	44.3	54.6	63.3
Costa Rica	47.7	54.8	54.8
Guatemala	n/a	64.2	59.2
Honduras	45.5	54.3	59.2
Nicaragua	44.4	46.7	66.6
El Salvador	47.1	55.9	58.1
Population of working age (16 to 64), both sexes	1990-2010	1990-2000	2000-2010
Panama	2.3	2.5	2.0
Dominican Republic	2.1	2.2	1.9
Costa Rica	2.9	3.1	2.6
Guatemala	2.7	2.5	2.9
Honduras	3.0	2.9	3.0
Nicaragua	2.6	3.0	2.3
El Salvador	1.4	1.5	1.3

Source: Authors' estimates based on data from the Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC.

According to the findings, the labour market developed favourably in terms of job creation in each of the subregion's countries between 1990 and 2010 and responded to the needs resulting from the rise in the working-age population. According to the figures, and excluding Guatemala, for which no comparable data are available in the starting year, the employment to population ratio generally rose over these 20 years, suggesting that employment grew on average at least as fast as the working-age population. It remains to be verified whether developments were equally positive as regards earnings, informal working and social protection.

Projections of average annual growth in the number of jobs required in each country to cope with the increase in the economically active

population (EAP) in 2010-2020 are presented in table III.4.[2] The results indicate that, generally speaking, job creation will have to increase at an annual rate of between 2% and 3% in the near future just to avoid rising unemployment and labour market pressures. If the annual employment growth rates for 2000-2010 as estimated in table III.3 are maintained, labour market conditions in Costa Rica, El Salvador, Guatemala and Honduras will deteriorate because not enough new jobs will be created to cater for the burgeoning workforce. In Nicaragua, Panama and the Dominican Republic, on the other hand, the outlook would be very favourable.

Table III.4
Central America and the Dominican Republic: projected number of new jobs required each year between 2010 and 2020 [a]
(Percentages)

Country	Distribution	Share of national employment
Panamá	6.0	2.1
República Dominicana	14.7	2.1
Costa Rica	8.2	3.0
Guatemala	29.2	2.8
Honduras	20.2	3.1
Nicaragua	9.2	1.9
El Salvador	9.2	2.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of demographic projections by the Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, and EAP participation rates.

[a] The percentage distribution between the countries of the subregion adds up to 100%.

As noted, women's labour market participation has increased in recent years, creating the challenge of bringing them into high-quality jobs. According to the projections, in the near future an increasing share of the new jobs will be required by women (see table III.5). This obviously means that a key aim in the inclusive development agenda must be to strengthen women's economic and social rights and their employment in high-quality jobs on an equal footing with men. To achieve this, the State

[2] The number of jobs required annually by each country is estimated after obtaining the annual growth of the population aged over 15 from the demographic projections of CELADE-Population Division of ECLAC and applying to these projections the participation rate by sex estimated by the International Labour Organization (ILO). This methodology takes account of the demographic transition and migration flows, which CELADE considered when constructing its demographic projections. Account is also taken of the differential impact of the rise in female participation by including the projections for this prepared by ILO.

must play a strong role by mainstreaming the gender perspective in the design and implementation of public policies through legislation and institutional development, thereby removing barriers in different areas or spheres of action, such as those between cities and the countryside. This calls for political will and greater resources to raise awareness of gender equality issues in the different spheres of decision-making, both public and private, but especially in the labour market. One of the most important things that can be done to move forward with this agenda is to implement public policies in support of childcare.

Table III.5
Central America and the Dominican Republic: shares of new jobs that will be required by women
(Percentages)

Country	Between 2010 and 2015	Between 2015 and 2020
Panama	41.4	44.3
Dominican Republic	38.6	42.4
Costa Rica	38.4	42.8
Guatemala	32.0	33.3
Honduras	40.2	41.7
Nicaragua	30.3	30.8
El Salvador	42.6	45.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of demographic projections by the Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC.

The empirical evidence underlines the subregion's need to implement or enhance employment and universal social protection strategies, based on social and economic considerations in each country, that foster both a more progressive income distribution and the absorption of the EAP into high-quality jobs commensurate with productive transformation needs. Since 1990, GDP growth has been accompanied by heterogeneous trends in employment and productivity in the different countries (see table III.6). The association between these variables has been fairly stable at the national level, albeit with some differences in employment-output elasticity ratios. Costa Rica, El Salvador, Panama and the Dominican Republic have elasticities of about 0.5, i.e., both employment and labour productivity have tended to grow by half a percentage point for each percentage point increase in GDP. Elasticity in the other countries has been less stable and much higher in some years, indicating a need to adopt special measures to correct lagging productivity without undermining high-quality employment growth.

Table III.6
Central America and the Dominican Republic: growth, employment and productivity, 1990-2011

Country/period	Annual growth rates		Employment-output elasticity	Productivity *(thousands of constant 2005 dollars per worker)*
	GDP	Employment		
Panama				
1990-2000	5.1	3.0	0.6	10.7
2000-2011	6.7	2.9	0.4	13.0
1990-2011	5.9	2.9	0.5	11.8
Dominican Republic				
1990-2000	6.1	3.2	0.5	7.5
2000-2011	5.2	2.5	0.5	10.9
1990-2011	5.6	2.8	0.5	9.6
Costa Rica				
1990-2000	5.2	3.6	0.7	10.9
2000-2011	4.3	2.9	0.7	11.8
1990-2011	4.7	3.2	0.7	11.4
Guatemala				
1990-2000	4.1	5.2	1.3	6.2
2000-2011	3.4	3.1	0.9	4.7
1990-2011	3.7	4.0	1.1	6.0
Honduras				
1990-2000	3.3	5.1	1.6	3.6
2000-2011	4.0	4.0	1.0	3.3
1990-2011	3.7	4.5	1.2	3.5
Nicaragua				
1990-2000	3.4	3.1	0.9	2.6
2000-2011	3.1	5.2	1.7	2.4
1990-2011	3.2	4.2	1.3	2.5
El Salvador				
1990-2000	4.6	2.4	0.5	6.4
2000-2011	1.8	0.9	0.5	7.8
1990-2011	3.2	1.6	0.5	7.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

One of the main effects of the international crisis on the subregion's labour market was that decline in employment. In 2009 it fell in all the countries except Costa Rica, Honduras and Panama, before recovering

in 2010-2011 (see table III.7). By 2011, no country but Panama had brought unemployment back down to its 2008 level. The subregional employment rate was 56.1% in 2011 —almost a percentage point above the previous year's and actually higher than before the 2008-2009 crisis. The unemployment rate dropped to 6.7% in 2011, its best performance since the mid-1990s. At the regional level, however, there were marked differences in the behaviour of some labour market variables. On average, for example, the unemployment rate in South America fell by 0.6 percentage points between 2010 and 2011, while in Central America and Mexico the decline was 0.4 points (ECLAC-ILO, 2012). This was due, among other factors, to differences in their economic dynamism, demographic aspects, productive specialization, links with the global economy and the workings of labour market institutions.

In this period, average real wages in the countries for which information is available (Costa Rica, El Salvador, Guatemala, Nicaragua and Panama) dropped in 2008 but then recovered in 2009 and 2010 to a level higher than that of 2007 (see table III.7). This indicates that the crisis affected employment volumes and real wages differently. At the time, the goal of anti-crisis measures was to prevent lay-offs by cutting the wages or working day of employed workers. Consequently, it is urgent for the countries of the subregion to design countercyclical public policy strategies to reduce the impact of an external crisis on the labour market, for example through a system of unemployment benefits and the implementation of a universal social protection scheme not linked to formal employment.

C. Productive heterogeneity

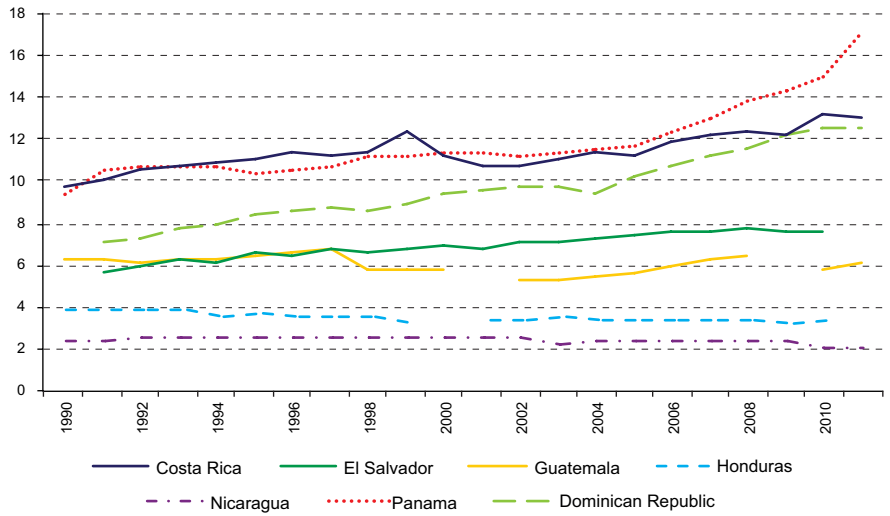
One of the features of the degree of heterogeneity is the evolution of productivity. In Honduras, Nicaragua and Guatemala, average labour productivity fell in real terms from 1990 to 2010. By then, their average output per worker (in 2000 dollars) was somewhere between half and a third of that in the other countries of the subregion. Unless the situation is remedied, these economies' international competitiveness will be jeopardized and they will struggle to offer earnings and wages to adequately meet the basic needs of the population. Panama, meanwhile, belongs to the group of higher-productivity countries, which reflects its greater dynamism over those years. The challenges of low productivity in Central America look even greater when we take into account productivity growth internationally. Between 2002 and 2010, for example, productivity in Sub-Saharan Africa and East Asia (not including Japan and the Republic of Korea) rose by 2.1% and 8.3% a year, respectively.

Table III.7
Central America and the Dominican Republic: selected labour market indicators, 2007-2011

Country/period	Annual growth rates		Employment-output elasticity	Unemployment (annual rates)	Average real wages (index values: 2000=100)
	GDP	Employment			
Panama					
2007	12.1	5.1	0.42	7.8	96.5
2008	10.1	3.6	0.36	6.5	92.5
2009	3.9	1.2	0.31	7.9	95.0
2010	7.6	2.5	0.33	7.7	96.8
2011	10.6	-2.9	-0.27	5.4	n.a.[a]
Dominican Republic					
2007	8.5	3.0	0.35	5.0	n.a.
2008	5.3	2.6	0.49	4.7	n.a.
2009	3.5	-1.5	-0.43	5.3	n.a.
2010	7.8	4.4	0.56	5.0	n.a.
2011	4.5	4.3	0.96	5.8	n.a.
Costa Rica					
2007	7.9	5.2	0.66	4.8	103.8
2008	2.7	1.7	0.63	4.8	101.7
2009	-1.0	0.3	-0.30	8.5	109.5
2010	4.7	-3.1	-0.66	7.1	111.8
2011	4.2	4.6	1.09	7.7	n.a.
Guatemala					
2007	6.3	0.1	0.01	n.a.	91.4
2008	3.3	0.1	0.02	n.a.	89.0
2009	0.5	n.a.	n.a.	n.a.	89.1
2010	2.9	n.a.	n.a.	4.8	91.6
2011	3.9	0.6	0.15	3.1	n.a.
Honduras					
2007	6.2	5.1	0.82	4.0	n.a.
2008	4.2	3.8	0.90	4.1	n.a.
2009	-2.1	2.9	-1.38	4.9	n.a.
2010	2.8	2.0	0.71	6.4	n.a.
2011	3.2	n.a.	n.a.	6.8	n.a.
Nicaragua					
2007	3.6	1.4	0.39	6.9	104.0
2008	2.8	4.3	1.53	8.0	100.2
2009	-1.5	-3.3	2.20	10.5	106.0
2010	4.5	n.a.	n.a.	9.7	107.4
2011	4.7	n.a.	n.a.	n.a.	n.a.
El Salvador					
2007	3.8	3.7	0.97	5.8	86.4
2008	1.3	n.a.	n.a.	5.5	83.7
2009	-3.1	-2.2	0.71	7.1	86.6
2010	1.4	1.4	1.00	6.8	87.5
2011	1.5	n.a.	n.a.	7.1	n.a.

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] n/a indicates that the preliminary elasticity figures are not robust.

Figure III.3
Central America and the Dominican Republic: labour productivity, 1990-2010
(Thousands of constant 2005 dollars per employed worker)

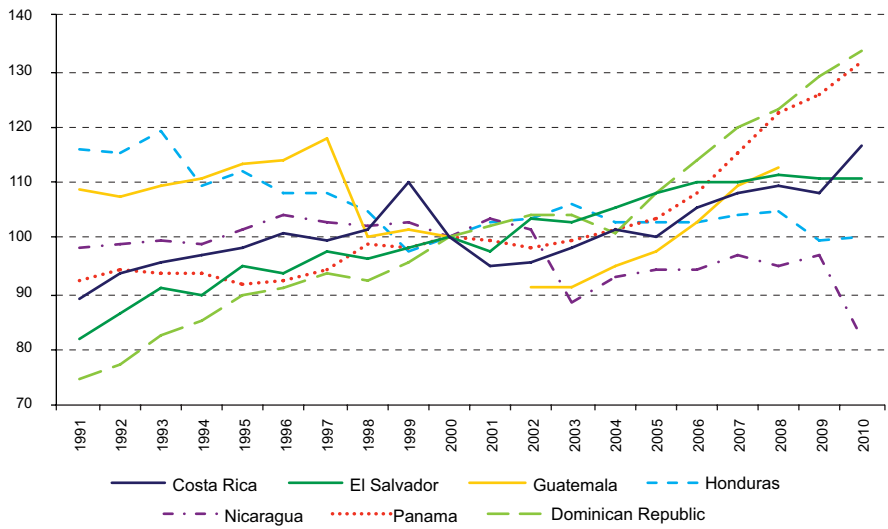


Source: Costa Rica: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the Department of Statistics and Censuses, Ministry of National Planning and Economic Policy (MIDEPLAN). El Salvador: ECLAC, on the basis of figures from the Department of Statistics and Censuses, Multipurpose Household Survey, 1998 and 2002, and International Labour Organization (ILO), Key Indicators of the Labour Market (KILM) database. Guatemala: ECLAC, on the basis of Ministry of Labour and Social Provision and National Institute of Statistics (INE). Honduras: ECLAC, on the basis of CEPALSTAT, using data on the economically active population (EAP) and the unemployment rate. Nicaragua: from 1990 to 2002, ECLAC, on the basis of CEPALSTAT, with data on the EAP and the unemployment rate, and from 2003 to 2011 on the basis of figures from the National Institute of Statistics and Censuses (INEC) and Ministry of Labour household surveys for measuring urban employment. Panama: ECLAC, on the basis of The Economist Intelligence Unit, with data on the EAP and unemployment rate. Dominican Republic: ECLAC, on the basis of CEPALSTAT, with data on the EAP and the unemployment rate.

Production heterogeneity can be identified both between countries and within national economies. It is reflected in a labour market that is segmented for the economic and the demographic reasons already described. In Central America and the Dominican Republic, as in Latin America generally (see ECLAC, 2012c), there are differences in productivity between firms, strata and branches of economic activity. These microeconomic differences are associated with unequal access to the benefits, to the transmission channels of technical progress and innovation, and to capital, skilled labour and financial resources. At the macroeconomic level, meanwhile, lagging productivity is associated with lack of investment and the resultant weakness of the productive transformation process. In other words, knowledge-intensive sectors did not grow at high and sustainable rates. If they do not absorb enough labour from other sectors, employment in ill-paid low-productivity informal

activities without social protection tends to expand. Lack of investment and financing, slow economic growth, incomplete transformation of the production structure and the ensuing productivity lag combine in vicious circles whose consequences are poor growth and limited economic and social development and scant progress on poverty reduction.[3]

Figure III.4
Central America and the Dominican Republic: labour productivity, 1991-2011
(Index values: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), CEPALSTAT database.

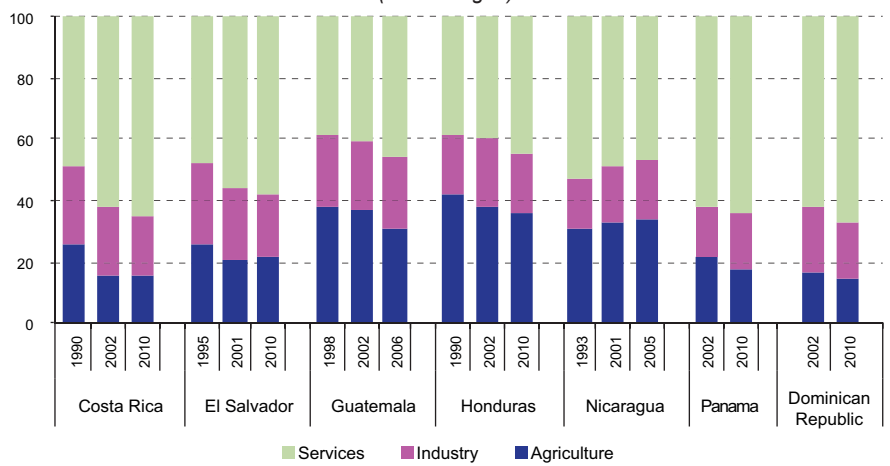
Market segmentation is reflected in the composition of the working population by branch of economic activity. The service sector accounts for the largest share in all seven economies. Other than in Nicaragua, its growth offset the sharp decline in the employment share of agricultural activities.[4] The countries with the largest shares of employment in the service sector in 2010 were the Dominican Republic (67%), Costa Rica (65%) and Panama (63%). The employment share of the industrial sector is not homogeneous across the subregion, although it has held fairly steady in each country. According to the most recent information, the figure is between 18% and 21% of the working population. Differences between Central American countries in the employment share of the agricultural

[3] See Ros (2011) for an analysis of the evolution of labour productivity in Latin America from this perspective.

[4] Chapter IV presents a more in-depth analysis of structural change and its sectoral expressions in both production and employment.

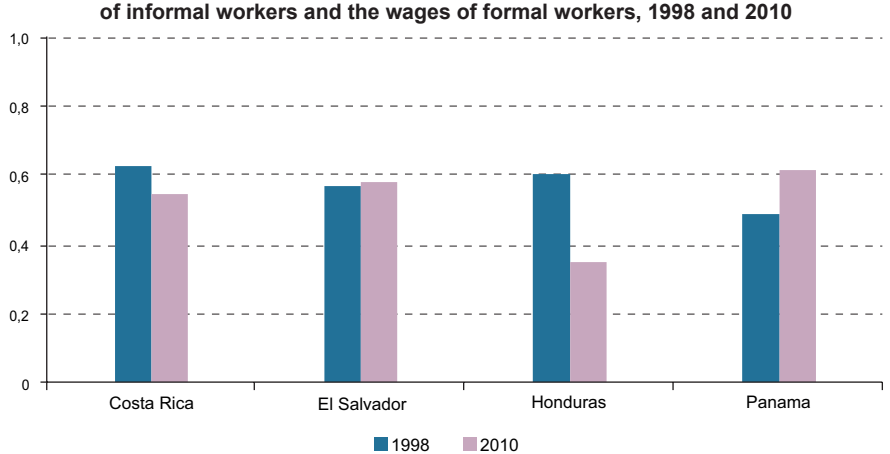
sector are much greater. Whereas this sector absorbed between 14% and 15% of workers in the Dominican Republic and Costa Rica, in Honduras, Nicaragua and Guatemala the figures were 36%, 32% and 30%, respectively. The only country showing an increase in the share of agricultural workers was Nicaragua (see figure III.6).

Figure III.5
Central America and the Dominican Republic: structure of the working population by sector of economic activity, 1990-2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Figure III.6
Central America (selected countries): ratios between the average earnings of informal workers and the wages of formal workers, 1998 and 2010



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of the respective countries' household surveys.

D. Employment quality, informality and exclusion

Employment heterogeneity is acutely manifested in informality and in differentiated access to social security and protection systems. Timely and dependable access to these systems, at prices that are affordable in relation to earnings, is an important feature of high-quality jobs. Currently, the absence of a universal system of social protection means that such access is closely tied to possession of a formal job, which acts as a mechanism of exclusion and therefore perpetuates poverty.

In Central America and the Dominican Republic, the share of wage-earners (formal) in total employment hardly changed between 1990 and 2010. In that period, formal employment with social security coverage expanded as a share of total employment in some countries (see table III.8). It grew most in Costa Rica and El Salvador and, to a lesser extent, in Panama. In terms of levels, two groups can be distinguished. In the first, comprising Costa Rica, El Salvador and Panama, wage-earners cover two thirds of employment. In the second, comprising the rest, the proportion was about 50%.

In the subregion, as elsewhere in the world, people working in the formal labour market generally earn more and have better employment conditions. The data reveal a rather heterogeneous evolution when the earnings of the two groups, the formal and the informal, are compared across selected countries of the subregion (see figure III.7). In Honduras, for example, the gap between the pay level of informal and formal workers almost doubled between 1998 and 2010, whereas in Panama and, to a lesser extent, El Salvador, the earnings difference narrowed.

Table III.8
Central America and the Dominican Republic: formal employment, 1990-2010
(Wage workers as percentages of the total)

Country	1990	1997	2002	2010
Panama	66.3	67.9	65.0	68.6
Dominican Republic	n/a	56.4	54.1	51.8
Costa Rica	73.6	71.9	70.3	77.4
Guatemala	57.4	n/a	54.8	n/a
Honduras	55.5	52.5	52.4	49.3
Nicaragua	n/a	62.1	59.7	n/a
El Salvador	n/a	61.7	65.7	67.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of the respective countries' household surveys.

The informal sector is characterized by low productivity and earnings and low-skilled labour. In the subregion, workers in the informal sector have considerably fewer years of education than those in the formal sector. In Costa Rica, El Salvador and Panama, the education gap between the two types of workers narrowed between 1998 and 2000, while in Honduras and the Dominican Republic it widened. In any event, the education divide (in terms of years spent in the school system), at over four years, was very large. The outlier was Costa Rica, where the average gap was 2.7 years.

Table III.9
Central America (selected countries): formal and informal workers' years of education, 1998 and 2010

Country	1998		2010		Years' difference between formal and informal	
	Formal	Informal	Formal	Informal	1998	2010
Panama	11.6	7.0	12.2	7.9	4.6	4.3
Dominican Republic	8.7	5.7	11.1	6.9	3.0	4.2
Costa Rica	9.3	6.4	9.8	7.1	2.9	2.7
Honduras	7.9	4.0	9.6	4.8	3.9	4.8
El Salvador	8.7	4.4	10.3	5.9	4.3	4.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of the respective countries' household surveys.

This situation confirms that, although the number of jobs created over the two decades seem to have adequately met demand, many of them were of worryingly poor quality. The data show that the gaps between formal and informal employment have not tended to narrow and that the inequalities derived from these gaps as a result of the low pay associated with informal jobs and their lack of access both to social benefits and, in particular, social protection have not displayed a positive trend either.

All this poses a public policy challenge for the subregion where employment and social protection are concerned. One way of dealing with it, along the lines of what has been called "flexicurity", is to increase workers' ability to perform multiple tasks in different branches of economic activity and at the same time provide them with levels of social protection that reduce vulnerability and its social cost. This requires the implementation of reforms to facilitate worker participation and mobility in the formal market (flexibility) while at the same time putting in place universal social protection systems to ensure basic levels of well-being (security) (Tokman, 2007). In the same vein, another initiative worth considering is the introduction of institutional reforms to separate social security and protection from participation in the formal labour market,

without detriment to quality or to timely access to the services concerned. Needless to say, this is inseparably linked to the scope for strengthening the fiscal covenant in each country to increase tax revenues, improve the efficiency of government spending and raise public investment in order to remove the main obstacles that block the subregion's path to sustainable development with equality.

E. Employment institutions and heterogeneity

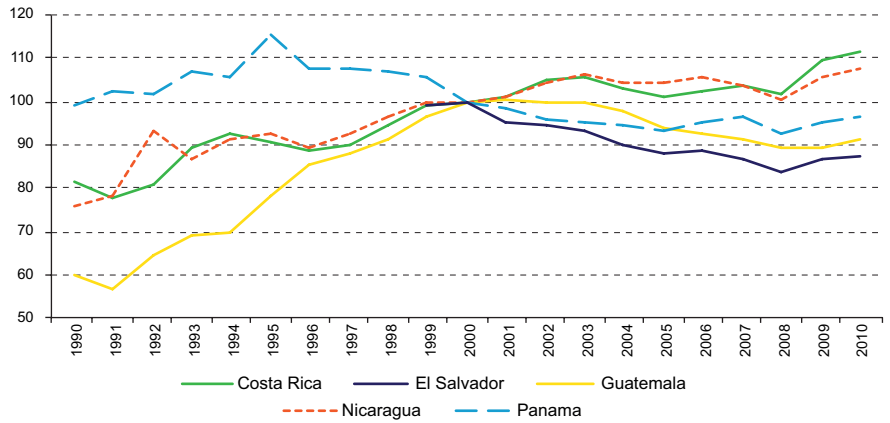
Employment segmentation and heterogeneity affects Central America's development and equality via the link between structural change, employment quality and the evolution of real wages. In Costa Rica, Nicaragua and Guatemala, average real wages have increased over the past two decades. In Panama and El Salvador, conversely, they have declined, even though income distribution across quintiles has improved in both countries. In Costa Rica and Nicaragua, meanwhile, steady growth in average real wages has not been associated with better distribution of income by quintile. Of course, other factors besides wages, in particular tax revenues and transfer programmes, affect income distribution.

Table III.10
Central America (selected countries): average annual growth rate of average real wages
(Percentages)

Country	Growth rate
Panama	
1990-2000	0.1
2000-2011	-0.3
1990-2011	-0.1
Costa Rica	
1990-2000	2.1
2000-2011	1.1
1990-2011	1.6
Guatemala	
1990-2000	5.2
2000-2011	-0.9
1990-2011	2.1
El Salvador	
1990-2000	n/a
2000-2011	-1.3
1990-2011	n/a

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

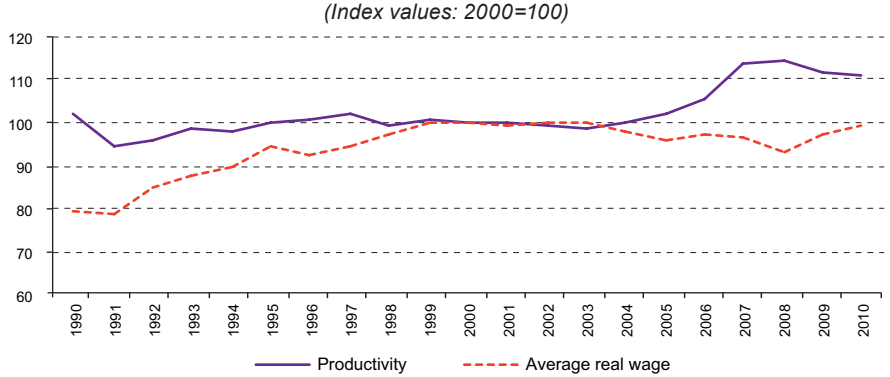
Figure III.7
Central America (selected countries): average real wages, 1990-2010
(Index values: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

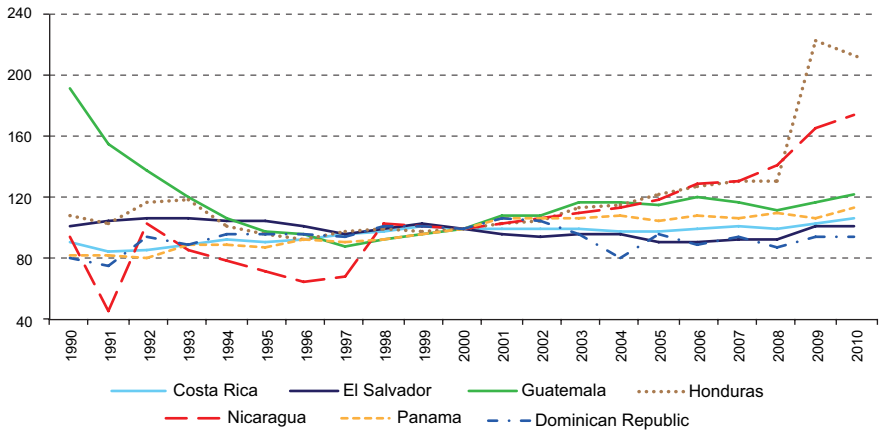
At the subregional level, the decline in average real wages from 2003 to 2010 coincided with an increase in labour productivity. The comparative evolution of the two differed greatly in the three key subperiods: 1990-1998, 1998-2003 and 2003-2010. In the first, on average real wages rose more quickly than labour productivity, implying some pressure on business earnings. In the second, both variables grew at a similar pace. In the third, the gap opened up from 2003-2004 before apparently starting to narrow in 2009-2010 (see figure III.9).

Figure III.8
Central America and the Dominican Republic: labour productivity and the average real wage, 1990-2010
(Index values: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Figure III.9
Central America and the Dominican Republic: real minimum wages, 1990-2010
(Index values: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

The differences in the levels and evolution of real wages are partly due to the structural heterogeneity of the subregion's economies, where sectors with very different levels of productivity coexist. This duality can result in large disparities and divergences in real wages, which in turn can feed back into employment segmentation and deterioration of job quality. It should also be recognized that real wages can be affected by the evolution of the real exchange rate, by demand pressures in the labour market and by collective bargaining.

Inclusive labour institutions would facilitate the implementation of mechanisms to protect wages and employment-related benefits. Minimum wages can act as an important safeguard for the most vulnerable by setting an earnings floor for workers in the least-skilled, most vulnerable strata, thereby helping to reduce poverty and inequality. Their implementation must take into account macroeconomic conditions in different spheres, including their effects on inflation, the public finances and domestic demand. When wages lag considerably relative to productivity, the result tends to be a spurious competitiveness that condemns the economy to operate in niches with little value added and low wages, thereby delaying improvements in workers' living standards. On the other hand, wage increases that systematically outstrip productivity gains can undermine the sustainability of firms and deprive them of the resources they need to invest and compete (ILO, 2011).

After a number of years in which wage policy was subordinated to anti-inflation policy, a number of countries in the subregion implemented

minimum wage policies to enhance the purchasing power of low-income households (ECLAC, 2010). In the last half-decade, on average there has been a tendency for real minimum wages to rise, most strongly in Nicaragua and Honduras.[5] Elsewhere, they have held steady (Guerrero, 2009).[6]

Our institutional analysis shows that, in general, nominal minimal wages in the subregion have been set essentially by the State (see box III.1). This is done in negotiations with employers or unilaterally in the light of different considerations, chief among them being the basic needs line and the effects on inflation. The key principle of employment legislation is that workers should be guaranteed a basic minimum of economic security; in practice, however, this has not been the case. Another aspect highlighted by our analysis is the heterogeneity of wage revision processes, in terms of coverage and frequency. As with all policies, there is no "best practice" for setting minimum wages that should be applied in any country at any time.

It is important to strengthen inspection mechanisms to ensure that the official minimum wage is applied and that firms failing to apply it are firmly and significantly penalized by law. For this, as with the other points, there need to be more solid labour market institutions capable of extending their scope to alternative employment policies (Bensusán and Moreno-Brid, 2012). Having effective and legitimate labour market institutions is essential to ensure better conditions of employment. Aspects such as a lack of proper regulation of markets and of their competition mechanisms and the weakening of labour institutions have tended to impair employment conditions, foster informality and hinder improvements in labour productivity, in earnings and in proper access to social protection.

Labour institutions in the subregion changed greatly after the economic crises of the 1980s. The reforms implemented at that time sought to bring greater flexibility to labour markets (by allowing temporary hiring and reducing redundancy payments, inter alia), which in turn weakened workers' rights. The debate on labour market reform has become central to the development agenda in the subregion. Here it must be recognized that workers' rights, including the right to organize freely and democratically, and effective implementation of these largely depend on the existence of market regulation institutions that do influence conditions of employment.

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[5] In 2009, the Honduran Government increased the nominal minimum wage from 3,400 lempiras to 5,500 lempiras a month on average.

[6] One point to be considered is that increases in nominal minimum wages are based on estimates of expected inflation that are not always borne out. When future inflation is overestimated (underestimated), the minimum wage increases (decreases) in real terms, with all the ensuing differential effects on aggregate domestic demand, competitiveness and employment (ILO, 2011).

F. Final considerations concerning the labour market

Between 1990 and 2010, employment growth in the subregion was generally strong enough to absorb the expansion of the working age population, as the evolution of the ratio of employment to population suggests. However, in the recent decade, 2000-2010, the challenges were greater. Furthermore, labour market participation and access to social protection are still affected by critical inequalities that need to be eliminated. Employment segmentation, attributable both to demographic factors and to economic and social ones, has created widening divides in working conditions, earnings and well-being. Some sectors of society are overrepresented, so to speak, in the population that is unemployed, underemployed or working under very unfavourable conditions, while productive convergence is not taking place with the necessary vigour. Since 2010, the subregion's countries have succeeded in keeping unemployment below 8%. However, the incidence of informality is a cause for concern. There can be no doubt that creating high-quality jobs and further lowering rates of underemployment, informality and unemployment is a major challenge. To deal with it, the region needs to change its role in the global economy so that it is able to compete on a basis of greater value added, innovation and technological know-how that will bring about better jobs, higher wages and improved employment conditions.. The creation of decent jobs, quite apart from their importance in terms of monetary earnings and social protection, is the route whereby people can cultivate, increase and consolidate their sense of social and community belonging "in that they perceive themselves contributing to collective progress and forming part of a system consisting of contributions and compensations" (ECLAC, 2008).

Continuing vigorous creation of jobs that are of high quality in terms of pay, productivity and social protection must be the goal. The strategy for achieving this needs to start with efforts to propel structural change by implementing an industrial policy associated with macroeconomic and science and technology policies that spur investment. For this, labour institutions need to be strengthened to create the conditions for workers from different strata to participate on a better footing in the labour market and benefit more equitably from productivity improvements. As part of this same effort, there is a need for active State policies to foster productive transformation and nurture workforce quality and skills, together with more inclusive social policies. Without this, it is impossible to close the inequality, poverty and exclusion divides that affect our populations.

Box III.1

Central America and the Dominican Republic: selected aspects of minimum wages

Country and legislation	Definition	Wage-setting organizations	Time unit	Coverage	Frequency of review	Minimum wage-setting procedure and criteria	Most recent change as of December 2011
Costa Rica Labour Code of 1943	All workers are entitled to a minimum wage adequate to cover the normal material, moral and cultural needs of their households, which will be set periodically after consideration of the circumstances of each job and the particular conditions of each region and each intellectual, industrial, commercial or agricultural activity (Art. 177 of the Labour Code).	National Wage Council, with nine directing members appointed by the executive and distributed as follows: three representatives of the State, three of employers and three of workers.	Daily and monthly.	There are three wage types: general, sectoral and occupational.	The basic criteria are the cost of living, economic development and inflation.	The minimum wage is adjusted each year before 1 November.	In July 2010, the National Wage Council decreed a minimum wage increase of 4.2% for unskilled, semi-skilled, skilled, general unskilled and general skilled workers and 3.9% for all other occupations.

Box III.1 (continued)

Country and legislation	Definition	Wage-setting organizations	Time unit	Coverage	Frequency of review	Minimum wage-setting procedure and criteria	Most recent change as of December 2011
El Salvador Labour Code of 1972	All workers are entitled to a minimum wage adequate to cover the normal material, moral and cultural needs of their households, which will be set periodically (Art. 144 of the Labour Code). In setting it, particular consideration is given to the cost of living, the nature of the work, the different systems of pay, the different zones of production and other similar criteria (Art. 145 of the Labour Code). It will be reviewed every three years (Art. 159 of the Labour Code).	The National Minimum Wage Council comprises three representatives of the Government, two of workers and two of employers. The National Council for Economic Planning and Coordination most give its opinion for the minimum wage to be adjusted.	Hourly, daily and monthly.	Minimum wage by sector. The minimum wage may vary with the type of tasks performed.	The basic criteria are the cost of living, economic development and inflation.	The minimum wage must be adjusted at least once every three years.	The latest increase has been in force since 1 January 2009.

Box III.1 (continued)

Country and legislation	Definition	Wage-setting organizations	Time unit	Coverage	Frequency of review	Minimum wage-setting procedure and criteria	Most recent change as of December 2011
Guatemala Labour Code of 1995	It must be set periodically after consideration of the circumstances of each job, the particular conditions in each region and employers' prospects in each intellectual, industrial, commercial or agricultural activity. Account must also be taken of whether wages are paid by unit of time or work done or as a share of the employer's profits, sales or receipts, with the necessary measures first being taken to ensure that workers earning on a piecework or flat rate basis or by the job or task are not disadvantaged (Art. 103 of the Labour Code).	Joint Minimum Wage Commissions and the National Wage Commission. Each joint commission is made up of a minimum of two employers, two workers and a labour inspector.	Hourly and daily.	The minimum wage is set separately for rural and urban sectors and by occupation.	According to the needs of workers and their families, the cost of living, the employment level and the ability of employers to pay.	The minimum wage must be adjusted every year.	President Álvaro Colom decreed an increase in the minimum wage of between 13.75% and 14.88% for farm workers, the non-agricultural sector and the textile industry, and this came into force on 1 January 2011.

Box III.1 (continued)

Country and legislation	Definition	Wage-setting organizations	Time unit	Coverage	Frequency of review	Minimum wage-setting procedure and criteria	Most recent change as of December 2011
Honduras Labour Code of 1959	All workers are entitled to a wage adequate to cover their and their families' normal material, moral and cultural needs (Art. 381 of the Labour Code). In setting it, account must be taken of the circumstances of each job, workers' particular living conditions and aptitudes and companies' systems of pay, as well as any benefits employers provide to their workers in the form of housing and food and any other circumstances that reduce the cost of living (Art. 283 of the Labour Code).	The National Wage Commission is a tripartite institution made up of three representatives of the Government, three of employers and three of workers. Should the Commission fail to reach an agreement in the time allowed, the executive has the authority to increase the minimum wage.	Daily.	The minimum wage is set for the following sectors: 1. Agriculture, fisheries, hunting, forestry. 2. Manufacturing, construction, commerce, restaurants, hotels and social and personal services. 3. Transport, storage, communications, real estate and other service industries. 4. General business services. In some sectors, the wage varies by the number of employees.	According to the needs of workers and their families, the cost of living, economic development, productivity, the employment level, the ability of employers to pay and inflation.	Minimum wages are adjusted in December each year. At the request of either employers or workers, the minimum wage level may be reviewed in June if inflation has been over 12%.	The last increase was in November 2010, when the new minimum wage was set at 5,500 lempiras in urban areas and 4,055 lempiras in rural areas.

Box III.1 (continued)

Country and legislation	Definition	Wage-setting organizations	Time unit	Coverage	Frequency of review	Minimum wage-setting procedure and criteria	Most recent change as of December 2011
Nicaragua Labour Code of 1996	The minimum wage must reflect the cost of subsistence and the conditions and needs of the different regions. It must also be adequate to provide workers with a minimum of well-being compatible with human dignity (Art. 77 of the Labour Code).	The National Minimum Wage Committee is made up of the Ministry of Labour, a representative of the Ministry of the Economy and Development, an employers' representative chosen by the Ministry of Labour and a representative of each of the most important unions, chosen by the Ministry of Labour.	Hourly, daily and monthly.	There is no general minimum wage, as it varies by sector.	According to the needs of workers and their families and economic development.	Minimum wages are adjusted periodically, at least once every six months.	In November 2010, the Government of Nicaragua, firms and unions agreed on an increase of 12% in minimum wages for 2010, but implemented gradually so that there would be an increase of 6% in each half of the year.

Box III.1 (continued)

Country and legislation	Definition	Wage-setting organizations	Time unit	Coverage	Frequency of review	Minimum wage-setting procedure and criteria	Most recent change as of December 2011
Panama Labour Code	This is the wage to which workers are entitled to cover the normal material, moral and cultural needs of their households. It is set periodically, at least once every two years, in consideration of the particular conditions of each region and industrial, commercial or agricultural activity. Minimum wages may also be set by profession or trade (Arts. 172 and 174 of the Labour Code). In setting it, account is taken of regional differences in the cost of living, the country's general economic and social policy, policies on income redistribution and employment, the nature and riskiness of the work, the conditions, time and place in which the work is done and, where relevant, the differences between professions and trades (Art. 177 of the Labour Code).	The National Minimum Wage Commission is made up of representatives of workers, employers and the Government.	Hourly.	There is no unified minimum wage; it can vary by region, sector, occupation and company size.	Account is taken of regional differences in the cost of living, the country's general economic and social policy, considerations of sustained, comprehensive national development, policies on employment and revenue allocation, the nature and riskiness of the work, and the conditions, time and place in which the work is carried out. Account is also taken of differences between professions and trades, where relevant.	The minimum wage is set periodically, at least once every two years.	December 2009 was the date of the most recent nationwide increase in the hourly minimum wage by economic activity, occupation and company size.

Box III.1 (concluded)

Country and legislation	Definition	Wage-setting organizations	Time unit	Coverage	Frequency of review	Minimum wage-setting procedure and criteria	Most recent change as of December 2011
Dominican Republic Labour Code of 1992	The criteria for setting minimum wages are: 1. Nature of the work. 2. Conditions, time and place in which done. 3. Riskiness of work. 4. Current or present price of the items produced. 5. Financial situation of the firm. 6. Workers' average cost of living rate. 7. Workers' normal material, moral and cultural needs. 8. Conditions in each region or locality. 9. Any other circumstances that may help in setting wages (Art. 425 of the Labour Code). Minimum wage rates may be national, regional, provincial, communal or local, or may apply to a particular industry or firm (Art. 426 of the Labour Code).	The National Minimum Wage Committee consists of a General Director and two regular members appointed by the executive, a workers' representative and an employers' representative.	Hourly, daily, monthly, or piece rate.	There is no general minimum wage, as it is set by occupation and sector.	Depending on the needs of workers and their families, economic development and productivity.	The National Minimum Wage Committee adjusts the minimum wage at least once every two years.	The National Minimum Wage Committee increased minimum wages by 17% in May 2011.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

Chapter IV

Central America and the Dominican Republic: role in the world economy and structural change

A. Introduction

Central American countries have a number of features in common that influence their production structure and their position in the world economy. To begin with, their territories, populations and GDP are all much smaller than those of the great majority of Latin American countries.[1] They are all highly vulnerable to external shocks and extreme natural events. They all have structural current account deficits, have been engaged in a subregional integration process for many years and are very open to international trade (ECLAC, 2011a). In fact, their trade flows —measured as the sum of their exports and imports— represent 82% of the subregion's GDP and, with an average tariff of 6%, they are the most open economies of all of Latin America and the Caribbean. These structural traits have a very strong influence on the design and scope of public policy and development plans. They also give rise to a number of imperatives for the reinforcement of the subregion's integration process.

[1] Uruguay, the smallest country in South America, is 26% larger than Nicaragua, which is the biggest country in Central America. The population and GDP of Nicaragua are smaller than those of all the South American countries except the Plurinational State of Bolivia, Paraguay and Uruguay.

Because they are so open to the international market,[2] these countries are particularly vulnerable to fluctuations in the world economy. And they have become even more so during the last decade owing, in particular, to the fact that their terms of trade have deteriorated while those of South America have improved (ECLAC, 2011a). This decline is partly due to the rise in international food and fuel (particularly petroleum) prices, which has had a particularly strong impact on the Central American countries, since they are net importers of these products. In addition, the international prices of the subregion's exports have climbed very little, in contrast to the steep increase in the prices of the grains and minerals exported by South America.

One of the consequences of the Central American economies' openness has been their increasing difficulty in financing their balance-of-payments current account during booms in economic activity. Because the goods that they produce for both internal and external markets have such a high import content, the expansion of all of these countries' imports tends to greatly outstrip the expansion of their exports during such booms, which causes their trade deficit (as a percentage of GDP) to swell and puts pressure on the balance of payments. The subregion's trade deficit tends to be balanced out or financed by incoming flows of foreign direct investment (FDI), remittances, overseas development assistance and other external capital, although the relative size of these flows varies from country to country.[3]

Between 1990 and 2011, the subregion's imports grew, on average, by 10.3% per year. In 2011, imports represented 92% of GDP in Nicaragua, 85% in Panama, 70% in Honduras, 47% in El Salvador, 42% in Costa Rica, 38% in Guatemala and 35% in the Dominican Republic. All of these figures are higher than the corresponding percentages for exports.

The subregion's exposure and vulnerability to extreme natural events is, as noted earlier, a formidable challenge. Central America and the Caribbean have been hit by 73% of all the weather-related natural disasters occurring in Latin America and the Caribbean between 1930 and 2008 (ECLAC, 2011a). Given the subregion's still limited level of development and the associated economic, social and governmental weaknesses, natural disasters usually have far-reaching consequences with devastating effects on the population that include the loss of human life and the destruction of dwellings, infrastructure, and machinery and equipment. Between 1974 and 2010, natural disasters in Central America caused approximately US$ 15 billion in damages and losses.

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[2] Measured as the coefficient of total external trade relative to GDP; this coefficient amounts to 139% for Panama and 145% for Nicaragua, for example.

[3] A detailed analysis of trends in these countries' balances of payments and their various components is provided in chapter V.

Central America has long been immersed in an integration process which, although it has been interrupted or suspended at times, nonetheless stands as the region's most ambitious development initiave. This integration scheme is intended to provide a way of overcoming the critical constraints associated with the Central American countries' small domestic markets, which curb the growth of its production activities, and of consolidating an expanded market that will enable various industries to attain economies of scale, to attract more FDI and to specialize, thereby helping their transition from an agrarian-based economy to an industrial and service-based one fuelled by public and private investment.

This chapter includes a discussion of the changes that have occurred in the export basket (within the subregion and in its trade with the rest of the world), in the production structure and in its institutional framework.

B. Strategy for positioning the subregion in the global economy and for changing its production structure

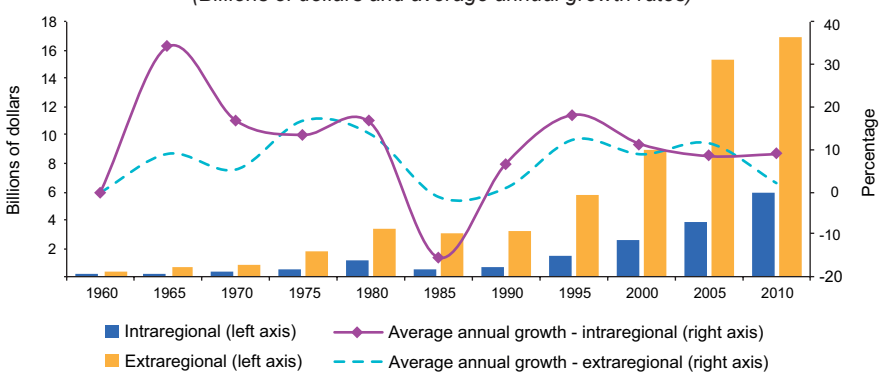
1. The institutional framework for trade within the subregion

Over 50 years ago the Central American economies embarked on an ambitious integration scheme in an effort to overcome some of the development constraints associated with their small size. International trade has been a crucial element in this process and has exerted an overwhelming influence over the ways in which the production structures of the countries of the subregion have evolved. In 1960, the General Treaty on Central American Economic Integration was signed, and in 1961 Guatemala, Honduras, El Salvador and Nicaragua founded the Central American Common Market (CACM). Costa Rica joined in 1962. CACM helped to trigger a sharp and sustained increase in trade within Central America that continued throughout the 1960s. This trend was eventually cut short by civil conflicts within and between the countries, whereupon intraregional trade flows plunged. In 1970, these trade flows had amounted to 26% of Central America's total exports, but in the 1980s they plummeted, falling to less than 10% by 1986 (see figure IV.1).

In the late 1980s, integration efforts were reinvigorated with the introduction of a new approach focusing on open regionalism, which concentrated on doing away with trade barriers and introducing economic policies that would open up access and spur competition in markets outside the subregion. This was the point of departure for a transition towards a Central America that was open to the world market but retained its subregional trade preferences (ECLAC, 1994; Pellandra and Fuentes, 2011). The integration process gathered renewed momentum

when the peace agreements and the Tegucigalpa Protocol were signed in 1991, thereby paving the way for the establishment of the new legal and institutional framework for integration efforts which became the Central American Integration System (SICA). When the subregion entered the world economy en bloc, it signed the Protocol to the General Treaty of Central American Economic Integration.[4] This agreement confirmed the six countries' commitment to create a customs and monetary union, although it did not set any deadline. The Protocol also provided for the establishment of an institutional framework for the SICA economic subsystem (Caldentey del Pozo, 2004).

Figure IV.1
Central America: growth trends in exports to and outside the subregion,[a] 1960-2010
(Billions of dollars and average annual growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the database of the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), 2012.

[a] The figures for exports (in current dollars) do not include maquila exports.

The goal of creating a customs union has yet to be realized. Border checks are still required, although various initiatives aimed at making it easier to cross the border have made some headway. The negotiation of bilateral trade agreements between Central American and other countries that have set up special tariff reduction programmes have hampered the

[4] The objective of the Protocol to the General Treaty of Central American Economic Integration is to attain equitable, sustainable economic and social development in the Central American countries that will ensure the well-being of its peoples and the economic growth of all the member countries by means of the conversion and modernization of their production, economic social and technological structures, productivity gains and an efficient, dynamic positioning of Central America in the international economy (first signed in 1993 by El Salvador, Guatemala, Costa Rica, Honduras, Panama and Nicaragua).

implementation of a common external tariff for the time being. At present, the Central American countries do have a free-trade area, but it does not include a few very important products.[5] In February 2011, 95.7% of all tariffs had been harmonized, with the remaining key categories including medicines, metals, petroleum, agricultural products and a number of others.

Thanks to this integration process, as of 2011 the CACM countries had the highest coefficient of intraregional trade in all of Latin America (26.2% versus 19.4%) (ECLAC, 2012d).

2. The structure of intraregional trade

Intraregional trade has become a major engine of economic growth for Central America. In the 1990s and throughout virtually the entire first decade of the twenty-first century, intraregional trade continued to expand and to regain the strength that it had exhibited during the first 20 years of the integration drive. Trade flows slumped during the international crisis of 2009, but surged by 8.8% in 2010 (see figure IV.1). Today, CACM is the second-largest market for Central American exports after the United States (30%), and the subregion is the main market for the exports of El Salvador and Guatemala, accounting for 55.1% and 39% of their total sales, respectively (see table IV.1).

Trade flows within Central America are largely made up of natural-resource-based goods (38%) and intermediate-technology goods (24%).[6] In the last 20 years, the share of intraregional trade accounted for by these products has expanded (see figures IV.2 and IV.3). The Central American market has spurred a change in the production structure and the industrialization patterns of the countries of the subregion. Exports to countries outside the subregion, by contrast, are concentrated in commodities (30% of the total), low technology (25%) and natural-resource-based goods (20%).

The extraregional market continues to be a major supplier of technology-based manufactures, which generally account for a higher import bill than commodities do. In fact, some 60% of the Central American countries' imports are made up of technology-based manufactures, which attests to their need to import inputs and finished goods to fuel their economies.

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[5] The products that currently appear in annex A of the General Treaty of Central American Economic Integration (i.e., the products not covered by free trade provisions) are: sugar, unroasted coffee, petroleum products, ethyl alcohol, distilled alcoholic beverages and roasted coffee.

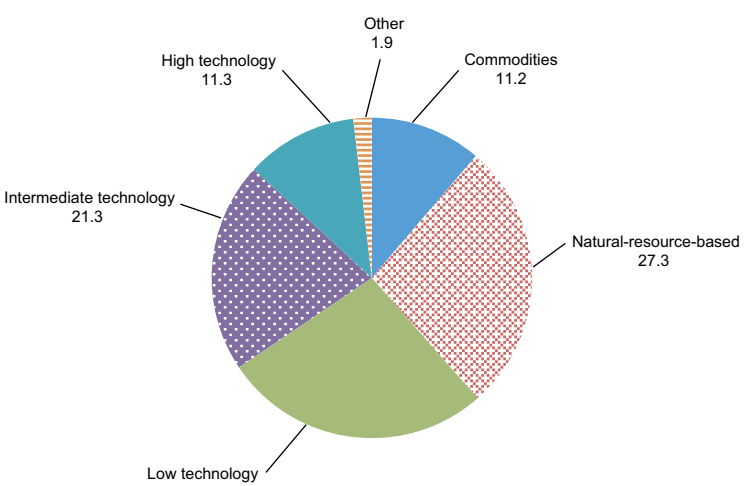
[6] The technological intensity classification system developed by ECLAC based on the work of Lall (2000) includes five categories: primary products, resource-based manufactures, low-technology, medium-technology and high-technology products.

Table IV.1
Central America and the Dominican Republic: world exports and intraregional exports, 1990-2011
(Billions of dollars and percentages)

Country	World			Intraregional		
	1990	2011	Average annual growth rates	1990	2011	Average annual growth rates
Costa Rica	1 455.6	10 222.2	9.7	200.6	2 297.0	12.3
El Salvador	409.1	4 065.1	11.6	136.1	2 061.5	13.8
Guatemala	1 163.0	10 161.0	10.9	321.3	3 176.7	11.5
Honduras	554.6	3 533.6	9.2	26.4	761.5	17.4
Nicaragua	340.0	3 892.7	12.3	47.9	504.2	11.9
Panama	340.8	14 554.8	19.6	45.1	2 543.8	21.2
Dominican Republic [a]	1 715.4	6 763.3	6.8	12.9	90.9	9.8

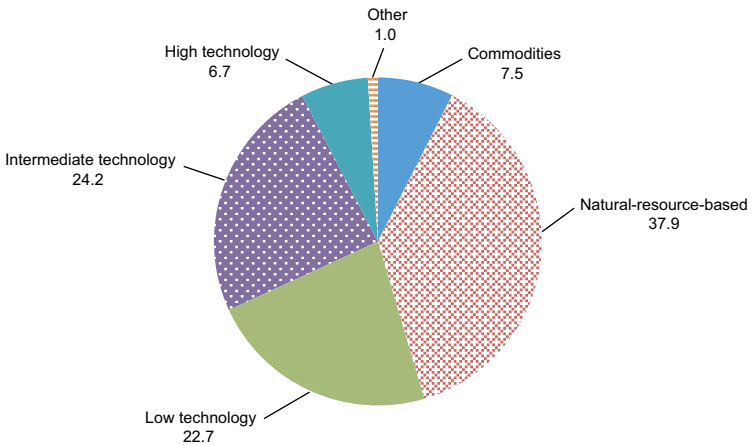
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] Figures are for 1992-2011.

Figure IV.2
Central American Common Market: technology intensity of intraregional export, 1990
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Interactive Graphic System for International Trade Data (SIGCI).

Figure IV.3
Central American Common Market: technological intensity of intraregional exports, 2011
(*Percentages*)

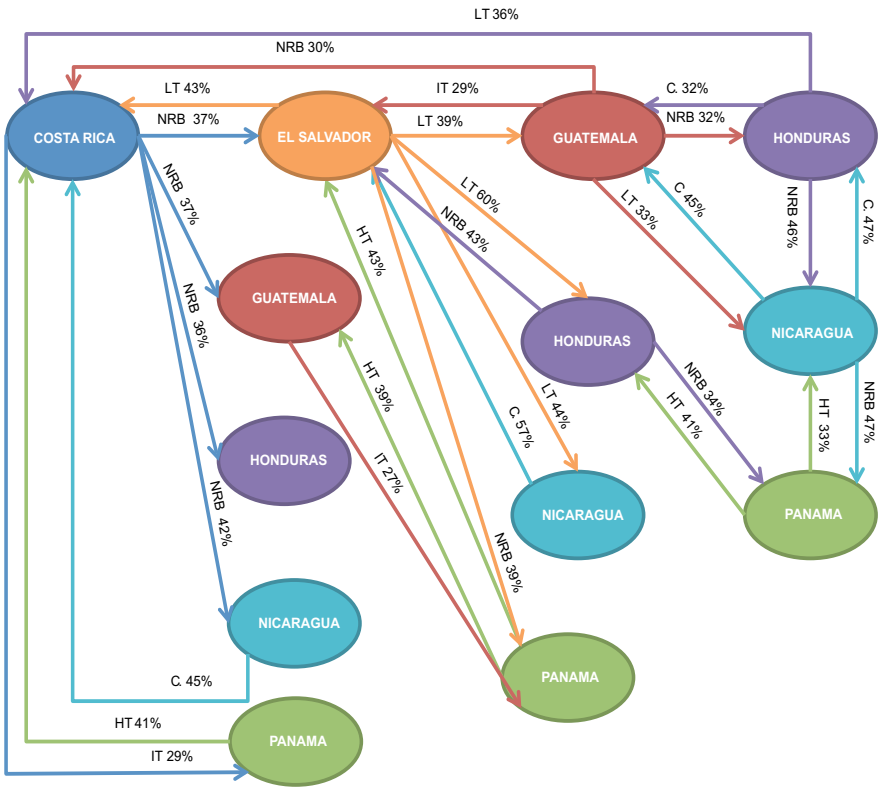


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Interactive Graphic System for International Trade Data (SIGCI).

CACM also encouraged firms to specialize and to opt for production paths to heighten inter-country complementarities. The most striking change to occur between 1990 and 2011 in terms of the technological content of the Central American countries' intraregional exports was the expansion of the share of intermediate technologies. In 2011, only 37% of Costa Rica's exports to other CACM countries were natural-resource-based products. El Salvador has specialized in low-technology exports to the subregion, such as leather and leather products, cotton fibre, travel items, textiles, clothing and sports shoes. Guatemala has no clear-cut area of specialization but instead shifts the composition of its export basket to fit in with market demand; it sells natural-resource-based products to Costa Rica and Honduras, intermediate-technology goods to El Salvador and low-technology goods to Nicaragua. Honduras also differentiates the composition of its export basket in line with the market: it chiefly exports low-technology products to Costa Rica, commodities to Guatemala, and natural-resource-based products to El Salvador and Nicaragua (see diagram IV.1).[7] Finally, Nicaragua is the most highly specialized exporter, selling nearly 50% of primary products (mainly cheese, meat, milk, vegetables and live animals) to the other Central American countries.

[7] In 1990, Honduras was the largest exporter of commodities and natural-resource-based products to CACM countries.

Diagram IV.1
Central American Common Market: major intraregional exports, by country, a 2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Interactive Graphic System for International Trade Data (SIGCI).

[a] C: commodities; NRB: natural-resource-based goods; LT: low-technology products; IT: intermediate-technology products; HT: high-technology products.

At the aggregate level of the Harmonized System, it would appear that CACM members are competing in such product areas as medicines (exported by Costa Rica, El Salvador and Guatemala), toilet paper (exported by Costa Rica and El Salvador) and goods for plastic packaging (exported by El Salvador and Honduras). Actually, however, the apparent competition in similar export sectors within CACM is primarily a reflection of the production strategies adopted by transnational corporations located in the subregion, which are designed as a function of their own production and commercialization objectives.

Table IV.2
Central America and the Dominican Republic: five main exports to the Central American Common Market, 2011
(*Percentages*)

Dominican Republic [a]	Nicaragua	Panama [a]	Honduras	Costa Rica	El Salvador	Guatemala
Oil from petroleum (26%)	Cheese and curd (16.1%)	Therapeutic medicaments (24.7%)	Coffee (incl. roasted and decaffeinated) (12.3%)	Food preparations (10.8%)	Plastic packaging (5.8%)	Therapeutic medicaments (4.7%)
Petroleum gas (17.2%)	Fresh and chilled beef (11.4%)	Crude oil (5.9%)	Palm oil (10.8%)	Therapeutic medicaments (5%)	Petroleum oils (5.5%)	Iron or steel laminates (3.2%)
Therapeutic medicaments (10.7%)	Milk and cream concentrates with or without sugar (8.5%)	Petroleum oils (4.9%)	Organic soap and surfactants (7.7%)	Electrical wires and cables (5%)	Toilet paper (5.4%)	Petroleum gas (3.1%)
Non-alloyed iron or steel bars (9.5%)	Coffee, black tea, herbal tea (5.4%)	Footwear with outer soles (2.6%)	Paper and carboard boxes, bags (4.5%)	Toilet paper (4.7%)	Bread and biscuits (4%)	Mineral, carbonated and other water (3%)
Polyacetals and epoxy resins (5.3%)	Dried legumes (3.6%)	Bulldozers (2.3%)	Plastics for use in transport and packaging (3.9%)	Iron and steel laminates (3.4%)	Therapeutic medicaments (3.7%)	Insecticides, raticides, fungicides (2.9%)
Total 68.6%	Total 45%	Total 40.4%	Total 39.2%	Total 28.8%	Total 24.3%	Total 16.8%

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the database of the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), Central American Trade Statistics System (SEC).

[a] Imports from the Central American Common Market (CACM).

Table IV.3
Central America and the Dominican Republic: five main exports to the rest of the world, 2011
(Percentages)

Honduras	Costa Rica	Nicaragua	Panama	Guatemala	Dominican Republic	El Salvador
Coffee, including roasted and decaffeinated (35.9)	Integrated circuits and electronic microstructures (18.5%)	Coffee, including roasted and decaffeinated (10.8%)	Antibiotics (24.4%)	Coffee, including roasted and decaffeinated (10.5%)	Medical and surgical instruments and devices (12.6%)	Coffee, including roasted and decaffeinated (11.4%)
Bananas or plantains, fresh or dried (5.5%)	Medical and surgical instruments and devices (8.2%)	Coaxial cables and other electric coaxical conductors (9,9%)	Medicaments (8.9%)	Minerals from precious metals and their concentrates (8,9%)	Apparatus for cutting (6%)	Jersey collar t-shirts knitted or crocheted (5%)

Table IV.3 (concluded)

Honduras	Costa Rica	Nicaragua	Panama	Guatemala	Dominican Republic	El Salvador
Wires, cables (including coaxial cables) and other insulated conductors (4.8%)	Dates, figs, pineapples, avocados (7.1%)	Gold (including gold plated in platinum), non-manufactured, unwrought or in powder form (9.4%)	Other footwear with outer soles and uppers of rubber or plastic (4.1%)	Petroleum gas (6.4%)	Cigars (5.7%)	Leg warmers, pantyhose, leotards, stockings, socks (4.9%)
Palm oil and derivatives (4.6%)	Bananas or plantains, fresh or dried (7.1%)	Meat of bovine animals, frozen (8%)	Perfumes and toilet waters (3.5%)	Cane or beet surgar (4.7%)	Bananas or plantains, fresh or dried (5.2%)	Cane or beet sugar (4.1%)
Petroleum gas and other gaseous hydrocarbons (4%)	Coffee, including roasted or decaffeinated (3.7%)	Tops, shirts and blouses for women or girls (6%)	Suits, coats, jackets, dresses, skirts (2.8%)	Bananas or plantains, fresh or dried (4.4%)	Footwear with outer soles of rubber, plastic, natural leather or composition leather (3.9%)	Petroleum or bituminous mineral oils (3.7%)
Total 54,8%	Total 44,6%	Total 44,1%	Total 43,7%	Total 34,9%	Total 33,4%	Total 29%

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the database of the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), Central American Trade Statistics System (SEC).

One of the greatest challenges for intraregional trade in the subregion, and one which poses a major threat to its growth potential, is the cost of transport and logistics. Unit transportation costs (including paperwork and security) are higher than the subregion's average tariff rates. While the countries' proximity to one another paves the way for intraregional trade, fuel costs need to be brought down in order to make trade within Central America more competitive. For example, for small-scale exporters in Costa Rica, the transportation cost involved in selling a kilo of tomatoes amounts to nearly 23% of the total costs, followed by customs clearance (11%) and taxes (6%). By contrast, for large-scale exporters, the main cost items are customs clearance (10%), transport (6%) and taxes (5%) (ECLAC, 2012d).

In Central America, an effort is now being made to streamline customs clearance procedures in order to facilitate trade and boost competitiveness. As part of this effort, work is proceeding on the implementation of the International Merchandise Transport (TIM) Procedure, which draws on informatics systems and harmonized customs procedures in order to streamline and improve migration, customs and quarantine procedures at

border checkpoints. This cluster of initiatives also makes use of the Single Transit Document (DUT), which integrates all the requirements of the various authorities involved. In 2011, TIM was already in place in the area stretching from the southern border of Mexico to Nicaragua. Progress is also being made in its implementation in Costa Rica and Panama, and it is up and running at all the border checkpoints in the Pacific corridor (the road network linking Mexico City to Panama City). Starting in 2012, TIM is to be expanded to encompass all of the subregion's multimodal land, maritime and air border checkpoints.

Other avenues for supplementing the TIM procedure are also being explored in an effort to leverage trade opportunities. The authorized economic executing agency (OEA), for example, is a customs certification programme that registers traders' past history in complying with customs regulations, along with their performance as measured by different criteria to assess the safety of the processes and facilities that they use. Consideration is also being given to the creation of a one-stop shop that would provide an interface between government agencies and private traders to cut transaction costs. One of the most promising projects focuses on subregional coastal trade flows, with the idea being that imports into some ports could be consolidated and then transported in loaded trucks via maritime transport (i.e., using roll-on, roll-off systems in which trucks are transported by ferry). Relatively low-cost subregional agreements on coastal trade and freight handling also need to be designed and formally approved.

3. International trade and changes in export baskets

As noted earlier, since the 1990s the Central American integration process has been paired with an international trade policy based on an open regionalism approach. Integration policies continue to be a priority, along with the quest for new markets, greater competitiveness and more FDI. The countries of the subregion have worked to boost their export volumes and earnings and to diversify their export basket and their destination markets. In the pursuit of these objectives, all of them have launched export promotion policies at one time or another to differing degrees.

In the 1980s, these countries put export incentives in place and set up an institutional structure designed to attract trade-related foreign investment. These initiatives are now managed by various public and private agencies (e.g., ministries of economic affairs, industry or trade, associations of exporters and private foundations). The government bodies in the subregion that deal with these types of incentives include the External Trade Promotion Board of Costa Rica (PROCOMER), the

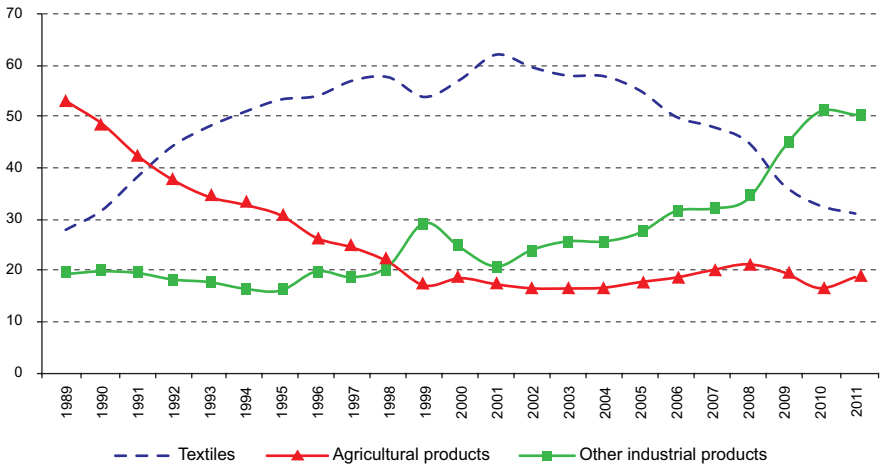
Export and Investment Promotion Agency of El Salvador (PROESA) and the National Export Promotion Commission (CNPE) of Nicaragua. Private-sector organizations active in this area include the Association of Exporters of Non-Traditional Products (AGEXPRONT) of Guatemala, the Investment and Export Development Foundation (FIDE) of Honduras and the Exporters Corporation (COEXPORT) of El Salvador.

The countries of the subregion have introduced various sorts of trade policies that have influenced their external sectors' production structure. These policy measures have included unilateral steps to open up their economies to external trade, entry into the World Trade Organization (WTO) (all the countries joined WTO between 1991 and 1997 except Nicaragua, which had been a member of the General Agreement on Tariffs and Trade (GATT) since 1950) and the conclusion of trade agreements with strategic partners. They have also benefited from preferential trade agreements established by such programmes as the Caribbean Basin Initiative and Europe's Generalised Scheme of Preferences.

As Central America lowered its levels of trade protection, and thus also its anti-export bias, its strategies for positioning in the markets triggered changes in employment generation and wealth-creating economic activities, as well as in socioeconomic structures. A basic pillar of this new strategy has been the attraction of FDI as a way to boost exports quickly and to help balance external accounts, supplement domestic saving, create jobs and promote fixed capital formation.

The subregion's strategy was bolstered by the Caribbean Basin Economic Recovery Act (also known as the Caribbean Basin Initiative), which was passed by the United States in 1984. This Act spurred the flow of FDI into sectors producing manufactures for export (especially textiles and wearing apparel) and paved the way for the expansion and diversification of exports (Estrada, 2000; Gitli and Arce, 2000) by opening the door, subject to certain conditions, to the United States market. This new international trade strategy and the Caribbean Basin Initiative shifted the subregion's export basket towards maquila-based textiles for the United States market, spurred production in export-oriented sectors and laid the groundwork for a new trade-cum-FDI-led growth model. As shown in figure IV.4, exports of textiles swelled in the late 1980s, thanks mainly to the Caribbean Basin Initiative. The demise of the Multifibre Arrangements in 2005 and competition from Asia, in particular after China joined WTO, slowed the growth of textile and garment exports, however, while opening the way for an increase in exports of other industrial goods.

Figure IV.4
Central American Common Market: main exports to the United States, 1989-2011
(Percentages of total exports)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United States chapter of the International Chamber of Commerce (USITC).

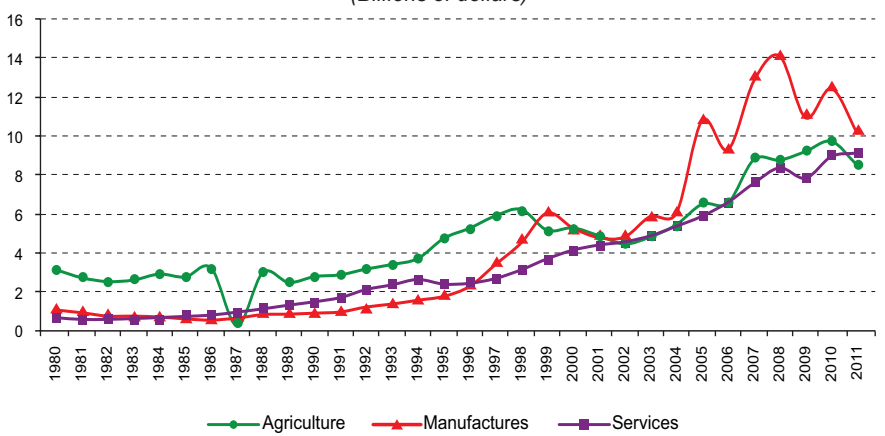
Manufactures, especially textiles, are making up an increasing share of the subregion's exports. Preferential tariffs explain the considerable differences between the export baskets for the main destination markets: 80% of exports to the United States[8] are industrial goods, whereas 90% of the subregion's sales to the European Union correspond to agricultural products.[9] The net effect of the trade and regional policies examined above has been to shrink the share of commodities in Central American exports.

[8] In 1986, the United States introduced the Guaranteed Access Levels (GAL) Programme for wearing apparel not included in the Initiative and, in May 2000, passed the Trade and Development Act, which extended until 2008 some of the tariff privileges provided for by the Initiative.

[9] Since 1971, Central America has benefited from preferential trade arrangements established under the Generalised Scheme of Preferences of the European Union, which has recently been supplanted by an association agreement between Central America and the European Union. These preferences were originally granted for a 10-year period for certain agricultural and industrial products exported by the less developed countries and have been extended on numerous occasions since then. In the late 1980s, the benefits for the Andean and Central American countries were increased. The European Union maintains trade barriers for some of Central America's export products (such as sugar cane and sugar-cane products, maize, bananas and others) in the form of sharp tariff spikes and export caps and quotas. In addition, access to the Generalised Scheme of Preferences (GSP) is determined on the basis of guidelines that the European Union reviews every three years. This creates a climate of uncertainty for entrepreneurs and deters them from undertaking long-term investment projects, thereby making Central America a less attractive destination for European FDI.

As a matter of fact, these products' share plunged from around 63% of total exports in the early 1980s to under 23% in 2010. The share of manfactures, including maquila-based products, in total exports rose from 21% to 28% during that period, while the share of services jumped from 14% to 33%.

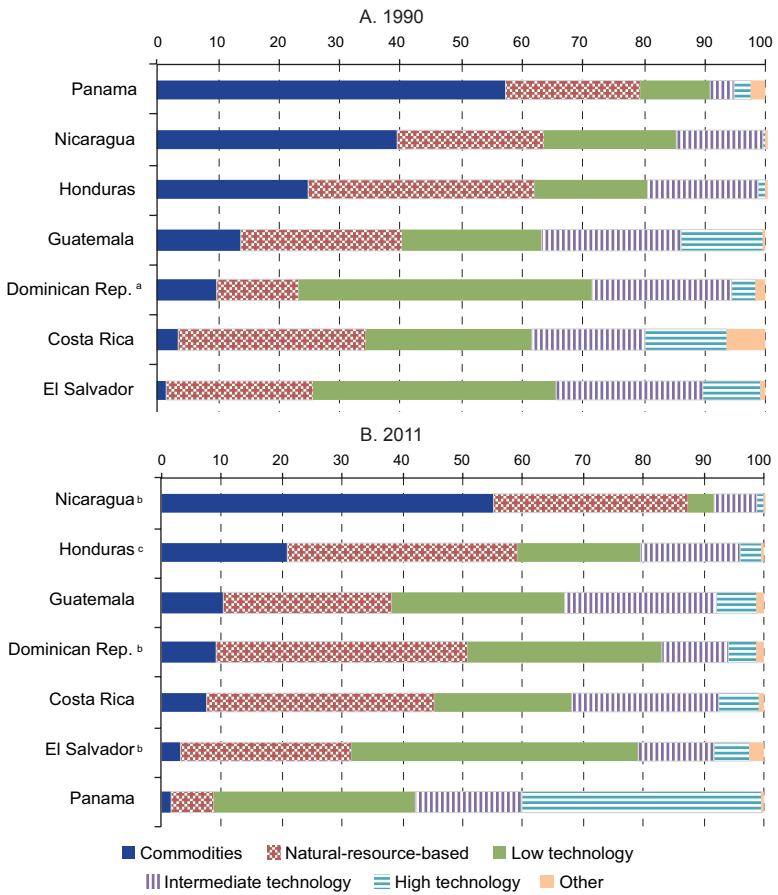
Figure IV.5
Central American Common Market: main products exported to the rest of the world, 1980-2011
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).

In 1990, 61% of CACM exports to the rest of the world consisted of commodities, 15% were natural-resource-based manufactures, 11% were low-technology manufactures, 5% were intermediate-technology products and 3% were high-technology goods. By 2011, the share of total exports represented by commodities had fallen by 28 percentage points, while the share of high-technology products had climbed by more than 10 percentage points to 14% of the total. The bulk of the increase in high-technology goods is accounted for by Costa Rica's exports of microchips and medical instruments. Except in the case of Nicaragua, the subregion's exports of commodities declined while it witnessed an increase in its exports of natural-resource-based products (foodstuffs and food preparations, cereals, cement and others), intermediate-technology goods (power transformers, pesticides, domestic appliances and others) and high-technology products (medicines, television sets, telecommunications equipment, electrical devices and machinery, etc.) (see figure IV.6).

Figure IV.6
Central America and the Dominican Republic: exports to the rest of the world, by degree of technological intensity, 1990 and 2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Interactive Graphic System for International Trade Data (SIGCI).

[a] For 2009.
[b] For 2010.
[c] For 1992.

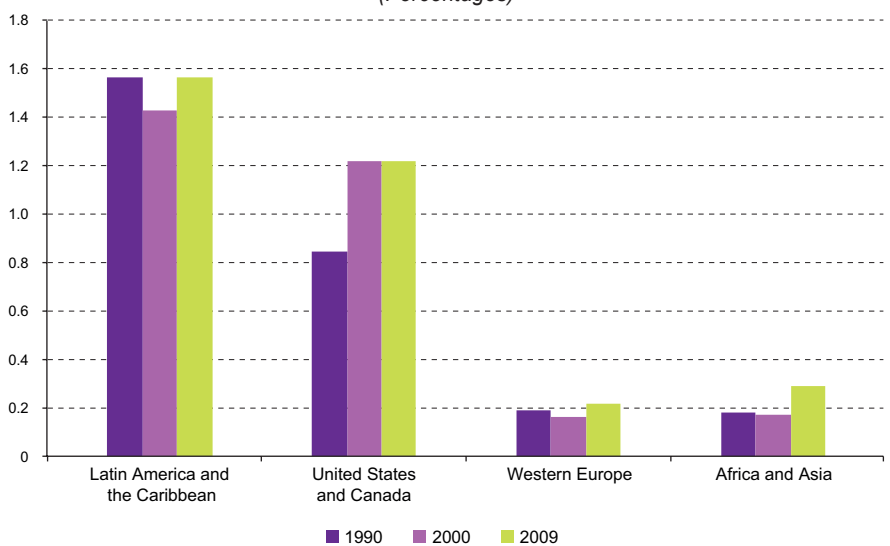
The composition of Central America's main exports to the United States also changed drastically between 1990 and 2011.[10] In 1990, its main exports were bananas (19%), coffee (14%), men's clothing (5%), beef (5%),

[10] Bananas and coffee accounted for 33% of CACM exports, but that share then decreased to just 12%. On the other hand, the share of wearing apparel climbed from 27% to 30% of Central America's total exports.

women's clothing (5%) and sugar (4%). In 2011, the composition of the export basket had shifted, with the relative shares of key products standing at: microchips (25%), knitted sweaters (8%), cotton undergarments (8%), coffee (6%), bananas (6%) and knitwear (3%).

From 1991 to 2011, the percentage of total United States imports represented by Central America's exports nearly doubled, rising from 0.64% to 1.1%. In 2011, Costa Rica had the largest share, at 0.46%. Nicaragua's share has been rising steadily, reaching 0.12% in 2011, thanks to the free trade agreement covering textiles and wearing apparel that has been concluded by Central America and the Dominican Republic with the United States and the resurgence of trade flows following the end of the civil conflict in that country (see figure IV.7).

Figure IV.7
Central America and the Dominican Republic: trends in market share, by region of destination, 1990-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from TradeCAN.

Central America has not managed to carve out as dynamic a position in global value chains as other regions (particularly Asia) have. As a result, subregional exports of intermediate goods grew more slowly in the 2000s than they did in the 1990s (the growth rate dropped to one-

fourth of its previous level —from 29% to 7%— between the start and end of that period) (ECLAC, 2012c). The main way in which the Central American countries have started to participate in these value chains is via maquila industries and the establishment of export processing zones (EPZs). In fact, the instances in which their participation is associated with high levels of local value added are still few and far between. The challenge is to find a way of bringing more local businesses into such global value chains. Costa Rica's strategy for gaining entry into global value chains has focused on diversifying its exports towards products and activities with higher value added and greater knowledge content. It thus stands as an example of a successful approach for combining different public policies and a strategic vision to bear in ways that may bring about major changes in export structures in a relatively short period of time (ECLAC, 2012b).

Central America trades much more within the subregion than with countries in the rest of Latin America. The subregion has also increased its presence (although it is still quite weak) in some markets in Asia[11] and has sharply increased its share in the European market,[12] as well as in China and Mexico. Its market share in China grew from 0.02% in 1990 to 0.24% in 2011, without counting oil, and from 0.33% to 1.18% over that same period in Mexico. In 2011, Costa Rica was the country of the subregion with the largest shares in both of these markets (0.22% in China and 0.82% in Mexico).

During the 1990s, the subregion's exports were concentrated in goods, especially wearing apparel manufactured by maquila operations. In the 2000s, however, service exports accounted for a larger portion of the foreign trade flows of Costa Rica, the Dominican Republic, Panama and, to a lesser extent, Guatemala. Indeed, since then, they have gained momentum in these four countries and have outstripped the growth of merchandise exports (see table IV.4). Yet, despite their strength shown by during this period, service exports have only partially counterbalanced the growing deficits on the merchandise trade balance of Costa Rica, the Dominican Republic and Panama.

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[11] Within the TradeCAN environment, this region is defined as encompassing: Cyprus, the Hong Kong Special Administrative Region of China, India, Indonesia, Jordan, the Macao Special Administrative Region of China, Malaysia, Nepal, Oman, Pakistan, the Philippines, Qatar, the Republic of Korea, Saudi Arabia, Singapore, Syria, Thailand and Turkey.

[12] Within the TradeCAN environment, this region is defined as encompassing: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Table IV.4
Central America and the Dominican Republic: exports of goods and services, 1990-2011
(Average annual growth rates, in percentages)

Country	1990-2000		2001-2011	
	Services	Goods	Services	Goods
Costa Rica	12.4	15.7	9.9	6.0
El Salvador	7.8	16.5	4.4	6.2
Guatemala	8.1	12.6	11.7	10.3
Honduras	13.6	13.6	7.9	8.0
Nicaragua	14.0	10.2	11.5	16.5
Panama	6.2	5.7	13.6	11.3
Dominican Republic	11.4	22.8	5.2	4.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Free-trade areas and temporary import regimes, which have had a considerable impact on trade-related FDI, and the increase in maquila exports and imports seen during the 1990s played an important role in bringing the above-mentioned changes about. Between 1994 and 2011, Central American maquila exports soared from US$ 1.73 billion to US$ 15.279 billion. In addition to their maquila exports, the Central American countries have continued to export commodities (mainly bananas, fresh fruit and sugar) (see table IV.5).

Table IV.5
Central American Common Market: main export products, by regime, 2011
(Percentages of total exports)

Main export products covered by free-trade areas or temporary import regimes	Main export products not covered by free-trade areas or temporary import regimes
Integrated electronic circuits (5.9%)	Coffee (11.3%)
Medical instruments and devices (2.7%)	Fresh or dried bananas or plantains (4.4%)
Insulated wires, cables and conductors (2.5%)	Cane or beet sugar (3.4%)
Women's blouses and t-shirts, knitted or crocheted (1.7%)	Precious metals (3%)
T-shirts, knitted or crocheted (1.5%)	Pineapples (2.4%)

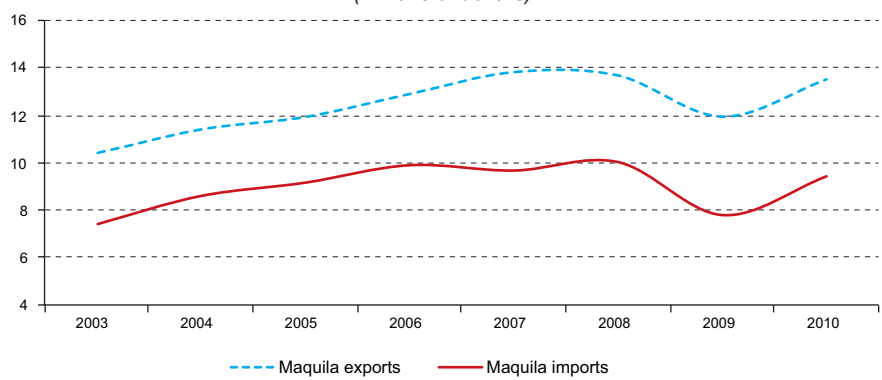
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) and United Nations, United Nations Commodity Trade Statistics Database (COMTRADE).

These incentives prompted a significant increase in imports of inputs for maquila industries under the free-trade area and temporary import regimes. Imports of these items represent 70% of the exports sold under the special export production regimes. In 2011, imports under the free-trade area and temporary import regimes accounted for 20% of Central America's total imports. The relatively largest importer of maquila inputs is Honduras

(27% of its total imports in 2010), followed by Costa Rica (25%), Nicaragua (20%), Guatemala (19%) and El Salvador (8%) (figures for 2011).

In that same year, maquila exports totalled US$ 5.57 billion, while the value of imports amounted to US$ 4.114 billion. The difference between these two flows has lessened slightly, partly as a result of the relative increase in service exports from free-trade areas, since they do not require the use of imported inputs. Imports of maquila inputs accounted for 71% of the value of maquila exports in 2003 and for 70% of that value in 2011 (see figure IV.8).

Figure IV.8
Central American Common Market: exports and imports of free-trade areas and temporary import regimes, 2003-2010
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Export Promotion Agency (PROCOMER) of Costa Rica and the central banks of the countries concerned.

Since the 1990s, import growth has been higher in the countries of the southern hemisphere than in the countries of the northern hemisphere. It therefore stands to reason that the Central American countries should redirect their exports towards other countries in the south, particularly in Asia. However, the subregion's exporters' presence in China and other developing Asian countries has been marginal (ECLAC, 2012c).

(a) Trade agreements as a component of strategies to enter world markets

Trade agreements are a key component of the Central American countries' strategy for positioning themselves in international markets. All of them have signed free trade agreements with their main trading partners, and only 12% of the subregion's external trade is not covered by one or more of these agreements (see table IV.6). This strategy is one facet of the countries' efforts to diversify their export markets, facilitate trade, open up markets and

attract FDI. In June 2012, an association agreement between the Central American countries (including Panama) and the European Union was signed that covers trade, political dialogue and cooperation. The agreement provides for the establishment of a free-trade area encompassing the European Union and the Central American countries (with some exceptions in the case of agricultural products) and sets forth commitments on such areas as trade in services, investments, intellectual property and government procurement.

Table IV.6
Free-trade treaties and partial-scope agreements between Central America and third parties
(Dates of entry into force)

Country	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
Belize			June 2006 [a]			
Canada	November 2002					Mayo 2010 [b]
United States	January 2009	March 2006	July 2006	April 2006	April 2006	June 2007 [b]
Mexico	November 2011 [b]	November 2011 [b]	November 2011 [b]	November 2011 [b]	November 2011 [b]	Mayo 1985 [a]
Panama	November 2008	April 2003	June 2009	January 2009	November 2009	
Dominican Republic	March 2002	October 2001	October 2001	Diciembre 2001	Septiembre 2002	July 1985 [a]
CARICOM	November 2005					
Colombia	March 1984 [a]	February 2010	November 2009	March 2010	March 1984 [a]	July 1993 [a]
Peru	May 2011 [b]					May 2011 [b]
Chile	February 2002	June 2002	n.a.	July 2008	n.a.	March 2008
European Union [c]	March 2011	March 2011	March 2011	March 2011	March 2011	March 2011
Taiwan Province of China		January 2008	July 2006	July 2008	January 2007	January 2004
China	August 2011					
Singapore	April 2010 [b]					July 2006
Cuba		September 2011 [ab]	January 1999 [a]			August 2009 [a]
Trinidad and Tobago						June 2011[d]
Venezuela (Bolivarian Republic of)	March 1986 [a]	March 1986 [a]	Octubre 1985 [a]	February 1986 [a]	August 1986 [a]	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Latin America and the Caribbean in the World Economy,* 2010-2011 (LC.G.2502-P), Santiago, Chile. United Nations publication, Sales No.: E.11.II.G.5, and Organization of American States (OAS), Foreign Trade Information System (SICE).

[a] Indicates partial-scope agreements; the dates shown are the dates of signature.

[b] Indicates the dates of signature of treaties that had not yet entered into force as of December 2012.

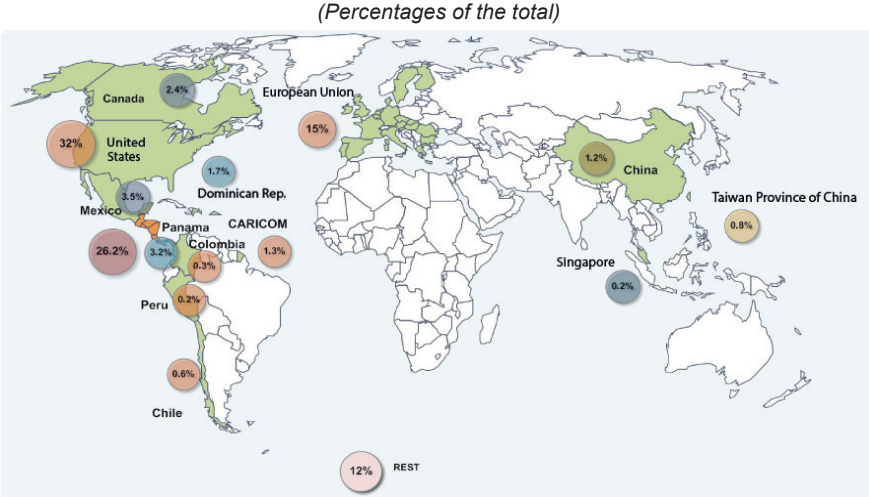
[c] The date given for the association agreement between Central America and the European Union is the date on which the treaty was initialled.

[d] The date given for the partial-scope agreement between Panama and Trinidad and Tobago is the date on which the negotiations were completed.

n.a.: The date on which this treaty entered into force is not available.

Although the Central American countries have been diversifying their export markets, for many of them the United States is still their main buyer. It accounted for 32% of CACM exports in 2011. CACM is the second-most important destination market (26%), followed by the European Union (15%), Mexico (3.5%), Panama (3.2%), Canada (2.4%), the Dominican Republic (1.7%), the Caribbean Community (CARICOM) (1.3%) and China (1.2%) (see map IV.1). Free-trade treaties have a variety of effects: they open up markets (both export markets and domestic markets for imports of final goods or inputs), attract FDI and lay down the bilateral legal arrangements that will govern trade flows. This provides lock-in, but reduces the manoeuvring room for designing and implementing development policies, since it limits the use of subsidies, lowers tariffs, does away with provisions that make it obligatory to use nationally produced components and introduces other constraints. The major agreement of this sort is the Dominican Republic-Central America-United States Free Trade Agreement.

Map IV.1
Central American Common Market: exports of goods, by trading partner, 2011
(Percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), Central American Trade Statistics System (SEC).

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

However, many "soft" policies can be applied in the subregion that generate externalities by exerting a moderate influence on production activity via indirect channels. Meanwhile, a great deal of scope remains for the introduction of "hard" policies in such areas as public investment, macroeconomic instruments designed to spur private investment, education, science, technology and innovation, and development banking. The policy objective in these cases would be to change production patterns and boost competitiveness. There is also a vast margin for the use of subsidies and other fiscal and financial tools, especially in the services sector and in new economic activities with linkages to tradables. Broad opportunities exist in these areas for government action to improve coordination and smooth out information asymmetries. This action should target activities involving new technologies, specific types of training, new products or services, as well as new or established economic activities in less developed regions (Mercado, 2010).

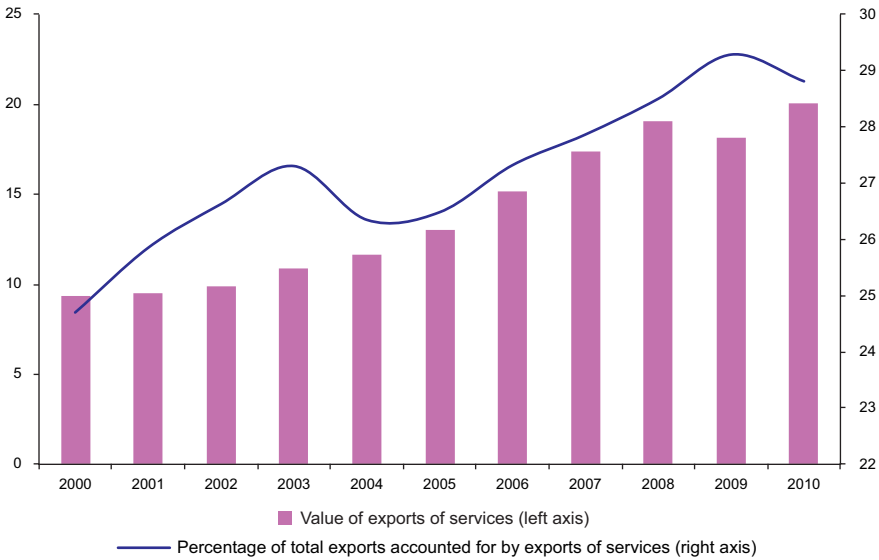
The scope for science, technology and innovation (STI) policies is even greater. Proactive public-sector procurement policies can be introduced in these areas, as well as policies aimed at enhancing quality and improving education, along with a range of financial measures, such as subsidies and tax incentives, credit guarantees, venture capital, etc. The subregion also has a free hand in the use of initiatives to promote cooperation between actors in the field of innovation and dissemination, including the creation of science and technology parks and incubators and the promotion of joint research projects involving universities, government research centres and private businesses.

(b) An emerging sector: trade in services

The contribution of the services sector to international trade flows has been rising steeply during the past decade. Factors that are helping to drive its development include advances in information and communication technologies, the growth of financial intermediation services and trade liberalization. In Latin America, alongside the services in which trade is well-established (such as transport and tourism), business, financial and communications services have begun to figure strategically in the portfolio of service exports (ECLAC, 2005b, 2006, 2007 and 2008a). In 2010, the total value of exports of commercial services originating in Central America and the Dominican Republic came to US$ 20.056 billion (see tables IV.7 and IV.8), which represents 28.8% of the subregion's total exports. Although services make up, on average, only a third of total exports and 10% of the subregion's GDP, trade in services has been growing steadily (by an

average of o 7.2% between 2000 and 2010), and its share of total exports and of GDP climbed as well (see figure IV.9).

Figure IV.9
Central America and the Dominican Republic: exports of services by value and as a proportion of total exports, 2000-2010
(Billions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from TRADE MAP, Trade Statistics for International Business Development [online] http://www.trademap.org.

The 2009 crisis cut exports of services by 5%, but in 2010 they made a strong recovery (10.1%). The upswing was particularly sharp in Costa Rica (20.7%) and Guatemala (15.1%). The crisis also dampened tourism revenues, which fell by 4.6% in 2009, but a 9.5% upturn in 2010 pushed them above their 2008 level. Costa Rica, El Salvador and Guatemala have all also marked up their highest annual growth rates in the post-crisis period (22.1%, 16.9% and 16.3%, respectively). In 2010, Panama, the Dominican Republic and Costa Rica accounted for over half of total service exports, while the growth rate for Nicaragua's exports of services has exceeded the subregional average for the past 11 years in a row (see table IV.7). The most vigorous economies have been those of Panama and Guatemala, with rates over three percentage points higher than the subregional average.

Table IV.7
Central America and the Dominican Republic: service exports, 2000-2010
(Millions of dollars)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Costa Rica	1 936.2	1 925.5	1 868.1	2 021.0	2 241.8	2 621.5	2 971.6	3 552.1	4 083.3	3 592.9	4 180.2
El Salvador	698.4	703.6	783.3	948.2	1 089.6	945.7	1 014.9	1 133.9	1 058.0	862.9	975.9
Guatemala	777.0	1 045.5	1 146.2	1 060.0	1 100.4	1 308.0	1 518.8	1 731.2	1 872.9	1 925.0	2 216.1
Honduras	507.1	504.8	541.9	591.1	644.6	699.5	744.9	780.7	885.3	953.4	1 021.6
Nicaragua	221.3	223.1	225.5	257.6	285.8	308.5	345.4	373.6	460.4	496.0	471.5
Panama	1 994.4	1 992.8	2 277.9	2 539.6	2 793.7	3 231.3	4 000.2	4 962.6	5 787.9	5 519.2	6 092.7
Dominican Republic	3 227.6	3 110.3	3 070.7	3 468.8	3 503.9	3 935.0	4 567.2	4 824.9	4 951.2	4 835.9	5 098.7
Total exports	9 362.0	9 505.6	9 913.8	10 886.4	11 659.9	13 049.6	15 163.1	17 359.1	19 099.1	18 185.3	20 056.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from TRADE MAP, Trade Statistics for International Business Development [online] http://www.trademap.org.

Costa Rica, Panama and the Dominican Republic recorded trade surpluses on their services accounts. The other countries in the subregion had deficits. Contact services make up the bulk of the countries' exports of services,[13] with Costa Rica, Panama, Guatemala, the Dominican Republic and Nicaragua having the highest growth rates in this subsector (see table IV.8). Although a more in-depth analysis is called for, the fact that the growth of exports of shared services is outstripping that of contact services appears to indicate that the subregion is moving up the sector's value chain.[14]

In sum, the subregion's exports of services have been growing rapidly in recent years, and this is particularly true for Costa Rica, Panama and the Dominican Republic. While travel and tourism are still the largest category of trade in services, the growth rates for business services point to a shift in the composition of exports within the sector. This transition is associated with the upgrading of FDI-related manufacturing activities (maquila) and with inbound financial resources coming from Colombia, Mexico, Spain and the United States in response to the liberalization of the telecommunications, banking and insurance industries. It is also driven by FDI inflows connected with the offshoring of various services for big business, a major job creator. For example, in Costa Rica, the shared services segment is the largest employer in its free-trade areas. These services are based on a new type of maquila venture that maintains linkages with global value chains and that has provided the subregion with new revenue sources, another avenue for the diversification of its export basket and the possibility of attaining other comparative advantages. But in order to sustain this export drive, production and employment structures will have to change. A service-based economy requires a different type of infrastructure and different job skills than an economy based on agricultural products or low-skilled, labour-intensive manufacturing does.

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[13] Contact services are the lowest link in the sector's value chain. They generally include agroindustrial, transport, travel, personal and client-relations business services as well as those related to computer and information technology networks and applications. These activities generate relatively less value added, do not require high skills and have limited production linkages with local firms. Shared services include activities related to construction, communications, financial, insurance, licence and franchise fee charges, computer science, information technology, and business services related to corporate asset management. They generate medium levels of value added, require intermediate skills and have limited linkages with local firms.

[14] Skilled services are the highest link in the value chain. They include research and development in information technologies, and software, legal, consulting and manufacturing services. This segment generates the greatest value added and requires personnel who are highly trained in areas such as international business, mechatronic engineering, nanotechnology and materials research. Services in this segment have strong linkages with the country's production structure, local technology firms and highly qualified personnel.

Table IV.8
Central America and the Dominican Republic: trade in services, 2000-2010
(Millions of dollars)

Type of service	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports											
Contact services	7 607.1	7 546.4	7 745.6	8 722.8	9 378.3	10 562.4	12 004.9	13 551.3	14 811.0	14 151.0	15 368.4
Shared services	1 754.9	1 959.2	2 168.1	2 163.6	2 281.5	2 487.2	3 158.1	3 807.7	4 288.0	4 034.2	4 688.3
Skilled services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	9 362.0	9 505.6	9 913.8	10 886.4	11 659.9	13 049.6	15 163.1	17 359.1	19 099.1	18 185.3	20 056.8
Imports											
Contact services	4 782.7	4 674.0	4 928.8	5 078.4	5 777.0	6 572.2	7 095.9	8 131.2	8 891.0	7 328.5	8 687.7
Shared services	1 807.8	1 869.8	2 078.4	2 028.5	2 034.1	2 124.0	2 328.9	2 623.6	2 975.7	2 899.8	3 473.1
Skilled services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	6 590.6	6 543.8	7 007.3	7 107.0	7 811.1	8 696.3	9 424.8	10 754.8	11 866.8	10 228.4	12 160.9
Trade balance											
Contact services	2 824.3	2 872.3	2 816.8	3 644.3	3 601.3	3 990.1	4 908.9	5 420.1	5 920.0	6 822.5	6 680.7
Shared services	-52.9	89.4	89.6	135.0	247.3	363.1	829.2	1 184.1	1 312.2	1 134.3	1 215.1
Skilled services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	2 771.4	2 961.8	2 906.5	3 779.4	3 848.7	4 353.3	5 738.2	6 604.2	7 232.3	7 956.9	7 895.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from TRADE MAP, Trade Statistics for International Business Development [online] http://www.trademap.org.

c) Competitiveness of exports

There are various ways to analyse competitiveness. It can be assessed at the company, regional or country level using a wide range of specific indicators. In this section, it will be examined on the basis of trends in exports to the rest of the world in 1990-2011 as viewed from two perspectives. The first is the growth of the subregion's exports relative to the growth of its competitors' exports to the world market. The second involves an examination of world markets focusing on the fastest-growing segments of imports (i.e., those whose share of the total import bill is on the rise) and on those in decline (i.e., those whose share in the total is shrinking). These two dimensions are analysed using the MAGIC software program,[15] which classifies all the exports of any given country on the basis of a 2x2 competitiveness matrix. In that matrix, the vertical axis divides exports into two groups according to the extent to which they have penetrated the corresponding import market segment. The horizontal axis divides the global import market into two groups. The first encompasses the activities whose share of the global import market has expanded during the period under study. The second includes those segments whose market share is shrinking. Using this classification, trends in the main exports of each country over the last two decades serve to classify the segments into one of four groups based on their competitiveness:

Rising stars: goods whose exports are gaining ground in dynamic sectors of global import markets.

Lost opportunities: goods whose exports are losing ground in dynamic sectors of world import markets.

Falling stars: segments whose exports are gaining ground in declining sectors of global import markets.

Retreats: segments whose exports are losing ground in declining segments of world import markets.

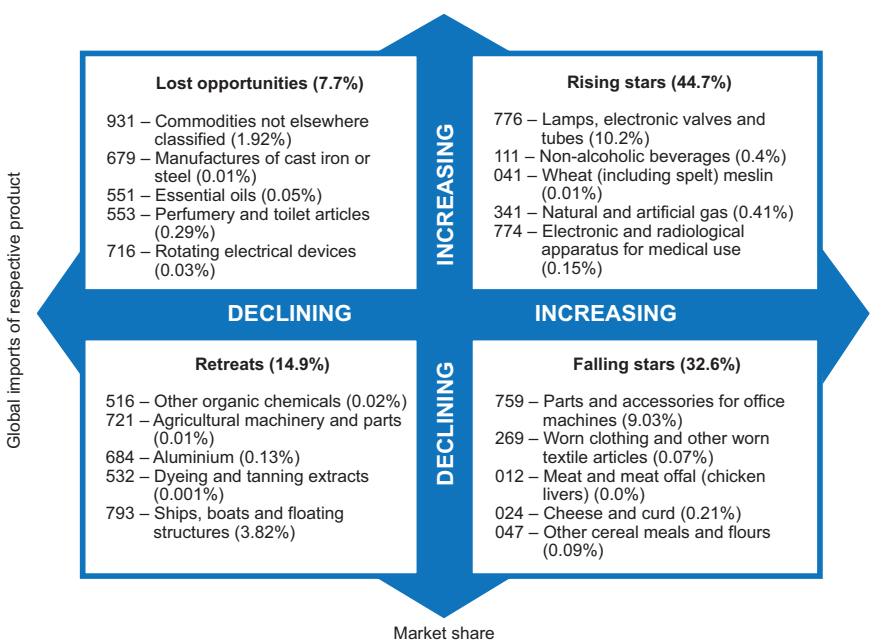
In 1990-2009,[16] 44.7% of Central America's exports were classified in the "rising stars" category, such as lamps, non-alcoholic beverages, electrical equipment, wheat, natural and artificial gas, electronics and radiological devices for medical use (see diagram IV.2). Another 32.6% were in the "falling stars" category, since, although they were gaining share in foreign markets, that share was unfortunately in segments that

[15] See http://www.eclac.org/MAGIC/ [online].

[16] A more detailed analysis divides this period as follows: 1990-2000, when export competitiveness was rapidly gaining ground, 2000-2005, when competitiveness ebbed, and the subperiod since 2006, when a gradual recovery in competitiveness is observed.

were declining. This category includes spare parts for office machinery, worn clothing and other worn textile articles, and meat and meat offal (e.g., chicken livers), cheese and curd, and other cereal meals and flours. Another 7.7% of the subregion's exports fall into the category of "lost opportunities" (manufactures, special unclassified merchandise, cast iron and steel manufactures, essential oils, perfumery and toilet articles, and rotating electrical devices). From the standpoint of competitiveness, the figures indicate that the subregion has a challenge to overcome, since its production activities are failing to take full advantage of the opportunities offered by the dynamic segments and niches of the world market. They also point to the need to target more dynamic markets. And then there are the "retreats", which accounted for 14.9% of the exports of Central America and the Dominican Republic. Some of the products in this category are organic chemicals, agricultural machinery and spare parts, aluminium, and dyeing and tanning extracts.

Diagram IV.2
Central America and the Dominican Republic: matrix of global export competitiveness,[a] 1990-2009



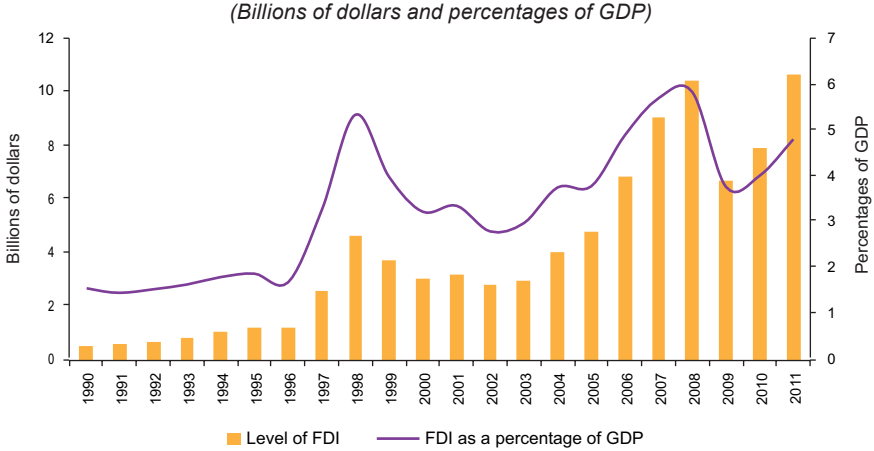
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the trade competitiveness database of TradeCAN, 2011.

[a] Products are classified according to the Standard International Trade Classification (SITC) system. Each quadrant shows the five activities with the largest shares in the subregion's total exports for the relevant category.

4. Foreign direct investment

FDI has played a key role in the growth of the export sector in Central America and the Dominican Republic. During an initial stage, the privatization of State-owned companies, trade liberalization, the deregulation of foreign corporate ownership and the introduction of tax incentives to promote exports (free-trade areas, maquila and temporary import regimes) were used to attract foreign investment to the subregion.[17] The Caribbean Basin Initiative was also a great help, since it attracted large amounts of investment to the wearing apparel sector. More recently, the conclusion of trade agreements and the progress made by integration initiatives have opened up potential opportunities for companies that seek to have an export platform in the subregion to gain access to larger markets. Despite slowing during some economic slumps, annual FDI flows into Central America climbed from US$ 523.8 million in 1990 to US$ 10.617 billion in 2011 (see figure IV.10). As a percentage of GDP, they rose from 2.4%, on average, in the 1990s to 3.8% in the first decade of the twenty-first century (see table IV.9).

Figure IV.10
Central America and the Dominican Republic: foreign direct investment, 1990-2011
(Billions of dollars and percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official statistics.

[17] The WTO states that incentives that can be classified as export subsidies should be dismantled or replaced by other measures. At the close of 2011, Costa Rica and Panama had passed amendments that altered their incentive systems on this matter. El Salvador and the Dominican Republic continue to grant tax exemptions not tied to companies' export performance.

Table IV.9
Central America and the Dominican Republic: selected foreign direct investment indicators, 1990-2010
(Millions of dollars and percentages)

Country	1990-1999			2000-2010			Average percentage share
	Average amount *(millions of dollars)*	Percentage of GDP	Average annual growth rate [a] *(percentages)*	Average amount *(millions of dollars)*	Percentage of GDP	Average annual growth rate [a] *(percentages)*	
Costa Rica	351.3	3.1	109.7	1 161.8	4.1	116.1	21.9
El Salvador	143.7	1.2	21.9	459.5	2.6	107.5	6.2
Guatemala	150.4	1.0	117.0	540.2	1.9	114.2	9.3
Honduras	86.0	2.0	124.3	620.7	5.1	109.3	8.6
Nicaragua	93.3	2.8	53.1	376.4	6.9	112.4	5.4
Panama	481.7	5.2	116.5	1 410.6	6.8	114.6	24.4
Dominican Republic	382.3	2.3	121.8	1 470.7	4.4	108.6	24.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Geometric mean.

The countries that receive the most FDI are Panama, the Dominican Republic and Costa Rica. They accounted for an average of 70.5% of all FDI flowing into the subregion between 1990 and 2011. The share for Guatemala is 9.3%; Honduras, 8.6%; El Salvador, 6.2%; and Nicaragua, 5.4%. During this period, FDI momentum varied from country to country. The lowest growth rates wereregistered by El Salvador and Nicaragua and the highest by Guatemala and Honduras (16%). This uneven pattern is partially due to differences in the timing and intensity of the structural reforms implemented in these countries. As for the destinations of these investments, three different phases can be identified in terms of the institutional structures created by the various trade agreements and the business cycles of the world economy. The first, from 1990 to 1998, is associated with the tariff preferences granted by the United States to the countries of the Caribbean basin within the framework of the Caribbean Basin Initiative (which did not conform to the general rules of GATT, now WTO), which channelled FDI towards the textile and garment industries.

During the second phase, from 1999 to 2003, FDI slackened, partly because of the termination of the WTO Agreement on Textiles and Clothing, which signalled the end of the quotas and tariff concessions that had been granted to the subregion. As a result, the subregion became less competitive relative to the Asian countries (Hernández, Romero and Cordero, 2006). During this period, foreign investment went more to light manufacting, especially medical and electronic instruments, mainly in Costa Rica and the Dominican Republic.

A third phase began in 2005 with a resurgence in FDI, especially in natural-resource-related activities. This upswing was driven by multinationals' renewed interest in these resources because of the price hikes for raw materials and the promising opportunities for investment associated with trade liberalization and deregulation.[18] In Panama, the Dominican Republic, El Salvador and Nicaragua, FDI was concentrated in the services sector, especially in telecommunications, financial services, freight and transportation (see tables IV.10 and IV.11).

Table IV.10
Central America and the Dominican Republic: sectoral distribution of foreign direct investment, 1999-2011
(Percentages)

Sector	Costa Rica	El Salvador	Guatemala[a]	Honduras	Nicaragua	Panama	Dominican Republic
Natural resources	3.2	1.5	19.1	11.0	5.1	0.0	11.1
Manufactures	50.6	20.9	26.2	40.0	24.6	8.1	16.9
Services	46.2	77.6	54.7	49.0	70.3	91.9	72.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Figures for the period from 2005 to 2010.

Table IV.11
Central America and the Dominican Republic: main destination sectors for foreign direct investment, 1999-2011
(Simple averages)

Destination sector	Average percentage share	Average annual growth rates
Natural resources	6.5	27.8
Manufactures	27.0	5.0
Services	66.5	-0.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The trends and composition of FDI during these years have followed three main patterns in the subregion. In Panama, the Dominican Republic and Costa Rica, the main recipient sectors of FDI have been certain services (financial services, tourism, real estate, remote business services, telecommunications software), together with energy and technologically sophisticated manufactures (semiconductors). The second group includes El Salvador —the first country in the subregion to be a recipient of FDI

[18] There has been no common pattern of legislative changes in Central America in connection with the development of natural resources. For years now in Panama, the aim has been to liberalize the mining sector, whereas in Costa Rica and other countries, environmental restrictions are being put in place in the mining sector.

for airplane maintenance, as well as agroindustry, medical devices, tourism and business process outsourcing (BPO)— and Guatemala, which is a destination for FDI in electronic components, spare automobile parts and various types of manufactures. In the third group, Nicaragua and Honduras, FDI is concentrated in traditional textiles and wearing apparel in the free-trade areas, although efforts are being made to attract FDI to call centres, BPO, agribusiness, renewable energy and tourism (ECLAC, 2011a). In 1990-2011, the main FDI source countries for the subregion were the United States (45.9%), Canada (13.3%), Spain (11.1%) and Mexico (8.5%). At the subregional level, the largest investor has been Panama (4.0%).

Despite their buoyancy, FDI flows have not entirely balanced out the net outflows, owing to repatriation of profits and dividends (see table IV.12). Consideration should therefore be given to the introduction of economic policies that provide incentives for the reinvestment of FDI profits in the subregion.

Table IV.12
Central America and the Dominican Republic: outflows of profits and dividends minus inflows of foreign direct investment, 1990-2011
(Percentages of GDP)

Country	1990-1999	2000-2008	2009-2010	2010-2011
Costa Rica	1.3	2.0	2.3	1.7
El Salvador	0.5	0.5	0.3	0.9
Guatemala	0.5	0.9	2.2	2.5
Honduras	1.5	3.7	3.7	4.1
Nicaragua	1.0	1.8	1.9	2.0
Panama	4.7	5.4	6.3	6.3
Dominican Republic	2.8	5.1	3.4	3.3
As a percentage of subregional GDP	1.9	3.1	3.0	2.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

C. Structural change in Central America and the Dominican Republic

1. The dynamics of the production structure

During the period under study, the subregion's real GDP nearly tripled, climbing from US$ 67.115 billion in 1990 to US$ 171.176 billion (constant 2005 prices) in 2011. At 4.6%, the average annual growth rate for the subregion's GDP outdistanced the rate for Latin America and the Caribbean as a whole (3.2%). On average, the Dominican Republic generated 25.6% of the subregion's GDP over this 21-year period, followed

by Guatemala (21.7%), Costa Rica (15.2%), El Salvador (13.7%), Panama (12.3%), Honduras (7.6%) and Nicaragua (3.8%). The Dominican Republic and Panama have shown the most dynamic performances. Their growth rates of 5.6% and 5.9%, respectively, were the highest in Latin America or the Caribbean during this period. They are followed by Costa Rica (4.7%), Guatemala and Honduras (both with 3.7%), Nicaragua (3.3%) and El Salvador (3.2%).

Between 1991 and 2000, Honduras and Nicaragua were the slowest-growing economies. However, in the following years (2000-2008), the Honduran economy burgeoned, while El Salvador and Guatemala were hit by strong economic shocks. In 2009, GDP rose only in the Dominican Republic, Panama and Guatemala (see table IV.13) and shrank in the rest of the subregion but. The upswing that followed in 2010-2011 enabled Panama, the Dominican Republic and Nicaragua to regain pre-crisis rates of real GDP growth. In the former two, this recovery was linked to the continuation of public investment programmes that had been introduced quite some time ago.

The service sector had the largest share of the subregion's GDP. It stood at 63% in 1990 and rose to 68% by 2011 (see table IV.14). The industrial sector has the second-largest share of GDP, although it has declined slightly in this period (24.4% in 1990 versus 22.2% in 2011). The agricultural share of agriculture has decreased the most (from 12.6% in 1990 to 9.5% en 2011), except in Nicaragua.

Between 1990 and 2011, the service sector consolidated its strong position in the region's GDP, although trends differed somewhat from country to country. The industrial sector's share increased in El Salvador, Nicaragua and Costa Rica, but decreased in Guatemala and Honduras. The share of services was larger in Guatemala, Honduras and the Dominican Republic, but grew only marginally in Costa Rica and El Salvador. Nicaragua is the only country in which the share of services in GDP declined during this period.

The above-mentioned shifts in the sectoral composition of GDP provide further evidence of the scant change in the countries' production structures. An analysis at a more disaggregated level indicates that Panama was the only country in the subregion that underwent a major structural change (equivalent to 21% of its GDP) (see table 6 in the statistical appendix). In all the others, the composition of GDP changed much less (the equivalent of between 9% and 13%). El Salvador registered the smallest degree of structural change in the region (9%). During 2000-2011, when its economic growth slowed significantly, the magnitude of the change in the country's production structure was less thn 2% of GDP, the smallest in the subregion.

Table IV.13
Central America and the Dominican Republic: GDP, by sector, for selected periods
(Average annual growth rates)

Country	1990-2000				2000-2008				2008-2009				2009-2011				1990-2011			
	Agriculture	Industry	Services	GDP	Agriculture	Industry	Services	GDP	Agriculture	Industry	Services	GDP	Agriculture	Industry	Services	GDP	Agriculture	Industry	Services	GDP
Costa Rica	4.0	6.1	4.4	5.2	3.1	4.8	5.1	5.0	-3.0	-3.7	1.8		3.3	2.3	4.8	4.7	3.3	4.7	4.5	4.7
El Salvador	1.3	5.2	3.8	4.6	2.8	2.1	2.5	2.6	-3.2	-2.9	-2.7	-3.1	-0.4	1.9	1.8	1.4	1.5	3.3	2.8	3.2
Guatemala	3.4	2.9	4.7	4.1	2.8	3.1	4.8	3.8	3.8	-3.1	2.4	0.5	2.7	1.6	4.4.	3.4	3.2	2.6	4.6	3.7
Honduras	2.6	3.4	3.4	3.3	3.4	4.0	7.0	5.0	-1.4	-8.6	0.7	-2.1	3.5	2.9	3.1	3.2	2.8	3.0	4.6	3.7
Nicaragua	4.8	3.7	2.4	3.4	2.8	3.5	3.9	3.3	-0.6	-4.2	-0.2	-1.5	5.5	6.2	2.6	4.6	3.8	3.4	2.9	3.2
Panama	4.2	6.3	5.1	5.1	6.1	4.5	6.4	6.5	-5.3	2.0	4.7	3.9	-3.7	7.7	9.5	9.1	3.6	5.6	6.0	5.9
Dominican Republic	2.3	6.8	5.7	6.1	2.6	2.4	5.5	5.2	10.1	-1.9	3.7	3.5	6.0	6.5	5.2	6.1	3.1	4.6	5.5	5.6
Subregion	3.0	5.0	4.7	4.8	3.2	3.0	5.1	4.6	1.3	-2.5	2.2	0.8	2.7	4.6	5.1	4.9	3.0	3.8	4.8	4.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Table IV.14
Central America and the Dominican Republic: sectoral composition of real GDP,[a] 1990-2011
(Percentages of total GDP)

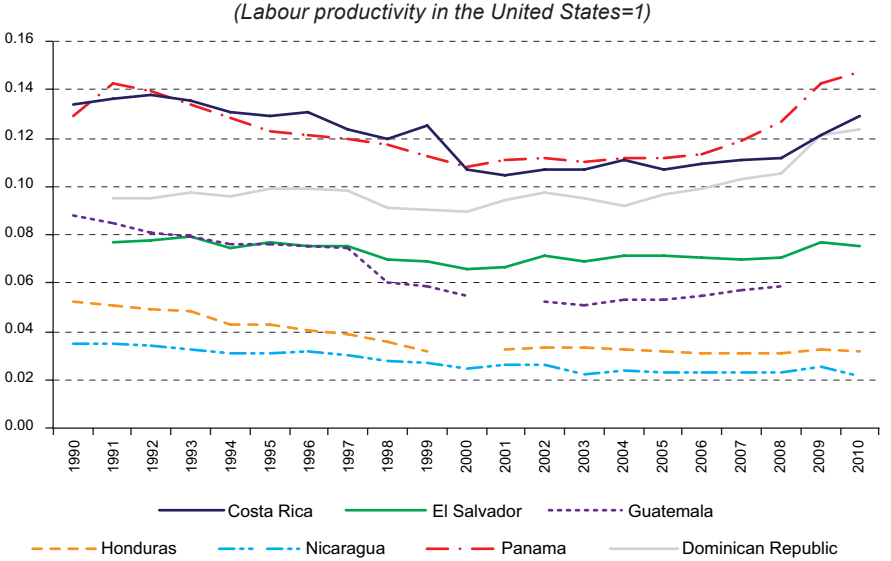
Country	1990 *(percentages)*	2011 *(percentages)*	Difference 2011-1990
Costa Rica			
Agriculture [b]	10.3	8.1	-2.2
Industry [c]	22.7	23.9	1.2
Servicies [d]	67	68	1
El Salvador			
Agriculture [b]	14.2	10.9	-3.2
Industry [c]	23.2	25.7	2.5
Servicies [d]	62.7	63.4	0.7
Guatemala			
Agriculture [b]	15.5	13.4	-2.1
Industry [c]	28.1	21.4	-6.6
Servicies [d]	56.4	65.2	8.7
Honduras			
Agriculture [b]	16.2	12.9	-3.3
Industry [c]	27.2	22.3	-4.9
Servicies [d]	56.6	64.8	8.2
Nicaragua			
Agriculture [b]	17	19.5	2.5
Industry [c]	22.1	23.4	1.3
Servicies [d]	60.9	57.1	-3.8
Panama			
Agriculture [b]	8	5.2	-2.8
Industry [c]	12.8	12.4	-0.5
Servicies [d]	79.2	82.4	3.2
Dominican Republic			
Agriculture [b]	10.4	7.1	-3.3
Manufacturing [c]	27.9	25.5	-2.4
Servicies [d]	61.7	67.4	5.8
Subregion			
Agriculture [b]	12.6	9.5	-3.1
Manufacturing [c]	24.4	22.2	-2.3
Servicies [d]	63.0	68.3	5.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Total GDP does not include adjustments for financial services.
[b] Includes mining.
[c] Includes construction.
[d] Includes other services and basic services

2. Gains and lags on the road towards a virtuous triad of economic expansion: GDP, employment and productivity

Latin America has made a poor showing in recent years in terms of labour productivity. For example, between 2002 and 2010, sub-Saharan Africa and Eastern Asia (even excluding Japan and the Republic of Korea) recorded average annual gains in labour productivity of 2.1% and 8.3%, respectively, versus the 1.5% increase recorded for Latin America (ECLAC/ILO, 2012). Central America and the Dominican Republic face a similar challenge. With an average 2.1% rate in productivity growth between 1990 and 2011, the subregion fell further behind. During those two decades, only Panama and the Dominican Republic (with average annual labour productivity gains of 2.9% and 3%, respectively) managed to narrow the gap with the United States. By contrast, labour productivity slipped in Nicaragua, Honduras and Guatemala, although it showed a moderate increase in El Salvador and Costa Rica (see figure IV.11 and table IV.15).

Figure IV.11
Central America and the Dominican Republic: labour productivity in the subregion relative to labour productivity in the United States, 1990-2010
(Labour productivity in the United States=1)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Table IV.15

Central America and the Dominican Republic: employment, gross domestic product and productivity, 1991-2011

(Average annual growth rates in percentages)

Country	1991-2000			2001-2008			2009			2010-2011			1990-2011		
	GDP	Employment	Productivity	GDP	Employment	Productivity	GDP	Employment	Productivity	GDP	Employment	Productivity	GDP	Employment	Productivity
Costa Rica [a]	5.2	3.6	1.5	5	3.8	1.2	-1.0	0.3	-1.3	4.4	0.7	3.7	4.7	3.2	1.5
El Salvador [b]	4.6	2.4	2.1	2.6	1.2	1.4	-3.1	-2.2	-0.9	1.4	1.4	0.0	3.2	1.5	1.7
Guatemala [c]	4.1	5.2	-1.0	3.8	2.2	1.6	0.5	nd	nd	3.4	0.6	2.8	3.7	4	-0.3
Honduras [d]	3.3	5.1	-1.7	5	5.1	-0.1	-2.1	2.9	-4.9	3	2	1.0	3.7	4.5	-0.8
Nicaragua [e]	3.4	3.1	0.3	3.3	3.9	-0.6	-1.5	-3.3	1.9	4.6	5	-0.4	3.2	4.2	-1.0
Panama [f]	5.1	3	2.0	6.5	3.8	2.6	3.9	1.2	2.7	9.1	-0.2	9.3	5.9	2.9	2.9
Dominican Republic [g]	6.1	3.2	2.8	5.2	2.5	2.6	3.5	-1.5	5.1	6.1	4.4	1.6	5.6	2.7	2.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Based on figures from the Statistics and Censuses Bureau of the Ministry of National Planning and Economic Policy (MIDEPLAN).

[b] Based on figures from the Statistics and Censuses Bureau, Multi-purpose Household Survey, 1998 and 2002; International Labour Organization (ILO), Key Indicators of the Labour Market (KILM) database.

[c] Based on figures from the Ministry of Labour and Social Security and the National Statistics Institute (INE).

[d] ECLACSTAT.

[e] From 1990 to 2002, ECLACSTAT; from 2003 to 2011, on the basis of figures from the National Institute of Statistics and Censuses (INEC) and urban employment figures compiled from household surveys conducted by the Ministry of Labour.

[f] On the basis of The Economist Intelligence Unit.

[g] ECLACSTAT.

Within the scope of this analysis, it would seem that a given economic growth path within a specified period can be considered to be balanced if the average growth rates for employment and labour productivity match one another. Such a growth path can be described as entailing a virtuous circle if two essential conditions are fulfilled: (i) if, on a systematic basis, the number of jobs being created is sufficient to absorb the expansion of the labour force; and (ii) if productivity is rising at a sufficiently rapid rate to narrow the gap with the technological frontier (whether of the United States or the Organization for Economic Cooperation and Development (OECD)). For the purposes of this analysis, an economy is considered to be on a balanced growth path if, for the period under study, the difference between the average annual growth rates for employment and productivity is not greater than one percentage point. In addition, both rates must be positive. Even though the growth path may be balanced, it is also important to ensure that other key constraints (e.g., constraints relating to the balance of payments or fiscal balances) do not block the possibility of maintaining a high, sustained rate of economic growth.

Using these parameters as a basis, it can be seen that the growth paths of Panama, the Dominican Republic and El Salvador in 1990-2011 reflect a balanced relationship between employment and labour productivity. Honduras, Nicaragua and Guatemala registered sharp increases in employment, but downturns in labour productivity, which together made for sluggish GDP growth. Costa Rica is an intermediate case in that its economic growth was bolstered by employment, while the rise in productivity was moderate. In 2000-2008, Guatemala witnessed a balanced expansion, as did the Dominican Republic and El Salvador. It is somewhat surprising to note that GDP and employment both climbed in Honduras (5%) while labour productivity remained at a standstill. During these years the Honduran economy registered the steepest increase in employment in the entire subregion, but its growth was chiefly driven by low-productivity sectors. In Nicaragua, productivity waned. Costa Rica's success in maintaining a strong GDP growth rate was based primarily on labour intensiveness rather than productivity gains (see table IV.15).

The impact of the 2008-2009 crisis on the subregion varied from economy to economy. In Honduras and Costa Rica, employment declined less than in other countries but at the cost of drops in productivity. In El Salvador, both employment and productivity fell. Panama and the Dominican Republic managed to increase their pace of economic activity, but turned in a poor performance in terms of labour absorption. In fact, employment actually shrank in the Dominican Republic. In 2010-2011, GDP rebounded in all the countries

of the subregion, but it regained its pre-crisis levels only in Panama, the Dominican Republic and Nicaragua. In the course of this recovery, imbalances between the growth rates for employment and productivity were heightened. During those two years, Panama experienced a surge in economic growth (9.1%) that was buttressed by a sizeable upturn in productivity. For their part, Costa Rica and Guatemala saw an upswing that was driven more by productivity gains that by increases in employment. By contrast, the Dominican Republic (the economy that marked up the second-most rapid growth rate during the recovery period) boosted its employment levels sharply while its productivity slumped. Honduras and El Salvador followed a similar pattern, with a 2% increase in employment that far outdistanced its productivity gains. Nicaragua's recovery was very imbalanced, since employment levels surged while productivity flagged. El Salvador recorded the subregion's lowest post-crisis GDP growth rate, which fell so sharply that its economy registered the lowest growth rate in the subregion and, in fact, in all of Latin America for 2000-2010.

Between 1990 and 2011, the gaps between the subregion's GDP growth and productivity gains widened. Panama, the Dominican Republic and, to a lesser extent, Costa Rica grew the fastest. Honduras, Guatemala, Nicaragua and El Salvador expanded more slowly. The average annual GDP growth rates for the first of these two groups outdistanced the rates registered by the second group by nearly two percentage points. The productivity differential between the Dominican Republic and Panama, on the one hand, and the rest of Central America, on the other, is quite stark (between 1.5 and nearly 4 percentage points).

In most countries of the subregion there was a relative decline in employment in agriculture and an increase in employment in the services sector (see table IV.16). The exceptions were El Salvador and Guatemala, where agricultural employment sector rose whereas the industrial and services sectors were unable to absorb a significant proportion of the increased workforce. The agricultural sector's share of GDP shrank in all the countries except Nicaragua and Panama. The expansion of this sector's share in Nicaragua was associated with a slump in services and no more than a very slight expansion of industry. The relative size of the manufacturing sector increased in Costa Rica and El Salvador, but its growth was sluggish in the Dominican Republic. The percentage share of the services sector rose in all the countries except Costa Rica and Nicaragua, although the increase was less sharp in Guatemala and Honduras (4.7% and 5.4%, respectively). While the service sector plays an important role in the subregion, its relative productivity edged up by less than one-half a percentage

point. This indicates that the larger share of services in GDP has not been paired with a relative increase in its productivity, which, in turn, suggests that, within this sector, services that do not provide a great deal of value added were the ones that expanded the most in response to faster-growing sectors' inability to absorb any significant portion of the workforce.

Sectoral growth figures and relative productivity levels during the period from 1991 to 2006 reflect the following general trends:[19]

i) The service sector's share of GDP expanded in Guatemala, Honduras, the Dominican Republic and Panama. In the former two, the relative level of productivity in services rose and, in the other two, it held more or less steady.

ii) In Costa Rica, El Salvador, Nicaragua and the Dominican Republic, the manufacturing sector's share of GDP expanded. In the first two, that increase was coupled with relative productivity gains associated with a decline in employment.

iii) Nicaragua was the only country in the subregion to witness an increase in the farm sector's share of GDP; that share held steady in Panama and shrank in all the rest. Relative productivity climbed in Costa Rica, Nicaragua and Panama, thanks to considerable drops in the share of total employment represented by the farm sector.

Activities that qualify for special export regimes, such as those included in free-trade areas, out-performed activities catering to the local market in terms of labour productivity. This differential points up one of the major challenges relating to their development patterns. Meeting that challenge will involve determining how to deal with the export sector's insufficient capacity to boost productivity and output growth in the overall economy. For example, labour productivity gains in the free-trade areas of Costa Rica in 2006-2010 were almost four times greater than in the rest of the manufacturing sector. This points up the need for public policies aimed at ensuring that the two sectors' productivity levels (regardless of what their main destination markets are) converge on an upward trend and that the linkages between the two increase.

[19] Based on an analysis of trends in relative productivity levels as measured against GDP growth and increases in sectoral employment between 1991 and 2006 (the most recent year for which sectorally disaggregated, comparable data were available at the subregional level).

Table IV.16

Central America and the Dominican Republic: composition of GDP, employment and relative productivity, by sector, 1991 and 2006

(Percentages)

	1991			2006			Differential 2006 - 1991		
	GDP [a] (A)	Employment (B)	Relative productivity (A/B)	GDP [a] (C)	Employment (D)	Relative productivity (C/D)	GDP [a] (C-A)	Employment (D-B)	Relative productivity (Differential)
Costa Rica									
Agriculture [b]	10.7	25.7	0.4	9.1	14.6	0.6	-1.6	-11.2	0.2
Industry [c]	22.3	26.5	0.8	25.9	22.6	1.1	3.6	-4.0	0.3
Services [d]	66.9	47.7	1.4	64.9	62.9	1.0	-2.0	15.1	-0.4
Total	100.0	100.0	1.0	100.0	100.0	1.0	0.0	0.0	0.0
El Salvador									
Agriculture [b]	13.8	10.4	1.3	10.7	18.9	0.6	-3.1	8.5	-0.8
Industry [c]	24.2	28.7	0.8	26.3	23.0	1.1	2.1	-5.7	0.3
Services [d]	62.0	60.9	1.0	63.0	58.1	1.1	1.0	-2.8	0.1
Total	100.0	100.0	1.0	100.0	100.0	1.0	0.0	0.0	0.0
Guatemala									
Agriculture [b]	15.5	13.6	1.1	13.9	33.2	0.4	-1.6	19.6	-0.7
Industry [c]	27.7	33.0	0.8	24.6	22.8	1.1	-3.1	-10.2	0.2
Services [d]	56.8	53.4	1.1	61.5	44.0	1.4	4.7	-9.4	0.3
Total	100.0	100.0	1.0	100.0	100.0	1.0	0.0	0.0	0.0
Honduras									
Agriculture [b]	17.0	38.1	0.4	13.7	36.3	0.4	-3.3	-1.8	-0.1
Industry [c]	26.9	21.2	1.3	24.9	21.7	1.1	-2.0	0.5	-0.1
Services [d]	56.1	40.7	1.4	61.5	42.0	1.5	5.4	1.3	0.1
Total	100.0	100.0	1.0	100.0	100.0	1.0	0.0	0.0	0.0

Cuadro IV.16 (concluded)

	1991			2006			Differential 2006-1991		
	GDP [a] (A)	Employment (B)	Relative productivity (A/B)	GDP (C)	Employment (D)	Relative productivity (C/D)	GDP (C-A)	Employment (D-B)	Relative productivity, differential
Nicaragua									
Agriculture [b]	16.6	41.6	0.4	19.1	29.1	0.7	2.5	-12.5	0.3
Industry [c]	23.0	14.6	1.6	23.9	19.3	1.2	0.8	4.7	-0.3
Services [d]	60.4	43.8	1.4	57.1	51.6	1.1	-3.3	7.8	-0.3
Total	100.0	100.0	1.0	100.0	100.0	1.0	0.0	0.0	0.0
Panama									
Agriculture [b]	7.6	26.6	0.3	7.6	19.5	0.4	0.0	-7.1	0.1
Industry [c]	14.5	14.6	1.0	12.0	17.9	0.7	-2.5	3.3	-0.3
Services [d]	77.9	58.8	1.3	80.5	62.6	1.3	2.5	3.8	0.0
Total	100.0	100.0	1.0	100.0	100.0	1.0	0.0	0.0	0.0
Dominican Republic									
Agriculture [b]	10.7	20.3	0.5	7.6	15.6	0.5	-3.1	-4.7	0.0
Industry [c]	27.3	22.9	1.2	28.0	23.0	1.2	0.7	0.1	0.0
Services [d]	62.0	56.7	1.1	64.4	61.4	1.0	2.4	4.7	0.0
Total	100.0	100.0	1.0	100.0	100.0	1.0	0.0	0.0	0.0

Source: Prepared by the authors on the basis of ECLACSTAT.

[a] The GDP figures used in this table are the figures recorded for agriculture, industry and services.

[b] Includes mining.

[c] Includes construction.

[d] Includes other services and basic services.

Note: The figures for GDP and employment for each country show the sector's share of the total for 1991 and 2006. The productivity figures reflect the coefficient for those shares. This coefficient therefore denotes the differential between the sector's productivity and the mean productivity of the economy as a whole, which, my definition, is taken as the unit of comparison.

D. Incorporating technology and moving up the value chain: challenges for the subregion

The structural changes needed to drive development entail a structural transformation of output and employment to foster the creation of a virtuous circle of productive specialization and dynamic positioning in the global economy. In order to consolidate this virtuous circle of growth, the countries will have to make headway in three areas: (i) diversification and densification of the production matrix in order to generate more linkages and more spillovers among economic activities; (ii) innovation patterns that will boost productivity and decent employment, thereby narrowing the internal and external gaps separating these countries from developed nations; and (iii) a more equal distribution of income in order to raise the population's well-being and expand the domestic market (ECLAC, 2012b). A structural change of this sort can place the subregion's economy on a sustainable, equality-based development path. This approach calls for the coordination of macroeconomic policy and productive development policies in order to ensure that trade and fiscal deficits are held to sustainable levels and that debt overhangs and bottlenecks are avoided.

The subregion embarked on a determined effort, most notably in the 1990s, to boost its economic growth on the back of foreign trade and to strengthen its bid for open regionalism. This gave rise to a change in the structure of the export-oriented sector, but it remained subject to major constraints in terms of innovation, productivity and quality job creation. Central America's natural-resource-based export basket gave way to an export basket based on manufactures. The Caribbean Basin Initiative, FDI tax incentives and textiles and clothing maquila industries all played an important part in this transition. More recently, the global relocation of different stages in the production of such goods as electronics and medical equipment have opened up opportunities for the countries to position themselves more dynamically in the global market. New products and new partners are opening up new opportunities. In recent years, the outsourcing of business processes (including call centres), medical services, tourism, logistics and remote professional services have all played an important role. Yet only Costa Rica, Panama and the Dominican Republic have marked up trade surpluses on the services account and, even then, those surpluses have not counterbalanced the deficits in merchandise trade.

Although the export basket was changing radically, the overall production and employment structures was not. In the absence of a proactive sectoral policy or industrial policy, this transition was mainly supported by trade policies. But they failed to address the existing degree of structural heterogeneity. The sector with linkages to external markets and with access to special export arrangements (free-trade areas) outdistanced

the rest of the economy in terms of productivity gains. However it failed to buoy the other sectors or to place them on a sustained growth path. This simply reinforced the existing structural duality in these countries which makes it all the more difficult for them to break out of their pattern of slow growth in production and employment. Clearly, then, public policies are needed that will foster greater convergence and stronger linkages between domestic and export sectors.

FDI is one of the pillars of the strategy being used by Central America and the Dominican Republic to position themselves more dynamically in international markets and promote their exports. The incentives that they have put in place to attract FDI include, as discussed earlier, free-trade areas and special export arrangements (ECLAC, 2011a). In all, 35% of the FDI received by the subregion (apart from Guatemala and Panama) went to manufacturing, with the bulk of these resources directed to maquila industries producing goods for sale to the United States. In Panama, the Dominican Republic, El Salvador and Nicaragua, the remainder is concentrated in services, and particularly telecommunications, financial services, freight and transport.

Despite the strength of FDI flows, the foreign exchange balance shows a deficit when net capital flows and remittances of profits and royalties are factored into the calculations. Means should therefore be devised of encouraging firms to plough back their profits into the subregion and of increasing the number of companies with linkages to global value chains —which are generally sited in free-trade areas— along with their suppliers and integrating them into the rest of the economy. These kinds of linkages do not occur spontaneously; public policies have to be specifically designed to build production and technological capacity and to promote this kind of investment.

The integration of the subregion is one means of addressing the challenge posed by economic duality. Subregional trade is a learning tool and a way to build skills and capacity, and it thus helps to make the economies more competitive in the international market. It is easier for small and medium-sized enterprises to gain entry into subregional trading activities as a first step towards eventually joining global value chains, including those that may incorporate growing numbers of "trans-Latins". In order to derive greater benefit from the integration process and help to generate a virtuous cycle of structural change, the Central American countries of the subregion need to address at least five strategic challenges: (i) increasing their participation in global value chains by generating more value added and creating high-quality jobs; (ii) leveraging the strength of the services sector by increasing their participation in high-value-added services and those in which productivity gains are greatest; (iii) forging linkages between their export

baskets and high-growth Asian markets and linkages with the rest of the local production apparatus, especially small and medium-sized enterprises; (iv) strengthening subregional markets, including those of Panama and the Dominican Republic; and (v) improving the coordination of subregional public policies and, as part of this effort, aligning FDI and export incentives, trade infrastructure, regulations and migration.

With regard to the first of these challenges, it is important to realize that the subregion's participation in global value chains is vital if it is to consolidate a development process driven by international trade. Entry into these chains can leverage the potential of Central American businesses by enabling them to derive greater benefit from international markets as they capture more of the value generated by the chains operating in their territories and embark on technological learning and innovation processes. This is of great importance for firms operating in small markets because it provides them with a way to increase their scale of production and thus attain levels of efficiency in line with international standards.

Given the importance of small and medium-sized enterprises as job creators, public policies should focus on enabling them to participate more fully in value chains by helping them to build their own innovation capacity and by promoting the generation and circulation of knowledge within the subregion as a key factor in capturing value added (Pozas, Rivera and Dabat, 2010). This transition will have to be made in order to take advantage of the current trends in global innovation networks (offshoring or the relocation of innovation). Public policy efforts that Central America and the Dominican Republic need to undertake in order to deal with emerging challenges, seize opportunities as they arise and, in particular, attract the types of FDI that are more likely to help drive structural change towards inclusive forms of development include the following areas: training knowledge workers; investing in world-class telecommunications and transport infrastructure; improving financial, logistical and business services; fine-tuning subregional integration schemes so that they will help create subregional value chains and leverage innovation; paving the way for the introduction of new business models and approaches (e.g., licensing, franchising, joint ventures) for coordinating global innovation networks with local development; bolstering national innovation systems and their linkages with global corporate and academic R&D networks; increasing the availability of risk capital as a mechanism for the incubation of businesses that will engage in commercial innovations in line with the corresponding degree of technological sophistication and type of production chain involved; developing instruments for promoting collaboration among the participants in innovation and dissemination systems, including the creation of scientific and technological parks; and promoting joint research efforts on the part of universities, public research centres and businesses.

Value chains have to be linked up much more with innovation systems in order for these economies to move up the chain to links that add more value. Thanks to the fact that the commitments made commercial agreements in the area of innovation are less restrictive, the field is wide open for science, technology and innovation policies that are aligned with a productive development policy aimed at linking national firms up to global value chains. But in order to design a public policy of this sort, a national productive development strategy must be in place. Free trade treaties and other multilateral agreements limit the use of economic policies designed to promote the development of the production sector because they ban various types of incentives and subsidies for exports and local production activities. There is a great deal of scope, however, for productive development and innovation policies that can be used in the subregion. These include public investment and fiscal and credit policies aimed at boosting investment, education science, technology and innovation policies, and policies revolving around the use of development banking as a source of long-term financing. There are also many areas in which subsidies and other fiscal and financial instruments can be used in the services sector and in innovation activities. A number of sectors of opinion advocate focusing these kinds of instruments on activities based on new technologies or special types of training and on relatively less developed regions (Mercado, 2010). Others think that they should be geared to technologically sophisticated activities that are in great demand on the international market and that are capable of generating strong internal linkages. In the field of science, technology and innovation policy, available instruments include public-sector procurement, quality promotion mechanisms, measures for strengthening education and an array of financial measures, such as credit guarantees, venture capital funds, subsidies and tax incentives.

Another challenge is for the countries to find ways of leveraging the dynamism of international trade in services and positioning themselves in activities linked to high-productivity, high-value-added links in the value chain. Steps should be taken to broaden the institutional framework for the promotion of service exports by, among other things, designing specific promotion tools and creating subregional public goods, building a shared network of telecommunications and transport infrastructure, providing access to internationally certified skilled labour and entering into agreements that will increase the mobility of that segment of the workforce.[20] During an initial stage, public policies could be directed towards using the various instruments discussed above to attract FDI. During the next stage, subregional public policy action could focus on the development of contractual relationships between subsidiaries or affiliates of transnational

[20] See Sáez (2005), and Marconini (2006).

corporations and local service providers as a first step towards the formation of medium- and long-term partnerships. Other possible measures include the harmonization of tax regulations and the alignment of infrastructure costs within the subregion.

The third challenge is to find ways of taking advantage of the strength of Asian markets. Emerging markets have shown signs of becoming de-linked from industrialized countries' business cycles. One piece of evidence in this regard is the fact that countries such as China and India have been less strongly affected by the international financial crisis. Thus, in addition to the strong growth of trade in Asian markets, the behaviour of these markets with regard to the business cycle is a factor that should be taken into account by the subregion. As for the fourth challenge, the subregional market would benefit from Panama's entry into CACM as a full-fledged member. Panama has negotiated free-trade treaties with all the countries of the subregion and recently signed a protocol on CACM membership. As has happened in the cases of El Salvador and Guatemala, Panama could take advantage of its similarities, shared border and economic complementarity with Costa Rica to move forward with its institutional preparations for fuller participation in CACM. Subregional trade has been bolstered by the trade agreement with the Dominican Republic, and in all likelihood Panama's entry would have much the same kind of effect.

Finally, subregional integration efforts could be directed towards public policy coordination and the design of national policies that foster integration. Examples would include efforts to improve and expand trade infrastructure, FDI and export incentives, and the corresponding regulatory frameworks. Nor should the countries neglect any of the various initiatives that have been driving subregional integration ever since their inception, such as the International Network of Meso-American Highways (RICAM), the Coastal Shipping Development Project (TMCD) and initiatives to reduce border-crossing times such as the Meso-American Procedure for the International Transit of Goods (TIM). Efforts should be devoted to coordinating and planning these projects, whose extra-national focus and effects are drivers of subregional development. The fact that the countries of the subregion are making a great deal of use of tax facilities should be borne in mind, as the coordination of the incentives being offered is essential in order to avoid a race to the bottom as the countries strive to attract FDI while at the same time promoting the creation of subregional value chains and the transfer of knowledge and technologies, along with more specific subregional measures, such as labelling initiatives and others.

Chapter V

The balance of payments and economic growth in Central America and the Dominican Republic

Chapter IV looked at changes in the way the subregion participates in global markets, at changes in its production structure in terms of GDP and employment by sector, and at the track record of labour productivity. The findings show that several aspects of export activity and foreign investment changed significantly in Central America and the Dominican Republic between 1990 and 2011. Except for Panama, however, the changes in the external sector were accompanied by very limited transformation of the region's production structure in terms of the share in GDP of the key branches of economic activity.

This chapter complements those findings with an analysis of the impact of fluctuations in prices or in global trade and finance flows on the economies of the subregion and the channels through which such effects are transmitted. It examines the interactions of changes in the balance of payments and trends in national income and production activity. The analysis revolves around the principle that the balance of payments interacts crucially —in both directions, cause and effect— with the rate of growth and the macro performance of small or medium-sized emerging economies that are semi-industrialized and open to trade and external capital flows. This interaction has been sharpened by the intensive globalization process that has taken place over the past 30 years, with the reduction of tariff barriers, increased trade and capital mobility, and their major effects on the pace and stability of growth in all economies, especially emerging ones.[1]

[1] For a broad analysis of the interactions between globalization and development, see ECLAC (2002b). In addition, ECLAC (2010) offers a recent study on that subject and on public policies for boosting equality and growth.

In Central America, the Dominican Republic, the Caribbean and other semi-industrialized economies, globalization opened up great opportunities by broadening markets and providing access to knowledge, innovation and foreign investment. It also brought challenges, because it worsened these economies' vulnerability to fluctuations in international prices or in the volumes traded in key world markets, especially those of finance, food products and oil. In the subregion, as in much of the developing world, these fluctuations manifest themselves in the balance of payments and in the various channels through which the balance of payments exerts a dominant influence on economic growth and stability, understood in the broad sense to include prices, financial flows and fiscal affairs.

More precisely, an emerging economy is considered to be subject to "balance of payments dominance" insofar as external shocks affect its growth over both the short and long terms.[2] External shocks are sudden large fluctuations in prices or in the volumes traded on global markets for goods, services or capital. The most significant of these fluctuations for emerging economies are those in the prices of oil, foods, raw materials and other inputs or products that are important in their commercial transactions with the rest of the world, especially in those that significantly affect their terms of trade. Changes in net resource transfer —for example, through family remittances and flows of foreign investment and short-term capital— are also very important for several Central American economies.[3] This analytical approach recognizes that the balance of payments can influence economic performance as a result of other factors originating in the global economy that alter perceptions of investment risk or affect the cost of sovereign or private debt. This influence can also be triggered, as in the international crisis of 2008-2009, by sudden changes in the valuation of assets, liabilities or capital on the balance sheets of commercial banks or large financial intermediaries.

The procyclical nature of the effects transmitted through the balance of payments poses immense macroeconomic policy challenges. Those effects tend to increase the flow of external resources at boom times in the national economy and to reduce it, sometimes drastically, during times of economic decline or retreat. For example, access to external financing tends to be brutally restricted during economic downturns. A similar pattern occurs with flows of investment and financing, because they tend to facilitate access to external resources at boom times, and to limit it during leaner times. This procyclicality, together with the inadequacy of the international financial system, has translated in the past few years into

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2 See Ocampo (2012b) for a theoretical discussion of balance of payments dominance in developing economies.

3 See ECLAC (2009) for greater detail.

an unprecedented accumulation of international reserves, which act as a cushion against the impact of possible external shocks.

The behaviour of the balance of payments affects the scope for action of macroeconomic policy. The resulting pressures on the balance of payments, in turn, can be considerable; for example, insofar as net resource transfer, certain trade flows or key global market prices have a significant weight in the fiscal accounts. In fact, owing to the dependence of government finances on external resources in some economies, episodes of balance of payments restrictions tend to unleash fiscal crises. It is not infrequent to find that sharp fluctuations in trade and in international financial markets, or in the prices of oil or of staple grains, exert heavy pressure on emerging economies' fiscal budgets. Similarly, massive inflows or outflows of short-term capital can strain monetary and exchange-rate policies and, thus, economic growth and stabilization.

The notion of balance of payments dominance is related to the analytical perspective that assumes an external constraint on long-term economic growth.[4] From this perspective, for an economy to enjoy high growth over the long term, its trade and current account deficits must not rise significantly or unsustainably in relation to GDP. The exact threshold of that proportion is not the same across all economies, nor at all times. It depends in part on the economy's structural characteristics and form of participation in the global economy, and in part on the country's economic outlook and the likely effects of regional contagion in the eyes of the international financial markets and credit rating agencies. Those judgements, whether accurate or not, are unstable and can shift suddenly and drastically, without any change in the fundamentals of the economy in question.

A recent illustration of the importance of the balance of payments for the growth of the economies of the subregion was the international financial crisis of 2008-2009. It was transmitted principally through the contraction of exports and remittances, owing to the slowdown in the United States economy and, in particular, the collapse of its construction sector, which employed a considerable proportion of migrants from the subregion. The terms of trade also had a negative impact in this period. For example, the rise in the oil price quadrupled the subregion's oil bill from US$ 3.202 billion in 2003 to US$ 12.540 billion in 2011. The evolution of financial markets as a result of the crisis also impacted on the subregion, by raising its risk perception and restricting capital flows, as international markets tended to replace emerging economy assets with United States

[4] The seminal work in this line of thinking was that of Thirlwall (1979), based on contributions by Harrod. Moreno-Brid and Perez-Caldentey (1999a, 1999b and 2003) were the first to apply this methodology to the Central American economies.

Treasury bonds, which were, paradoxically, considered safer and more stable. Financing for the subregion therefore contracted. At the same time, the fall in the global benchmark interest rate, the LIBOR, made external financing cheaper for economies such as those of Central America, whose sovereign risk rating did not rise excessively. Another potential channel of transmission was foreign investment. As discussed in the previous chapter, foreign investment plays an important role in the subregion, by providing financial resources to expand production capacity and promote technology and knowledge transfer.

This chapter is organized as follows. First, net resource transfer is examined, along with its importance for national income. Next, the evolution of the trade balance and the current account is analysed, and their link with economic growth. Particular attention is afforded to whether the long-term growth trajectory has been accompanied by a greater or lesser need for foreign exchange. The key interinstitutional flows of funds between the external sector, the private sector and the government are then examined. The chapter finalizes with a review of the pattern of financing of the current account. The findings suggest that a key issue for the subregion is to develop mechanisms to lessen balance-of-payments dominance of economic growth, as well as to improve the macroeconomic response to external shocks. One recommendation is that macroeconomic policy be understood in the broad sense, encompassing stability of both prices and production activity and employment in the framework of high long-term growth, in coordination with a strategy to transform the production structure and redistribute income geared towards the achievement of greater equality.

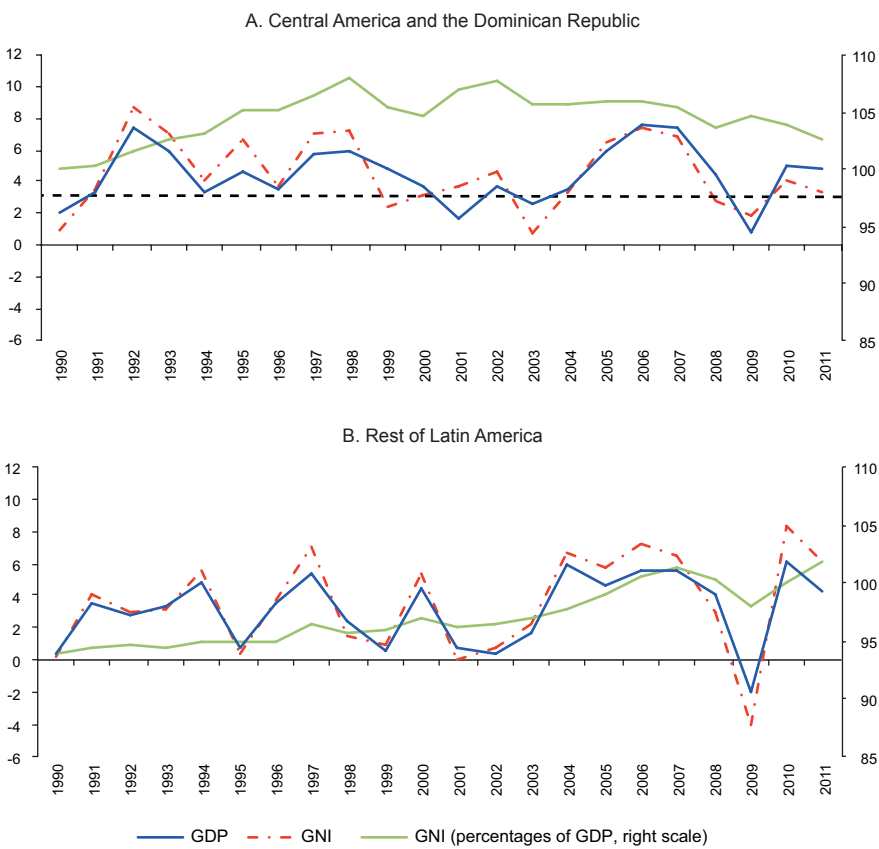
A. External resources, national income and economic growth

In the period 1990-2011, transfers and external resources had a much greater weight in gross national income (GNI) in Central America and the Dominican Republic than in South America. This was reflected in the differentiated patterns and relative levels of national income and GDP, and in the amounts that net income from abroad represented as a proportion of GDP.[5] Figure V.1 shows that, from 1990 to 2011, the gap between GDP and GNI growth was larger in Central America and the Dominican Republic

[5] In this study, GNI is defined as the sum of GDP, net factor payments from abroad, current transfers and the terms-of-trade effect. In their comparative study of selected Latin American countries, Kacef and Manuelito (2008) adopt a definition in which GNI is the sum of GDP and net factor payments from abroad, and distinguish between disposable GNI (the first two elements plus current transfers) and real disposable GNI (which includes the terms-of-trade effect).

than in the rest of Latin America. In the subregion, GNI growth rates were different from GDP growth rates, steeper in the 1990s and flatter in the subsequent years. Note the difference with the rest of Latin America, whose GNI, having started lower than GDP, expanded more rapidly over these 21 years. So in Central America and the Dominican Republic, GNI outpaced GDP by between 2 and 8 percentage points. The difference widened in the first half of the period and narrowed thereafter. In the rest of Latin America the opposite occurred: GNI, from a level 7% below GDP in 1990, came to exceed GDP by almost two percentage points in 2011.

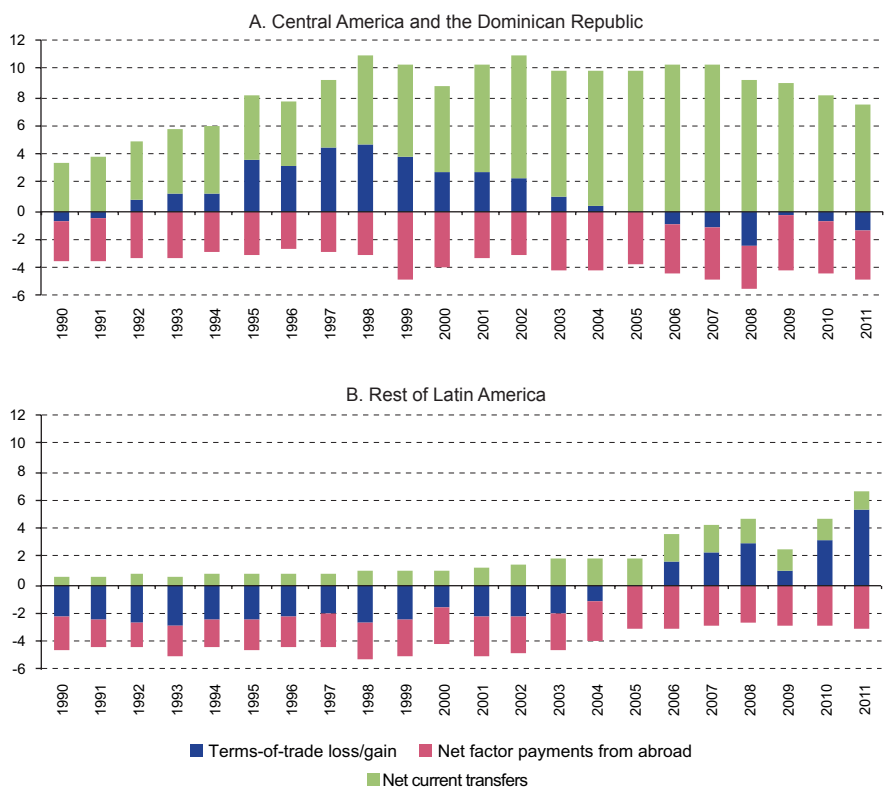
Figure V.1
Central America and the Dominican Republic, and the rest of Latin America: gross domestic product and gross national income, 1990-2011
(Growth rates and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures. Note: the left scale shows annual growth rates of GDP and GNI expressed in percentages, and the right scale shows GNI as a percentage of GDP.

In the first few years of the period under study, GNI grew faster in the subregion than in the rest of the continent. In 2003, GNI was growing 8% faster than GDP in the subregion, but later slowed, thus narrowing the margin over GDP. The differentiated evolution of certain components of GNI explains the dynamic seen in Central America and the Dominican Republic, in contrast with the rest of Latin America. As figure V.2 shows, net factor payments from abroad is the only component that behaves similarly in both subregions, but in the Central American countries and the Dominican Republic its average value is double that in the rest of Latin America, as a percentage of GDP.

Figure V.2
Central America and the Dominican Republic, and the rest of Latin America: components of gross national income, 1990-2011
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Net current transfers maintain a similar upward trend in both subregions over the period, but they are much larger in Central America and the Dominican Republic (close to 7% of GDP) than in the rest of Latin America (where they represent less than 2% of GDP). Net factor payments, composed mainly of profit remittances and the net payment of interest on external debt, systematically reduced GNI in similar proportions —between one and three percentage points of the respective GDP— both in the subregion and in the rest of Latin America. In some countries, profit remittances abroad exceeded foreign direct investment (FDI), so that factor payments ran a net deficit in foreign exchange flows.

The terms-of-trade had a much more volatile effect on GNI in Central America and the Dominican Republic, exerting a positive and rising impact as a proportion of GDP from 1990 to 1998. The effect later shrank, reflecting the persistent adverse evolution of key foreign trade prices, to the point that in the last seven years the net effect of the terms of trade was a GNI drop of one or two GDP points. The pattern was different in the rest of Latin America, where the impact of the terms of trade on GNI was negative in the first few years of the 2000s, but turned positive, and increasingly so, as of 2005, and by 2011 was adding resources equivalent to over five GDP points. Central America and the Dominican Republic never saw such a large positive effect in the two decades studied. In fact, since 2005, the direct effect of the terms of trade on GNI has adversely impacted GDP.

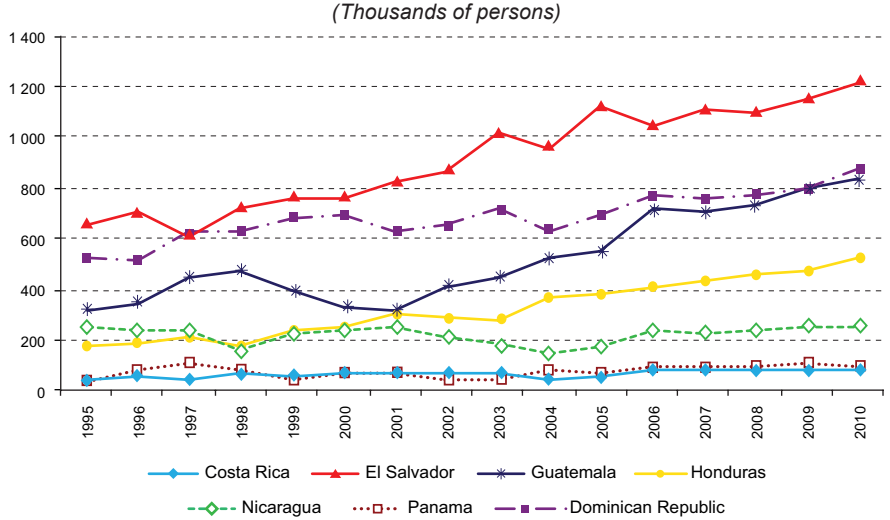
Once the weight of income and of net transfers on the subregion's GNI has been identified, their evolution and, to an extent, their determinants, were examined. The significant element that produced the varying gap between GNI and GDP in each of the regions is current transfers (see figure V.2). In the case of the subregion, the pattern of current transfers is explained basically by family remittances. Since the start of the 2000s, these have grown hugely and reached very high levels in some cases. For example, in El Salvador and Honduras family remittances are equivalent to almost 20% of GDP. In the subregion generally, they peaked at almost 10% of GDP in 2006. Since then, remittance growth slowed in all the countries in the subregion, and will likely continue to do so until economic activity recovers strongly in the United States and Europe. Their macroeconomic impact is considerable for the subregion taking into account that, on average, the annual contribution of foreign exchange from family remittances is equivalent to 50% of the trade deficit; i.e., of an average trade deficit of 13.4% of GDP, remittances offset six percentage points on the balance of payments.

The growing importance of remittances for private consumption by low-income families in the subregion is an additional source of economic

and social vulnerability to external shocks, since they depend on factors beyond the control of the recipient countries. So, sharp fluctuations in the United States economy can exert severe pressure on economic dynamics in the subregion. In general, remittances tend to stabilize private consumption in recipient nations at times of collapse in economic activity and sharp exchange-rate depreciation, insofar as their dollar amount tends to remain constant or even rise when measured in local currency.

Seeking employment abroad —and the resulting flow of remittances— is part of a survival strategy for many families in the subregion. Migration from Central America and the Dominican Republic acts as an escape valve, given that decent work creation[6] in the subregion's formal sector is insufficient to reduce poverty. Between 1995 and 2010 the number of Central American migrants living in the United States rose, with most of them coming from El Salvador, the Dominican Republic, Guatemala and Honduras (see figure V.3).

Figure V.3
Central America and the Dominican Republic: migrants in the United States, 1995-2010
(Thousands of persons)



Source: Migration Policy Institute, on the basis of data from the Current Population Survey and the American Community Survey, 2010.

[6] According to the International Labour Organization (ILO), decent work is that which delivers a fair income with social protection and ensures respect for the rights of the worker. The concept encompasses four strategic objectives: (i) observance of international standards and work-related rights; (ii) opportunities for employment and income; (iii) protection and social security; and (iv) social dialogue.

Family remittances have several impacts at the micro and macroeconomic levels. At the macro level, they drive growth of GNI and GDP, and can lessen the vulnerability of family income and, thus, of consumption (Acosta and others, 2008). As noted earlier, their foreign exchange inflows partially offset the trade deficit. Unless measures are taken, remittances can drive up imports of consumer goods, either directly through their impact on family incomes, or indirectly by pushing up the real exchange rate, which widens the trade gap and creates an anti-export bias (Chami and others, 2008; Giuliano and Ruiz-Arranz, 2005). In principle they can also help to expand banking services in low-income sectors, although in practice their impact in this area appears to have been rather limited. Finally, although migration produces a benefit in terms of a subsequent flow of remittances, it also carries considerable social and economic costs, including the risks that undocumented migrants run abroad, the impacts of family separation on the members remaining behind, and the loss of human capital in the countries of origin.

The terms-of-trade effect has evolved very differently in the subregion and in the rest of Latin America since the end of the 1990s. The commodity price rise recorded since 2003 benefited the southern part of the continent, but had a negative impact on the Central American subregion. The terms of trade improved strongly and steadily for the rest of Latin America between 1993 and 2011 (see figure V.4), and in 2011 were 50% above their 1990 level. Conversely, in Central America and the Dominican Republic, the terms of trade deteriorated from the late 1990s, and in 2011 were at the same level as in 1990.

Figure V.4
Central America and the Dominican Republic, and the rest of Latin America: real effective exchange rate and terms of trade, 1990-2011
(Indices: 2000=100)

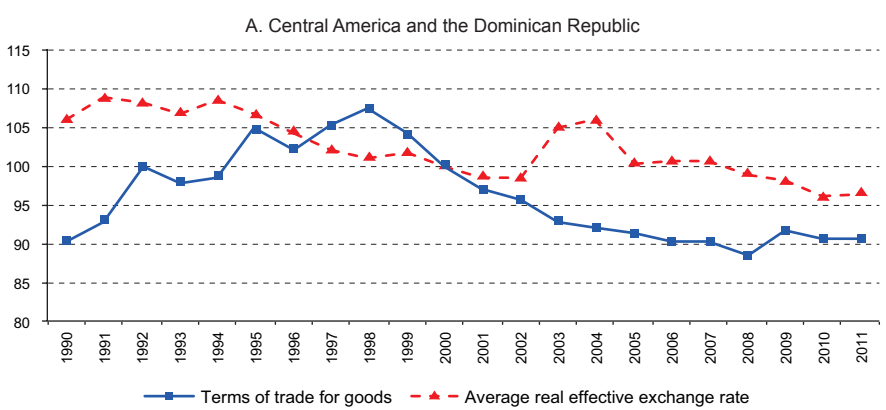
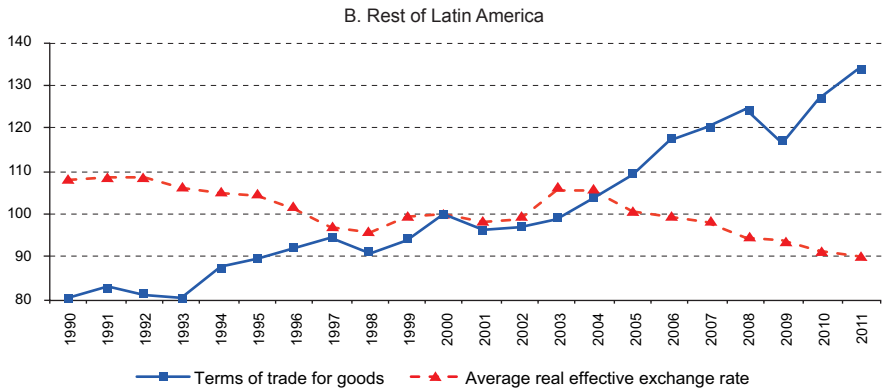


Figure V.4 (Concluded)

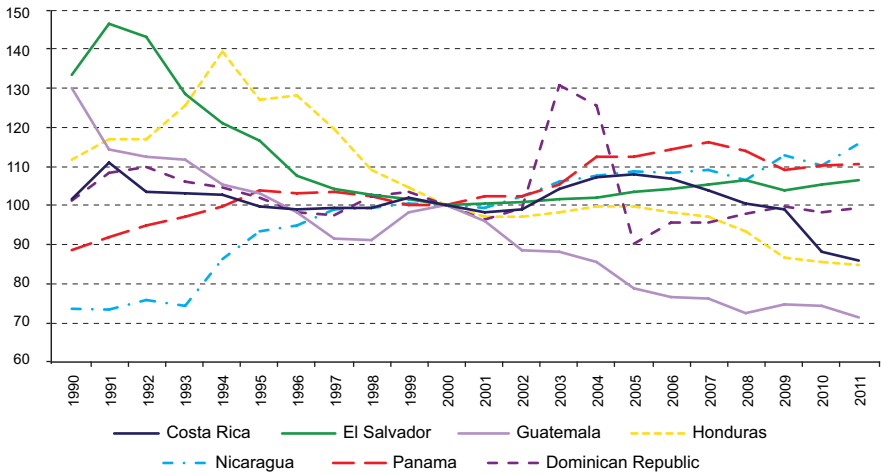


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

On average, terms-of-trade developments have been accompanied by a trend towards real exchange-rate appreciation, although this trend was broken temporarily in 2003 and 2004 in Central America and the Dominican Republic, and from 1998 to 2004 in the rest of Latin America (see figure V.4). Over the period, the real exchange rate rose slightly less on average in the subregion than in the rest of Latin America. This raises the following question: Why did the subregion's real exchange rate continue to rise despite the evident deterioration in the terms of trade since 1998? In South America this discrepancy did not arise, except for short periods, and the real exchange rate appreciation occurred amid improving terms of trade. One possible explanation is that several countries in the subregion have geared their foreign-exchange policies more towards containing inflationary pressures than towards boosting competitiveness through relative prices. In fact, as is corroborated statistically in annex I, real exchange rate depreciations coincided with external surpluses for short periods only.

The evolution of the real exchange rate is far from homogenous in the subregion (see figure V.5). Guatemala, Honduras, Costa Rica experienced real exchange rate appreciation over the period. In contrast, Nicaragua and, to a lesser degree, Panama, saw an almost continuous depreciation in their real exchange rates from 1992 onwards. In the Dominican Republic, the real exchange rate trended modestly upwards in the 1990s but has fluctuated strongly in the past decade, including a sharp devaluation in 2003, associated with a severe banking and macroeconomic crisis. El Salvador showed two phases: a sharp appreciation of the real exchange rate in the 1990s, followed by a moderate tendency towards depreciation as of 2000, despite having a fully dollarized economy.

Figure V.5
Central America and the Dominican Republic: real effective exchange rate, 1990-2011
(Indices: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

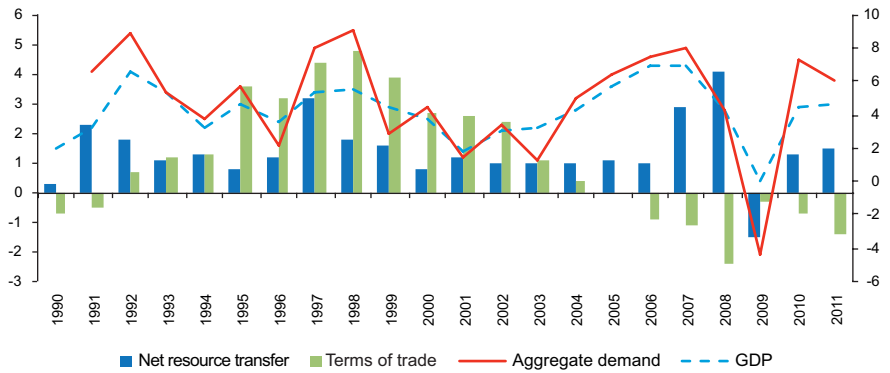
The terms of trade have deteriorated almost uniformly in the countries of the subregion in the past decade. The extremes are Honduras and Costa Rica, with the heaviest downturn since 1996, and the Dominican Republic, with the smallest deterioration in the subregion in 2011. The differences have virtually nothing to do with changes in import prices, since in general and with few exceptions, these economies have similar import baskets (goods and basic inputs). Accordingly, rising international prices for oil and foods had a similarly deep impact on almost all the subregion's economies. The uneven development of terms of trade rather reflects differences in the composition and degree of concentration of exports and in their destination markets. In addition, competition in the United States market from Chinese manufactures has pushed down the international prices of some Central American and Dominican export products.

During most of the period under review, Central America and the Dominican Republic have received net resources transfers equivalent to between one and three GDP points (see figure V.6). Factor payments, family remittances and other current account items examined earlier —not including the trade balance— represent only part of the net resource transfer[7] which emerging economies receive from abroad (or, occasionally,

[7] Net resource transfer comprises the sum of the net factor payments and transfers from abroad and the net balance of the balance-of-payments financial account. Some authors include the terms-of-trade effect, in a broader interpretation of the concept.

send abroad). As discussed in many ECLAC documents, those transfers are a key element in Latin American economic growth.[8]

Figure V.6
Central America and the Dominican Republic: growth of gross domestic product, aggregate demand, terms-of-trade effects and net resource transfer, 1990-2011[a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The left scale shows net resource transfer and terms of trade as percentages of GDP; the right scale shows growth rates of GDP and aggregate demand in percentages.

Figure also V.6 also shows the existence of a strong, though not rigid, association between net resource transfer and growth of aggregate demand and economic activity. By contrast, the correlation with the terms of trade seems weaker. With the exception of 2009, net transfers were invariably positive and grew rapidly during upturns in economic activity and aggregate demand, with a particularly strong rise in 2007 and 2008. The contraction in net transfers in 2009, as a result of the international crisis, contributed to a fall of 4% in aggregate demand in real terms, and a slowdown in GDP growth.

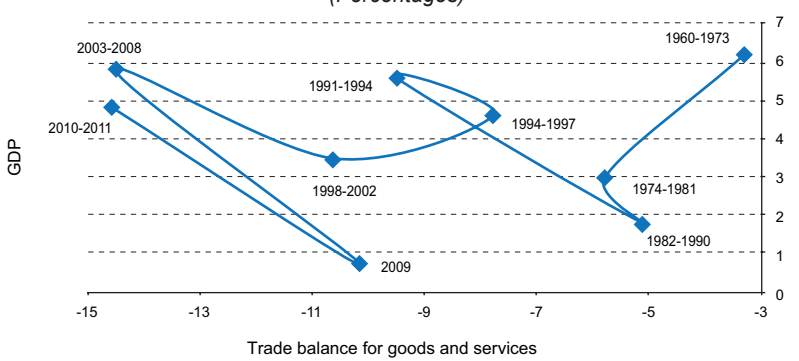
B. The trade deficit and economic growth

The data reported in the previous sections illustrate the influence of the balance of payments —and the external sector more generally— on the rate of expansion of national income and GDP. Key to understanding the weight of the external constraint on economic growth is the link between

[8] See *Preliminary Overview of the Economies of Latin America and the Caribbean*, published yearly by ECLAC. The works of Ffrench-Davis (2008) and Ocampo and Parra (2010) may also be consulted in this connection.

GDP growth and the trade balance. As noted earlier, in order to establish whether the external sector is heavily restricting long-term economic growth, it is necessary to establish whether the trade deficit —and the current account deficit more broadly— tends to rise unsustainably in relation to GDP during economic boom periods. Figure V.7 shows the correlation between the two variables from 1960 to 2011. Subperiods corresponding to similar phases of the economic cycle were selected to facilitate the analysis. The vertical axis shows the average annual rate of real GDP growth, and the horizontal axis, the average trade balance as a percentage of GDP.

Figure V.7
Central America and the Dominican Republic: economic growth and trade balance as a proportion of GDP, 1960-2011 (selected periods) [a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The vertical scale shows the average annual GDP growth rate in percentages; the horizontal scale shows the trade balance for goods and services expressed as a percentage of GDP.

The data show a deterioration, over the long term, in the relation between the two variables in the subregion. In the first place, it stands out that the trade balance was in deficit, on average, in all the subperiods considered. What is more, the average deficit rose sharply in relation to GDP: from less than 5% of GDP in the first three decades to triple that figure, with deficits of close to 15% of GDP in later years. A moderate slowdown in economic activity, with a brief interruption in 2003-2008, took place alongside the decline in the trade balance. In effect, in the subperiod 1960-1973, economic activity expanded in real terms at an average rate of over 6% per year, with a very small trade deficit in relation to GDP. In 1974-1981 average GDP growth dropped to 3% and in 1982-1990 fell to below 2% per year, and the trade deficit rose against GDP. In the 1990s, an upturn in the economy widened the trade deficit by five GDP points. This pattern of relative loss in economic momentum with a widening trade deficit continued in the 12 years

following, with the exception of 2003-2008. In the upturn of 2010-2011, GDP expanded to an average rate of almost 5%, approximately one and a half percentage points below the average for the 1960s, and one point lower than the rate in the early 1990s. However, the trade deficit in those two years was much higher, at close to 15% of GDP. Looked at another way, the data suggest that if economic growth were to recover the momentum of earlier decades, the trade deficit would widen sharply to an unsustainable almost 20% of GDP. In other words, in the period examined the burden of the external constraint on long-term economic growth has become more dominant in the subregion.

These conclusions are borne out by the results of various econometric studies, in particular those obtained by mobile regression analysis (see annex I). In the countries of the subregion, the income elasticity of exports decreased throughout the period, as compared with the elasticity of imports. This shows that the trade deficit has tended to increase as a proportion of GDP over time, although there has been no significant expansion in the rate of economic growth. The growing weight of the external constraint is also evident in the national economies' patterns of GDP growth and trade balances, except in Panama and Costa Rica (see figure V.8). In the decades considered, the other five economies showed slowing long-term growth associated with a deteriorating trade balance as a proportion of GDP. At the same time, Panama's economy showed a trade deficit associated with a rise, not a fall, in long-term growth. Costa Rica's GDP growth lost momentum between the 1960s and 2000-2011, and its trade deficit narrowed slightly.

Figure V.8
Central America and the Dominican Republic: economic growth and trade balance, 1960-2011 (selected periods) [a]
(Percentages)

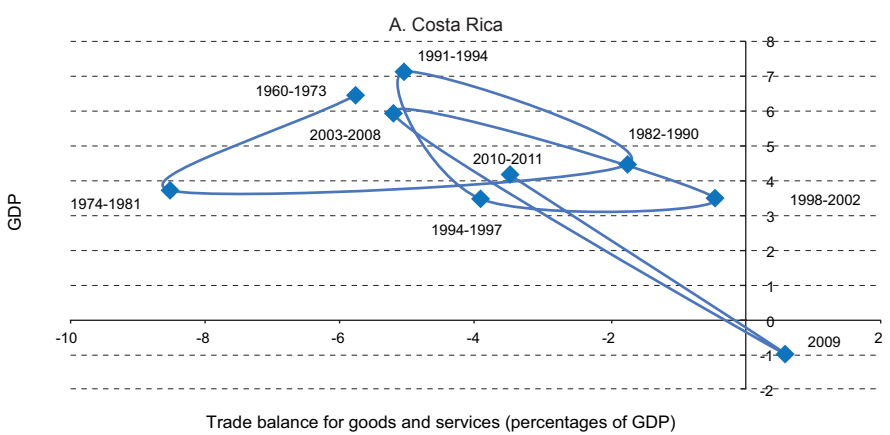
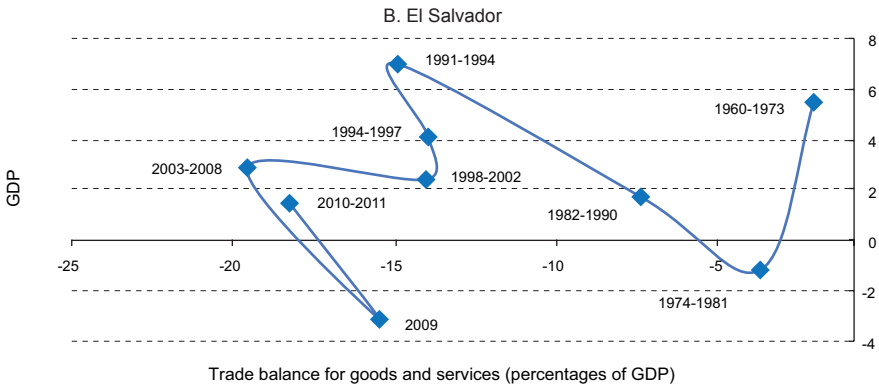
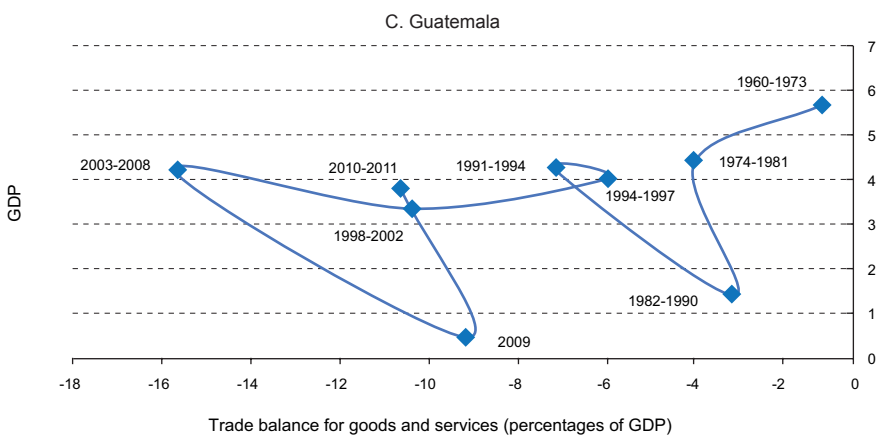


Figure V.8 (continued)





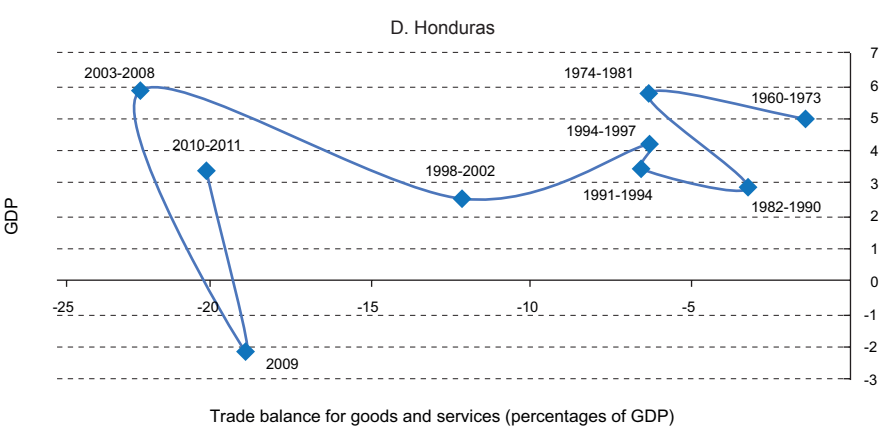
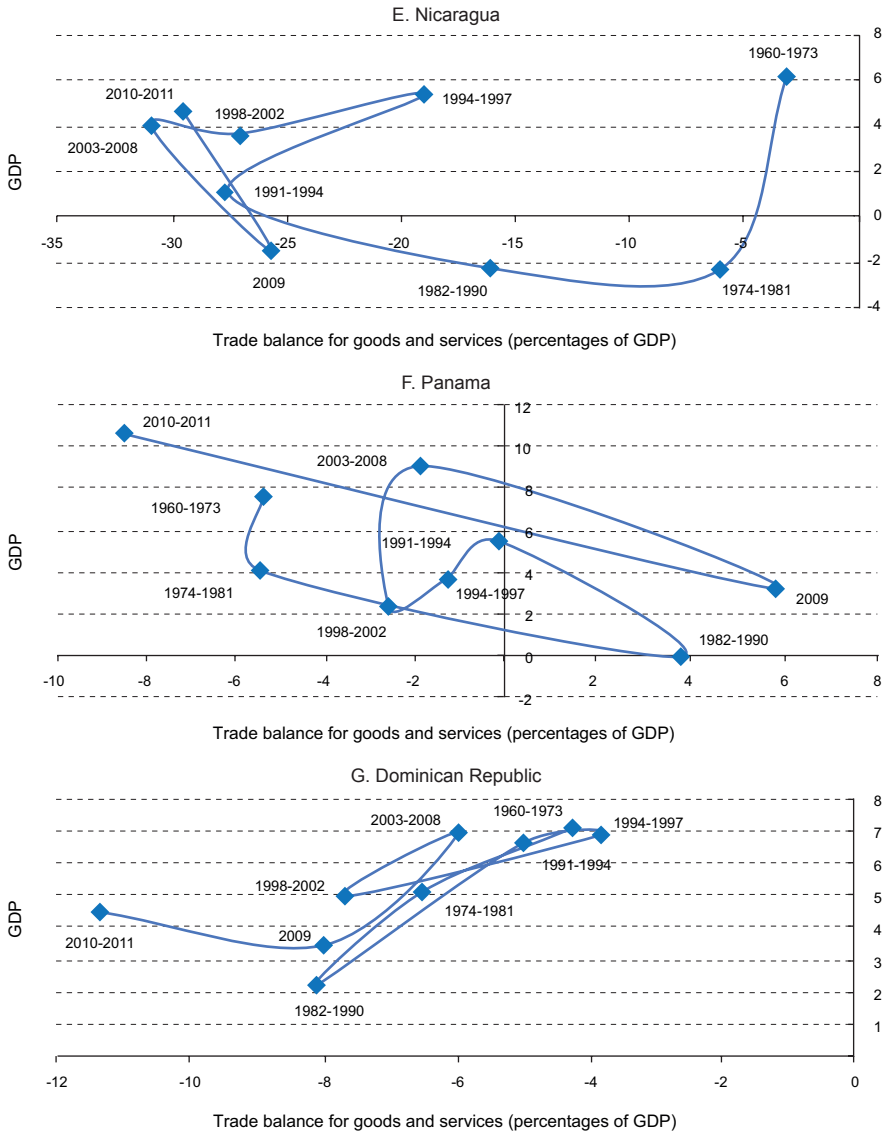


Figure V.8 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The vertical scale shows the average annual GDP growth rate in percentages; the horizontal scale shows the trade balance for goods and services as a percentage of GDP.

The greater weight of the external constraint on potential long-term growth is a major challenge for the governments of the subregion, in terms of finding enough external resources to finance the growing trade deficit. In the decades studied, the trade deficit has expanded by several

GDP points in the economies of the subregion. Nicaragua and Honduras run a trade deficit over 25% of their respective GDP, while Guatemala, El Salvador and the Dominican Republic have a trade deficit of around 10% of GDP. Costa Rica's need for external resources to cover the trade deficit has not risen greatly in relation to its GDP. In Panama, on the other hand, the deficit widened by several GDP points with the jump in economic activity.

The association between economic growth and a deteriorating trade balance in the subregion tends to occur during export booms, especially in recent decades, as shown in chapter IV. Consequently, the root of the problem would appear to be in the evolution of imports with respect to aggregate demand.[9] In fact, chapter II showed how, with few exceptions, imports grew faster than exports on average in the period 1990-2011. Although no evidence was found for earlier decades, in the full swing of the import substitution phase, a difference as large or greater is likely to have prevailed in the growth rates of exports and imports.

Comparison of the contributions of the components of supply and aggregate demand to real GDP growth in 1990-2011 shows that exports contributed 1.9 points of the average real GDP growth of 4.6% in the subregion (see table V.1).[10]

Table V.1
Central America and the Dominican Republic: contribution to growth made by the components of gross domestic product, 1990-2011 (selected periods)
(Average rates of annual variation)

	1990-2000	2000-2008	2009	2009-2011	1990-2011
GDP (annual average rate)	4.84	4.60	0.83	4.92	4.56
Gross domestic investment	1.49	1.08	-4.87	2.06	0.98
Total consumption	4.19	4.03	0.29	4.60	3.99
Government consumption	0.37	0.38	0.50	0.40	0.39
Private consumption	3.82	3.65	-0.21	4.20	3.60
Net exports	-1.10	-0.40	5.19	-1.90	-0.51
Exports	2.16	1.88	-2.17	2.74	1.86
Imports	-3.26	-2.32	7.36	-4.64	-2.38
Statistical discrepancy	0.26	-0.07	0.22	0.16	0.10

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[9] This could mean that: (i) production for the domestic market depended increasingly on imported intermediate inputs; (ii) various niches of final consumption were satisfied increasingly by external production; and (iii) exports were losing their traction of local suppliers by depending on imported raw materials.

[10] The methodology used was the conventional one for calculating these contributions based on a breakdown of supply and demand in the starting year, together with their average rates of growth in the period under analysis. See a more detailed analysis in the notes on the economies of the subregion published yearly by ECLAC.

Table V.2
Central America and the Dominican Republic: imports by type of good, 1990-2011[a]

Country	Average annual growth on the basis of data expressed in current dollars					
	Consumption	Fuels	Other intermediate	Capital goods	Other	Total
Costa Rica	9.8	13.4	10.0	8.4	n.a.	9.9
Guatemala	13.4	14.7	10.0	10.8	n.a.	11.6
Honduras	12.9	12.8	10.4	9.0	n.a.	11.4
Nicaragua	11.6	11.6	10.4	7.6	n.a.	10.3
El Salvador	10.9	11.2	9.4	8.4	n.a.	10.4
Panama [b]	18.4	n.a.	4.6	13.8	9.3	9.7
Dominican Republic [b]	6.4	11.0	…	7.5	2.5	10.0
Subregion	10.4	11.6	9.7	9.1	n.a.	10.3
Country	Composition of imports, 2011 *(percentages of total imports)*					
	Consumption	Fuels	Other intermediate	Capital goods	Other	
Costa Rica	20.1	12.9	51.2	15.8	…	
Guatemala	26.8	19.8	37	16.5	…	
Honduras	28.6	23.5	31.5	13.8	…	
Nicaragua	31.8	24.1	25.7	18.2	…	
El Salvador	34.5	11.2	33.1	12.7	…	
Panama [b]	21.2	…	11.5	12.0	55.3	
Dominican Republic [b]	23.1	26.8	21.4	12.1	16.6	
Subregion	24.8	14.6	28.6	13.9	…	
Country	Variation in share, 2011-1990 [c]					
	Consumption	Fuels	Other intermediate	Capital goods	Other	
Costa Rica	-0.6	6.2	0.4	-5.2	n.a.	
Guatemala	7.5	8.5	-12.9	-2.9	n.a.	
Honduras	7.1	5.5	-6.6	-7.7	n.a.	
Nicaragua	6.7	5.1	0.6	-12.5	n.a.	
El Salvador	2.9	1.6	-7.1	-5.9	n.a.	
Panama [b]	16.9	…	-19.7	6.5	-3.8	
Dominican Republic [b]	-5.3	4.9	21.4	-0.4	-22.3	
Subregion	4.6	3.1	-3.7	-0.7	n.a	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), CEPALSTAT database.
[a] n.a. means not applicable; three dots (…) means data not available.
[b] Trade with Panama includes imports from the Colón Free Zone; trade with the Dominican Republic includes imports from free zones.
[c] The difference refers to changes in the percentage composition in 2011 with respect to 1990.

Exports made a larger contribution than investment (1%) to GDP growth, but a smaller one than the negative accounting contribution of imports (-2.38%). Looked at another way, the momentum contributed by exports to GDP on the demand side was smaller than the sharp rise in imported supply. Added to the effects of deteriorating terms of trade and real exchange rate

appreciation, it becomes clear that long-term economic growth has been accompanied by widening trade deficit. In all the subperiods considered, imports (negatively) contributed between 0.4 and 2 GDP points more than exports to average GDP growth. Note that the recessionary adjustment of GDP to the external shock of 2009 was accompanied by a contraction in imports and a drop in investment. Exports also fell and only the performance of consumption staved off a fall in economic activity in real terms.

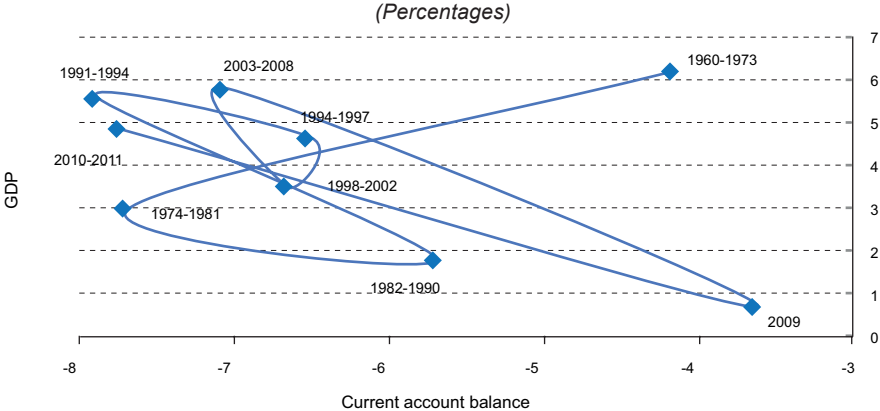
The rise in oil prices accounts for the increased share of fuels in total imports between 1990 and 2011. In 2011, the oil bill represented between 20% and 27% of total imports in all the countries except El Salvador and Costa Rica, where it amounted to less than 13%. Except in Panama, investment goods declined as a share of total imports. In 2011, these goods accounted for between 12% (in Panama) and 18.2% (in Nicaragua). Not only fuels, but also consumption goods gained share in total imports in most of the subregion's countries over the period. In Panama, imports from the Colón Free Zone accounted for 55.3% of the total.

The foregoing pages have analysed the weight of the external constraint on economic growth, and its manifestation as faster growth of imports than of exports. The rest of this section will examine how the subregion's growing trade deficit has been financed and the challenges this involves. The association between the current account deficit as a proportion of GDP and average economic growth in selected periods provides valuable inputs for the analysis (see figure V.9).

Figure V.9

Central America and the Dominican Republic: economic growth and current account balance as a proportion of GDP, 1960-2011 (selected periods) [a]

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] The vertical scale shows the annual average GDP growth rate in percentages; the horizontal scale shows the current account balance as a percentage of GDP.

A first conclusion that may be drawn is that the current account deficit increased less than the trade deficit between the 1960s and the current decade: the first by around 5 GDP percentage points and the second, by 12 points. The difference shows the extent to which the income balance —and, especially, family remittances— covers the trade deficit, and thus keeps the current account at more manageable levels as a proportion of GDP. This reduces the pressure on international reserves and averts the possibility of a balance-of-payments crisis. The subregion's growth in 2000-2011 was accompanied by a slower rise in the current account deficit, although with some notable differences (see figure V.10).

Figure V.10
Central America and the Dominican Republic: current account balance and growth of real gross domestic product, 2000-2011[a]
(Percentages)

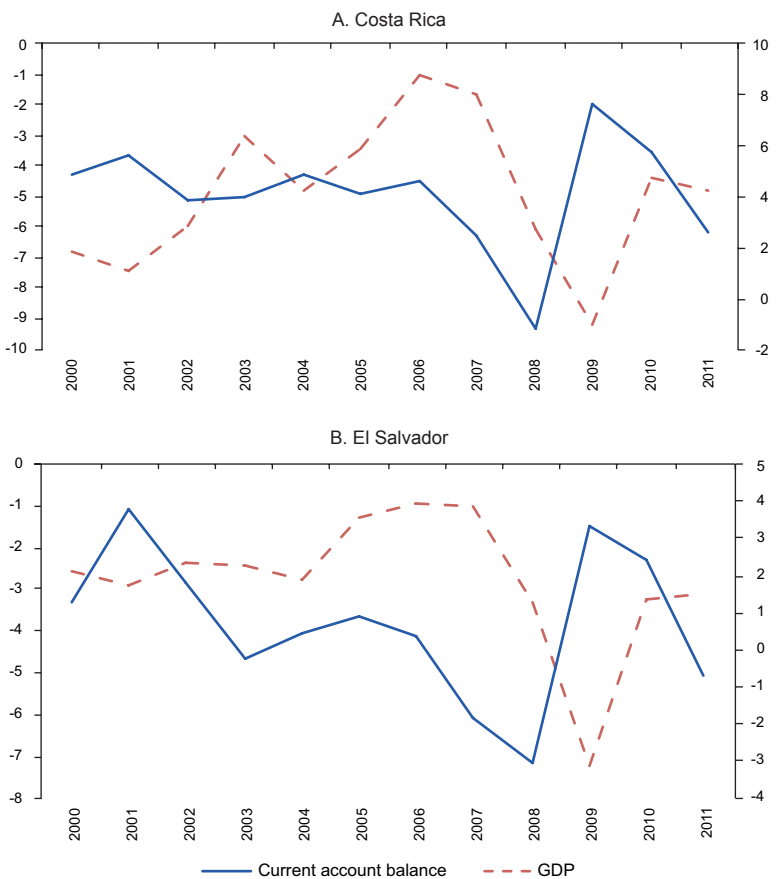


Figure V.10 (continued)

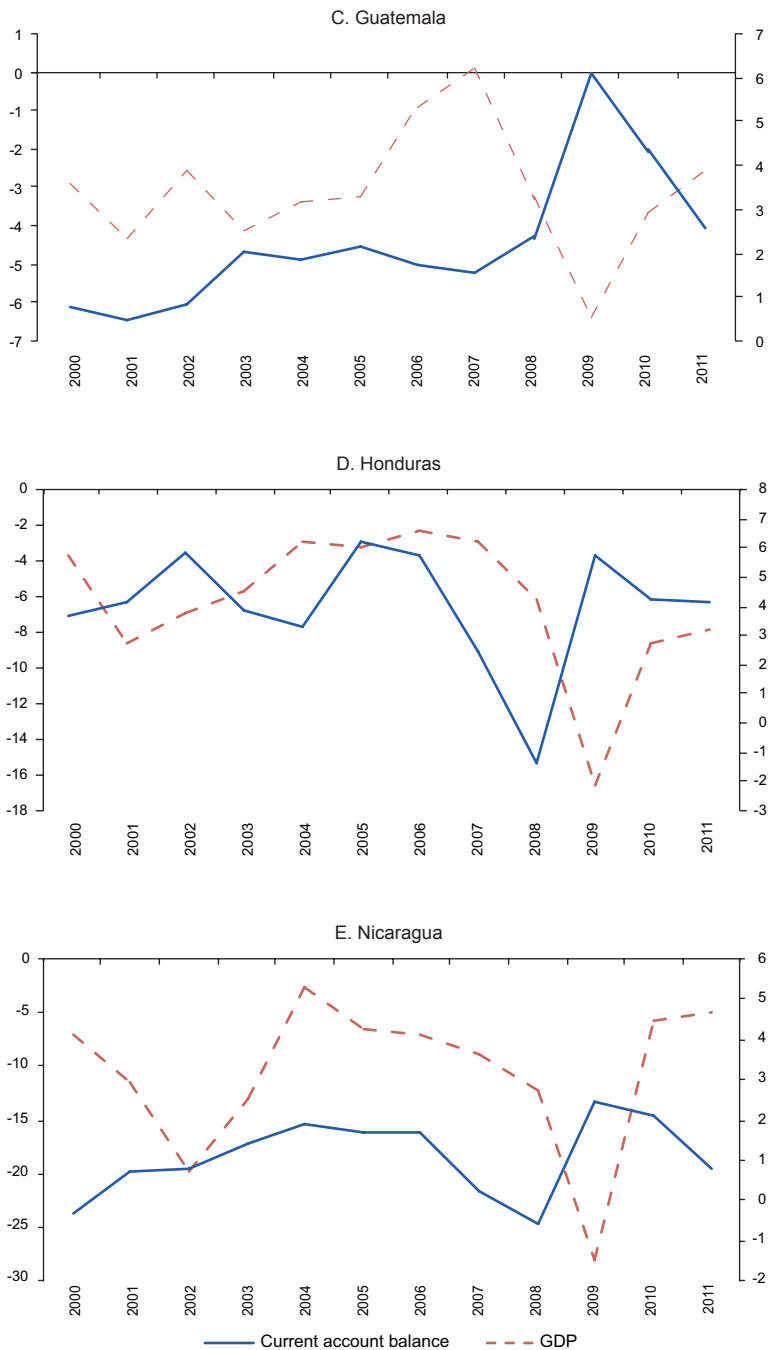
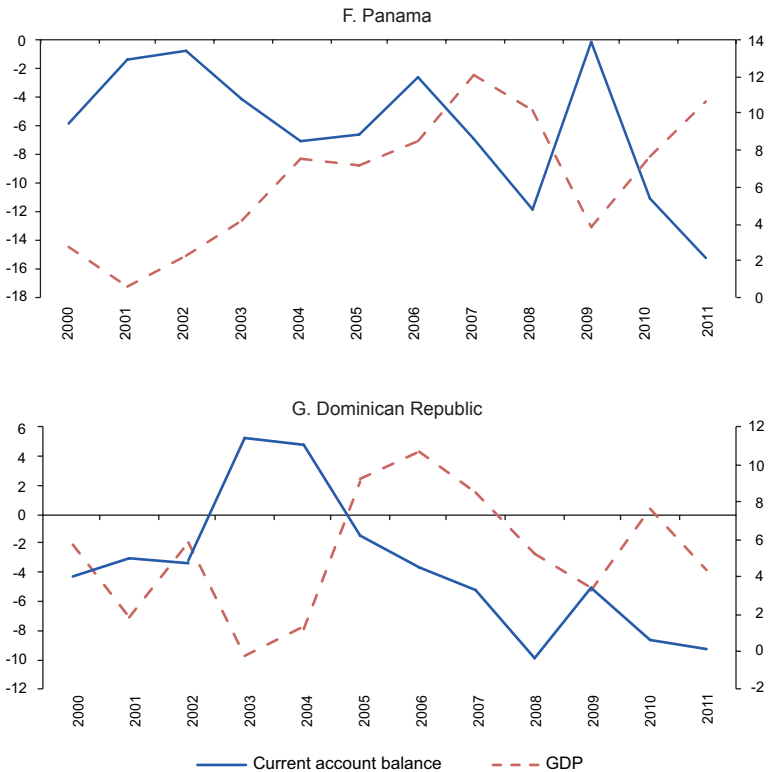


Figure V.10 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of R. Gómez and J. C. Rivas Valdivia, "Medición de los choques externos en cuenta corriente, 2008-2011: un análisis multifactorial", Mexico City, 2012, unpublished.

[a] The left scale shows the current account balance as a percentage of GDP; the right scale show real GDP growth in percentages.

Except for Costa Rica and Guatemala, the current account deficit in the countries widened until 2008, from a variety of starting dates. This was followed by a sharp correction in 2009, amid economic slowdown and the ensuing collapse of imports and investment. As a result of this adjustment, the deficit came within a range of 0%-1% of GDP in all the countries except Nicaragua. Although it widened again in the economic upturn of 2010-2011, it did not reach its previous levels, except in Panama. In Guatemala, the current account deficit remained close to 5% of GDP, and its adjustment in 2009 was almost totally reverted in the following two years. El Salvador registered its smaller current account deficit in 2000, after which it widened gradually. Nicaragua posted the subregion's largest deficit, at an average of 18% of GDP.

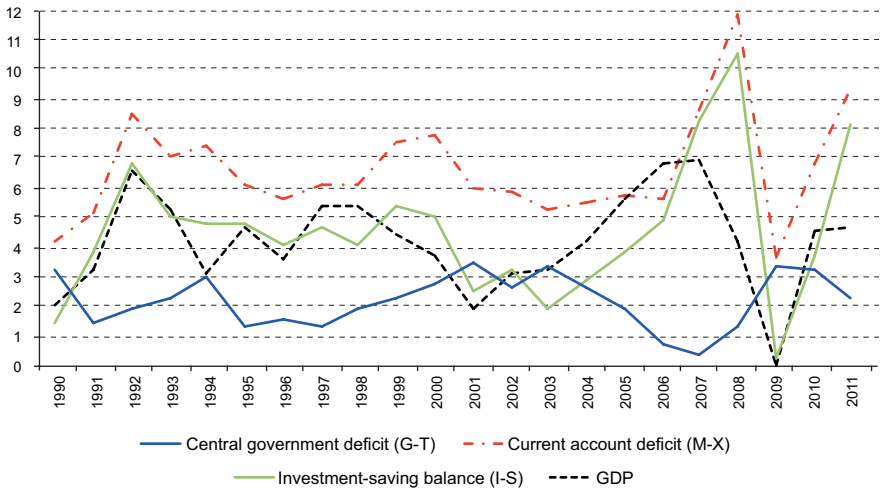
A crucial aspect of macroeconomic performance is the interinstitutional flow of funds: the current account deficit, the fiscal balance and the balance between private saving and investment. In the 1990s, conventional economic thinking was that a high current account deficit, whether in absolute terms or as a proportion of GDP, was no reason for concern provided that the fiscal balance was in surplus or almost at equilibrium. In these circumstances, went the argument, the current account deficit was the outcome of rational private sector investment and financing decisions. A large current account deficit accordingly reflected a high degree of confidence on the part of foreign investors in the solidity of the economy's macroeconomic fundamentals. It was further argued that a correction of the deficit, if it occurred, would be gentle and would have no major impact on economic activity levels or on local finances.

The balance of payments crisis that hit the Mexican economy in 1994-1995, in the context of healthy public finances, discredited that line of reasoning. Since then, there has been consensus that a current account deficit needs systematic monitoring, regardless of whether the public sector accounts show a surplus. The current account deficit should not exceed certain proportions of GDP to avoid speculative attacks and other destabilizing shocks —whether of domestic or external origin— that could derail growth and even trigger foreign-exchange or financial crises.

As noted earlier, the fiscal balance has been managed prudently in the subregion (see figure V.11).[11] First, at no time in the period did the fiscal deficit exceed 3.5 GDP percentage points, and it was much smaller in many of those years. In addition, in the six years prior to the 2009 crisis, the fiscal deficit fell steadily in real terms, and in 2008 fell below 1% of GDP. Another salient point to mention is the inverse (to some extent) relation between the pace of economic activity and the fiscal deficit as a percentage of GDP. As will be examined in depth in the next chapter, this relation is in general the reflection of the endogenous response of tax revenues, which rise during economic upturns and fall when economic activity loses momentum.

[11] The data for figure V.11 come from the basic saving-investment identity in the national accounts , which in algebraic terms is expressed as follows: (I-S) + (G-T) = M-X, where M-X is the current account deficit; G-T is the fiscal deficit; and I-S is the private sector net borrowing from other sectors.

Figure V.11
Central America and the Dominican Republic: flows of institutional funds, 1990-2011
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Another important point is that the evolution of the current account is closely linked to the imbalance between saving and investment by the private sector. In particular, this means that in the recent stretch of growth between 2003 and 2008, the rise in the current account deficit reflected private sector borrowing needs. In fact, in those years the amount by which investment exceeded private savings grew by 8 GDP points. The 2009 crisis thus forced a sharp correction of the current account deficit and an even larger correction in the respective private sector balance. Additional analyses run in the framework of the present research found that, in most of the subregion's countries, the growing financial imbalance in the private sector owed more to the drop in saving than to the expansion of investment (see figures in annex II).

The partial correlation coefficients methodology employed by Ocampo, Codrina and Taylor (2009) was used to examine the connection between these balances in more detail. The results indicate a significant connection between the balance-of-payments current account and the private sector savings-investment balance. As shown in table V.3, the coefficients of these deficits, known as twin deficits, were high and significant in the period 1990-2011.

Table V.3
Central America and the Dominican Republic: identification of twin deficits in the subregion, 1990-2011
(Coefficients of correlation)

Country	Public/external	Public/private	Private/external
Subregion	0.3264 0.1382	-0.6336 0.0015 [b]	-0.9356 0.0000 [b]
Costa Rica	0.4038 0.0624	-0.8122 0.0000 [b]	-0.8617 0.0000 [b]
El Salvador	0.3887 0.0738	-0.7475 0.0001 [b]	-0.9026 0.0000 [b]
Guatemala	0.1457 0.5287	-0.5682 0.0072 [b]	-0.8968 0.0000 [b]
Honduras	-0.1206 0.5928	-0.3633 0.0965	-0.8810 0.0000 [b]
Nicaragua	0.1548 0.4916	-0.6181 0.0022 [b]	-0.8723 0.0000 [b]
Panama	-0.3854 0.0765	-0.1316 0.5593	-0.8639 0.0000 [b]
Dominican Republic	0.1358 0.6031	-0.4103 0.1019	-0.9592 0.0000 [b]

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] The data shown in the second line express the t-statistic. The data on the current account do not include data for Guatemala for 2011.
[b] Significant at 5%.

A rise in the current account deficit tends to be associated with a deterioration in the balance between saving and investment by the private sector, as shown by the negative correlation coefficients between the two. The analysis shows small changes in the values of the coefficients in the subperiods 1990-2000 and 2001-2011. The correlation between the current account deficit and the private sector saving-investment balance is lower in 1990-2000, and higher in 2001-2011.

At the subregional level, the coefficient of correlation between the fiscal and private sector deficits is significant for 1990-2011, but not when calculated for 1990-2000. And, regardless of the period considered, no significant correlation is found at all between the current account deficit and the public sector deficit at the subregional level. Taking the analysis to the country level, the Dominican Republic, Honduras and Panama show no significant correlation between the private sector and public sector deficits. In all cases there are high, similar and significant correlations between the private sector deficit and the current account deficit. In turn, there is, in general, no significant correlation between the public deficit and the current account deficit, although it is significant in Panama in 1990-2000, and positive and significant in El Salvador and Guatemala in 2001-2011.

Table V.4
Central America and the Dominican Republic: twin deficits, 1990-2000 [a]
(Coefficients of correlation)

Country	Public/external	Public/private	Private/external
Subregion	-0.1322 0.6984	-0.2965 0.3760	-0.9008 0.0002 [b]
Costa Rica	0.15861 0.6414	-0.6544 0.0289 [b]	-0.8504 0.0009 [b]
El Salvador	-0.3408 0.3051	-0.2479 0.4622	-0.8263 0.0017 [b]
Guatemala	-0.4087 0.2120	-0.2279 0.5002	-0.79554 0.0034 [b]
Honduras	-0.5083 0.1104	-0.2427 0.4721	-0.7121 0.0140 [b]
Nicaragua	0.3084 0.3562	-0.7513 0.0077 [b]	-0.8595 0.0007 [b]
Panama	-0.6102 0.0462 [b]	-0.0483 0.8878	-0.7618 0.0064 [b]
Dominican Republic	-0.5454 0.2630	0.0324 0.9515	-0.8554 0.0298 [b]

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] The data shown in the second line express the t-statistic. The data on the current account do not include data for Guatemala for 2011.
[b] Significant at 5%.

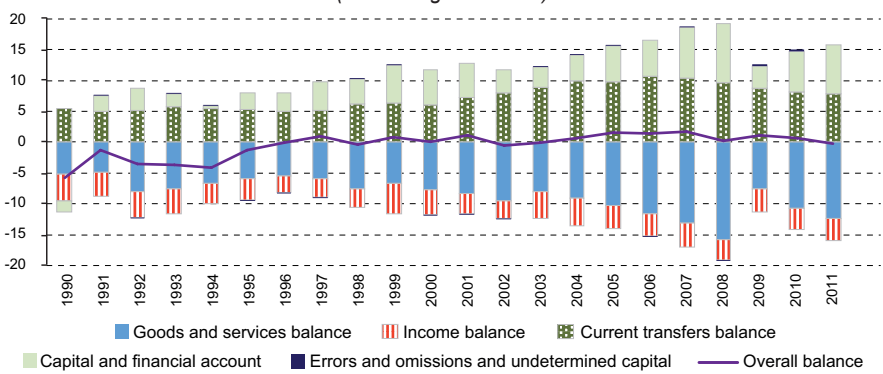
Table V.5
Central America and the Dominican Republic: twin deficits, 2001-2011 [a]
(Coefficients of correlation)

Country	Public/external	Public/private	Private/external
Subregion	0.4935 0.1229	-0.7338 0.0101 [b]	-0.9529 0.0000 [b]
Costa Rica	0.5220 0.0995	-0.8753 0.0004 [b]	-0.8694 0.0005 [b]
El Salvador	0.8009 0.0030 [b]	-0.9359 0.0000 [b]	-0.9605 0.0000 [b]
Guatemala	0.7466 0.0131 [b]	-0.8669 0.0012 [b]	-0.9789 0.0000 [b]
Honduras	0.1736 0.6097	-0.5118 0.1075	-0.9349 0.0000 [b]
Nicaragua	0.0281 0.9347	-0.5528 0.0777	-0.8485 0.0010 [b]
Panama	-0.1068 0.7546	-0.2902 0.3866	-0.9205 0.0001 [b]
Dominican Republic	0.2952 0.3782	-0.5141 0.1057	-0.9712 0.0000 [b]

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] The data shown in the second line express the t-statistic. The data on the current account do not include data for Guatemala for 2011.
[b] Significant at 5%.
[b] Significant at 5%.

After looking at the current account, the evolution of the other components of the balance of payments was examined. Figure V.12 shows that, between 1990 and 2011, current transfers and, to a lesser extent, the surplus on the financial and capital account served as a counterpart to cover the growing deficits on the goods and services trade balance and on the income balance.

Figure V.12
Central America and the Dominican Republic: components of the balance of payments, 1990-2011
(Percentages of GDP)

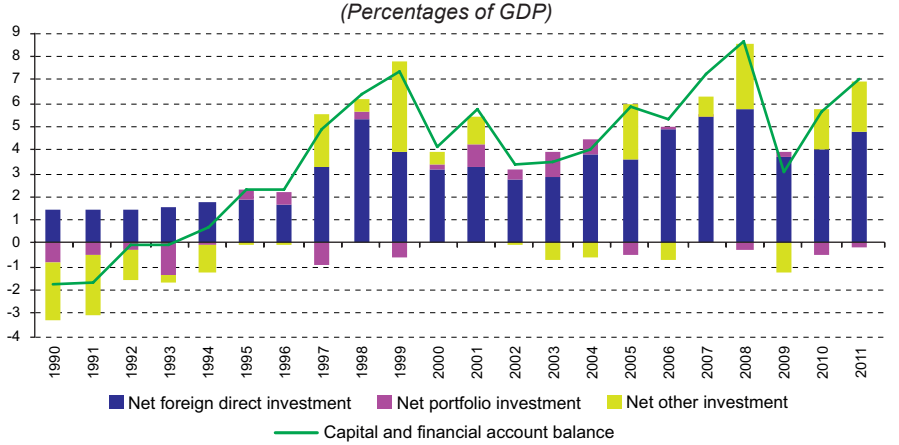


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure V.13 shows more elements of the evolution of the financial and capital balance, an important source of foreign exchange to cover the current account deficit, in 1990-2011. Foreign direct investment (FDI) is the item that contributes more to the net accumulation of foreign exchange on the capital and financial account in the subregion. Even in 2009, FDI maintained its buoyancy at the subregional level. Conversely, net portfolio capital flows and the component "other investment" are notably volatile, changing direction from one year to the next. They would probably show as even more volatile if the figure depicted quarterly or monthly movements. Since the mid-1990s, these flows have in general been smaller than FDI, although they picked up in 2010-2011, amid uncertainty over the outlook for the European and United States economies.

The largest contractions in other investment inflows in 2009 occurred in Costa Rica (-207%), El Salvador (-187%) and Honduras (-84%). The smallest took place in the Dominican Republic (-24%). In 2011, the largest entry of other investment was registered in El Salvador and Guatemala (with jumps of 207% and 185%, respectively). In Panama those flows rose very little (7.5%), but it already has the highest basis for comparison in the subregion, with capital inflows of almost U$ 5.750 billion in 2011.

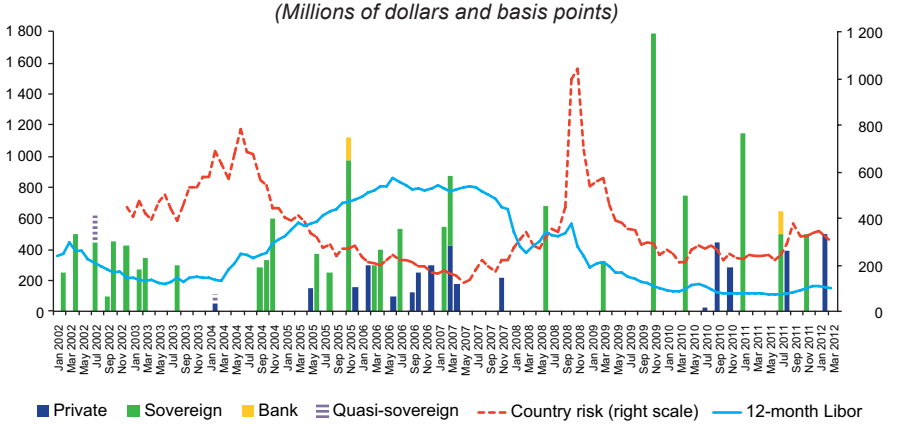
Figure V.13
Central America and the Dominican Republic: components of the capital and financial account of the balance of payments, 1990-2011
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure V.14 shows bond issue amounts, country risk and the Libor for 2002-2012. The data show the extent to which the second half of 2008, marked by the failure of Lehman Brothers, brought a change in the subregion's access to capital markets.

Figure V.14
Central America and the Dominican Republic: bond issues, country risk[a] and Libor, 2002-2012 [b]
(Millions of dollars and basis points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Country risk refers to the risk calculated by the EMBI as the average for Panama, El Salvador and the Dominican Republic.
[b] The left scale shows data for bond issues in millions of dollars; the right scale shows country risk and the Libor in basis points.

As the figure shows, Central America is vulnerable to drops in flows of venture capital and to market liquidity squeezes. Between 2002 and mid-2007 significant resource inflows entered the subregion. However, the crisis caused financial flows into Central America and the Dominican Republic to fall heavily and almost dry up altogether. One sign of financial market instability was the rise in the risk and variability of yields on debt instruments. Those yields rose considerably between September and October 2008. For example, yields on Salvadoran 8.5% coupon bonds maturing in 2011 rose by 1,000 basis points in that time. Yields on other bonds with similar maturities rose considerably in other countries too, including Costa Rica, Panama and Guatemala.

Starting in the second quarter of 2009, conditions improved for most of the countries in the subregion. Panama stood out in 2010-2011 for its uninterrupted access to financial markets. In June 2012, Panamanian 7.25% coupon bonds maturing in 2015 were paying 1.75%, while 6.7% coupon bonds maturing in 2036 were paying as much as 4.46%. In other words, quite respectable yields considering the turmoil triggered by the debt crisis in Europe. On 29 May 2012 Guatemala floated an issue of 10-year treasury bonds for US$ 700 million on the international market, with a coupon of 5.75% and a yield of 5.87%. The bonds stirred up demand for US$ 2 billion, higher than the government's initial expectations, reflecting interest in this Central American market. This contrasts with falls in the European stock markets and in the value of the euro in early June 2012, and with the rising yields on Spanish and Italian sovereign bonds, which intensified financial market jitters over Europe's ability to resolve its mounting debt crisis.

Some components of the balance of payments have been highly volatile in the subregion. Table V.6 shows an estimate of those volatilities for the period 2004-2011, on the basis of coefficients of variation expressed in percentages. The results show that, in the period under review, the capital and financial accounts and current accounts were more volatile in Central America than in the developed countries. In Brazil, Mexico and Thailand, volatilities were higher than in most Central American countries. Nicaragua is an exception, with volatility levels comparable to those of developed countries. The capital and financial account was more volatile than the current account in all countries except Honduras and Spain.[12]

With regard to the components of the balance of payments, the results of various analysis conducted in the framework of this research indicate that the most volatile component has been the item corresponding to commercial credits, currency and deposits, and bank loans. In addition,

[12] Combined volatility was calculated for the capital and financial account because capital account volatility is very low in all the countries except Honduras.

the impact of the Asian crisis in 1997-1998, the Russian crisis in 1998 and the bursting of the dot.com bubble in 2000 are evident in the great volatility of the "other investment" category between 1997 and 2000, and in its decline up until 2004 in the countries of the subregion. The great volatility in the "other investment" category in the 2000s is interesting to note, as well as the fact that this situation arose before, during and after the crisis. "Other investment" flows peaked after 2004, fell in 2006 and peaked again in 2008. The recent crisis was not, then, the first period of volatility after the crisis of the 1990s. Rather, large variations are typical of these flows per se.

Table V.6
Central America and selected countries: volatility of the current account and the balance-of-payments capital and financial account, 2004-2011 [a]
(Percentage variation)

Country	Current account	Capital and financial account
Costa Rica	73.6	127.3
El Salvador	53.8	240.2
Guatemala	64.4	230.6
Honduras	90.2	62.4
Nicaragua	26.9	69.2
Panama	182.0	215.5
Brazil	95.5	120.4
Mexico	116.5	296.2
Thailand [b]	162.2	161.0
Germany	23.8	55.2
Spain	20.5	18.6
United States	12.6	57.8
Italy	56.5	120.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International monetary Fund (IMF).
[a] The coefficients are calculated as simple averages of absolute values of annual coefficients.
[b] Up to the third quarter.

The particularly volatile "other investment" category has been increasing in the subregion, so its fluctuations will have a larger impact in the future. Today, this category is a prominent part of the financial account (on average, the second largest component in the subregion after FDI). There are major differences at the country level, however. In particular, portfolio investment is much more volatile in El Salvador, Panama and the Dominican Republic. FDI is in general more stable, but more volatile than the subregional average in some countries. However, with the exception of El Salvador, FDI is on the rise in all the countries.

The rise in the capital account balance in the 1990s has to do with the new policies implemented after the 1980s, which afforded the subregion renewed access to international capital flows. In most of the countries,

financial account inflows rose from the early 1990s to the present day, although in some they are highly volatile. This is a reflection of the new composition of financial flows since the start of the 1990s, and to changes in the international financial markets. In the 1990s there was a shift from syndicated bank loans towards FDI and bond issues. While FDI has tended to rise, bond issues and net commercial bank flows have been highly volatile (ECLAC, 2002b). Moreover, in the past two decades, deeper integration into the international financial market brought greater risk of transmission of shocks, as witnessed by the recent financial crisis.

Figure V.15
Central America (selected countries) and the Dominican Republic: bond issues, 2002-2012 (selected months and years)
(Millions of dollars)

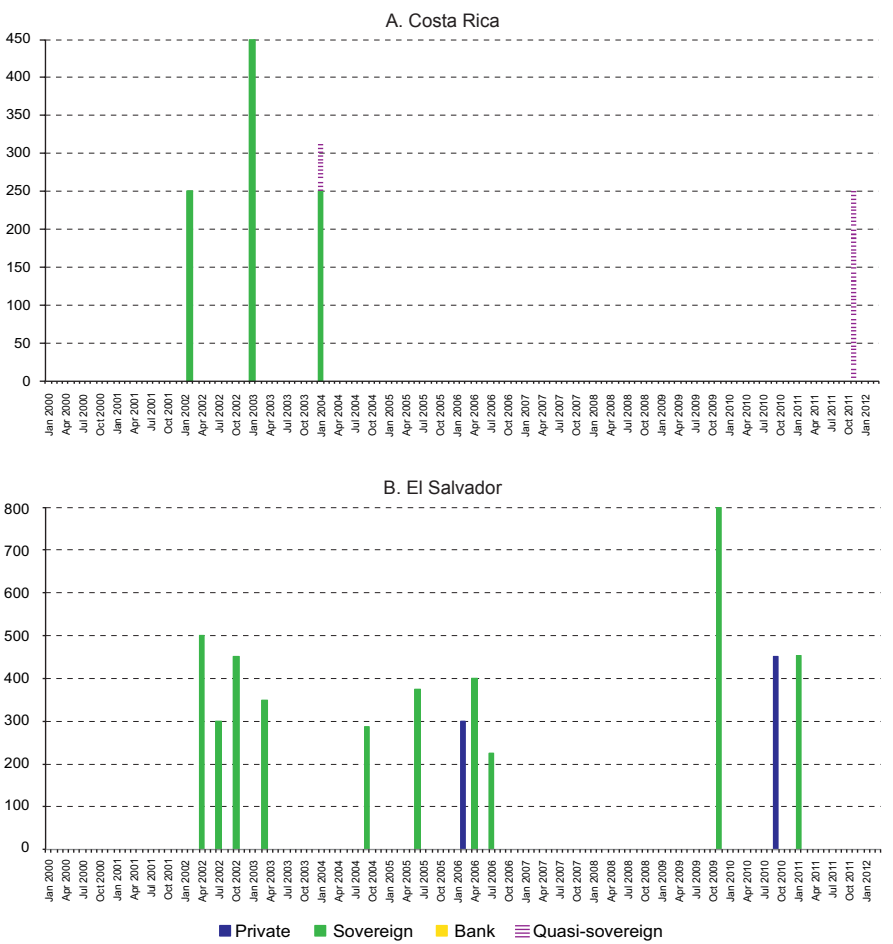
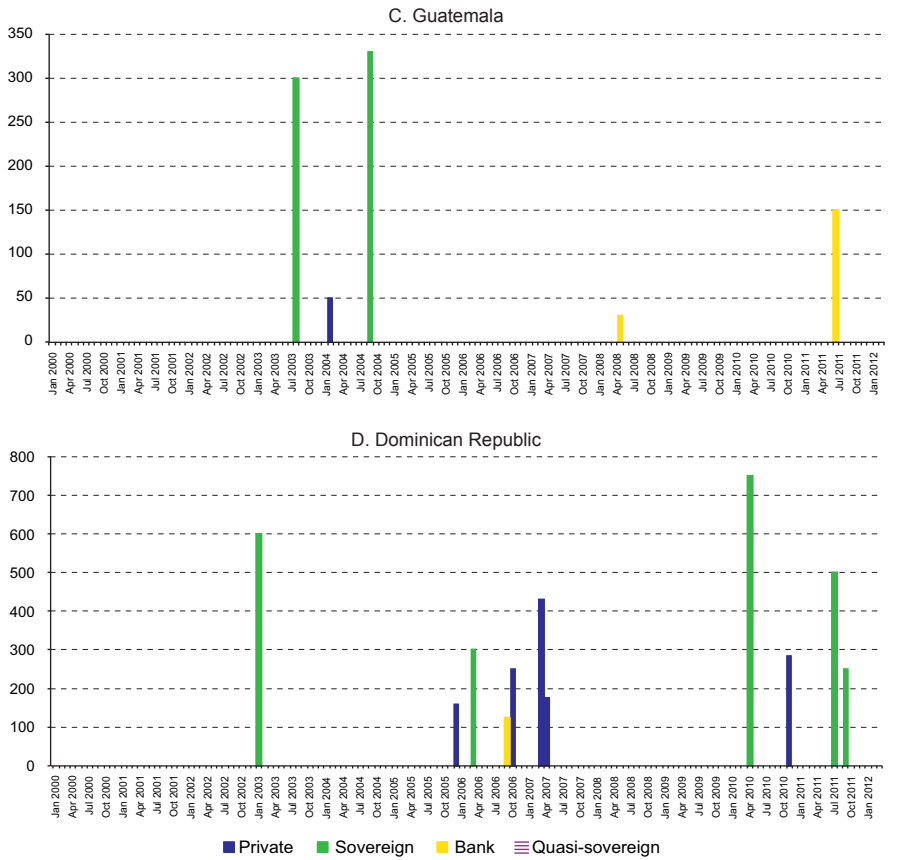


Figure V.15 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In the subregion, stronger integration into the international financial market has taken the form of greater involvement of foreign banks in the domestic system. The largest presence of foreign banks was registered in early 2004; today they represent 30% of commercial bank assets in Costa Rica, Honduras and Nicaragua, and over 90% in El Salvador (Swiston, 2010). International shocks can also be transmitted through a crunch of credit from foreign banks to banks in the subregion. Another potential channel for contagion is the dollarization of assets. El Salvador and Panama have dollarized economies, and other countries have significant —and rising— dollarized assets. This channel has a direct impact, as well as an indirect one through changes in interest rates in the United States, which affect the rates on dollarized instruments, in particular, in Central America (Swiston, 2010).

Although the "other investment" category has been on the rise in the past two decades, FDI is the main cause of the upward trend on the current account. FDI has shown rapid growth since 1996, interrupted only by the crisis that began in East Asia and continued with the Russian crisis and the dot.com collapse. In 2002-2003 FDI entered another growth phase, which was interrupted in turn by the global financial crisis that broke out in 2008. It has risen since the early 1990s, when the countries liberalized their economies, leaving behind the lost decade of the 1980s. This liberalization coincided with the wave of privatizations of State companies. At first, FDI targeted natural resources more than manufacturing, services or high technology (Alfaro, 2003).

Before moving on to the next chapter, it is worth underlining a number of fundamental conclusions that arise from the analysis carried out thus far. First, contrary to what has often been thought, the countries of the subregion have weathered profound external shocks —particularly harsh in the case of the international financial crisis— which have imposed a series of constraints on their economic growth over the short and long terms. Second, the dominance of the external sector, and the trade balance in particular, is a constraint on the subregion's long-term economic growth. The mounting trade deficit, combined with lower rates of GDP growth and, to a lesser extent, widening current account deficits, constitute a generalized risk factor. In turn, remittances and FDI have been key elements in financing the trade deficit. Third, the external shock constituted an involuntary, although perhaps necessary, adjustment, in the current account, insofar as the balance between private sector saving and investment in the subregion seems to have followed an unsustainable path. Lastly, the fallout from the recent crisis could give way to a lengthier period of instability or to a profound change that could usher in a new growth phase.

Annexes

Annex I

Economic growth and balance-of-payments constraints in the Dominican Republic and in selected countries of Central America: an econometric analysis

This annex presents an econometric analysis carried out on the basis of a parsimonious model, following the lines proposed by A. P. Thirlwall (1979), consisting essentially of estimating the income elasticities of imports and

exports,[13] both for the full period and for 10-year intervals, in order to show the possible variation over time of the parameters estimated. The elasticities for the subregion were estimated on the basis of equations *(A)* and *(B)*:

$$(A) \qquad \ln(m_t) = a_o + a_y \ln(y_t) + a_p \ln\left(\frac{Pm_t}{Pd_t}\right) + u_t$$

$$(B) \qquad \ln(x_t) = b_o + b_y \ln(y^*_t) + b_p \ln\left(\frac{Px_t}{P^*t}\right) + v_t$$

The summarized findings are presented in table A.I.1. Applying the Johansen method, the econometric estimation found cointegration in Costa Rica, El Salvador, Honduras and the Dominican Republic, but no solid evidence of cointegration in the other countries. However, when the Engle-Granger methodology was used, the results were the opposite and cointegration was indeed found.

In order to calculate the income elasticities of exports and imports, rolling regressions were estimated for the different decades in the period 1990-2011. The results indicate that, although the income elasticities ratio was higher than 1 at the start of the period, it dropped in most of the countries, in some cases to less than 1.0 (see figure A.I.1).[14] In 1999-2008, Nicaragua, Honduras and, to a lesser degree, Costa Rica maintained an elasticities ratio higher than 1 (see figure A.I.1). In contrast, the ratios for El Salvador and Guatemala were less than 1 after 1997. This is interesting, especially in the case of El Salvador, because it is the country that grew the least in the subregion. The result for Nicaragua is consistent with the estimates obtained from the Johansen cointegration method, which show exports more income-elastic than imports. However, the drop in the elasticities ratio stands out, because it starts high, but falls as the data from the last decade and the present one are incorporated. For example, the ratio is 1.7 for 2000-2009, 1.4 for 2001-2010, and 1.2 for 2002-2011.

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[13] Cointegration methods were used to estimate income elasticities of imports and exports, as well as price elasticities. However, in the case of the Central American countries (except Panama), the coefficients for price elasticities were very small or statistically insignificant. Moreno-Brid and Pérez (2003) found that, in Costa Rica, El Salvador and Guatemala, price elasticities had no major influence on the long term on exports and imports.

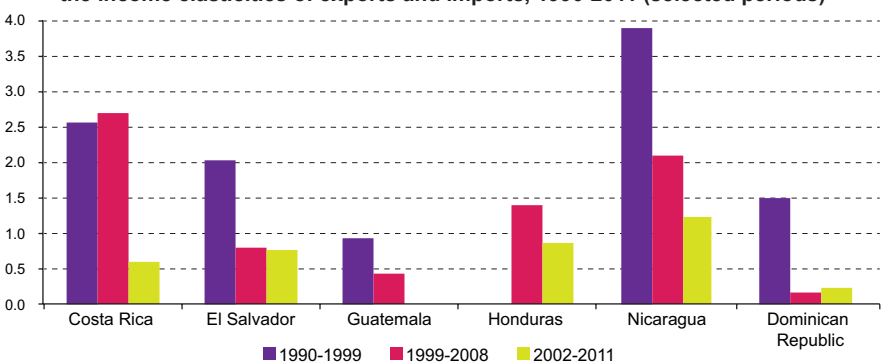
[14] Panama was not included because the growth rates of its total goods and services imports have behaved in a rather peculiar and different way from the rest of the countries. In many years between 1990 and 2011, imports show dramatic contractions, but exports do not. Thus, for several years, the elasticities ratio has been negative, sometimes even by two digits. It is thus no surprise, in line with the model set forth in the first section, that Panama has the subregion's highest rates of economic growth, and quite a wide growth differential with respect to the rest of the world, as shown in table V.5.

Table A.I.1
Central America and the Dominican Republic: income elasticities of exports (π) and imports (ξ) by cointegration tests (Johansen), and real annual growth rates of GDP, 1990-2011
(Percentages)

Country	π	ξ	π/ξ	$(\pi/\xi)Y_{RDM}$ [a]	Y [b]
Costa Rica	2.5	2.0	1.3	3.4	4.5
El Salvador	1.9	1.9	1.0	2.7	3.2
Guatemala [c]	1.2	1.7	0.7	1.9	3.7
Honduras	1.7	1.9	0.9	2.4	3.7
Nicaragua [c]	3.2	1.5	2.1	5.5	3.2
Panama [c]	1.2	0.9	1.4	3.7	5.9
Dominican Republic	1.6	0.9	1.7	4.6	5.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] Y_{RDM} is the annual average growth rate of GDP of the global economy in 1990-2011.
[b] Y is the annual average growth rate of GDP in 1990-2011.
[c] Evidence is found of cointegration using the Engle-Granger methodology, but not with the Johansen procedure.

Figure A.I.1
Central America (selected countries) and the Dominican Republic: ration between the income elasticities of exports and imports, 1990-2011 (selected periods)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

If the ratio of foreign trade elasticities is less (more) than 1, the real income of the local economy, y_b, tends to converge (diverge) with (from) that of the rest of the world, y_w:

$$(C) \quad \frac{y_b}{y_w} = \frac{\pi}{\xi}$$

Or:

$$(D) \quad y_b = \left(\frac{\pi}{\xi}\right) y_w$$

The equations indicate that long-term income growth, consistent with balance-of-payments equilibrium, is equal to the quotient of the income elasticities of exports and imports multiplied by the growth rate of the rest of the world.

Calculations were made to estimate yb for the countries of the subregion, on the basis of the results of the elasticities obtained by cointegration. According to the results shown in table A.I.1, only Nicaragua registered an average growth rate lower than that calculated (y_b). Although this result is peculiar, it should be recalled that, throughout the analysis, Nicaragua's external accounts have shown somewhat unorthodox behaviour, regarding both the trade and the current account. Nicaragua has the largest external disequilibria in the subregion. Moreover, its elasticities ratio was very high in the 1990s but fell considerably in the following decade, especially in the most recent period, so the high values of the 1990s influence the overall value obtained for the income elasticity of imports, which is, after all, an average figure.

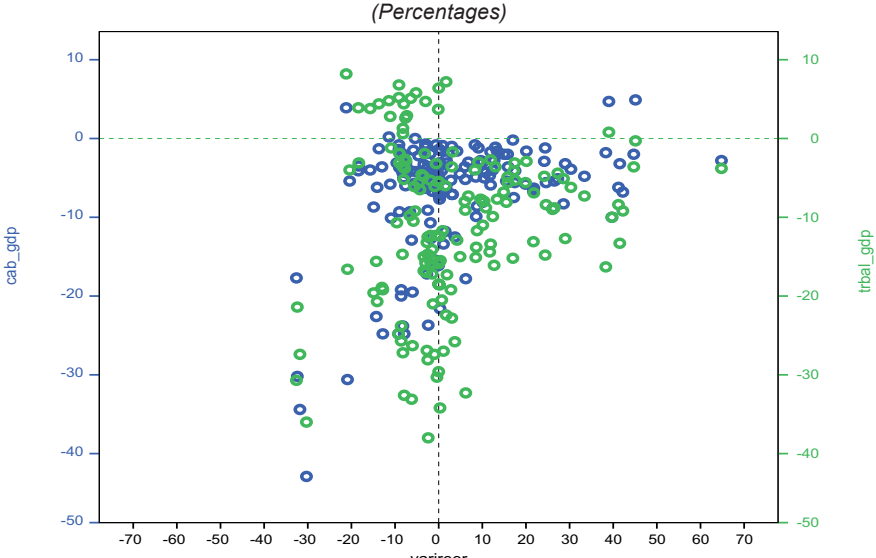
The behaviour of the trade deficit and GDP growth over a long period (1960-2011) shows no clear relation between the two variables. In 1974-1981, average annual GDP growth was negative, but the trade deficit widened slightly, instead of narrowing as would have been expected, with respect to the previous period (1960-1973). In the following period (1982-1990), growth was again negative, but the trade deficit widened significantly. In 1991-1994, GDP growth was positive and accompanied by a very large deficit. The next period (1994-1997) saw positive growth (very high with respect to the immediately previous period), but the trade deficit narrowed. In 1998-2002 GDP slowed, but the deficit widened. In 2003-2008, GDP growth slightly outpaced that of the preceding period, and the deficit was also higher. In 2009, GDP growth was negative and accompanied by a drop in the trade deficit. In the next period (2010-2011), growth returned to positive terrain but the trade deficit worsened significantly. In sum, GDP growth and the trade balance behaved as would have been expected only between 2003 and 2011.

These results suggest that other factors heavily influence GDP growth in these countries. It will be recalled that this model does not consider the terms of trade or net resource flows, which are important in explaining the evolution of both the external accounts and GDP growth. Thus far, the empirical analysis has paid little heed to the role that the real exchange rate plays in the external accounts and in economic growth in the subregion. It was shown earlier that there is a significant correlation between the countries' trade balance and their real effective exchange rate. It was also found that episodes of faster economic growth were associated with downturns in the external accounts, and that the opposite happened during economic slowdowns. It may be presumed that the relationship is one-way, i.e. positive economic growth leads to a worsening of the external accounts.

The literature on the subject has emphasized the positive impact of real exchange rate depreciation on economic growth.[15] It has also been found that exchange-rate depreciation would boost GDP growth more reliably if it were accompanied by policies to manage domestic demand to prevent inflation in the non-tradable sector, and by income policies that coordinate wage rises with productivity growth in tradable goods (Rapetti, 2011). What does seem clear is that exchange-rate depreciation alone does not have a strong influence on economic growth.

The relationship between the external accounts and the real exchange rate was approached by examining their joint evolution during 1990-2011 in each of the seven countries in the subregion. In principle, the real exchange rate index (2005=100) plots, for each year, the change in the rate with respect to the base year. Positive changes are thus referred to as an appreciation and negative changes as a depreciation. In the figure, the current account and trade balances are expressed as percentages of GDP for each year of the period 1990-2011 and for each of the countries.

Figure A.I.2
Central America and the Dominican Republic: trade balance as a proportion of GDP and the current account, and change in the real effective exchange rate, 1990-2011[a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] cab_gdp refers to the current account balance expressed as a percentage of GDP; trbal_gdp indicates the trade balance expressed as a percentage of GDP; and varireer refers to the percentage difference between the value of the real effective exchange rate index with respect to the base year.

[15] In this respect, see, for example, Rodrik (2008).

The results obtained indicate that, in most countries, real exchange rate appreciation coincides with negative balances on the current account, and that depreciations rarely coincide with surpluses on the external accounts, although a stronger correlation is seen between exchange-rate depreciations and upturns on the trade balance (but not so much on the current account balance), a result that had been noted previously.

Annex II

Impact of external shocks on the current account and its determinants

In view of the differences in current account performance among the Central American countries, we studied each of the components in comparison to the recent current account shock, that is, the crisis of 2009.

The methodology employed here breaks the current account balance down into its main components: imports, exports, income balance and current transfers. Disaggregating each of them using partial derivatives compared to the values of the preceding year yields the impact on each as a percentage of the total current account shock.

The different elements that comprise each shock are as follows: (i) the terms-of-trade effect, which measures the change in prices multiplied by the respective coefficients of exports and imports; (ii) the interest rate shock,[16] which shows the impact of changes in interest rates, given the debt shock of the earlier period; (iii) the global trade effect, which captures the impact of global export growth, given the export coefficient; (iv) the burden from debt accumulation, which quantifies how the change in the debt ratio affects the deficit, given the interest rate; (v) other external variables, including changes in remittances, current transfers, profits and dividends; (vi) domestic absorption, which comprises the effect that the fall in consumption or in investment has on imports; (vii) import substitution; and (viii) export penetration, the trade ratios that quantify the net shock owing to the change in the import-export coefficient. For brevity, only the main components were analysed (see figure A.II.1).

The terms-of-trade effect and the trade ratios were the main factors in generating current account shocks in the countries examined during the period under review. In general, in all the countries except Honduras, trade

[16] The interest rate variable used here comes from calculating the quotient between net interest payments abroad (a component of the income balance) and the external debt built up the previous year.

ratios (resulting from the sum of the effects of import substitution and export penetration) were a major part of the shock. In five countries (the exceptions being Guatemala and the Dominican Republic), the adjustment in domestic absorption played a large role in reducing the deficit during the crisis, although this reflected falling investment in almost all the countries except El Salvador. Although important for reducing the deficit, the drop in investment has long-term consequences for capital accumulation and, hence, for the growth of these economies.

Shocks owing to interest rate effects, debt accumulation and other external variables represented no more than 15% of the magnitude of the current account shocks in 2009-2011. As they returned to economic growth between 2010 and 2011, these countries widened their external deficits, mainly owing to the terms-of-trade effect and the rise in import coefficients. In some countries, export coefficients deteriorated, largely owing to their production structure and the international economic situation.

Figure A.II.1
Central America and the Dominican Republic: breakdown of the various effects in the overall shock, 2009 and 2010-2011
(Percentages)

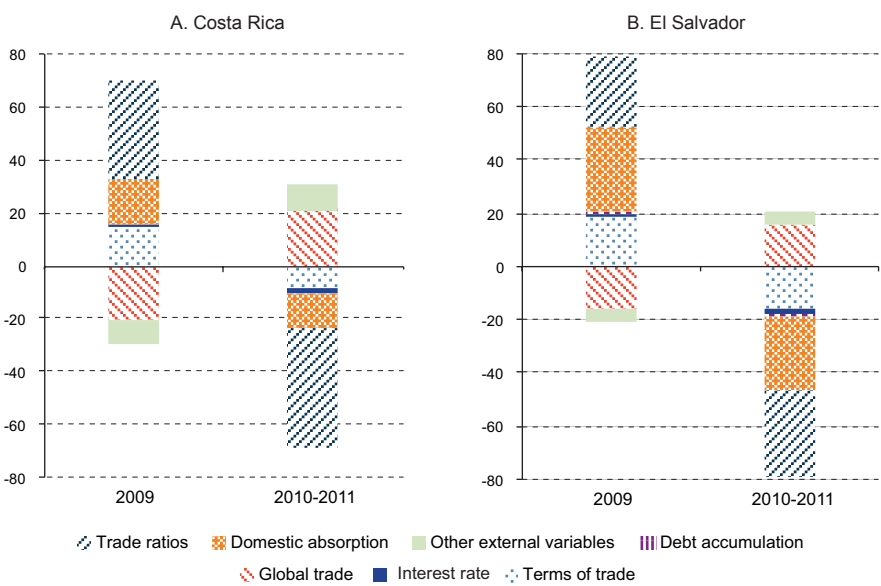
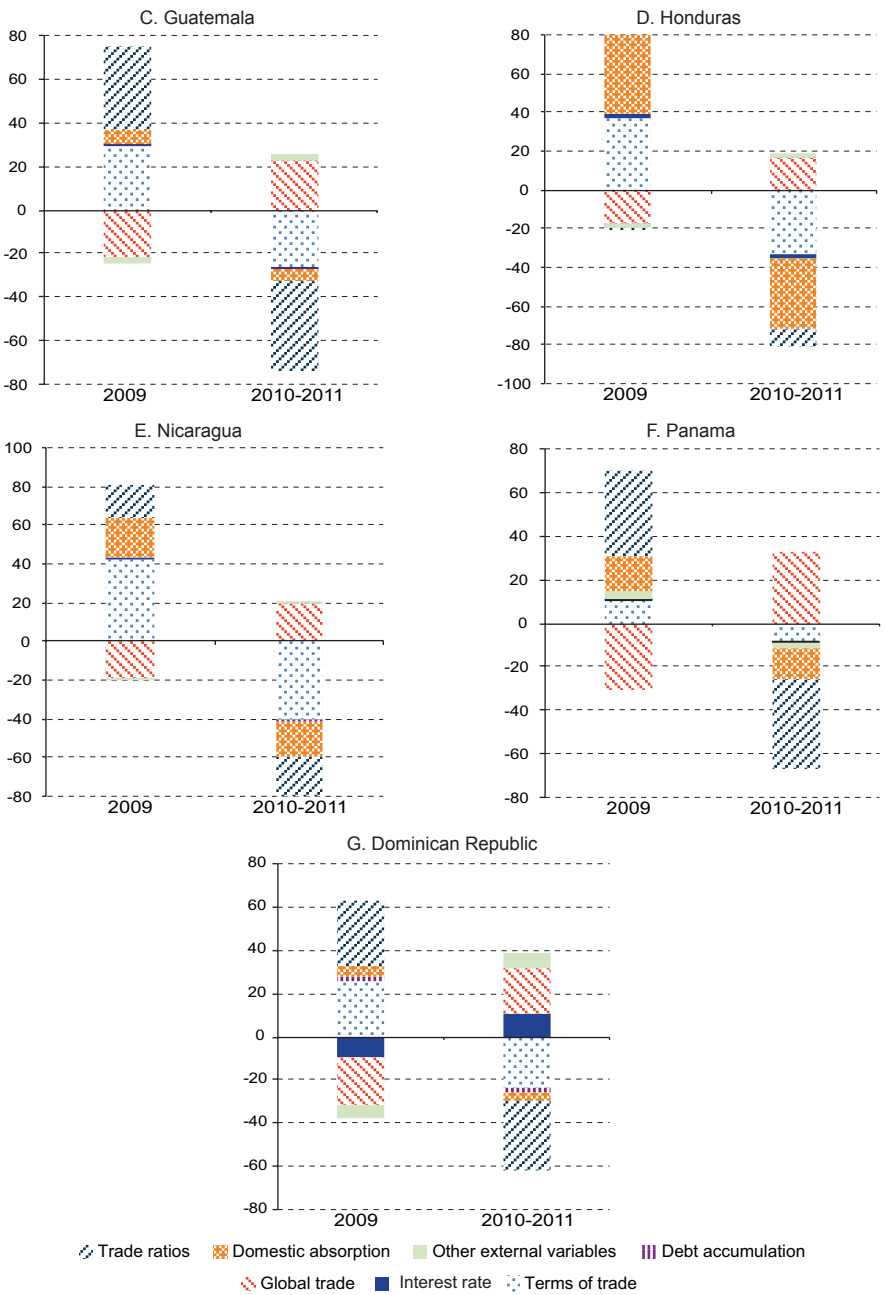


Figure A.II.1 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of R. Gómez and J.C. Rivas Valdivia, "Medición de los choques externos en cuenta corriente, 2008-2011: un análisis multifactorial", Mexico City, 2012, unpublished.

Figure A.II.2
Central America (selected countries): private investment and saving, 2000-2011
(Percentages of GDP)

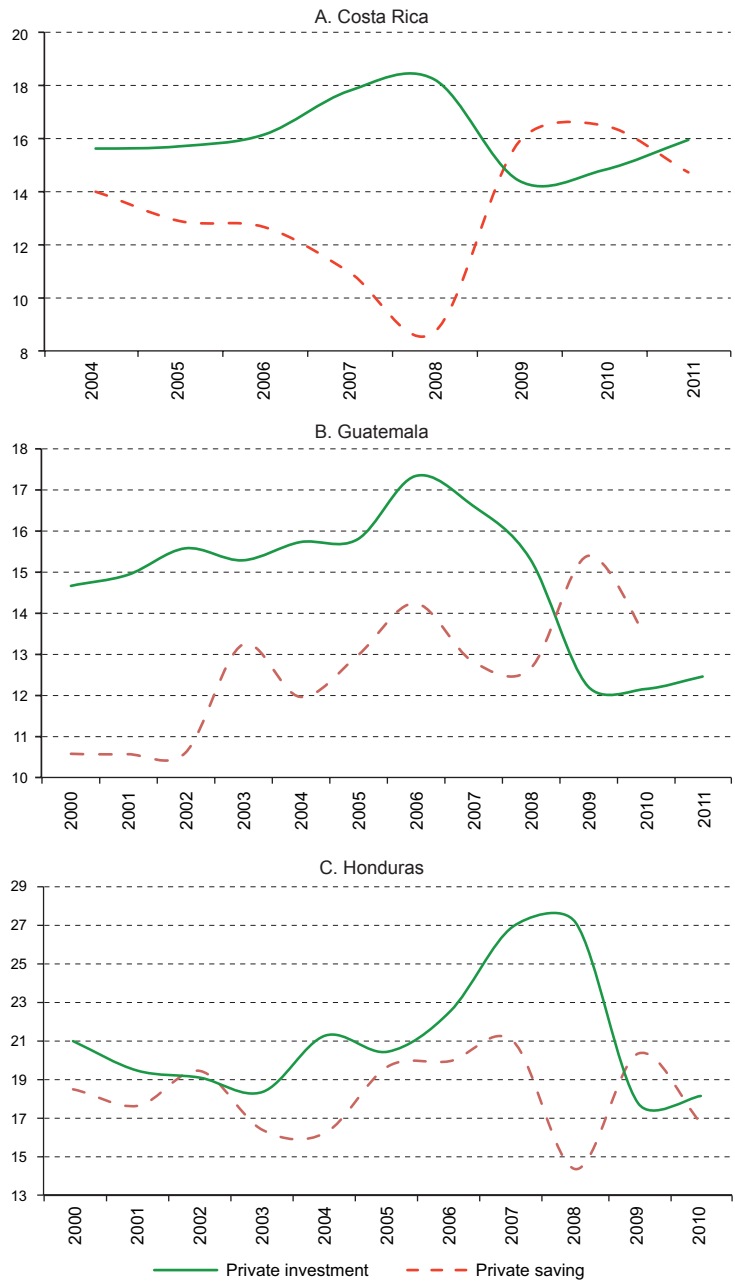
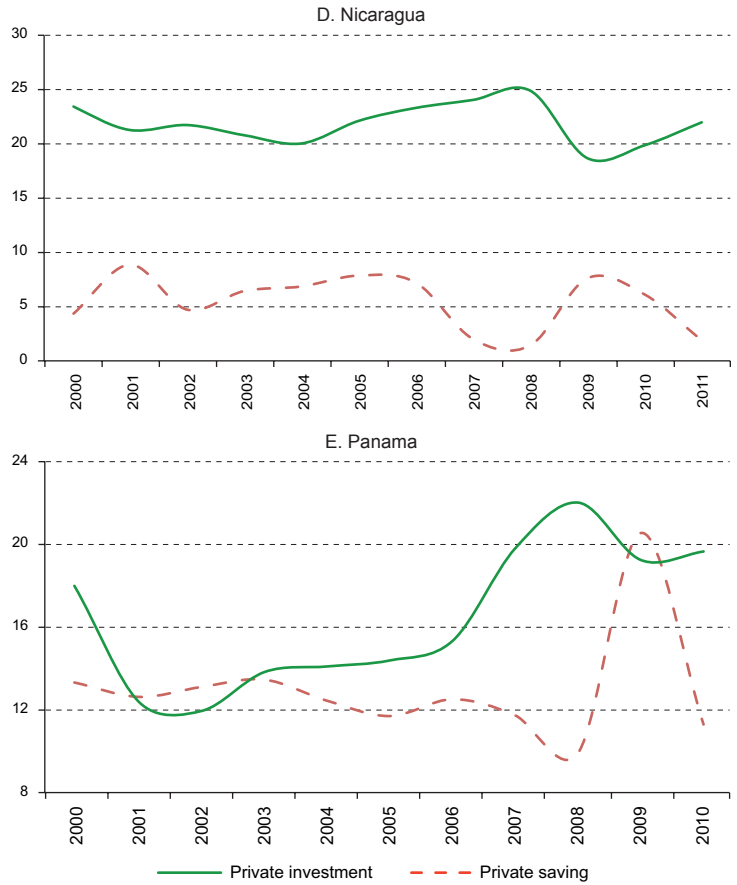


Figure A.II.2 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Chapter VI

Macroeconomic policy: main instruments and objectives

A. Fiscal policy

1. Introduction

Over the past 20 years, the economies of Central America[1] and the Dominican Republic have experienced sweeping changes, including trade liberalization, increasing subregional integration and a series of tax reforms that have strengthened public finances.

As a result of the fillip provided by the relatively strong economic performance seen prior to the 2008-2009 international financial crisis, the subregion's economies were able to create more fiscal space, which allowed them to take a countercyclical fiscal stance,[2] a first in Central America and the Dominican Republic.[3] However, although some fiscal space was

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1 As in the previous chapters, Central America refers to Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

2 See the section in this document on fiscal space, as well as Villagómez (2011).

3 In contrast with the assertions made in this paper, Ocampo (2012a) argues that the active policy response to the crisis benefited from a previous attenuation of external vulnerability and does not necessarily reflect the institutional adoption of countercyclical policies. Although much remains to be done in terms of institutional strengthening, the analysis presented in this paper explicitly identifies the twofold nature of the policy response. It distinguishes between the part affected exogenously by cyclical fluctuations, which captures the reduction in external vulnerability, and the part that reflects discretionary policy. The findings produce evidence for a countercyclical fiscal policy response in most of the countries of Central America and the Dominican Republic prior to the 2008-2009 crisis, which complemented the monetary policy efforts in several countries.

regained in 2010 and 2011 as the economy rebounded and a series of tax reforms were implemented, the amount of headroom that was available prior to the crisis has not yet been recovered. Rebuilding fiscal space in a highly uncertain international economic environment is a fundamental objective, inasmuch as it provides the buffer needed to protect social spending priorities without compromising the medium-term growth outlook by using public investment as the adjustment variable in the case of cyclical fluctuations.

The objective of this chapter is to analyse the evolution of public finances in Central America and the Dominican Republic between 1990 and 2011, with a special emphasis on the role played by fiscal policy in macroeconomic stabilization and income redistribution.

In the subregion as elsewhere, the State intervenes in three crucial areas of an economy's performance: macroeconomic stability, income redistribution and allocation of productive resources (Musgrave and Musgrave, 1989). Although fiscal policy is not the only public policy tool in these areas, it does have a preponderant role inasmuch as governments' tax, expenditure and absorption of financial resources, in practice, express the consensus, or lack thereof, on national priorities between the key economic actors.

Figure VI.1 shows the evolution of public-sector revenue and expenditure and the fiscal balance of the central governments from 1990 to 2011, expressed as average percentages of GDP. Three different phases are evident.[4] The first is from the mid-1990s to 2007, and is marked by an upward trend in the evolution of public revenue. This growth reflects, among other factors, the cessation of hostilities in El Salvador, Guatemala and Honduras, a development that opened the door to economic expansion in the subregion. Notwithstanding the other factors behind this trend, such as the impact of the various fiscal reforms pushed through during the period (Lora and Cárdenas, 2007), the decline observed in 2009 revealed the persistently high vulnerability of fiscal revenues in the subregion to external shocks.

Likewise, public expenditure also followed a positive trend, with significant increases from 1997 to 2001 and from 2007 to 2010. Notably, both periods coincided with international crises: the first with the Asian crisis of the late 1990s and the United States recession of the early 2000s, and the second with the mortgage-related financial crisis in the United States. This is important inasmuch as higher expenditure reflects actions taken by the subregion's countries to protect per capita social spending in a weaker economic environment (ECLAC, 2012a).

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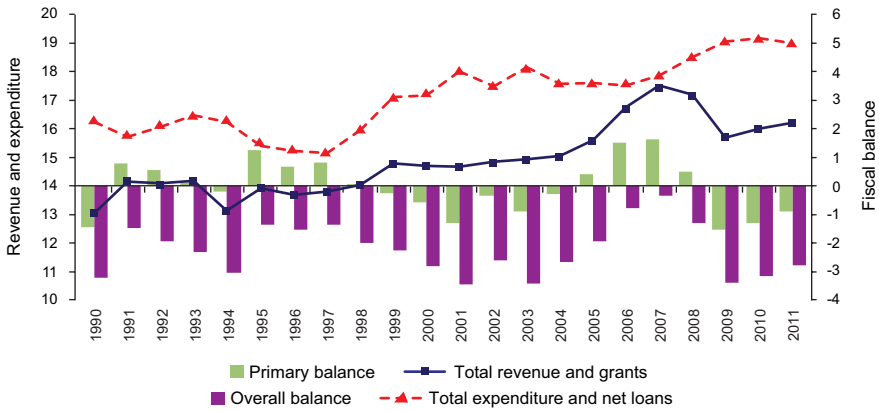
[4] Unless otherwise indicated, the subregional figures are simple averages of the results of each country.

Figure VI.1
Central America and the Dominican Republic: operations of central governments, simple averages, 1990-2011
(Percentage of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Lastly, despite a modest but persistent overall deficit, the average primary balance[5] in the subregion evolved favourably, with periods of sustained surpluses, the first lasting for much of the 1990s and the second occurring between 2005 and 2008. Whereas the primary surpluses observed during the first period were associated with a reduction in public expenditure, particularly current expenditure, the surpluses in the second period reflected a significant improvement in central government revenues. The key point to note, especially if the period prior to the 2008-2009 crisis is considered, is that the increased availability of resources allowed, at least in part, for the bolstering of public finances. As analysed in depth below, this enabled most of the countries to deploy policies aimed at mitigating the impact of the global financial crisis on the welfare of the population.

This chapter has two sections: the first analyses the evolution of public finances in Central America and in the Dominican Republic over the past two decades, and the second puts forward recommendations for consolidating the ability of fiscal policy to effectively influence resource allocation, income redistribution, and macroeconomic stabilization. The recommendations are organized around the following themes: strengthening the revenue capacity of the State, enhancing the efficiency of public expenditure, and bolstering the institutional framework for fiscal policy (Cárdenas and Perry, 2011).

[5] The primary balance is the difference between total revenue (including grants) and expenditure, not including interest payments.

2. Public finances

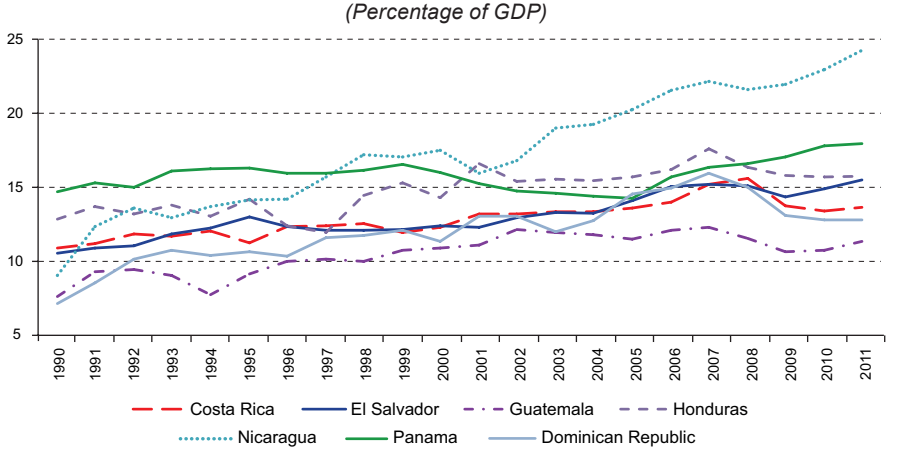
(a) Revenue

Inasmuch as the capacity to provide public goods and services and the capacity to implement public policy depend on the availability of State revenue, this paper analyses public finances in Central America and the Dominican Republic by studying revenue dynamics.

As mentioned previously, over the past 20 years, central government revenues have risen significantly in the subregion. On average, total revenues, including social contributions, increased from the equivalent of 11.7% of GDP between 1990 and 1994 to around 15.7% of GDP in 2010 and 2011.

Notwithstanding their diverse individual experiences, the countries fall into three groups according to the trends experienced over the past two decades (see figure VI.2). The first group consists only of Nicaragua, which virtually doubled its revenues over the period in question, from 12.3% of GDP between 1990 and 1994 to 23.6% of GDP in 2010 and 2011. The second group contains El Salvador and the Dominican Republic, which saw revenues climb by 3.9 and 3.4 percentage points of GDP, respectively, to the equivalent of 15.2% of GDP (El Salvador) and 12.8% of GDP (Dominican Republic). Lastly, the third group comprises Costa Rica, Guatemala, Honduras and Panama, which experienced revenue growth of between 2 and 2.4 percentage points of GDP, achieving levels equivalent to 13.5%, 11.1%, 15.7%, and 17.9% of GDP, respectively.

Figure VI.2
Central America and the Dominican Republic: central government revenues, 1990-2011
(Percentage of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Although there is a wide spread in the distribution towards the end of the period, if the outlying cases of Guatemala and Nicaragua are excluded —with revenues close to 11.1% and 23.6% of GDP, respectively— central government revenue levels converge at around 15% of GDP.

Among the factors contributing to the rise in revenue were the normalization of economic activity following the ratification of peace accords in the countries that were mired in civil conflict in the 1980s (El Salvador, Guatemala and Nicaragua) and the reforms of fiscal institutions implemented in each of the countries under consideration.[6] Box VI.1 describes the main features of the most recent reforms. Despite improvements, revenue levels in the subregion, except in Nicaragua, remain low, both in terms of fulfilling the demands that the public sector must meet and in comparison with other countries.

Box VI.1
Recent fiscal reforms in Central America and the Dominican Republic

The subregion has been pursuing tax reforms since the 1990s. This box summarizes the most recent wave of reforms, deployed around the time of the 2008-2009 financial crisis that slowed down economic activity in the subregion. In response to the crisis, governments implemented various fiscal changes to strengthen revenue collection, widen the tax base, reform the income tax system and introduce new taxes. Between April 2008 and early 2012, all the governments in the subregion proposed tax reforms. The most notable aspects of these reforms are described below.

(i) Income tax

A permanent tax on dividends was introduced, ranging from 5% in El Salvador to 15% in Costa Rica (where the bill is still before the Congress). In addition, a dual taxation structure was adopted, with different tax rates on wage and capital income. The former became subject to a progressive rate and the latter to a proportional fixed rate. In addition, a tax on undistributed dividends at the source was introduced, eliminating the individual tax on distributed dividends, in an attempt to reduce income tax evasion. Prior to the most recent reforms, dividends were exempt from tax in El Salvador, Guatemala, Nicaragua and Panama.

Measures were also taken to broaden the income tax base by eliminating various tax privileges and exemptions and imposing stricter controls on tax-deductible expenses and costs. Additional measures were introduced to regulate or reduce special regimes.

[6] See Filc and Scartascini (2007) for more detailed information on these reforms through the mid-2000s.

Box VI.1 (continued)

In the context of these reforms, El Salvador, Guatemala, and Honduras adopted international tax provisions to adopt legal mechanisms for transfer pricing adjustments. Costa Rica's reform bill includes international taxation measures. In Nicaragua, though, similar measures were ultimately rejected by the legislature. Along the same lines, thin capitalization rules were approved in El Salvador and Guatemala, though in Costa Rica and Nicaragua they remained mere proposals. These rules limit the ability of corporations to deduct interest payments from their income tax.

Imposing a minimum tax that can be credited against the income tax, as a way of strengthening collection and preventing evasion is a trend in the subregion. Furthermore, gross income is beginning to be preferred over assets as the taxable base. The first method has been introduced in El Salvador, Guatemala, Nicaragua and Panama, while the second is being applied in Honduras and the Dominican Republic.

Recent reforms introduced changes to the flat rate on corporate income tax. In Guatemala and Panama the rate has been lowered; in El Salvador, the Dominican Republic and Honduras it has been raised; while in Costa Rica and Nicaragua, the proposal is to keep it the same. When the rate is lowered, the revenue loss is offset by measures to expand the tax base.

(ii) Value-added tax (VAT)

In the recent tax reforms, the only country to modify VAT was Panama, which raised the rate of the tax on the transfer of movable goods and the provision of services (ITBMS) —a general consumption tax— from 5% to 7%. However, the reforms included measures to broaden the tax base, eliminate exemptions and tax privileges and incorporate new taxpayers and goods under this regime. In Honduras, and in Costa Rica's tax reform bill, some items that were subject to a "zero rate" are now "exempt", i.e. the tax is built into the price of the item with no tax credit allowed and the tax does not have be charged at the point of sale, which results in a larger tax base.

(iii) Other taxes

The reforms introduced new taxes or raised existing ones in three areas in particular: general property (e.g. vehicles and immovable property), activities that have negative externalities on society, such as gambling and use of tobacco and alcohol, and telecommunications services.

In Guatemala, for example, the tax on new vehicle registrations was modified, and the road tax was doubled. El Salvador established a vehicle tax, Honduras introduced an "eco-tax" and began to tax imports, and the Dominican Republic adopted a property tax. In addition, various types of measures were introduced in Honduras, Panama and the Dominican Republic with respect to casinos and gambling activities in general. In El Salvador, Honduras and Panama, the tax rate on alcoholic beverages and tobacco was increased, while in Nicaragua exemptions for these products were eliminated. El Salvador and Honduras raised their respective taxes on telecommunications services.

Box VI.1 (concluded)

(iv) Strengthening of tax administration

In several countries in the subregion, various types of measure were implemented in order to strengthen tax administration. In Guatemala, for example, tax fraud (including fraudulent issuance or falsification of invoices) was classified as a crime, the criminal and tax codes were revised, and provisions were introduced to allow the Superintendency of Tax Administration (SAT) to operate more efficiently.

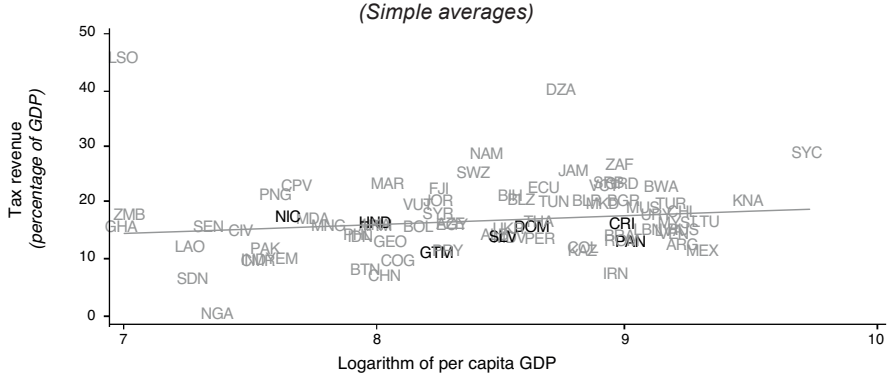
The revenue capacity of reform measures is related to the tax administration's control capacity, that is, its ability to gain access to the banking information of economic agents and know the identity of corporate shareholders. In Guatemala, the reform initiative seeks to make the expenses that taxpayers can deduct from their income tax uniform and transparent through cross-checks. In El Salvador, a large taxpayer service unit was created to bring better management and services to the group that contributes the bulk of tax revenues. Lastly, in the Dominican Republic, an intelligence unit was created in the Finance Ministry to centralize responsibility for authorizing new exemptions, as well as for reviewing the efficacy of existing ones.

Source: Luca Dioda (2013).

Figure VI.3 illustrates the relationship between tax revenue —the main component of the total fiscal revenue of each country (see figure VI.4)—, expressed as a percentage of GDP, and the natural logarithm of per capita GDP for the 80 countries classified by the World Bank as middle-income nations. The figure depicts a positive relationship between the two variables and also shows that, with the exception of Honduras and Nicaragua (the countries with the lowest per capita in the subregion), the Central American countries are below the regression line. However, a contrast can be drawn between Guatemala and Panama, regarding their distance from the regression line. In Guatemala, the distance largely reflects the magnitude of taxes that go uncollected due to exemptions (so-called tax expenditure). In Panama, the relatively low tax ratio has to do with the importance of non-tax revenue in the country's fiscal structure.

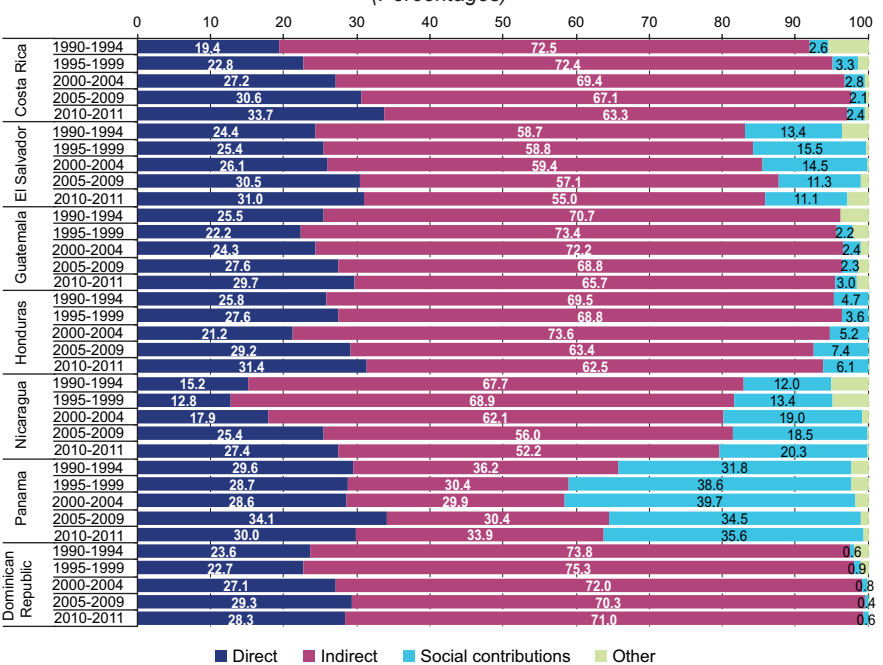
Based on the relative importance of tax revenues as a proportion of total fiscal revenue, three groups can be identified in Central America and the Dominican Republic. At one end of the spectrum lies Panama, whose non-tax revenues between 1990 and 2011, mainly associated with the provision of government services, accounted for about 40% of total fiscal revenue, with tax revenues making up the remaining 60%. Honduras and Nicaragua are in the second group, characterized by the strong contribution of external grants to total revenue. Whereas in Nicaragua grant proceeds shrank from 23.6% in the period 1990-1994 to 8.8% in the period 2010-2011, in Honduras they climbed from 5.2% to 7.2% of total revenue in the same periods. Lastly, in the third group, which includes Costa Rica, El Salvador, Guatemala and the Dominican Republic, taxes generate nearly 90% of total revenue.

Figure VI.3
Middle-income countries: per capita income and tax ratio, 1990-2011
(Simple averages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the World Bank, Global Financial Development [online], http://data.worldbank.org/data-catalog/global- financial-development, and World Development Indicators [online], http://data.worldbank.org/data-catalog/world-development-indicators, 2012.

Figure VI.4
Central America and the Dominican Republic: tax revenue structures of the central governments, 1990-2011 (selected periods)
(Percentages)



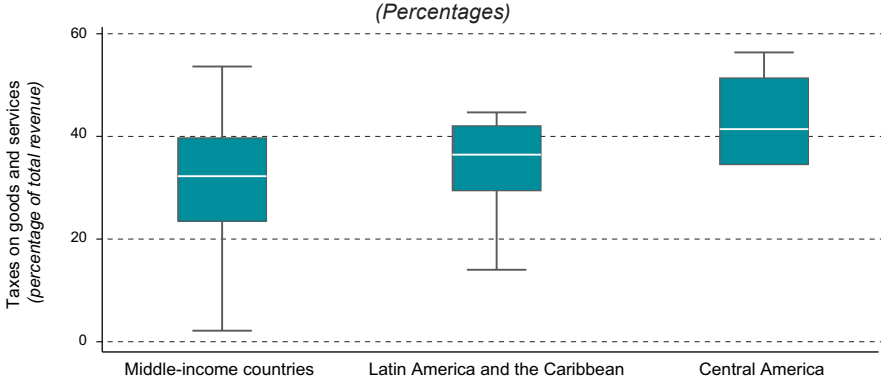
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

As seen in figure VI.4, the proportion of tax revenues that comes from direct taxes in the subregion rose from 23.5% in 1990-1994 to 30% in 2010-2011. Despite the growing importance of direct taxes, with the exception of Panama, virtually two thirds of tax revenue comes from indirect taxes, revealing the regressive bias of the tax structure.

That structure reflects the close relationship that exists between the subregion's relatively low average tax ratio and its marked income inequality. As Cabrera and Fuentes (2011) note, the low tax yield is due in part to the influence of interest groups that block initiatives to increase income taxes in the most dynamic economic sectors and in the highest-income groups. This challenge induces greater efficiency in the collection of indirect taxes, which explains why, in spite of the not inconsiderable progress made in increasing the relative share of direct taxes, consumption taxes continue to be the main source of revenue in the Dominican Republic and Central America with the exception of Panama.

This situation is not exclusive to Central America. Figure VI.5 compares the relative share of indirect taxes in those countries[7] with the rest of Latin America and the Caribbean and a sample of nearly 50 countries classified by the World Bank as middle-income nations. Although the median relative share of consumption taxes in Central America and the Dominican Republic is slightly larger than the median value in countries at similar income levels, it is of the same order of magnitude.

Figure VI.5
Middle-income countries, Latin America and the Caribbean and Central America: taxes on goods and services as a share of total revenue, 2000-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the World Bank, Global Financial Development [online], http://data.worldbank.org/data-catalog/global-financial-development, and World Development Indicators [online], http://data.worldbank.org/data-catalog/world-development-indicators, 2012.

[7] The proportion is calculated based on total fiscal revenue, which explains the discrepancy with the information presented in Figure VI.4, which shows the share of the various taxes as a proportion of total tax revenue.

As the process of trade liberalization unfolded in the subregion, tax revenue from foreign trade fell from 22.1% of total tax revenue in 1990-1994 to 6% in 2010-2011. The contraction was sharper in Honduras, where the relative share of taxes from foreign trade plummeted from 31.2% to 5.2% in the same time span.

At the subregional level, the relative importance of specific taxes on goods and services has fallen, partly due to the recognition that collection is not very effective, as confirmed in the cases of El Salvador, Guatemala, Nicaragua and Panama. Conversely, the relative share of this tax increased in Costa Rica and the Dominican Republic, while in Honduras it expanded until the mid-2000s but by the end of the period had come to rest at a level very similar to the one it had 20 years before.

In contrast, general taxes on production and services now represent a larger share of total tax revenue in all the countries. At the subregional level, the figure rose from 21.3% in 1990-1994 to 34.1% in 2010-2011. The largest increases were in Honduras and Nicaragua, where climbed from 18.5% and 11.9% to 35.6% and 32.3%, respectively.

The tax burden due to indirect taxes in Central America, which averaged 9% of GDP in 2005-2010, is comparable to the ratio in other areas of the world, including OECD countries (Gómez Sabaíni, Jiménez and Podestá, 2010). However, the tax burden from direct taxes, despite their rising over the past 20 years, was barely the equivalent of 4.7% of GDP in 2010-2011, among the lowest rates in the world.

The low tax burden has to do with various factors. For one, there is the relatively low participation of contributions to social security in the subregion (2.1% of GDP in 2010-2011), which reflects its low coverage and fragmented nature and, more especially, the low levels and structure of direct taxes. The preponderance of income tax over wealth taxes stands out, with the former generating over 90% of direct taxes in the subregion. The exception is the Dominican Republic, where income tax accounts for approximately 80% of direct tax revenue. Moreover, during the study period, corporate taxes have come to occupy an increasingly larger share of total tax revenue at subregional level, jumping from double that of personal income tax in 1990-1994 to three times as much in 2010-2011. Honduras is the only country where personal and corporate income tax burdens are comparable (at about 1% of GDP).

Low direct taxation on individuals is a distinctive feature of the tax systems of Central America and the Dominican Republic (ICEFI, 2012). The reasons for this include the low share of personal income taxes, the large magnitude of tax expenditure in the subregion, and income tax evasion.[8]

[8] Tax expenditure corresponds to the amount of tax revenue that goes uncollected due to exemptions and special regimes.

As to why the corporate income tax revenues are so low, two causes have been identified (ICEFI, 2012). First, the tax base is built on income generated within the countries, which limits its size and becomes an incentive for tax evasion, given the lack of infrastructure needed to ensure that locally generated income is not transferred abroad prior to being taxed. The second factor is the exemption or preferential treatment given in most countries to certain types of income, such as capital gains or dividends. This has the effect of reducing the effective collection rate, which explains the gap between the national and effective income tax rates in the subregion.

As for tax expenditure, in most of the countries, it largely reflects actions taken to attract foreign direct investment (FDI). Though it is true that some FDI would not materialize without tax incentives, the empirical evidence does not support the premise that tax exemptions are an effective mechanism for promoting gross fixed capital formation (Klemm and Van Parys, 2012). Furthermore, tax incentives tend to attract relatively low-technology investment. The effect is doubly negative: a weaker tax base denies the region's governments the fiscal support needed to invest in the key structural factors that attract high-technology FDI, such as investment in education, infrastructure, security and institutional development.

With respect to the magnitude of tax expenditure, the available evidence indicates that with the exception of Panama, where it stood at just 2.8% of total tax revenue, in the rest of the countries the proportion is significant, ranging in 2009 from 39.5% in El Salvador to 75% in Guatemala (ICEFI, 2012) (see table VI.1). Using a methodology that enables cross-country comparisons, Jiménez and Podestá (2009) were able to estimate tax expenditure in Guatemala, which in 2007 was equivalent to 66.4% of the total tax burden, or 8% of GDP.

Table VI.1
Central America: tax expenditure, 2002-2009
(Percentage of total tax revenues)

Country	2002	2003	2004	2005	2006	2007	2008	2009
Costa Rica	…	…	…	…	…	…	…	43.0
El Salvador	…	…	…	…	…	…	…	39.5
Guatemala	…	…	…	70.5	67.6	66.4	70.9	75.0
Honduras	…	…	…	41.3	45.3	…	…	44.6
Nicaragua	42.7	39.5	42.1	…	…	…	…	…
Panama	…	…	…	…	5.6	3.6	3.8	2.8

Source: Central American Institute for Fiscal Studies (ICEFI), *La política fiscal de Centroamérica en tiempos de crisis*, Guatemala, 2012.

Table VI.2 summarizes the findings of Barreix, Bès and Roca (2009) on the progressiveness of tax systems in Central America and the Dominican Republic. Specifically, it shows the impact on income distribution, measured as the Gini coefficient, of value-added tax (VAT), personal income tax and the tax system as a whole. The distributive impact is summarized using the Reynolds-Smolensky index, which measures the change in the Gini coefficient resulting from a policy intervention. A policy is regarded as progressive (regressive) if it reduces (increases) income inequality. A positive (negative) Reynolds-Smolensky score indicates a progressive (regressive) policy.

Table VI.2
Central America and the Dominican Republic: distributive impact of taxation, 2000-2006 (selected years)
(Gini coefficient for income and changes)

	Costa Rica (2004)	El Salvador (2006)	Guatemala (2000)	Honduras (2005)	Nicaragua (2001)	Panama (2003)	Dominican Republic (2004)
Value-added tax							
Before-tax Gini	0.5770	0.5034	0.5957	0.5697	0.5963	0.6364	0.5106
After-tax Gini	0.5801	0.5167	0.6034	0.5747	0.5998	0.6375	0.5156
Reynolds-Smolensky index	-0.0031	-0.0133	-0.0077	-0.0050	-0.0035	-0.0011	-0.0050
Personal income tax							
Before-tax Gini	0.5770	0.5034	0.5957	0.5697	0.5963	0.6364	0.5106
After-tax Gini	0.5692	0.4947	0.5946	0.5647	0.5905	0.6312	0.4759
Reynolds-Smolensky index	0.0078	0.0087	0.0011	0.0050	0.0058	0.0052	0.0347
Total							
Before-tax Gini	0.5770	0.5034	0.5957	0.5697	0.5963	0.6364	0.5106
After-tax Gini	0.5726	0.5109	0.6034	0.5707	0.5946	0.6274	0.5126
Reynolds-Smolensky index	0.0044	-0.0075	-0.0077	-0.0010	0.0017	0.0090	-0.0020

Source: Alberto Barreix, Martín Bès and Jerónimo Roca, *Equidad fiscal en Centroamérica, Panamá y la República Dominicana*, Washington, D.C., Inter-American Development Bank (IDB), 2009, based on Maguin Díaz, "Equidad fiscal en la República Dominicana: análisis de la incidencia distributiva de la política fiscal," unpublished, 2008; Central American Institute for Fiscal Studies (ICEFI), "Incidencia de los impuestos sobre la equidad en Guatemala-2005," unpublished, 2007; Marcelo Garriga and others, "Impacto distributivo del sistema fiscal en Honduras: ¿Quiénes se benefician del accionar del sector público y quiénes cargan con el costo?," unpublished, 2007; Jerónimo Roca, "Tributación y redistribución del ingreso en Nicaragua," unpublished, 2007; Nicolás Rodríguez, "Incidencia de la política fiscal en Panamá," unpublished, 2007, and Juan Diego Trejos, "La equidad de la política fiscal en Costa Rica," unpublished, 2007.

The first characteristic to note is that the subregion has relatively high income inequality, with Gini coefficients of greater than 0.5 across the board and approaching 0.6 in Costa Rica, Guatemala, Honduras, Nicaragua and Panama. Second, VAT, which accounted for one third of tax revenue in the most recent period, has a regressive impact in all the countries. In other words, the main source of central government revenue in Central America and the Dominican Republic causes greater income inequality, since in relative terms, the burden of this tax falls disproportionately on the poorest households, not on the richest.

In contrast, the distributive impact of the personal income tax is progressive across the board. However, the relatively low revenues collected mean that its impact is small. Indeed, at the aggregate level, it only manages to offset the effect of VAT in Costa Rica, Nicaragua and Panama. In any case, the point should be made that the distributive impact of the tax system, all told, is fairly small, with the result that public expenditure —particularly on social development— has become the main redistributive instrument of fiscal policy.

(b) Expenditure

Although average expenditure by the subregion's central governments has risen over the past 20 years, as illustrated in figure VI.1, the dynamics of this growth have not always paralleled the behaviour of revenue.

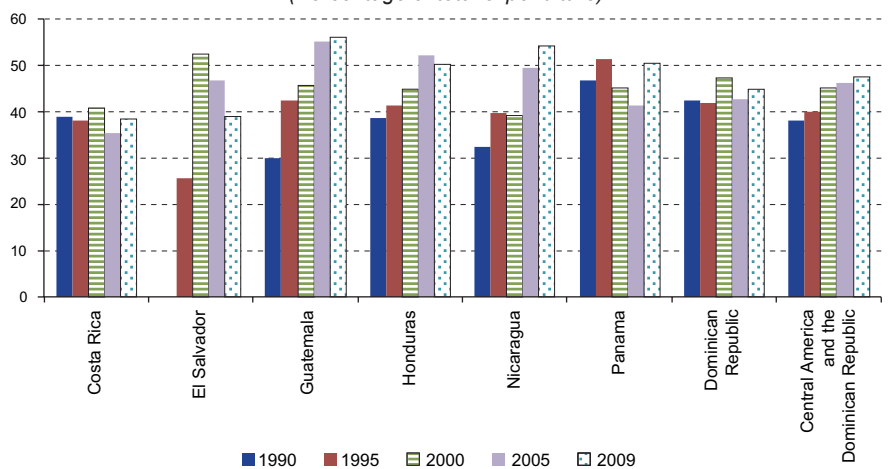
Four distinct phases can be identified. During the first, from 1990 to 1997, expenditure decreased as a percentage of GDP, as evidenced by the flat or declining share of all the countries. This was followed by an increase in expenditure from 15.2% of GDP in 1997 to 18% of GDP in 2001. This expansion is a sign of measures taken to protect social spending in response to the economic slowdown associated first with the Asian crisis in 1998 and later with the United States recession in the early 2000s. Between 2001 and 2007, expenditure hovered around 18% of GDP. However, in 2007, as the economy cooled down due to the effects of higher international food and fuel prices, and in the wake of the 2008-2009 international financial crisis, expenditure climbed significantly to reach 19% of GDP in 2011. This reflects, once again, the actions taken in the majority of the countries to protect social spending, which if kept relatively constant in a weakening economic environment, expands as a percentage of GDP.

Primary spending by central governments in Central America and the Dominican Republic, which averaged 17.4% of GDP in 2010-2011, was one percentage point of GDP lower than in the rest of Latin America in the period 1990-2011. This reflects the low tax burden in the subregion and underscores the importance of working to increase tax revenue and enhance efficiency, as a way to create more fiscal space without cutting public expenditure.

(i) Social expenditure

In figure VI.6, which shows the evolution of social expenditure as a proportion of total expenditure, it may be observed that social expenditure has persistently strengthened as a macroeconomic priority at subregional level (ECLAC, 2012a), with sharp increases in the latter halves of the 1990s and the 2000s. In Central America and the Dominican Republic, social expenditure, as a share of total expenditure, grew from an average of 38.3% in 1990 to 48.1% in 2010.

Figure VI.6
Central America and the Dominican Republic: social expenditure, 1990-2009
(Percentage of total expenditure)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

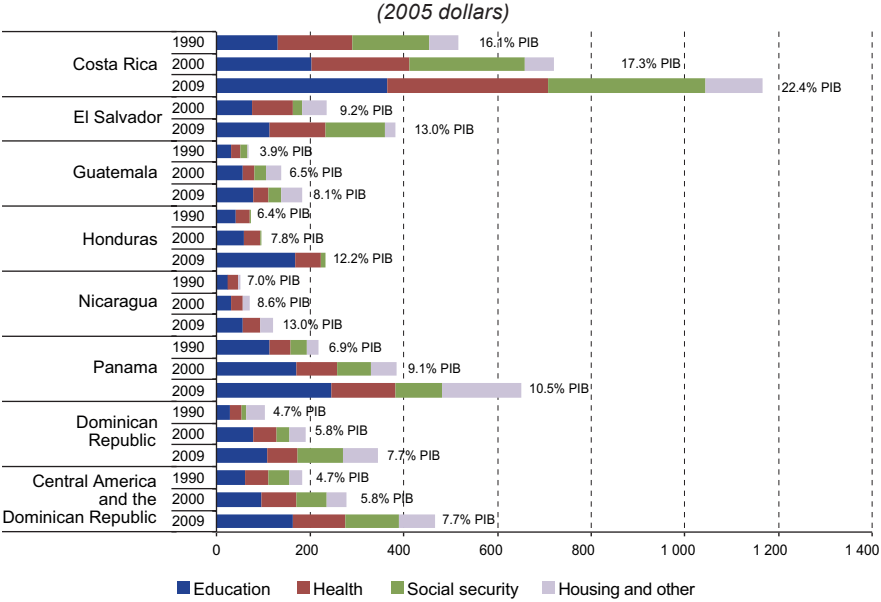
With the exception of Costa Rica, all the countries had a relative increase in social expenditure by the end of the period, but each travelled a different path to that result. In the case of Costa Rica, Panama and the Dominican Republic —the countries with the highest per capita social expenditure at the beginning of the period of analysis (US$ 516, US$ 220, and US$ 103, respectively)— there was a slight reduction in social expenditure as a proportion of total expenditure in Costa Rica and very modest increases in Panama and the Dominican Republic (see figure VI.6). In El Salvador and Guatemala, the relative share of social expenditure grew significantly in the 1990s as economic conditions normalized following the ratification of the peace accords. Lastly, in Honduras and Nicaragua, social expenditure remained constant as a share of total expenditure in the 1990s but began to climb in the 2000s. In both countries, that ascent coincided with the entry into force of the Heavily Indebted Poor Countries (HIPC)

initiative, which provided considerable debt relief and freed up resources for social spending.

Towards the end of the period of analysis, social expenditure converged at around 50% of the total, with El Salvador trailing somewhat, having experienced a sharp contraction in the relative share of social expenditure in the 2000s, associated with deficit financing problems. In the Dominican Republic, the share of social expenditure has hovered around 45% since 2003, a year of deep financial crisis for the country (see figure VI.6).

Figure VI.7 shows the evolution of per capita social expenditure, expressed in constant 2005 dollars. To start, the standout trend is that per capita social expenditure has grown by a factor of 1.5 on average in the subregion over the last two decades, with increases ranging from a factor of 1.25 in Costa Rica to over 2 in El Salvador and the Dominican Republic.

Figure VI.7
Central America and the Dominican Republic: per capita social expenditure, by sector, 1990-2009
(2005 dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

A further observation is that at the end of the period, per capita expenditure amounts varied greatly. For example, Costa Rica spent nearly double (US$ 1,165 per capita) the amount spent by Panama, which had the second highest level (US$ 652 per capita). In El Salvador and the

Dominican Republic, per capita social expenditure in 2009 was US$ 382 and US$ 347, respectively, twice the amount spent in Guatemala and Honduras, which was around US$ 180 per capita in both countries. The lowest amount was in Nicaragua, which spent just US$ 120 per capita, or less than a half dollar per day.

At the subregional level, the composition of social expenditure suggests that education is the top priority. Between 1990 and 2009, nearly 40% of social expenditure went to that sector, followed by health (28%), social security (18.2%) and housing (17.5%).

Towards the end of the 2000s, education expenditure in Costa Rica, El Salvador and the Dominican Republic accounted for approximately 30% of social expenditure, while in Guatemala, Nicaragua and Panama, the figure was around 40%, and in Honduras, it was over 60%. With respect to health expenditure, two groups are evident. Whereas Costa Rica, El Salvador, Honduras and Nicaragua were allocating nearly 30% of public expenditure to the health sector towards the end of the period, Guatemala, Panama and the Dominican Republic were spending around 20% of their social budget on that sector. Although slight reductions in the relative share of social expenditure on education and health were seen in aggregate at the subregional level during the period, in favour of expenditure on social security and housing, no clear pattern emerges across the board.

In contrast with the observations made in the case of the tax system, the evidence provided by Barreix, Bès and Roca (2009) clearly demonstrates that social public expenditure in the subregion has a redistributive impact. Table VI.3 shows the distributive impact of the main components of social public expenditure. Notably, all of them, without exception, have a progressive effect and help reduce income inequality.

Table VI.3
Central America and the Dominican Republic: distributive impact on income of social public expenditure, 2000-2006
(Gini coefficient for income and changes)

	Costa Rica (2004)	El Salvador (2006)	Guatemala (2000)	Honduras (2005)	Nicaragua (2001)	Panama (2003)	Dominican Republic (2004)
				Health			
Gini before social public spending	0.5770	0.5034	0.5957	0.5697	0.5963	0.6364	0.5106
Gini after social public spending	0.5504	0.5008	0.5937	0.5537	0.5793	0.6149	0.4994
Reynolds-Smolensky index	0.0266	0.0026	0.0020	0.0160	0.0170	0.0215	0.0112

Table VI.3 (concluded)

	Costa Rica (2004)	El Salvador (2006)	Guatemala (2000)	Honduras (2005)	Nicaragua (2001)	Panama (2003)	Dominican Republic (2004)
Education (pre-university)							
Gini before social public spending	0.5770	0.5034	0.5957	0.5697	0.5963	0.6364	0.5106
Gini after social public spending	0.5464	0.4879	0.5867	0.5505	0.5804	0.609	0.4992
Reynolds-Smolensky index	0.0306	0.0155	0.0090	0.0192	0.0159	0.0274	0.0114
Higher education (university)							
Gini before social public spending	0.5770	0.5034	0.5957	0.5697	0.5963	0.6364	0.5106
Gini after social public spending	0.5765	0.5031	0.5957	0.5707	0.5957	0.6333	0.5096
Reynolds-Smolensky index	0.0005	0.0003	0.0000	-0.0010	0.0006	0.0031	0.0010
Pensions							
Gini after social public spending	…	…	…	…	0.5962	0.6360	…
Reynolds-Smolensky index	…	…	…	…	0.0001	0.0004	…
Social assistance							
Gini before social public spending	0.5770	0.5034	0.5957	0.5697	0.5963	0.6364	0.5106
Gini after social public spending	0.5603	…	…	0.5587	0.5954	0.6237	0.5049
Reynolds-Smolensky index	0.0167	…	…	0.0110	0.0009	0.0127	0.0057
Total							
Gini before social public spending	0.5770	0.5034	0.5957	0.5697	0.5963	0.6364	0.5106
Gini after social public spending	0.5042	0.4902	0.5827	0.5087	0.5657	0.5714	0.4826
Reynolds-Smolensky index	0.0728	0.0132	0.0130	0.0610	0.0306	0.0650	0.0280

Source: Alberto Barreix, Martín Bès and Jerónimo Roca, *Equidad fiscal en Centroamérica, Panamá y la República Dominicana*, Washington, D.C., Inter-American Development Bank (IDB), 2009, based on Maguin Díaz, "Equidad fiscal en la República Dominicana: análisis de la incidencia distributiva de la política fiscal," unpublished, 2008; Central American Institute for Fiscal Studies (ICEFI), "Incidencia de los impuestos sobre la equidad en Guatemala-2005," unpublished, 2007; Marcelo Garriga and others, "Impacto distributivo del sistema fiscal en Honduras: ¿Quiénes se benefician del accionar del sector público y quiénes cargan con el costo?," unpublished, 2007; Jerónimo Roca, "Tributación y redistribución del ingreso en Nicaragua," unpublished, 2007; Nicolás Rodríguez, "Incidencia de la política fiscal en Panamá," unpublished, 2007, and Juan Diego Trejos, "La equidad de la política fiscal en Costa Rica," unpublished, 2007.

Reflecting the macroeconomic priority of public spending on health and education, these components have a strong impact in terms of reducing inequality. The impact of social spending on these two components in

Costa Rica and Panama is significantly greater than its impact in the rest of the subregion. This suggests a scale effect, inasmuch as these two countries have the highest per capita income in the subregion. Furthermore, in all the countries except Honduras, the distributive impact of higher education is progressive, albeit very small in relation to the impact of pre-university education. This is due to the small number of students who attend university in the subregion, which reflects deep and persistent inequalities, as emphasized in UNDP (2010).

Data on pensions is only available for Nicaragua and Panama, but the observation can nonetheless be made that their impact on income inequality is practically negligible, given the low coverage of pension systems, associated with high levels of informality and fragmentation in the subregion's labour markets.

Although social public expenditure at the aggregate level has only a modest impact on income distribution, as in the case of El Salvador or Guatemala, where it lowers the Gini coefficient by less than one and a half points, in other cases (Costa Rica, Honduras and Panama) it reduces the Gini by more than six points. This confirms the importance of public expenditure as a redistributive instrument.

(ii) Expenditure by economic classification

An analysis of expenditure by economic classification at the subregional level reveals that although current expenditure accounts for three quarters of the total, capital expenditure has increased from 18.5% in 1990-1994 to 22.3% in 2010-2011 (see table VI.4). In the last five-year period of analysis, there was a slight reversal in trend, the result of efforts to protect social expenditure, which, as primarily a category of current expenditure, entailed a reduction in the relative importance of public investment. The same phenomenon occurred during the slowdown that occurred in the early 2000s alongside the recession in the United States.

An analysis of public investment, based on the evolution of the acquisition of fixed capital assets, reveals that public investment increased by nearly three percentage points of GDP in the second half of the 1990s, rising from 13.6% of GDP in 1990-1994 to 16.7% of GDP in 1995-1999. Its relative share steadily decreased thereafter, and had slipped to 9.4% of GDP by 2010-2011. This gives cause for concern since it indicates that public investment, a key driver of the subregion's medium- and long-term growth prospects (ECLAC, 2012b) has been the adjustment variable in cyclical fluctuations. As discussed later, building policy space to persistently increase public investment without compromising social expenditure or the sustainability of public finances is one of the main challenges of fiscal policy in Central America and the Dominican Republic.

Table VI.4

Central America and the Dominican Republic: central government expenditure by economic classification, 1990-2011

(2005 dollars)

Countries/Categories	Expenditure as a percentage of GDP					Expenditure as a percentage of the total				
	1990-1994	1995-1999	2000-2004	2005-2009	2010-2011	1990-1994	1995-1999	2000-2004	2005-2009	2010-2011
Costa Rica										
Total expenditure and net lending	14.8	15.7	16.5	15.8	19.1	100.0	100.0	100.0	100.0	100.0
Current expenditure	13.2	14.2	15.2	14.4	17.2	89.8	90.7	92.2	90.9	90.0
Wages and salaries	4.3	4.3	5.0	5.0	7.2	29.2	27.6	30.2	31.7	37.6
Goods and services	0.6	0.6	0.5	0.5	0.6	4.3	3.6	3.0	3.4	3.4
Interest payments	2.9	3.9	4.0	3.1	2.1	19.5	25.0	24.4	19.3	11.2
Subsidies and current transfers	5.4	5.4	5.7	5.8	7.2	36.8	34.4	34.4	36.5	37.8
Other current expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	1.5	1.5	1.3	1.4	1.9	10.2	9.3	7.9	9.1	10.0
Acquisition of fixed capital assets	0.5	0.6	0.3	0.3	0.3	3.5	3.6	1.7	2.0	1.8
Capital transfers	1.0	0.9	1.0	1.0	1.6	6.4	5.5	6.0	6.6	8.2
Other capital expenditures	0.0	0.0	0.0	0.1	0.0	0.3	0.3	0.2	0.5	0.0
Loans minus repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
El Salvador										
Total expenditure and net lending	14.7	13.7	15.2	15.6	17.7	100.0	100.0	100.0	100.0	100.0
Current expenditure	11.5	10.9	11.8	12.9	14.6	78.2	79.6	77.7	82.8	82.3
Wages and salaries	5.8	5.6	5.3	4.6	5.4	39.5	40.9	34.9	29.7	30.3
Goods and services	1.5	1.6	1.9	2.3	2.5	10.1	11.8	12.9	15.1	14.4
Interest payments	1.9	1.4	1.6	2.4	2.3	12.9	9.9	10.7	15.4	12.8
Subsidies and current transfers	2.3	2.3	2.9	3.5	4.4	15.6	16.9	19.2	22.6	24.9
Other current expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	2.9	2.8	3.5	2.7	3.2	19.7	20.7	22.8	17.5	17.8
Acquisition of fixed capital assets	2.2	2.1	2.4	1.4	1.7	15.0	15.7	16.0	8.8	9.6
Capital transfers	0.7	0.7	1.0	1.4	1.4	4.7	5.1	6.8	8.7	8.2
Other capital expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans minus repayments	0.3	0.0	-0.1	-0.1	0.0	2.0	-0.3	-0.4	-0.3	-0.1

Table VI.4 (continued)

Countries/Categories	Expenditure as a percentage of GDP					Expenditure as a percentage of the total				
	1990-1994	1995-1999	2000-2004	2005-2009	2010-2011	1990-1994	1995-1999	2000-2004	2005-2009	2010-2011
Guatemala										
Total expenditure and net lending	11.2	12.5	14.2	14.5	14.6	100.0	100.0	100.0	100.0	100.0
Current expenditure	8.6	8.2	9.9	9.5	10.5	76.6	65.7	69.3	67.1	72.0
Wages and salaries	3.6	3.3	3.9	3.3	3.8	32.0	26.6	27.2	23.4	26.2
Goods and services	1.8	1.1	1.4	1.5	1.9	16.2	9.0	10.1	10.4	13.2
Interest payments	1.2	1.2	1.4	1.4	1.5	11.0	9.5	9.8	10.0	10.2
Subsidies and current transfers	2.0	2.2	3.0	3.2	3.2	17.5	17.5	21.2	23.0	22.1
Other current expenditures	0.0	0.4	0.1	0.0	0.0	0.0	3.1	1.0	0.2	0.3
Capital expenditure	2.6	4.3	4.4	4.6	4.1	23.4	34.3	30.7	32.9	28.0
Acquisition of fixed capital assets	1.2	1.8	1.3	1.7	1.9	10.4	14.1	9.4	11.8	12.7
Capital transfers	1.1	1.8	2.9	3.0	2.2	10.1	14.4	20.6	21.0	15.2
Other capital expenditures	0.3	0.7	0.1	0.0	0.0	2.8	5.9	0.7	0.2	0.0
Loans minus repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Honduras										
Total expenditure and net lending	19.9	17.9	20.6	21.5	22.0	100.0	100.0	100.0	100.0	100.0
Current expenditure	14.2	12.8	15.1	17.2	17.8	71.2	71.7	73.3	80.2	80.9
Wages and salaries	...	...	8.7	9.2	10.4	...	...	42.2	43.0	47.0
Goods and services	...	...	2.1	2.7	2.5	...	...	10.1	12.6	11.2
Interest payments	3.3	2.8	1.3	0.8	1.2	16.7	15.6	6.1	3.8	5.4
Subsidies and current transfers	...	...	3.4	4.5	3.8	...	...	16.5	20.7	17.3
Other current expenditures	...	...	0.0	0.0	0.0	...	...	0.0	0.0	0.0
Capital expenditure	5.4	4.4	5.0	4.4	4.3	27.0	24.5	24.3	20.5	19.4
Acquisition of fixed capital assets	5.4	4.4	2.8	2.0	1.7	27.0	24.5	13.5	9.1	7.7
Capital transfers	0.0	0.0	2.2	2.5	2.6	0.0	0.0	10.8	11.4	11.7
Other capital expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans minus repayments	0.4	0.7	0.5	-0.1	-0.1	1.8	3.8	2.4	-0.7	-0.3

Table VI.4 (continued)

Countries/Categories	Expenditure as a percentage of GDP					Expenditure as a percentage of the total				
	1990-1994	1995-1999	2000-2004	2005-2009	2010-2011	1990-1994	1995-1999	2000-2004	2005-2009	2010-2011
Nicaragua										
Total expenditure and net lending	18.5	19.3	22.5	23.2	22.5	100.0	100.0	100.0	100.0	100.0
Current expenditure	14.9	11.9	14.1	16.4	17.6	80.7	61.8	62.7	70.7	78.2
Wages and salaries	4.7	3.4	5.5	7.0	7.4	25.3	17.7	24.3	30.3	33.1
Goods and services	5.5	2.7	2.6	2.7	3.0	29.8	13.9	11.5	11.5	13.2
Interest payments	1.6	2.3	2.3	1.6	1.4	8.7	11.8	10.4	6.7	6.2
Subsidies and current transfers	3.1	3.5	3.1	4.0	4.7	16.9	18.3	13.8	17.2	20.7
Other current expenditures	0.0	0.0	0.6	1.2	1.1	0.0	0.0	2.7	5.1	5.0
Capital expenditure	3.3	7.1	8.4	6.8	4.9	18.0	37.1	37.3	29.3	21.8
Acquisition of fixed capital assets	1.7	3.7	5.3	3.7	2.5	9.1	19.4	23.4	15.8	11.1
Capital transfers	1.4	3.2	3.1	3.1	2.4	7.5	16.6	13.8	13.4	10.7
Other capital expenditures	0.2	0.2	0.0	0.0	0.0	1.3	1.1	0.0	0.0	0.0
Loans minus repayments	0.2	0.2	0.0	...	...	1.3	1.1	0.2	...	...
Panama										
Total expenditure and net lending	17.8	18.1	19.3	19.0	21.4	100.0	100.0	100.0	100.0	100.0
Current expenditure	15.6	15.4	16.5	14.8	13.7	87.9	85.2	85.3	77.9	63.7
Wages and salaries	6.0	6.0	5.6	4.9	4.7	33.9	32.8	28.9	25.7	21.8
Goods and services	1.7	1.3	1.4	1.3	1.3	9.3	7.3	7.3	7.0	5.9
Interest payments	3.2	3.3	4.2	3.6	2.5	17.9	18.2	21.8	19.1	11.7
Subsidies and current transfers	4.6	4.6	4.8	4.4	4.8	26.1	25.2	25.1	23.4	22.6
Other current expenditures	0.5	0.3	0.4	0.5	0.4	2.7	1.6	2.3	2.7	1.7
Capital expenditure	2.1	2.7	2.8	4.2	7.8	12.1	14.8	14.7	22.1	36.3
Acquisition of fixed capital assets	...	...	...	...	...	...	...	...	...	...
Capital transfers	...	...	...	...	...	...	...	...	...	...
Other capital expenditures	...	...	...	...	...	...	...	...	...	...
Loans minus repayments	...	...	...	...	...	...	...	...	...	...

Table VI.4 (concluded)

Countries/Categories	Expenditure as a percentage of GDP					Expenditure as a percentage of the total				
	1990-1994	1995-1999	2000-2004	2005-2009	2010-2011	1990-1994	1995-1999	2000-2004	2005-2009	2010-2011
Dominican Republic										
Total expenditure and net lending	...	13.3	15.5	17.6	16.2	...	100.0	100.0	100.0	100.0
Current expenditure	...	8.6	10.7	13.3	12.5	...	64.9	69.0	75.3	77.2
Wages and salaries	...	3.5	4.5	3.8	3.8	...	26.3	29.4	21.3	23.2
Goods and services	...	1.2	1.5	2.1	1.7	...	8.9	10.0	12.0	10.3
Interest payments	...	0.7	1.2	1.5	2.0	...	4.9	8.0	8.4	12.3
Subsidies and current transfers	...	2.8	3.2	5.9	5.1	...	20.8	21.0	33.4	31.2
Other current expenditures	...	0.5	0.1	0.0	0.0	...	3.9	0.6	0.1	0.2
Capital expenditure	...	4.7	4.8	4.4	3.7	...	35.1	31.0	24.7	22.8
Acquisition of fixed capital assets	...	3.2	3.3	2.6	2.7	...	24.3	21.4	15.0	16.5
Capital transfers	...	1.4	1.4	1.6	1.0	...	10.3	9.3	9.3	6.2
Other capital expenditures	...	0.1	0.0	0.1	0.0	...	0.5	0.3	0.4	0.2
Loans minus repayments	...	...	...	...	...	...	...	...	...	...
Central America and the Dominican Republic										
Total expenditure and net lending	16.1	15.8	17.7	18.3	19.1	100.0	100.0	100.0	100.0	100.0
Current expenditure	13.0	11.7	13.3	14.2	14.8	80.6	74.4	75.3	77.6	77.8
Wages and salaries	4.7	4.4	5.4	5.5	6.1	29.2	27.6	30.4	29.9	31.9
Goods and services	2.4	1.4	1.6	1.9	1.9	14.6	9.0	9.2	10.4	10.1
Interest payments	2.4	2.2	2.3	2.0	1.9	14.6	14.0	13.0	11.3	9.7
Subsidies and current transfers	3.3	3.5	3.8	4.5	4.7	20.5	21.9	21.3	24.7	24.9
Other current expenditures	0.0	0.2	0.2	0.2	0.2	0.2	1.3	1.1	1.4	1.2
Capital expenditure	3.0	3.9	4.3	4.1	4.3	18.5	24.9	24.4	22.5	22.3
Acquisition of fixed capital assets	2.2	2.6	2.6	1.9	1.8	13.6	16.7	14.5	10.7	9.4
Capital transfers	0.8	1.3	2.0	2.1	1.9	5.2	8.3	11.1	11.6	9.8
Other capital expenditures	0.1	0.2	0.0	0.0	0.0	0.7	1.1	0.2	0.2	0.0
Loans minus repayments	0.2	0.2	0.1	0.0	0.0	1.1	1.1	0.6	-0.3	-0.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The fall in the share of current expenditure reflects a contraction in spending on goods and services, as well as a reduction in debt service associated in part with debt relief in Honduras and Nicaragua and in part with the improved debt profile in the rest of the countries. These improvements easily offset the increase in subsidies and current transfers, which rose from 20.5% of total expenditure in 1990-1994 to 24.7% in 2005-2010. At the subregional level, expenditure on wages and salaries remained constant at around 30% of the total.

At the country level, the share of expenditure on wages and salaries decreased in El Salvador, Guatemala, Panama and the Dominican Republic. In contrast, it remained unchanged in Costa Rica and Honduras but rose significantly in Nicaragua, from 17.7% in 1995-1999 to 30.3% in 2005-2009. Purchases of goods and services decreased as a proportion of total expenditure in Costa Rica, Guatemala, Nicaragua and Panama but increased in El Salvador, the Dominican Republic and, to a lesser extent, Honduras.

With respect to interest payments, as mentioned above, the largest reductions were in Honduras and Nicaragua, which benefited from debt relief under the HIPC initiative. In Costa Rica and Panama, there was an increase in the share of expenditure on debt service from the early 1990s to the mid-2000s as public debt levels rose steadily in both countries. Meanwhile, in El Salvador, it trended in the opposite direction, shrinking steadily until it began to expand in the last five-year period, which mirrored the evolution of public debt levels. In Guatemala, there were no significant changes during this period, whereas in the Dominican Republic expenditure on debt service grew steadily, partly as a result of efforts to develop a national public debt market, which thus far is yielding higher rates than the international market due to the impact of the quasi-fiscal deficit of the central bank.

Lastly, in all countries there was an appreciable increase in subsidies and transfers as a percentage of total expenditure, except in Costa Rica, where the relative share increased only slightly, and in Panama, where it shrank. This reflects greater social spending across the subregion, as well as the rising trend in transfers to the subnational governments.

Considering the impact of social expenditure on human capital formation and development and the fact that, as noted previously, much of this spending is reflected in current expenditure, it cannot be concluded a priori that capital expenditure is preferable to current expenditure. However, given the infrastructure lags that characterize a good part of the region, the trend towards greater public investment as a share of the total is welcome.

Preliminary to analysing the evolution of available fiscal space, the following section describes the fiscal policy response of the countries of Central America and the Dominican Republic to the 2008-2009 financial crisis.

(c) Fiscal policy response to the financial crisis

One of the principle manifestations of the financial crisis was the downturn and eventual contraction in economic activity in most Central American countries and the Dominican Republic. This brought about a marked fall in central government revenue, from an average level of 17.5% of GDP in 2007 to 15.7% of GDP in 2009. The magnitude of this decline was not the same everywhere. In El Salvador and Panama, it was less than 1 percentage point of GDP in 2007-2009, while in the Dominican Republic it was over 4 percentage points of GDP, with the reductions in the rest of the countries ranging between 1.5 percentage points of GDP (Costa Rica) and 2.1 percentage points of GDP (Nicaragua).

To address this situation, governments adopted two courses of action in the area of fiscal policy (ICEFI, 2011; López Mejía, 2012). First, they designed various expenditure and subsidy programmes, broadly intended to attenuate the impact of the crisis on low-income sectors of the population.

Some of the measures were implemented, but in general they were blocked by delays in the disbursement of funds from international financial institutions, as well as by problems with their execution. Nevertheless, average regional spending increased by 1.2 percentage points of GDP in the period 2007-2009, albeit unevenly across the countries. In Costa Rica and El Salvador, spending grew by over 2 percentage points of GDP, whereas in Guatemala and the Dominican Republic, it shrank by 0.1 and 0.7 percentage points of GDP, respectively. In the rest of the countries, the increases ranged from 0.5 percentage points of GDP (Nicaragua) to 1.9 percentage points of GDP (Panama).

The governments' second line of action consisted of tax reforms, which generally involved the introduction of new taxes. Primarily, the reforms were intended to expand coverage of the capital gains tax, to strengthen the audit capacity of the tax administration and to streamline administrative procedures (see box VI.1).

A common trait of the most recent series of reforms is that fewer measures were enacted than were set out in the legislative proposals (ICEFI, 2011). Given how new the reforms are, it is hard to evaluate their impact, and there is the additional challenge of distinguishing between the impact of the resumption of economic growth and the impact of the fiscal reforms. Without overlooking these challenges, it is nevertheless possible

to make a rough estimate of the impact of the reforms by observing the change in cyclically adjusted tax revenue, expressed as a percentage of GDP, from the year prior to approval of the reforms to the year in which they entered into force.[9] The findings point to Nicaragua as the exception, which saw its cyclically adjusted tax revenue increase from 18.4% of GDP to 20% of GDP in the first year after the reform. In contrast, in El Salvador and Honduras the impact was around a half percentage point of GDP, in Guatemala it was barely 0.2 percentage points of GDP, and in Costa Rica and Panama there was a contraction on the order of 0.1 and 0.2 percentage points of GDP, respectively. Thus, the impact of the recent reforms appears to have been rather modest.

The history of tax reforms in the subregion confirms that although there has been some success in increasing the tax burden, the reforms have been less effective at taxing the most dynamic sectors of the economy. This partially reflects the existence of what are known in the literature as "inequality traps" (Bourguignon, Ferreira and Walton, 2006), in which asymmetries of influence between the various groups in society are manifested as institutional capture by the predominant elites. As emphasized by Cabrera and Fuentes (2011), the key to achieving comprehensive fiscal reforms is to integrate the interests of the transnational elites, the urban middle class and the low-income sectors.

The point should be made that the actions taken in fiscal policy were complementary to those taken in monetary policy, which in the countries with independent monetary regimes (Costa Rica, the Dominican Republic, Guatemala and Honduras) represented the first line of defence, initially against the escalation in international prices that began in the second half of 2007 and later against the effect of the international financial crisis.

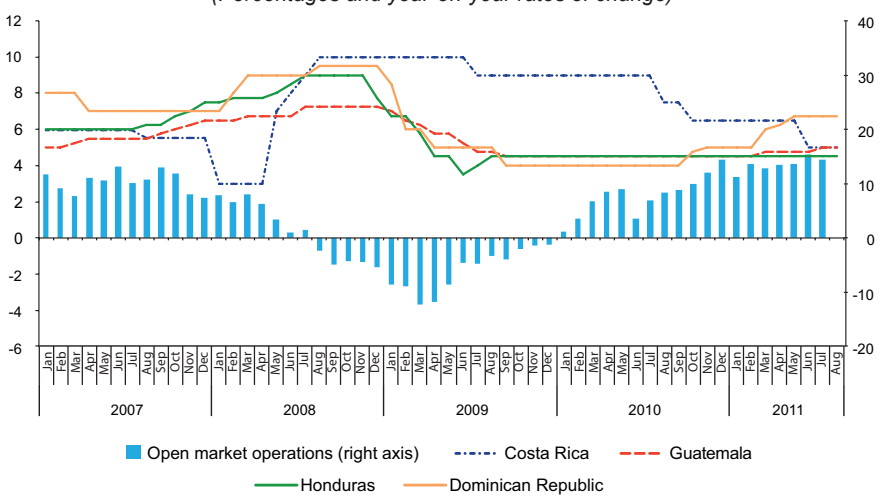
Due to the negative impact of the rise in international prices, the pace of economic activity in Central America and the Dominican Republic had been flagging since 2007. However, the crisis that hit in the fourth quarter of 2008 induced an annual contraction of 1.1% in the subregion in 2009 —as measured by the monthly index of economic activity— an average that encompasses a diversity of reactions among the different countries. At one extreme, El Salvador experienced a strong contraction, while in Guatemala, economic growth accelerated with respect to 2008.

[9] All the reforms entered into force in the first half of 2010 in the countries in this study, with the exception of Guatemala and the Dominican Republic. In Guatemala, the impact of the solidarity income tax, which was introduced in January 2009, was examined. In the Dominican Republic, the impact of the mid-2011 reform was not considered due to the limited availability of income data in the period following its approval.

The countries with independent monetary regimes eased their policy stance, lowering their benchmark rates (see figures VI.8 and VI.9). Guatemala and the Dominican Republic were fairly aggressive, cutting the policy rate by 275 and 550 basis points, respectively, from December 2008 to September 2009. Meanwhile, Costa Rica did not take action to reduce the monetary policy rate until mid-2010 and proceeded more gradually.

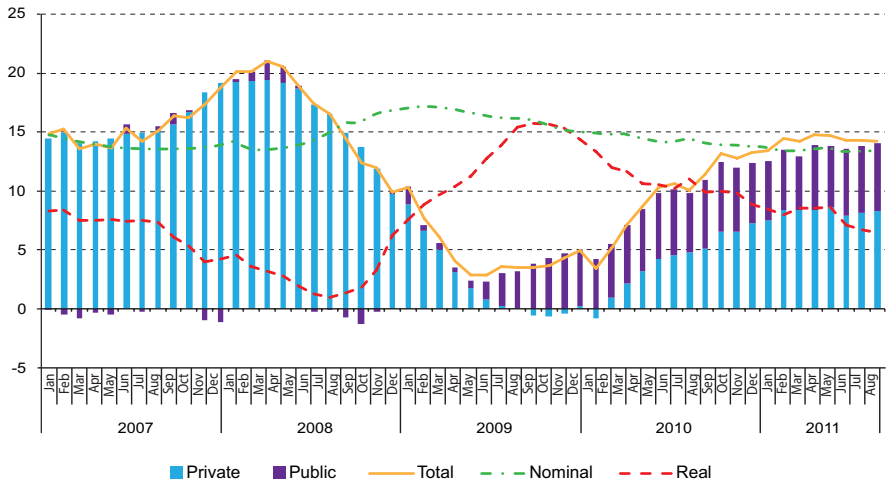
In order to provide liquidity to the financial sector, the region's central banks slowed the pace of open-market bond issues from mid-2008 until the end of 2009. Although Costa Rica, the Dominican Republic, El Salvador and Panama had access to finance from the Inter-American Development Bank (IDB) intended to guarantee the liquidity of the financial sector, El Salvador was the only country to make use of the facility. In some countries, such as the Dominican Republic, the composition of the legal reserve requirement was relaxed in order to promote the allocation of credit to productive activities.

Figure VI.8
Central America (selected countries) and the Dominican Republic: monetary policy rates and open market operations, 2007-2011
(Percentages and year-on-year rates of change)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the Executive Secretariat of the Central American Monetary Council (SECMCA).

Figure VI.9
Central America and the Dominican Republic: lending and deposit rates, 2007-2011
(Percentages, growth and share)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the Executive Secretariat of the Central American Monetary Council (SECMCA).

The measures described above contributed, with a delay of approximately three months, to a reduction in nominal lending rates. However, at the aggregate level, the pace of lending slackened considerably in 2009, with contractions in El Salvador and Nicaragua. This was due to three factors. First, inflation plummeted over the course of 2009, which drove up real rates and suppressed demand for credit. Second, as demonstrated by the persistent surpluses in actual cash holdings with respect to the reserve requirement, against an international backdrop of uncertainty, the financial sector witnessed a marked preference for liquidity and took advantage of this situation to improve the profile of its liability portfolio. Third, at the aggregate level, the early-stage credit recovery was led by lending to the public sector, which occasionally turned to the domestic market when it was hard to obtain external financing. In fact, it was not until 2010 that credit to the private sector, as a share of total credit, began to recover.

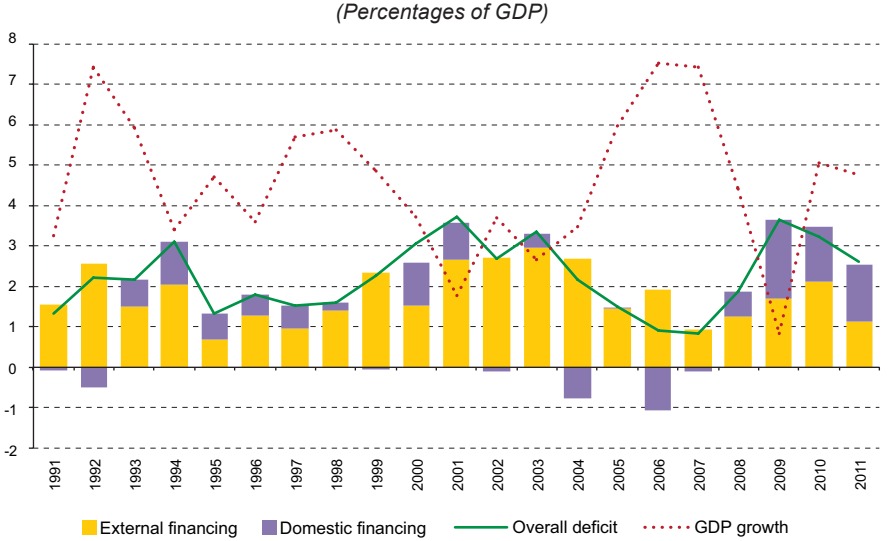
(d) Fiscal space

The difference between total revenue and total expenditure is the result of the operation of the central government. If that result is negative, as has been the case in the subregion over the past two decades, the deficit has to be financed by public debt, which can be issued in the domestic or in the international market.

As illustrated in figure VI.10, the average deficit carried by the central governments in the subregion is relatively modest, though persistent. Despite the relatively larger role played by domestic financing since 2008, the bulk of the deficit has generally been financed with external resources. This reflects the limited depth of the subregion's national debt markets. The fact that these countries have to resort to external financing, which is usually denominated in foreign currency (Eichengreen, Hausmann and Panizza, 2005), exacerbates the volatility that public policies must contend with in the subregion. The only country that draws significantly on local financing is Costa Rica, where nearly 90% of the deficit on average is financed domestically.

Figure VI.10 also shows the close relationship between the average level of the fiscal deficit and the evolution of GDP. Specifically, the deficit deteriorates during periods of economic contraction and improves during periods of expansion. Although the usual interpretation for this procyclical behaviour has the causal direction moving from the GDP to the fiscal balance, according to evidence presented by De Ferranti and others (2000), one of the most important factors explaining the aggregate volatility in Latin America is precisely the instability of fiscal policy.

Figure VI.10
Central America and the Dominican Republic: central government deficit and deficit financing, 1991-2011
(Percentages of GDP)

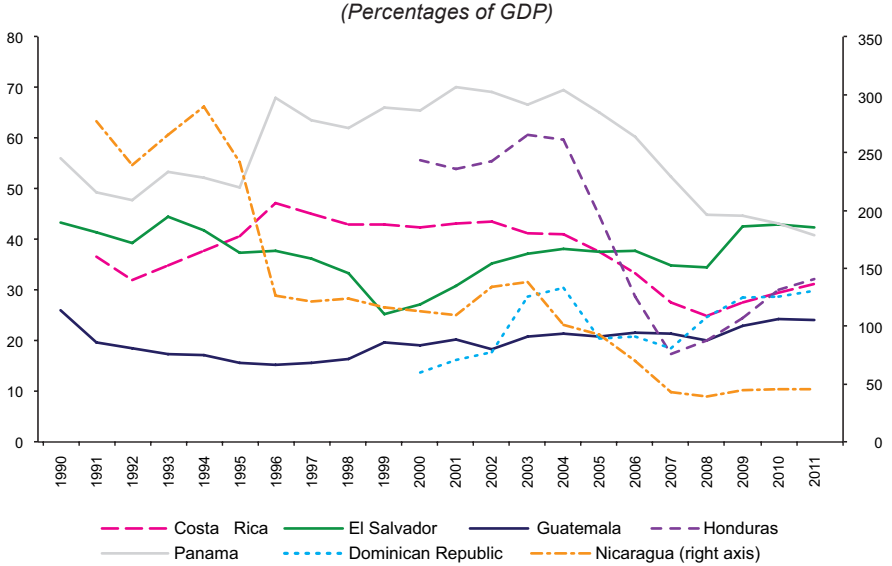


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Inasmuch as interest payments are influenced by a number of factors beyond the control of the government, such as the issue price of debt, it is preferable to use the primary balance, which excludes interest payments, when assessing fiscal policy.

The State's capacity to mitigate the impact of external shocks by adopting countercyclical policies is intimately tied to its fiscal headroom or space. Although there are various ways to define fiscal space, it is generally understood to be the capacity of the State to run a deficit without compromising the sustainability of public debt over time (Heller, 2005). Figure VI.11 shows the evolution of central government public debt in the countries of Central America and the Dominican Republic. As previously mentioned, public debt levels in Honduras and Nicaragua fell steeply over the period of analysis, thanks to the HIPC initiative. In Honduras, central government public debt decreased from 55.6% of GDP in 2000 to 32.2% of GDP in 2011, while in Nicaragua, it fell from 113% of GDP to 45.4% of GDP over the same period.

Figure VI.11
Central America and the Dominican Republic: central government public debt, 1990-2011
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In the rest of the countries, the evolution of debt was quite heterogeneous. In Costa Rica and Panama, debt levels rose from 1990 to 1996. Subsequently, following a period of relative stability in which debt

as a percentage of GDP hovered around 42% in Costa Rica and 66% in Panama, it gradually declined from 2005 to 2008 thanks to relatively robust economic growth during those years. Then, in 1990, there was an uptick associated with the impact of the international financial crisis which, by dampening economic activity, adversely affected central government revenue in both countries.

In El Salvador and Guatemala, public debt levels fell steadily in the 1990s. In El Salvador, debt declined from 43.2% of GDP in 1990 to 27.2% of GDP in 2000, while in Guatemala, central government debt decreased from 25.9% to 19% of GDP over the same period. At that point, the trend reversed and debt rose as a result of the financial crisis, as it did in the other countries, and in 2011 stood at 42.4% of GDP in El Salvador and at 24.1% of GDP in Guatemala.

In general, the evolution of public debt in the subregion has been characterized by two trends: a restructuring towards longer maturities and a reduction of external sources compared with domestic ones, which has contributed to a larger share of debt denominated in local currency in each country. This reflects the emergence of local debt markets, as well as increased access to finance in the international markets, which has resulted in lower financing costs.

Determining a sustainable debt level is not a simple task and depends on various assumptions. In a recent work, Bannister and Barrot (2012), based on the literature on debt intolerance (Reinhart, Rogoff and Savastano, 2003), evaluated public debt levels in Central America and the Dominican Republic. With some differences between countries, they found that the subregional countries' access to international debt markets would benefit from reductions in their current debt levels.

Before analysing the evolution of available fiscal space in the subregion, we study the evolution of its fiscal stance. Because the economic cycle affects the fiscal outturn, the cyclically adjusted fiscal balance is used to estimate the fiscal stance of any given country, in accordance with the methodology developed by Villagómez (2011).

Figure VI.12 shows the evolution of the output gap and the change in the cyclically adjusted fiscal balance. For each country, the averages for both variables are presented in periods in which the output gap is positive or negative. When the gap between observed GDP and its trend line[10] is positive, output grows above trend, indicating a period of economic

[10] The GDP trend line is estimated using the filter developed by Hodrick and Prescott (1997), which, based on Ravn and Uhlig (2002), considers a smoothing factor equal to 6.25 for series of annual frequency.

expansion. Conversely, when the gap is negative, it indicates periods of economic slowdown.

The cyclically adjusted fiscal balance measures the discretionary policy stance of the central governments. A positive change, which occurs when the fiscal outturn reduces the deficit or increases the surplus, indicates a contractionary policy. Conversely, a negative change, which occurs when the deficit grows or the surplus shrinks, can be interpreted as an expansionary policy.

Based on the above, it can be determined whether the fiscal policy stance in different periods has been procyclical or countercyclical. It is considered to be procyclical if expansionary policy is adopted during an economic expansion, or if contractionary policy is applied during a slowdown. Conversely, it is deemed countercyclical if fiscal policy is contractionary during periods of economic growth, and vice versa. Thus, quadrants I and III in figure VI.12 are identified as countercyclical, and quadrants II and IV as procyclical.

Figure VI.12
Central America and the Dominican Republic: fiscal stance, 1991-2011 (selected periods) [a]
(Percentages of potential GDP)

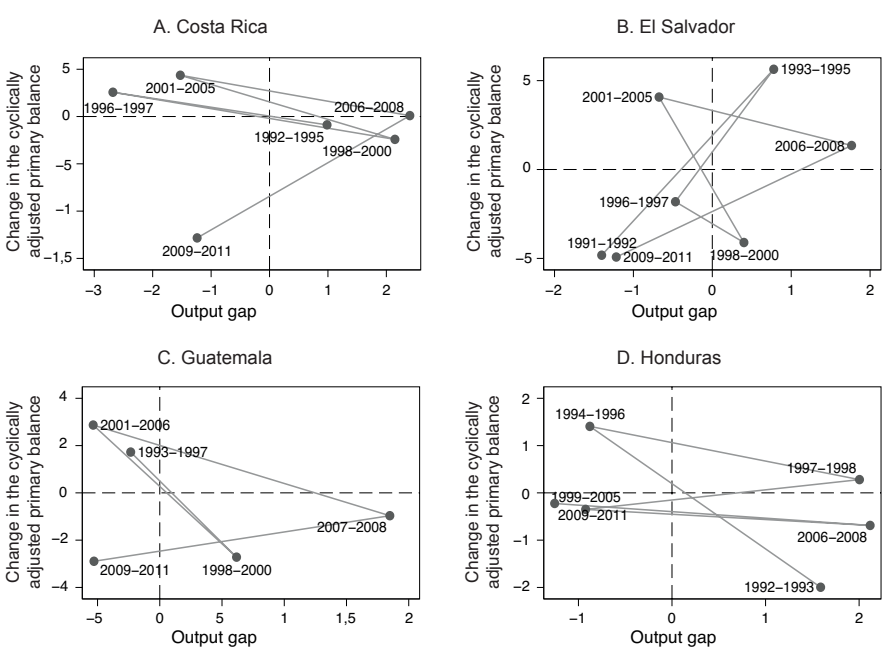
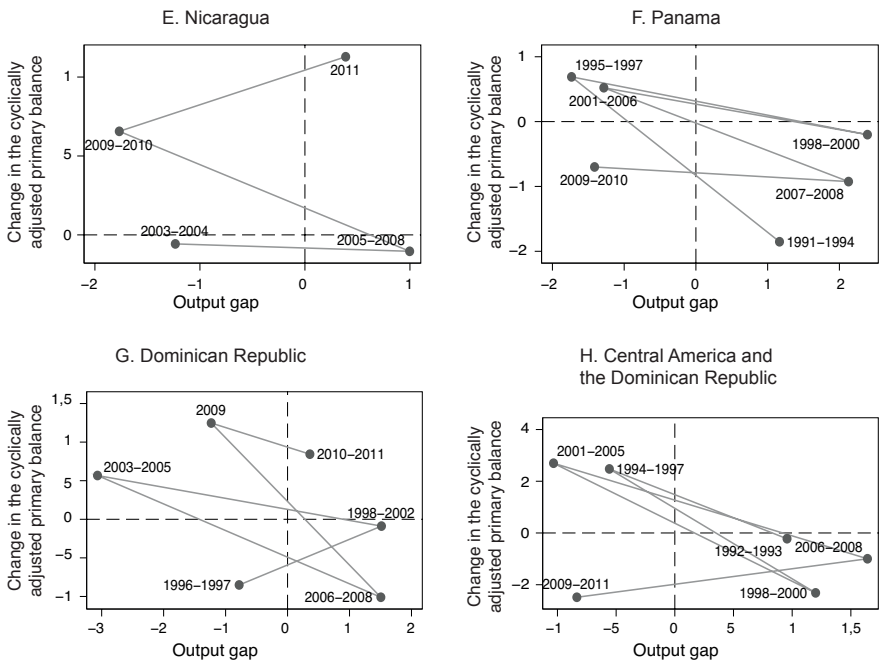


Figure VI.12 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] There are four possible fiscal policy responses to cyclical fluctuations in economic activity: (i) contractionary stance during growth (countercyclical policy); (ii) contractionary stance during slowdown (procyclical policy); (iii) expansionary stance during slowdown (countercyclical policy); and (iv) expansionary stance during growth (procyclical policy).

At the subregional level, excluding the period from 2009 to 2011, fiscal policy has traditionally been procyclical, amplifying the impact of shocks. Between 2009 and 2011, however, measures taken to attenuate the impact of the international financial crisis translated into expansionary policy. Although the newly countercyclical stance is welcome, it has not been accompanied by a similar policy in the boom period. This means that, to finance the resulting deficits, the countries have had to take on more debt, which, as discussed below, has significantly reduced the fiscal headroom or space available to them.

A disaggregated analysis of the fiscal performance of the various countries in the subregion reveals some differences. Whereas Guatemala, Nicaragua, Panama and the Dominican Republic performed very near the subregional average, Costa Rica and El Salvador implemented a countercyclical fiscal policy, not only during the crisis but also prior to it, thereby reducing its impact on their debt levels, which did not increase markedly in the post-crisis period. Meanwhile, Honduras, which was

able to take a countercyclical stance between 1997 and 2005, adopted an expansionary stance in the pre-crisis growth period and then resumed a countercyclical policy during the crisis.

Given the importance of public investment for medium-term growth prospects, it should be emphasized that not only are the stance and magnitude of national fiscal responses to cyclical fluctuations crucial, but also their composition. A comparison of the responses of Costa Rica and Panama to the crisis illustrates this point. As a result of the financial crisis, Costa Rica's total revenue contracted by 1.4 percentage points of GDP from 2007 to 2009. However, in the same period, its total expenditure grew by 2.5 percentage points of GDP, which could be seen in the transformation of an overall surplus equivalent to 0.6% of GDP in 2007 to a deficit equivalent to 3.4% of GDP in 2009. In Panama, in the same period, revenue fell from 19.2% to 18.5% of GDP and expenditure rose from 18% to 19.9% of GDP, so that the overall surplus of 1.2% of GDP in 2007 became a deficit of 1.5% of GDP in 2009.

Although the countries had similar expenditure increases, in Costa Rica most of the additional spending went to wage and salary hikes, an item that grew from 4.4% to 6.6% of GDP in 2007-2009. These items are acyclical in the sense that their relative share does not contract on economic downturns, so increasing the amount spent on them introduces rigidities in public finances. Meanwhile, capital expenditure increased from 1.3% of GDP in 2007 to 2.2% of GDP in 2008 and slid back to 1.8% of GDP in 2009. In contrast, Panama maintained its expenditure on wages and salaries at around 5% of GDP and raised capital expenditure from 4% of GDP in 2007 to 6.3% of GDP in 2009. In fact, the pace of its expansion held steady until 2011, by which time capital expenditure stood at 8.1% of GDP. The difference in the composition of the two countries' response to the crisis explains at least part of the growth gap in the post-crisis period (2010-2011), during which Panama has grown at an average annual rate of over 9%, compared with Costa Rica's annual growth of 4.4%.

As evidence of the lack of consensus around the definition of fiscal space, a variety of proposals have been put forward on how to quantify it. This paper uses two different methods. The first is the method suggested by Aizenman and Jinjarak (2010), who propose using the tax revenue-to-debt ratio as a measure of fiscal space.[11] Because the inverse of this ratio can be interpreted as the number of years that it would take to pay off the debt stock with tax revenue, increases in the ratio denote an increase in available fiscal space. Although the Aizenman and Jinjarak metric has the advantage of being simple to calculate and easy to interpret, it does not

[11] In order to prevent distortions caused by fluctuations in the economic cycle, the tax revenue figures are cyclically adjusted, based on the methodology used by Villagómez (2011).

make any specific reference to the intertemporal dimension of the budget constraint faced by the government. Therefore, a second measure of fiscal space, proposed by Borensztein, Levy Yeyati and Panizza (2006), is also used. The budget constraint of the central government can be expressed as $b=(r-g)d$, where b and d are, respectively, the primary surplus and the public debt stock, both expressed as a percentage of GDP, while g and r are the GDP growth rate and the interest rate.

In accordance with the budget constraint of the government, in order for a country's debt to be sustainable, the primary surplus must be at least equal to the public debt stock multiplied by the effective rate at which it is serviced, that is, the spread between the interest rate and the growth rate of the economy. Using the intertemporal budget constraint of the government, a ratio is derived that determines the maximum interest rate that does not undermine the sustainability of the public debt, which can be interpreted as an alternative measure of fiscal space.

Figure VI.13 shows the evolution of both measures of fiscal space between 2003 and 2010. Although there are some points of divergence —in both time and magnitude— due to asymmetries in the information used, both measures tell a similar story about fiscal space during the financial crisis and the preceding period.

At the subregional level, the two measures indicate that the countries increased their fiscal space in the period preceding the international financial crisis, which then shrank as a result of the crisis. The measures also show that although the Dominican Republic and the countries of Central America managed to stop the reduction in their fiscal space, they have not been able to rebuild the space they had prior to the crisis. In contrast to the measure proposed by Aizenman and Jinjarak, which indicates that there is more available fiscal space in the subregion now than there was in the mid-2000s, the measure used by Borensztein, Levy Yeyati and Panizza suggests that there is less fiscal space now than a decade ago.

The Borensztein, Levy Yeyati and Panizza index suggests that in the majority of the countries, the loss of fiscal space began earlier and has been larger than estimated using the Aizenman and Jinjarak indicator. This is because the first calculation measures the deterioration in the primary fiscal balances associated with the international price escalation of 2007-2008 and reflects the corresponding descent into deficit after the crisis. In fact, the post-crisis discrepancies between the two indicators in Honduras, Nicaragua and Panama precisely reflect the evolution of primary balances.

The experiences of the different countries varied considerably. According to the Borensztein, Levy Yeyati and Panizza indicator, all the countries had recovered some fiscal space towards the end of the period. The exceptions

were Guatemala and Panama, in which the cyclically adjusted primary balances deteriorated. Meanwhile, the Aizenman and Jinjarak indicator shows that fiscal space was recovered in El Salvador, Guatemala and Nicaragua. Panama is the only country that did not lose any fiscal space in the crisis, according to the indicator. This outcome reflects the increases in cyclically adjusted tax revenue observed in the post-crisis period. In Panama, the positive trend in fiscal space, according to the Aizenman and Jinjarak indicator, is explained by greater tax revenue and by the reduction in the level of central government public debt, which fell from 69% of GDP in 2004 to 40.1% of GDP in 2011.

Figure VI.13
Central America and the Dominican Republic: fiscal space, 2003-2011 [a]
(Percentages)

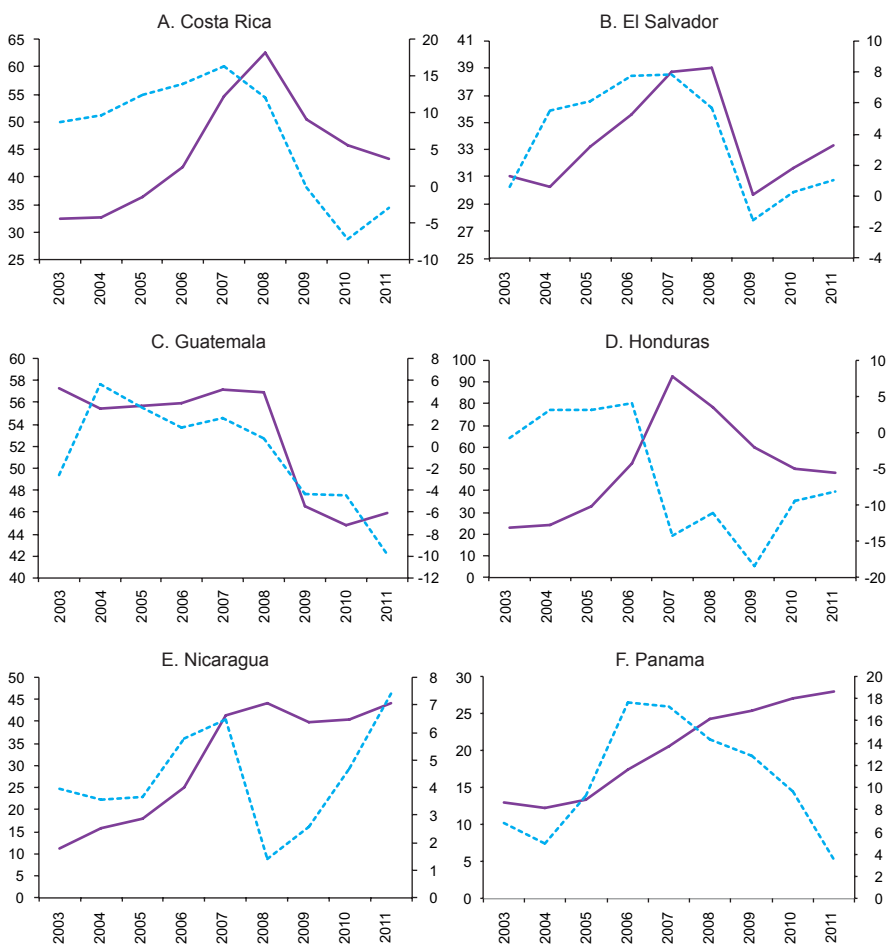
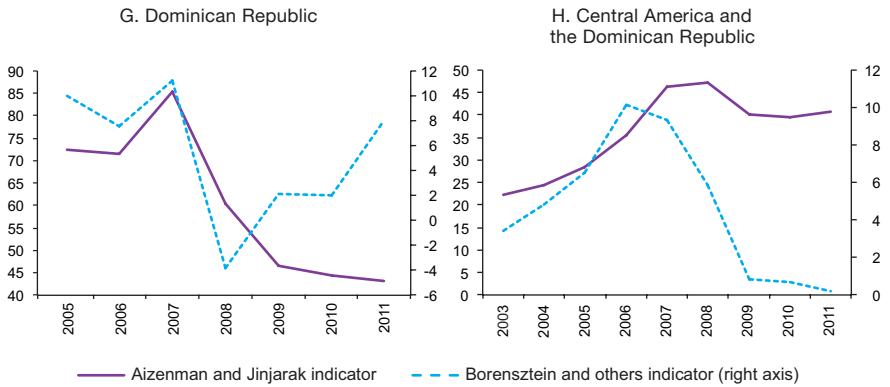


Figure VI.13 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The continuous line shows the evolution of the indicator by Aizenman and Jinjarak (2010), expressed on the left axis as a percentage, while the dotted line shows the evolution of the indicator by Borensztein, Levy Yeyati and Panizza (2006), expressed on the right axis as an interest rate.

3. Recommendations

In order for fiscal policy to effectively assume its responsibility in resource allocation, income distribution and macroeconomic stabilization, the region's public finances must be strengthened. This is all the more important considering the region's vulnerability, not only to economic shocks, but also to extreme climate events.

Table VI.5 shows data on the impact that various natural disasters have had on the region and confirms its vulnerability to such events, which occur frequently and cause considerable damages and losses, amounting to several points of GDP in most cases.

The high cost of natural disasters, as well as their increasing frequency due to climate change (ECLAC/IDB/World Bank, 2011), underscores the need for fiscal policy that is capable of generating a surplus during boom periods so that funds can be accumulated and disbursed on a contingency basis when this type of event occurs.[12] Furthermore, it is essential to increase the resources allocated for the mitigation and prevention of natural disasters, an area in which public investment plays an important role.

[12] The alternative of contingent lines of credit also benefits from stronger public finances.

Table VI.5
Central America (selected countries): damages and losses caused by natural disasters, 1996-2011
(Percentages of GDP)

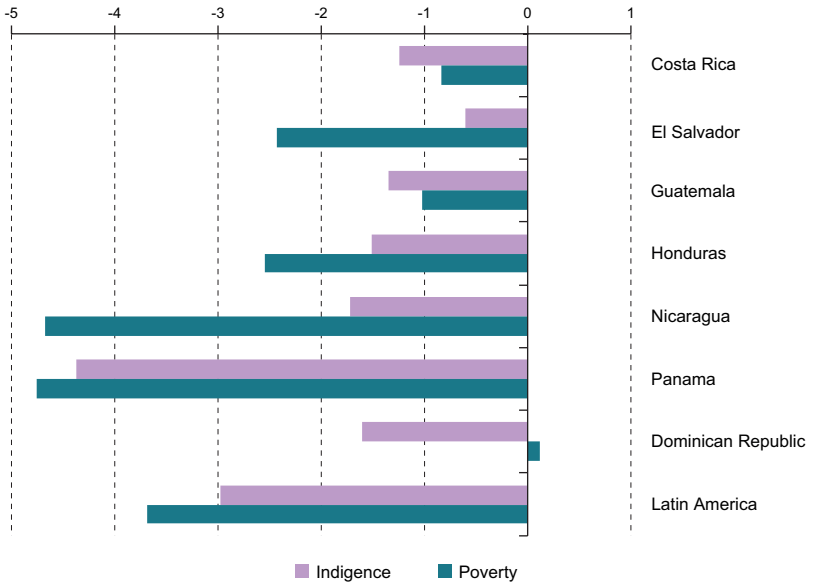
Country	Year	Event	Total
Costa Rica	1996	Hurricane César	1.7
	1997	El Niño	0.9
	1998	Hurricane Mitch	0.9
	2011	Tropical Depression 12-E	0.2
El Salvador	1998	Hurricane Mitch	4.3
	2001	Drought	0.3
	2005	Tropical Storm Stan	1.9
	2009	Tropical Storm Ida	1.2
	2010	Tropical Storm Agatha	0.5
	2011	Tropical Depression 12-E	3.9
Guatemala	1998	Hurricane Mitch	5.7
	2001	Drought	0.1
	2005	Tropical Storm Stan	3.7
	2010	Tropical Storm Agatha/Pacaya Volcano	2.3
	2011	Tropical Depression 12-E	0.7
Honduras	1998	Hurricane Mitch	79.8
	2001	Drought	0.8
	2011	Tropical Depression 12-E	1.2
Nicaragua	1996	Hurricane César	2.1
	1998	Hurricane Mitch	36.5
	2001	Drought	1.2
	2007	Hurricane Felix/Floods	15.6
	2011	Tropical Depression 12-E	6.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Strengthening fiscal sustainability in accordance with the reforms proposed herein will depend on the political will of the key actors, as well as on the capacity of governments to forge consensus among them. Accordingly, it is important to emphasize that the discussion of these proposals, and their eventual adoption in each country, must take place over the medium term, in the framework of actions aimed at bolstering the State's capacity to formulate a fiscal policy for development.

As mentioned, tax revenues as a percentage of GDP in Central America and the Dominican Republic are among the lowest in the world, which limits the State's capacity to implement public policy. Illustrating the limits imposed by the low tax burden, figure VI.14 contrasts the average variation in the percentage of the population living in poverty and extreme poverty in the subregion with the corresponding figures for Latin America as a while in the 2000s.

Figure VI.14
Central America, the Dominican Republic and Latin America: annual average variation in the incidence of poverty and indigence, 2000-2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The figure shows that although social expenditure has been gaining a greater priority in macroeconomic policies across the subregion, the scarcity of resources and the relative inefficiency of their use have resulted in the majority of the countries lagging behind in their efforts to reduce poverty. Only Nicaragua and Panama have outperformed the regional average in Latin America in terms of reducing poverty. With respect to extreme poverty, only Panama has performed comparably with Latin America on average.

Given that the low tax burden reflects the scant capacity for revenue collection through income taxes, particularly personal income tax, tax reforms should focus on expanding the tax base (Cabrera and Fuentes, 2011). This means rationalizing exemptions and introducing taxes on capital gains, as well as simplifying administrative procedures for small taxpayers. The capacity of the subregion's tax administrations must also be strengthened to improve their audit function. In addition to expanding the tax base, this could improve the role of taxation in income redistribution, a function that is presently the exclusive domain of public expenditure.

The foregoing aside, given the extremely high levels of tax expenditure in most Central American countries and the Dominican Republic, a second objective of tax reform should be to cut exemptions, as well as make them more transparent in order to ensure the effective promotion of investment and job creation.

In 2001, an initiative along those lines was advanced in the Dominican Republic as part of its stand-by agreement with the IMF. Under this initiative, the authority to grant tax exemptions was centralized in the Finance Ministry, and a unit was created within the ministry to evaluate whether the exemptions in force were effectively fulfilling their stated purpose (IMF, 2011).

The second group of proposed reforms is related to public expenditure policy. As previously discussed, this has become a pillar of income redistribution policies in the subregion. Moreover, in most of these countries, it has been a prominent feature of countercyclical policy in recent years. Yet public expenditure must become more efficient, considering the limited availability of resources. In addition, mechanisms should be put in place to promote transparency and accountability.

With this in mind, one of the priorities will be to conduct a critical review of subsidy and transfer policies. In the context of stand-by agreements with the IMF, some countries have taken some steps in that direction. For example, El Salvador has made real progress in targeting across-the-board energy consumption subsidies, and the Dominican Republic has implemented measures to reduce transfers to the electricity sector.

Enhancing the efficiency of public expenditure does not mean reducing it as a percentage of GDP. The idea is to redirect resources for the purpose of shoring up public investment against cyclical fluctuations, since historically public investment has been the adjustment variable, which has jeopardized medium- and long-term growth prospects.

An additional element to consider in spending policy reform has to do with wages and pensions in the public sector; a policy that must balance labour protection against financial sustainability. Although the subregion's countries are enjoying the benefits of the so-called demographic dividend, population dynamics suggest that in the medium term a smaller number of workers will be responsible for financing the pension system. One option for dealing with this problem is to move towards a transition from defined benefit systems to contributory ones, a step already taken by some countries. Another option is to make a more transparent recognition of the public sector's contingent liabilities.

Alongside reforms to increase tax revenues and enhance public spending efficiency, the institutional framework in charge of preparing

and implementing the fiscal budget must be modified to accommodate multiyear planning with the aim of establishing a medium-term framework to effectively deploy countercyclical fiscal policies.

Among the measures to consider are the following: adopt multiyear budgets that incorporate explicit mechanisms to accumulate savings during boom periods that can be used, under specific pre-established criteria, when the economy slows or contracts; strengthen the capacity of technical personnel to correctly identify shocks that warrant the use of contingency resources; implement policies that may act as automatic stabilizers (e.g. instruments such as unemployment insurance); and develop contingency programmes to promote employment and investment.

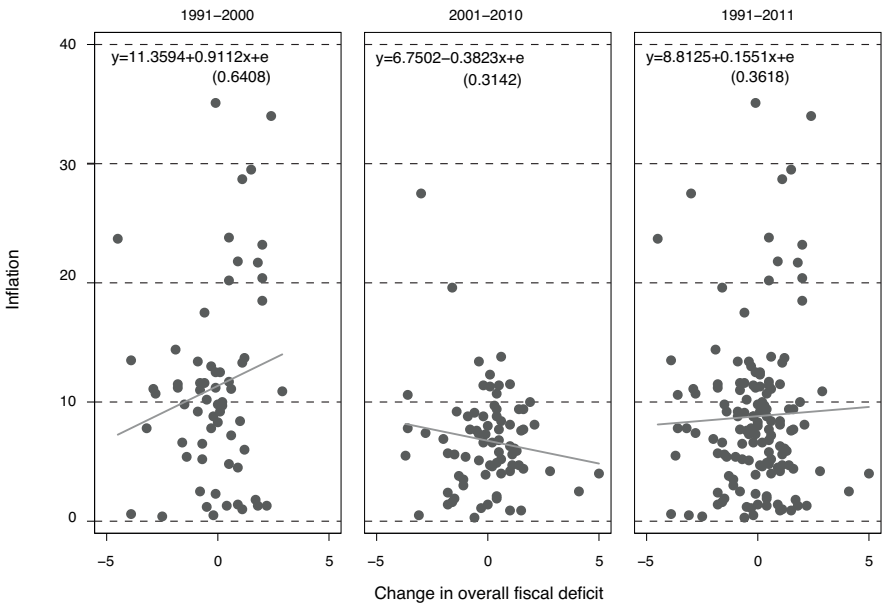
Another measure to consider is the introduction of better coordination mechanisms within the key agencies responsible for steering macroeconomic policy, particularly on monetary and fiscal matters. Historically, the high proportion of public debt denominated in foreign currency has exacerbated the monetary policy bias in favour of real exchange rate appreciation, since the authorities tend to be more vigorous in responding to external shocks that weaken the currency than those that have the opposite effect. This bias has the effect of eroding export competitiveness.

Furthermore, as De Ferranti and others (2000) point out, historically, macroeconomic volatility has in large part been associated with shocks originating in fiscal policy. Figure VI.15 shows the relationship between average annual rates of inflation and changes in the fiscal deficit in the subregion for the subperiods 1991-2000, 2001-2010 and 1991-2011. The figure gives evidence of a positive and statistically significant relationship between fiscal policy and inflation in the 1990s. However, in the 2000s, that relationship weakened and, although the linear regression coefficient appears to be negative, it is no longer statistically significant.

The benefits of adopting fiscal rules based on cyclically adjusted targets for the primary balance are currently being widely discussed, owing partly to Chile's success with their use. It should be noted, however, that although these fiscal rules can be useful in reducing macroeconomic volatility, their effectiveness largely depends on the strength of the fiscal budget institutions (Kopits, 2001).

In particular, the efficacy of fiscal rules depends on transparent budget practices and institutions that possess sufficient credibility to deploy short-term countercyclical policies in both phases of the cycle without compromising the sustainability of public finances in the medium term (Villagómez, 2011).

Figure VI.15
Central America and the Dominican Republic: inflation and fiscal results, 1991-2011 [a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The standard error of the coefficient of the change in the overall deficit is shown in parentheses.

B. Monetary and financial policy

Studies on the orientation of monetary policy in the subregion in recent decades note the convergence of macroeconomic policies towards a model based on the Washington Consensus. Under this process, monetary policy has virtually become the lynchpin of macroeconomic policy on the assumption that it should make no attempt to influence real variables. The underlying theoretical model is based on the following key assumptions: free competition, factor substitution and decreasing returns to scale. The difference over time is explained by the fact that price adjustments are not instantaneous, such that some resources remain idle in the short term. In addition, real GDP depends on effective demand, which is influenced by monetary policy. In the long run, when prices have fully adjusted, monetary policy is neutral and only affects nominal variables (Mántey, 2012).

The global financial crisis discredited the Washington Consensus as the basis for macroeconomic policy and called into question the validity

of its underlying principles to guide economic policies for development (Williamson, 2010). But why did the model fail to produce the expected results in terms of growth and equity? It bears asking whether the reason for this failure is that the model's assumptions do not actually hold true, or whether there was a problem in policy implementation. In Latin America, and especially in the subregion, it could be a mix of both. The study by Mántey (2012) on the application of the model to monetary policy, especially with respect to inflation targeting, reached important conclusions. First, the mainstream theoretical model's assumptions on the role of labour markets in the monetary policy transmission mechanism are at odds with reality. Furthermore, inflation is mostly driven by markup increases associated with the financing of business fixed investment.

Second, Mántey revealed that contrary to the assumption made in the conventional model, central banks do not act according to the Taylor rule, which proposes raising the interest rate to a level higher than inflation when the latter is rising, and lowering it when unemployment increases. In fact, the following was observed: (i) the response to inflation was positive but weak; (ii) in the euro zone and in developing countries, central banks did not react to changes in output, whereas in other developed countries, they reacted moderately; and (iii) the key conduits for monetary policy transmission are foreign interest rates and country risk evaluations.

The inflation-targeting model came about in response to the difficulty of estimating demand for money, given its increased volatility owing to the emergence of financial engineering instruments not included on bank balance sheets. The challenge was to identify the most suitable mechanism for achieving the goal (monitoring monetary aggregates and setting targets for them, or an inflation target). The central banks in the most developed countries steered policy towards a given target or range for inflation, as a practical solution to the difficulty of finding a stable moneydemand function, a problem caused by deregulation. The financial crisis and the evident need to regulate the financial markets suggest that money demand may be more predictable in the future (i.e. the banks will have fewer off-balance-sheet instruments). This would argue for at least revisiting the idea of fixing some monetary aggregate or the exchange rate as a nominal anchor, as a way of achieving price stability. Such action would facilitate the adjustment and bring it more into line with the reality of the subregion, where these financial instruments were never deployed in any meaningful way and, thus, countries were able to continue to estimate money demand in an adequate way.

Why have the subregion's central banks moved towards an inflation-targeting model that is now being questioned? The answer can apparently

be found in the realm of political economy: the model was associated with the idea that the "right" path for monetary policy consisted in setting inflation targets (almost axiomatically) because this measure was among the policy suggestions contained in Article IV and the agreements negotiated with the IMF.[13]

This section begins by describing the monetary regimes adopted by the Central American countries and the Dominican Republic. It then summarizes the elements that have characterized the monetary policies applied in each country in the subregion over the past two decades, with the exception of dollarized economies. This analysis is important, especially considering that all these countries have had to approach the IMF to obtain financial support or strengthen the external credibility of their programmes, particularly after crises, whether economic and financial in nature or associated with climate-related phenomena. Next is an analysis of the elements that have characterized monetary policy in the subregion, as well as the progress made in financial regulation. The section ends with a presentation of some post-crisis policy responses and a number of general conclusions.

1. Taxonomy of monetary regimes in Central America and the Dominican Republic

The past two decades have been characterized by greater coordination between the monetary authorities in the subregion. Although there continues to be some variation in monetary regimes, there has been convergence in the instrumentation and execution of monetary policies. Stone and Bhundia (2004) identify five different monetary regimes, which they classify according to the way in which the nominal anchor is selected. Thus, they distinguish between the regimes that lack monetary autonomy, those that are tied to one foreign currency in particular with a fixed exchange rate, those with a crawling exchange rate (which act through mini-devaluations), those that rely on inflation targeting, and those that are based on so-called inflation targeting 'lite' (ITL).

Two countries in the subregion adopted a monetary policy regime requiring dollarization of their economies: Panama, which has had a dollarized economy for over a half century, and El Salvador, which dollarized its economy in 2001. Nicaragua applies a mini-devaluation regime, though with an inflation target range. Honduras adopted a model of monetary aggregate targets —internal and external— also with an inflation target. Guatemala, Costa Rica and the Dominican Republic have opted for inflation targeting, though Costa Rica also pursues an exchange

[13] This situation could change in the wake of the recent financial crisis.

rate band target that takes away some autonomy from monetary policy. Meanwhile, despite progress towards implementing inflation targeting, Guatemala also maintains an exchange rate band that makes the exchange rate less flexible and monetary policy less independent and effective.

The specific analysis of the instrumentation of policy in each country indicates that a transition has taken place from the use of direct control instruments to intensive use of open market operations. The majority of the countries have dealt with the problem of the "impossible trinity" of open macroeconomics by using two nominal variables as anchors, seeking to reduce inflation but with an inclination to try to prevent fluctuations in the nominal exchange rate (fear of change).

The transition from monetary policy based on direct control instruments to an indirect mechanism based on open market operations is backed by the Washington Consensus and the model promoted by the IMF. All countries in the subregion approached the IMF for financial support in 2009 and 2010. The ensuing agreements show that the countries adopted the policies suggested by the institution. As a result, Guatemala, Costa Rica and the Dominican Republic strengthened their policy stance with inflation targeting. To complete the process, political will is needed to make the exchange-rate regimes more flexible, especially taking into account the cost of interventions in both the money and the foreign exchange markets, as well as the fragile net asset position of the central banks.

A major obstacle to believing in the efficacy of the policy adopted is that all the central banks in the subregion use their own instruments as a sterilization mechanism (which means they absorb the cost and increase the quasi-fiscal deficit), unlike in advanced countries, where open market transactions are performed with treasury securities. This is a critical difference, because in the case of the subregion the operating losses of the central banks are mounting.

2. Institutional reforms

As part of the process of developing a more effective monetary policy in the five countries that retain their own monetary regime, central banks have been subject to legislative changes. These changes have sought to more clearly define the banks' objective, give them more autonomy and specify their governing bodies and the procedures for appointing officials. Another important task has been to clarify the functions and mechanisms for fulfilling central bank objectives, as well as implementing transparency and accountability mechanisms. This legislative change process is meant to strengthen the central banks. In addition, provisions have been established that require recapitalization of the central banks so they can conduct operations using treasury instruments.

(a) Objective of the central bank

In Guatemala and the Dominican Republic, the respective national laws were amended in 2002 for the main purpose of gearing monetary policy towards price stability. In Honduras (2004) and Costa Rica (2005), the law stipulates the objective of maintaining the internal and external value of the local currency. Legislation enacted in Nicaragua in 2010 established the goal of guaranteeing the stability of the financial system, in addition to the objective of maintaining price stability and the external value of the currency.

(b) Autonomy

In all cases, the idea has been to legally grant more autonomy for the authorities to formulate and implement monetary policy. Clear mechanisms for the appointment of monetary authorities have also been established. The exception is Guatemala, where the composition of the central bank's monetary board (which is also the governing board of the Superintendency of Banks) is constitutionally established and includes members of the private sector, the financial sector, government (three ministers of State), the Congress and the universities. This arrangement has hindered progress and, in some cases, led to conflicts of interest that have acted as a further drag on forward momentum. However, national legislation also provided for the creation of a committee of central bank officials with delegated authority from the monetary board to handle policy.

(c) Elimination of the central bank's ability to provide direct financing to the government

As they strive for financial autonomy, several countries have enacted provisions in their constitutions or basic laws to forbid their central banks from providing financing to the government. Guatemala's Constitution prohibits the central bank from providing direct or indirect financing to the government or the nonfinancial private sector, which is the strictest manifestation of this restriction. Because such financing is only used in emergency situations, it requires prior approval by a qualified majority of the Congress. In Costa Rica and Honduras, the law allows for the possibility of providing short-term financing. In Costa Rica, the option has not been used since 1994, while in Honduras, it was used in the financial crisis, and the short-term financing was subsequently converted into long-term financing. Nicaragua and the Dominican Republic have eliminated any possibility under the law of providing financing to the government.

(d) Accountability and transparency

In all cases, the central banks are under the obligation to prepare and disseminate implementation and evaluation reports on their monetary policy, as well as on their financial situation and operations executed. All post very

thorough reports to their websites and to the Central American Monetary Council's website. In addition, Guatemalan law requires the governor of the Bank of Guatemala to appear before the Congress semi-annually to report on the implementation of monetary policy. In Nicaragua, the central bank president must report annually to the Congress and to the President of the Republic, as well as publishing the corresponding reports. In Honduras, too, there is an obligation to report annually to the legislature and semi-annually to the President of the Republic, as well as to publish the reports. In the Dominican Republic, by law, the central bank is required to report annually at the first meeting of the national assembly, and to publish the reports. In the case of Costa Rica, the law requires publication of the policy reports.

(e) Monetary policy instruments

The central banks in Central America —with the exception of Panama and El Salvador since their official dollarization— conduct monetary policy primarily through open market operations, which allows them to capture deposits or issue their own securities, establish bank reserve requirements, and buy and sell currencies and other international financial assets. It is important to mention that by law, once the official list of instruments that are the responsibility of the central bank has been identified, any instruments not on the list may not be used. Clearly, there are some real and very effective instruments that are not necessarily listed, such as the ability of the central bank —and its governors— to use their persuasive power to shape the expectations of selected markets and their main agents, through public statements and conferences with key actors in financial, political or business circles. In any event, at the majority of the subregion's central banks, monetary policy has been geared in recent times towards open market operations, and reserve requirements have been restricted to prudential liquidity purposes. Except for Honduras, which gives its monetary board the authority to establish other instruments (provided they are indirect), the countries, in their respective laws, itemize each instrument that can be used.

3. Subregional overview of monetary policy

In the past decade, the subregion's central banks have made strong efforts to bring down inflation in line with the international rate. Although good headway has been made in bringing the hyperinflations of the late 1990s under control, it has not been enough. There have also been brief periods of growth coupled with low inflation, but these stretches have corresponded to mounting political pressures on the monetary authorities. These pressures have surfaced during periods of rising unemployment in a weakening economy and during elections and have invariably culminated in a surge in inflation associated with credit booms (as was the case in Costa Rica and the Dominican Republic in 2004).

In some periods, lower inflation coincided with global trends linked to, for example, China's entry into the World Trade Organization (WTO) or the drop in international oil prices at the beginning of the decade. However, that dip in inflation was halted by the rebound in the price of oil and oil derivatives that began in 2003 and rising food prices in 2008-2011.

In fact, annual inflation rose from 3.8% in 2001 to 4.9% in 2011 in El Salvador and from 7.4% to 7.7% in Nicaragua. Average inflation in the subregion fell slightly from 6.9% to 6.1% between 2001 and 2011; a contrast with the sharper decline in Latin America and the Caribbean, which saw average inflation fall from 8.9% to 6.5% during those same years. In Argentina, Brazil, Colombia, Mexico and Peru, inflation climbed from 4.4% in 2001 to 4.9% in 2011.

The convergence of monetary policy in the subregion can be seen in the more frequent reliance on indirect instruments (the interest rate and open market operations) and the lesser use of direct ones (the reserve requirement, explicit lending and deposit rates, and portfolio caps). Honduras has retained a monetary policy that seeks price stability through the definition of a policy rate target, and it recently implemented changes to make its exchange rate system more flexible. In Nicaragua (the only country with an explicit policy of mini-devaluations and no monetary policy rate), headway has recently been made in lowering inflation as a result of solid public finance support for monetary policy. However, both countries continue to conduct monetary policy through open market operations using their own instruments.

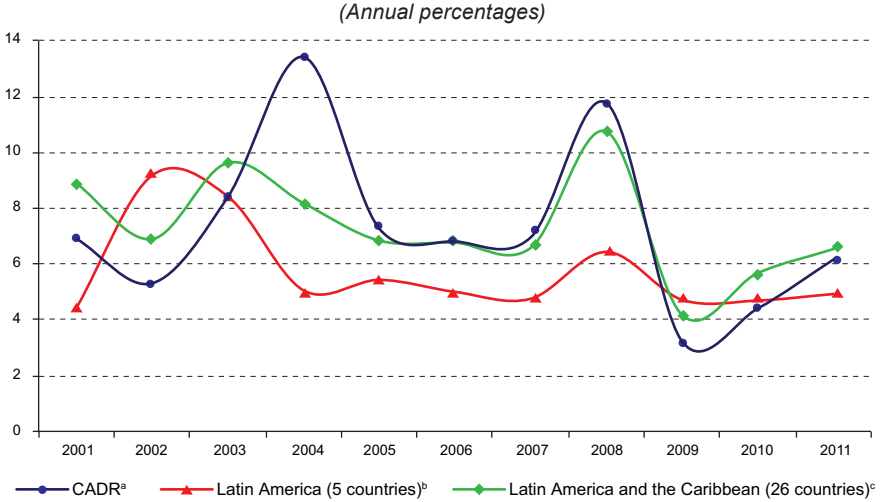
In the post-crisis era, three of the five countries that retain their own monetary regimes —Costa Rica, Guatemala and the Dominican Republic— attempted to make a shift towards an inflation targeting scheme, but their efforts were to little avail. The reasons included the shallowness of their financial markets, but above all the fact that their monetary policy efforts, even following major institutional improvements, have not been accompanied in practice by financial strengthening at the central banks. Inflation targeting, to be credible, requires that policy be conducted with the instruments of the respective finance ministries and departments, but without this having a boomerang effect on the central banks' own net asset position by increasing their operating losses.

An important step in strengthening the central banks is to legislate for a capital replenishment requirement in the various countries. However, that would first mean strengthening public finances, in order for the measure to be politically acceptable. Attempts to accomplish this with non-recurring fiscal revenues, such as those generated by privatizations, have not had the necessary political support, given the many social needs that cannot be deferred.

In a further effort to escape this cycle, El Salvador dollarized its economy but did not achieve the objective of securing a large and lasting reduction in its inflation and lending rates, or an increase in its economic growth. This was not possible because dollarization, for various reasons, was not accompanied by an improvement in the country's public finances. Panama, despite keeping inflation low, has not managed to insulate itself from external shocks such as hikes in food and fuel prices, although it has a better performance in terms of economic growth.

The results observed in the period of study confirm the need to step up actions to make monetary policy more effective, particularly by giving the central banks greater autonomy. To accomplish this, the central banks' balance sheets must be strengthened, since their participation in the markets using their own instruments ultimately reduces their efficacy by creating an additional source of monetization that stands in the way of a lasting solution. To achieve this objective, hard work must be done in the tax sector to build up the public coffers and convince the various actors in the countries that inflation is the tax that hits the poorest the hardest.

Figure VI.16
Central America and the Dominican Republic, Latin America and Latin America and the Caribbean (selected countries): general inflation, 2001-2011
(Annual percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and the Executive Secretariat of the Central American Monetary Council (SECMCA), on the basis of official figures.

[a] Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

[b] Argentina, Brazil, Colombia, Mexico and Peru.

[c] Argentina, Bahamas, Barbados, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Suriname, Trinidad and Tobago, Uruguay and Venezuela (Bolivarian Republic of).

4. Evolution of monetary policy in Central America and the Dominican Republic over the past two decades

(a) Costa Rica

Over the past two decades, Costa Rica's monetary policy has had alternatively procyclical and countercyclical effects. This was especially true in the early 1990s, when direct monetary controls were still being used to set interest rates, bank reserve requirements and caps on loan portfolios, and when central banks were still authorized to extend credit to governments or to the non-financial private sector.

Between 1992 and 1993 (a period of economic growth), liquidity grew at a rate of over 16%, which drove economic expansion and fuelled credit to the private sector. This led to a credit disruption that culminated with Banco Anglo-Costarricense going bankrupt and the government needing financing from the Central Bank of Costa Rica.

The situation worsened as a result of the political and economic cycles, which were characterized by increased public spending in the run-up to elections (IMF, 1998). As a result of internal monetization, liquidity growth topped 23% in 1994 and was accompanied by a loss of confidence in the currency and increased dollarization of the economy. Owing to this situation and in the framework of negotiations for a stand-by agreement with the IMF, the central bank was forced to respond to a deterioration in the external sector by raising lending and deposit rates by six percentage points in 1995, even though the economy was in a cooling phase. In November 1995, the IMF Executive Board approved the arrangement, enabling the country to catch up with its overdue external obligations, especially with the Paris Club. Stabilization attempts continued and in line with the stand-by agreement, the central bank scaled back its use of direct policy instruments in order to lower the reserve rate and create an interbank market to enhance the efficiency of monetary policy and serve as a complement to the use of open market operations. In addition, measures were adopted to consolidate the public finances, including a hike in the value-added tax rate from 10% to 15% in late 1995.

The agreement with the IMF and the progress made in renegotiating the country's debt with the Paris Club generated a favourable climate for private investment, especially in the export sector. This spurred economic growth in an environment of external vulnerability following the Asian crisis. As external conditions weakened and terms of trade deteriorated under rising fuel prices, there was no choice but to keep monetary policy tight in the sluggish economy of the early years of the decade. In the 2001 economic programme, restrictions were prioritized ahead of the deteriorating external conditions and public finances, so once more monetary policy bore the brunt of the government's efforts. Actions such as open market operations and

financing for the government had the effect of weakening the central bank's capital, which undermined the credibility of monetary policy.

In effect, the central bank's lack of credibility in terms of following through on plans to lower inflation stemmed from a negative capital position equivalent to nearly 8% of GDP at the end of 2003 (Ize, 2005).

Between 2003 and 2007, in an expansionary phase, the central bank's monetary policy again exerted a countercyclical effect, with persistent attempts to conduct open market operations, while in practice the effective reserve rate was increasing. In 2004, the spread of negative expectations was reflected in an increase in the central bank's net internal assets that continued until 2005, when it was absorbed by rising inflation, which climbed to its highest peak of the decade (14% in late 2005). This was the result of the passthrough effect of exchange rate depreciation and of the hike in international fuel prices.

In early 2006, in a bid to lower inflation, the central bank stepped up its participation in the money market through open market operations. Although the reduction in liquidity contributed to a stronger international reserve position, it tended to halt economic growth and accelerate central bank losses. In January 2007, the Central Bank announced its intention to transition from a system of monetary targeting to one of inflation targeting. Initially, for 2007-2008, the inflation target was set at 6%. The actions taken to tighten monetary policy against a backdrop of external crisis, which pushed up interest rates and restricted credit to the private sector, again became procyclical by attempting to guarantee that the inflation targets were met. The global economic slowdown in early 2008 and the drop in demand for exports in Costa Rica had recessive effects on the economy. As a result, the authorities revised the inflation target back from 8% to 14% as the financial crisis deepened in mid-2008. This was intended to prevent any complication in internal conditions and restore the countercyclical role of monetary policy. This loosening of monetary policy was coupled with an escalation in international food and oil prices, which, in the absence of a fiscal adjustment,[14] exacerbated the domestic crisis.

The change in global circumstances and the internal deceleration, together with higher food and fuel prices, led to a change in expectations. The authorities decided to seek external support by entering into a new precautionary agreement with the IMF, which included among its conditions the commitment to move more quickly towards an inflation targeting system.[15] This provided access to external liquidity resources.

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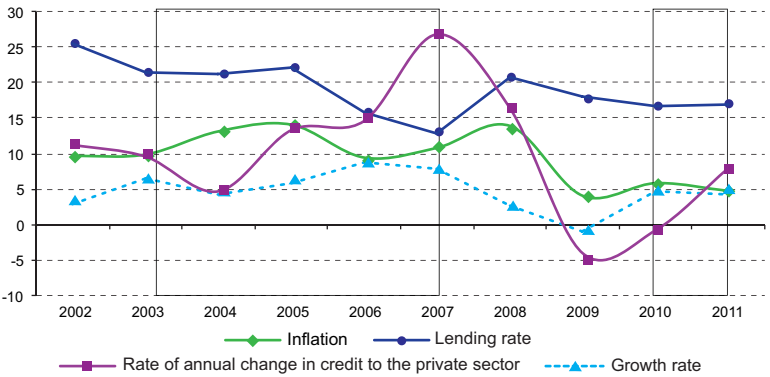
[14] On the contrary, a decision was made to increase current spending as part of a package of countercyclical policies (see the section on fiscal policy in this chapter).

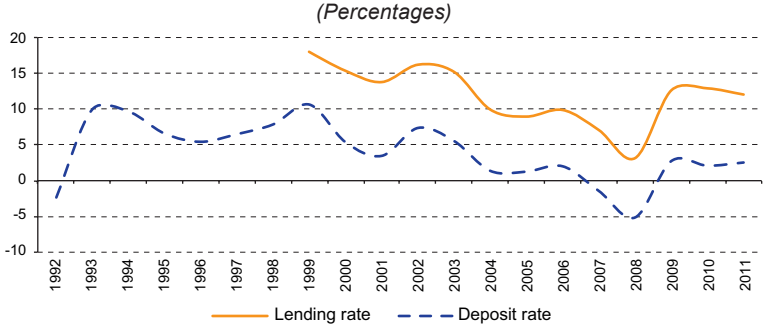
[15] However, they made this decision before coming to any resolution about the issue of the central bank's operating losses.

Figure VI.17
Costa Rica: selected macroeconomic variables, 2002-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

Figure VI.18
Costa Rica: real lending and deposit rates, 1992-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

(b) El Salvador

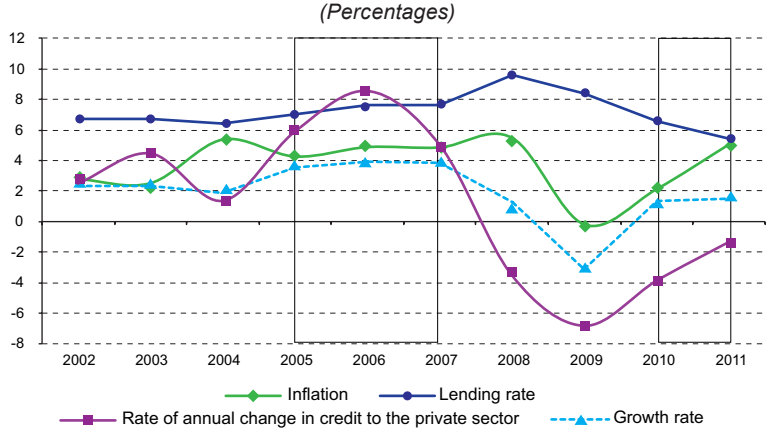
In the 1990s, El Salvador, like the other economies of Central America, began a process of monetary policy readjustment, transitioning from direct control instruments —such as bank reserve requirements, fixed lending and deposit rates and portfolio caps— to open market operations aimed at adjusting the money supply to demand in order to reduce inflation. This involved using monetary policy to achieve price stability.

The dollarization implemented at the start of the 2000s was a further step in direct action by the country to dispense with its own monetary policy and submit to the policy of the Federal Reserve Bank. The alleged

advantages of adopting the dollar as the currency of legal tender included the following: inflation and interest rates would converge towards international levels, and transaction costs would fall. However, the period from 2001 to 2004 was marked by a succession of adverse events, including the major earthquakes of 2001, the deterioration in the terms of trade and the global economic slowdown. In addition, net credit to the public sector heavily contracted in 2002-2003, placing a further drag on the economy (CMCA, 2005).

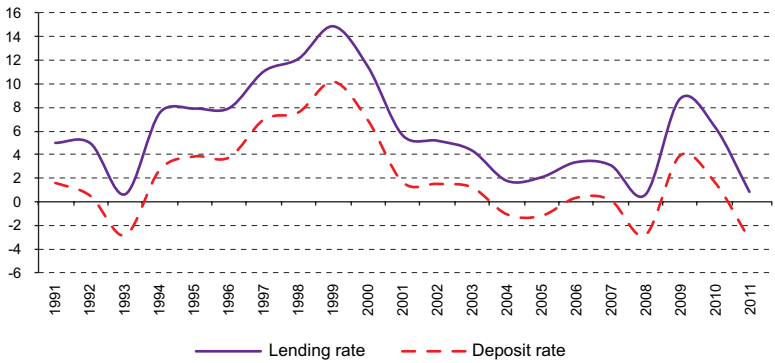
As its opportunities to conduct public policy through monetary policy diminished, El Salvador embarked on a new phase, largely rooted in the use of bank reserves and provisions as instruments of macroprudential policy. In the expansion period between 2005 and 2007, El Salvador increased the bank reserve requirement, which amounted to countercyclical policy inasmuch as it pushed up the interest rate and squeezed credit to the private sector, which had been starting to grow. Another important factor was the uncertainty created in the pre-election process, which forced the authorities to raise bank reserve requirements to mitigate the liquidity risk. This situation was exacerbated by the global crisis in late 2008. El Salvador drew on the IDB contingent credit line as a precautionary measure against rising external and internal uncertainty and decided to begin lowering bank reserve requirements.

Figure VI.19
El Salvador: selected macroeconomic variables, 2002-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

Figure VI.20
El Salvador: real lending and deposit rates, 1991-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

(c) Guatemala

Since the beginning of the 1990s, the Bank of Guatemala has phased out the use of direct instruments of monetary policy (fixed lending and deposit rates, portfolio caps on lending to the private sector and bank reserve requirements) in favour of monetary aggregate targets, which it is attempting to meet with indirect instruments, such as open market operations. Thus, it freed up interest rates in 1991 and strengthened monetary policy measures in 1992 in the context of a precautionary agreement with the IMF. In 1994, central bank credit to the government was constitutionally eliminated. Between 1990 and 1996, the central bank implemented a restrictive monetary policy aimed at reducing inflation, which had soared beyond 60% in 1990; a target annual level of 15% was set for 1991.

The stabilization attempt was also procyclical, especially after 1991, when despite a reduction in inflation to 13%, the government continued to pursue restrictive monetary policy as a way to guarantee the inflation target. Complementarily, it sought to boost economic growth by strengthening the financial sector through a programme supported by IDB to deregulate the financial sector and improve bank supervision as part of actions to make monetary policy more efficient.

Monetary stability and a favourable external environment paved the way for economic gains until mid-1997 when, in the absence of a fiscal reform to consolidate public finances, an attempt was made to lower the interest rate by easing monetary policy. Easing monetary restrictions in a climate of uncertainty led to a speculative surge in lending to the private sector, an inflationary spike and exchange rate depreciation, soon necessitating a new

round of monetary tightening. As in the case of Costa Rica, the central bank's operating losses and awareness of capital losses among the economic agents damaged the credibility and effectiveness of the country's monetary policy.

The higher inflation and greater uncertainty sparked by the abrupt change in monetary conditions drove private sector lending well above the long-term trend line in 1998. This surge led to higher demand the following year, which translated into three macroeconomic imbalances: growth in private borrowing, an increase in the balance-of-payments current account deficit and an exchange rate adjustment with depreciation of the quetzal.[16]

In 2001, monetary policy actions to restore stability were compromised when the bankruptcy and intervention of three banks, in the absence of an appropriate bank resolution mechanism, necessitated a strong expansion and subsequent contraction in the money supply, culminating in losses by the central bank of over 35% of its internal assets as it took steps to reduce the inflation rate. In addition, the Law of Free Negotiation of Foreign Currency was enacted, paving the way back to exchange rate stability. It should be noted that the law significantly restricts the Bank of Guatemala's ability to conduct exchange rate policy actions, limiting them to participation in the market.[17]

The favourable external environment created by falling international interest rates, as well as the decision to liberalize the foreign exchange market and the enactment of the Law of Free Negotiation of Foreign Currencies drove an increase in revenue from family remittances in the banking market, which could be one reason for the uptick in economic activity. However, allegations of government corruption, lack of confidence among economic agents and Guatemala's inclusion on the list of countries identified as non-cooperative in the fight against money laundering were all factors that tipped the country into a cooling phase from 2001 to 2003.

The new Basic Law of the Bank of Guatemala that went into effect in 2002 helped sustain monetary conditions that were more conducive to economic growth. A favourable environment was thereby created for private investment, which led to a boom between 2004 and 2008 despite two banks going bankrupt, one in late 2006 and the other in early 2007. An important factor was the banking legislation enacted since 2002, when an appropriate bank resolution mechanism was created, which enabled the two impaired banks to exit the market without generating negative effects

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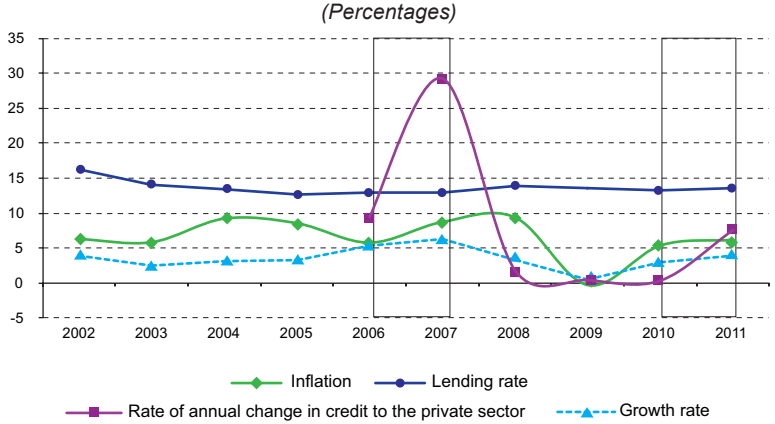
[16] Banco de Guatemala, "Política monetaria, cambiaria y crediticia para 1999" [online], http://www.banguat.gob.gt/inc/main.asp?id=238&aud=1&lang=1.

[17] The Law of Free Negotiation of Foreign Currencies considers foreign currency to be the property of whoever produces them, allows bank accounts and contracts to be denominated in any currency and eliminates exchange rate controls.

on macroeconomic prices. Moreover, a loss of confidence was averted when all deposited funds were restored to the account holders at no fiscal cost.

In 2005, the Bank of Guatemala announced a transition to an inflation targeting system[18] and set the explicit target for 2007 at 5% (plus or minus one point). In addition, steps were taken to enhance transparency and accountability at the central bank (including the publication of minutes with respect to the lead policy rate). In their attempt to meet the target in the absence of fiscal measures, the authorities increased the interest rate on five occasions to prevent inflation from rising on supply shocks. Consequently, the country entered a new cooling phase in 2008, which was exacerbated by the global financial crisis. The central bank decided to ease monetary policy and made a line of liquidity available to the banks, but between less demand for credit due to falling external demand and the economic downturn, they did not make use of it. In response, the Bank of Guatemala embarked on a gradual process to bring down the interest rate, reducing the lead rate to 7% in January 2009 and to 4.5% in September, in what could be called a delayed countercyclical reaction, especially given global economic conditions. Ultimately, inflation fell sharply, and by late 2009 it was well below the range forecast by the central bank.

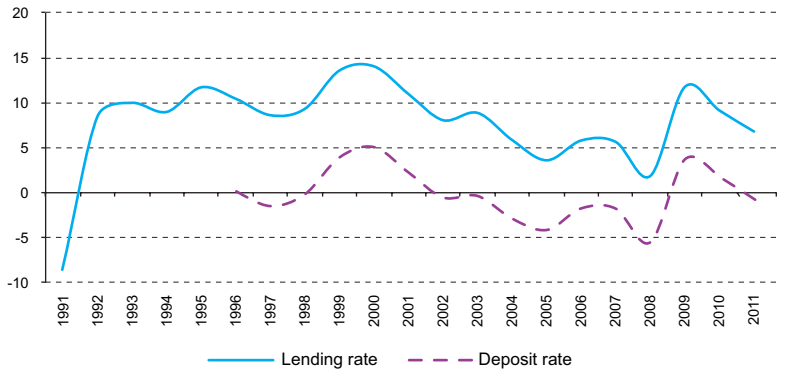
Figure VI.21
Guatemala: selected macroeconomic variables, 2002-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

[18] It did so without having met the prerequisite of restoring the capital of the Bank of Guatemala, given the persistence of fiscal problems.

Figure VI.22
Guatemala: real lending and deposit rates, 1991-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

(d) Honduras

In Honduras in the 1990s, as in the other countries in the subregion, the central bank prepared to make the transition from a system of direct controls to a market-based system by launching open market operations. As a result, monetary policy acted procyclically, keeping real interest rates above 10%. However, the reduction in the real rate paved the way for increased lending to the private sector and faster economic growth in 1992-1993, which was cut short in 1994 despite the monetary expansion and its downward pressure on the interest rate.

Interest rates began to climb in 1995 in a context characterized by better external conditions and robust exports. However, in 1998, Hurricane Mitch put an end to the recovery and inflicted major losses on the nation. The economic and human devastation compelled the authorities to loosen monetary policy, a measure that was further justified by the economic downturn and the decline in the international inflation rate. This led to an increase in production as credit expanded in an environment in which year-on-year inflation closed the year at 15.5%.

In response to the high inflation, slow economic growth and fiscal deterioration, Honduras approached the IMF for assistance in early 1999, which materialized on 26 March with the approval of a programme under the IMF Enhanced Structural Adjustment Facility.[19] The programme included measures to boost the central bank's autonomy, as well as to

[19] Concessional funds at a 0.5% interest rate, with a five-year grace period.

support efforts to reduce inflation, strengthen and deregulate the financial sector and operate some public services under concession contracts.

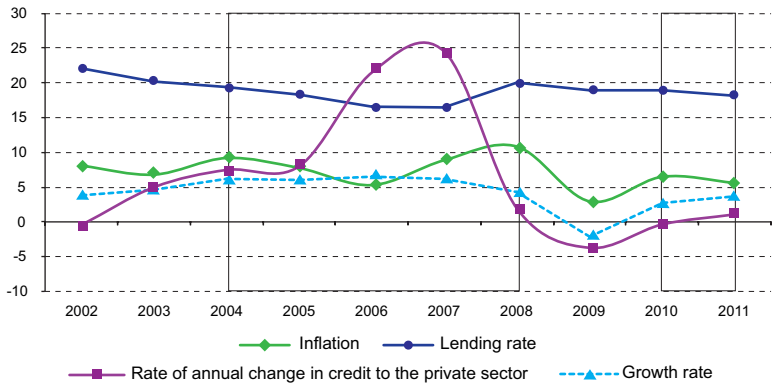
The country adopted an ambitious structural adjustment programme that included privatizations and public sector downsizing as part of efforts to meet the requirements that would make Honduras eligible for HIPC relief. A weakening external environment in 2001 again stalled economic growth, forcing the authorities to ease their monetary stance and allow a moderate expansion of credit to the private sector (of 8% and 10%, respectively, in 2001 and 2002). Yet, the economy did not show signs of recovery until 2004, when the money supply grew under favourable conditions related to the start of debt negotiations with the Paris Club and the forgiveness of a significant portion of the country's debt with the United States.

The favourable environment paved the way for expansion (including increased lending to the private sector), sparking fresh concerns about stability. In 2004, the monetary authorities reacted, raising the bank reserve rate by two points. Thus began a process of monetary tightening that worsened in 2007, when an inflation target of 6% was set.

The escalation in food prices in a low-growth environment prompted the authorities to raise the monetary policy rate on four occasions, bringing it to 9% in late July 2008. As the global crisis worsened in September, the central bank decided to cut the policy rate, fixing it at 7.75% in December. In addition, the authorities reduced the bank reserve rate to 0% on local currency deposits for banks that had over 60% of their portfolio invested in the productive sector and set the rate at 12% for the rest of the system. The reserve rate for foreign currency deposits was set at 9% for institutions with over 60% of their portfolio in the productive sector, and 24% for the rest.

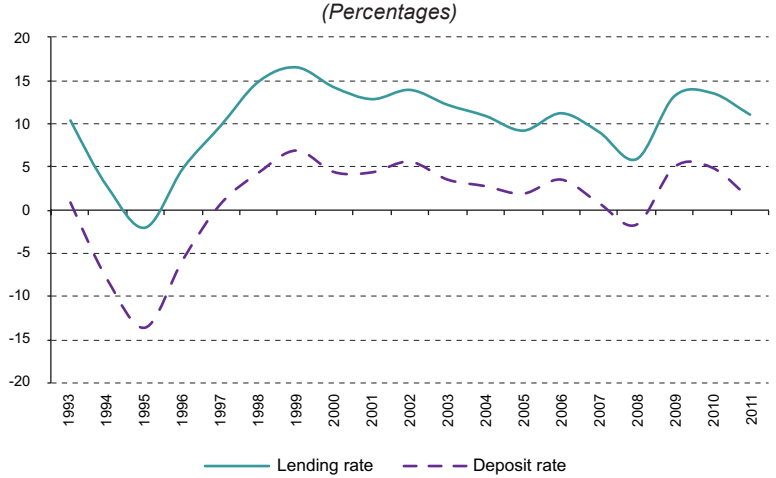
In the first half of 2009, the Honduran authorities relaxed monetary policy (reducing the policy rate from 7.75% in December 2008 to 3% in June 2009). However, monetary policy was again tightened in July, with the intention of preserving international reserves and maintaining the external value of the local currency. The contraction of monetary aggregates and reduction in the availability of credit, as well as flagging domestic demand as a result of the political crisis and the slowdown in exports put the brakes on economic activity, which stalled and actually declined in late 2009.

Figure VI.23
Honduras: selected macroeconomic variables, 2002-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

Figure VI.24
Honduras: real lending and deposit rates, 1993-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

(e) Nicaragua

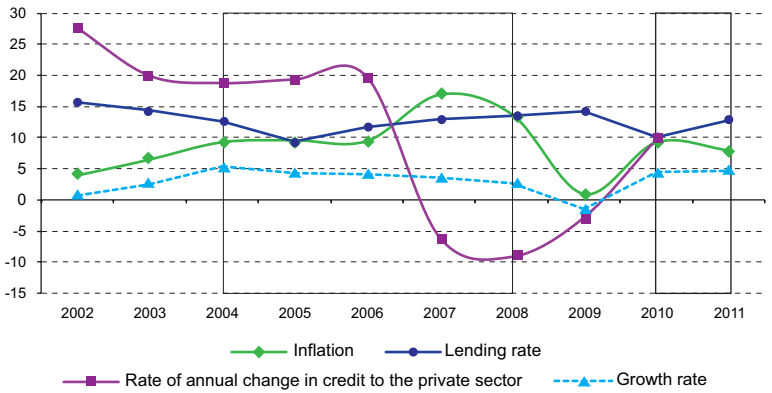
For Nicaragua, our analysis of monetary policy begins with the financial programme established with the IMF in 1999, which was intended to help the country regain stability and prevent a major contraction in economic activity in the wake of Hurricane Mitch. To that end, negotiations were also launched for debt relief in the framework of the HIPC initiative. This took place in the context of the IMF Enhanced Structural Adjustment Facility approved in March 1998, which set out conditions for privatizing, strengthening and deregulating the financial system in order to bolster the central bank's position.

The government programme called for increased public investment and introduced a privatization reform. The external support helped expand credit to the private sector in an environment of stability, with a favourable climate for private investment. This laid the foundation for an expansion phase with rather procyclical monetary policy, favoured by the external assistance. However, in the second half of 2000, three banks in the system faced major problems. Shutting them down, which occurred in the absence of appropriate bank resolution mechanisms, generated an increase in liquidity that had to be neutralized through open market operations, as well as selective increases in bank reserve rates. History repeated itself in 2001 when two more banks went bankrupt and was closed, deepening the crisis and punctuating the need to restrict liquidity.

The domestic financial situation, coupled with adverse external conditions, exacerbated the crisis in the framework of an expansionary monetary policy. Then, in 2002, unfavourable external conditions eroded the country's international reserves and the agreement with the IMF was broken, which closed the door on external support. In 2004, the government was able to renegotiate the agreement and conclude negotiations for debt relief under the HIPC initiative. This included a commitment to tighten monetary policy (increases in reserve rates). This notwithstanding, a period of expansion ensued, driven by brighter external conditions and a better climate for private investment, with monetary policy acting in a countercyclical manner. This was possible thanks to the external reinforcement provided by the Bolivarian Republic of Venezuela.

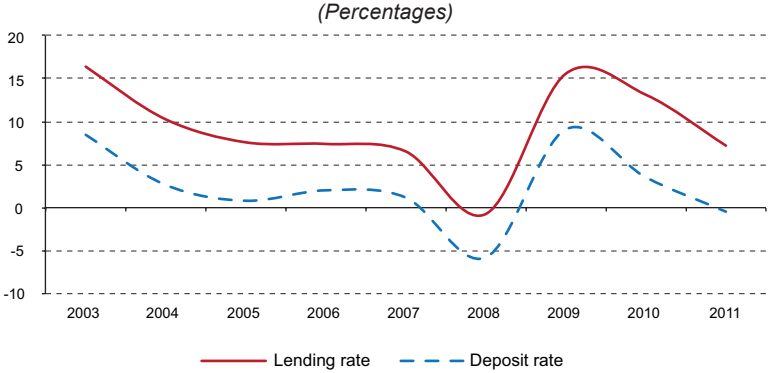
The expansion phase came to end in 2008 when the global financial crisis hit. The mini-devaluations programme (5% annually) was preserved as a key element for safeguarding the balance of payments and was strengthened through the central bank's open market operations. External pressure on the country's reserves prevented significant countercyclical policy action on either the monetary or the fiscal front.

Figure VI.25
Nicaragua: selected macroeconomic variables, 2002-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

Figure VI.26
Nicaragua: real lending and deposit rates, 2003-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

(f) Dominican Republic

As in the rest of the subregion, monetary policy in the Dominican Republic made it a top priority to maintain monetary conditions that promoted price stability. As a result, when the pace of economic growth picked up, there was a tendency for inflation to rise, and the monetary reaction was hastened to block the expansion of credit. The evolution of lending and deposit rates in the banking system was only a partial

reflection of the central bank's policy reactions, and in the early 1990s, the trend was rather procyclical.

The Dominican Republic also adopted a policy approach geared towards deregulation of the financial sector, privatization and concession of public services and fiscal consolidation, which included raising the rate of value-added tax (VAT). On the monetary policy front, the objective was to cut inflation based on the monitoring and control of monetary aggregates and on the use of the exchange rate as a nominal anchor (New Economic Programme).[20] Improved macroeconomic conditions and external support prompted a reduction in interest rates, fuelling growth in 1992 and 1993.

However, as political conditions deteriorated in early 1994 and negative expectations re-emerged, private investment dropped off, inducing an increase in potential liquidity (reflected in an increase in the effective bank reserve ratio), capital flight and rising foreign exchange and interest rates. These factors, coupled with the unfavourable external conditions, led to a new phase of sluggish growth in 1994 and 1995.

Hurricane Georges interrupted the period of expansion between 1996 and 1998. As a result of the economic damages and loss of human life, the government approached the international community for financial support for reconstruction. To obtain that support, it had to secure an agreement with the IMF, which was approved in October 1998.[21] The economic programme put the emphasis on efforts to strengthen and deregulate the financial system, as well as on the use of indirect instruments (open market operations), the management of monetary policy and the objective of lower inflation. Some decisions related to the privatization of public agencies and fiscal strengthening were enhanced and accelerated.

The increase in lending to the private sector following deregulation spurred economic growth: the share of this type of credit practically doubled from around 12% of GDP in 1995 to nearly 25% of GDP in 2002. However, this credit expansion came to a halt in early 2003 when a private bank went bankrupt, which, in the absence of effective bank resolution mechanisms, led to a substantial rise in the central bank's net internal assets and a sharp drop in economic activity. By the end of 2003, annual inflation stood at 42%, with the central bank registering major losses.

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[20] The economic programme was framed by the stand-by arrangement with the IMF in August 1991.

[21] IMF emergency assistance for the Dominican Republic, 29 October 1998.

Due to the contraction in economic activity and the resurgence in inflation in the wake of the financial crisis, IMF support was again needed in August 2003. With the new agreement, the country was able to regain external confidence and implement tight monetary policy aimed at recovering stability. Measures were also implemented to strengthen the financial sector and the central bank. On the fiscal front, the value-added tax rate was increased to consolidate the public finances.

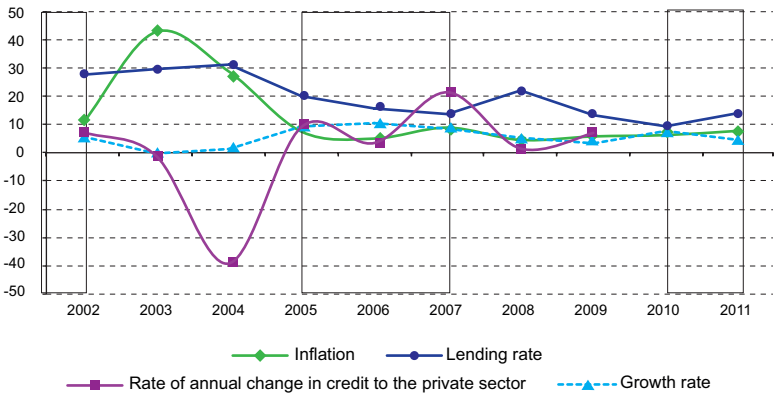
The success with macroeconomic stabilization paved the way for a new stand-by agreement with the IMF in February 2005, which included new monetary policy measures for achieving price stability and strengthening international reserves through exchange rate flexibility. Measures were also adopted to enhance the credibility of monetary policy and of the central bank.[22]

The favourable environment and external support translated into an upsurge in credit beginning in January 2004, which helped reactivate the economy in 2005. Greater private investment and monetary policy geared towards preserving international reserves and the external value of the currency, as well as a less ambitious inflation target, enabled the Dominican Republic to remain on a growth path (average GDP growth of 10% in 2005 and 2006 and 8.5% in 2007, with inflation at 7.4% in 2005, 5% in 2006 and 8.9% in 2007). The global crisis and food and fuel price hikes in 2008, coupled with increased election-related spending, compelled the authorities to tighten monetary policy once again. As a result, the benchmark rate stood at 9.5% in late 2008, and the real lending rate rose from 6.5% in December 2007 to 19.4% in late 2008. By the end of that year, inflation had fallen to 4.5%.

Due to the deterioration in external conditions and the decline in international food and fuel prices in early 2009, monetary policy reacted in a strongly countercyclical manner. In effect, the benchmark rate sank by 550 basis points between January and August, which put it at 4% in early September. The legal reserve rate fell from 20% to 17%, and composition rules were relaxed to free up resources for productive activities. This enabled GDP growth of 3.5%, with an annual inflation rate that had only climbed to 5.8% at the close of 2009.

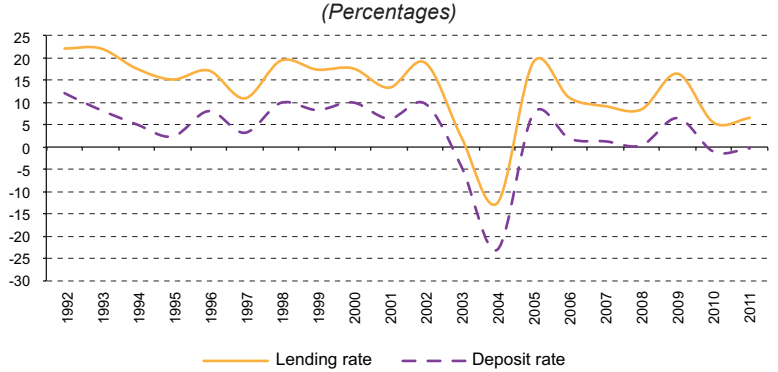
[22] The need to recapitalize the central bank was raised. The losses incurred during the financial crisis weakened the capital position of the Central Bank of the Dominican Republic, by requiring sterilization through open market operations with its own securities.

Figure VI.27
Dominican Republic: selected macroeconomic variables, 2002-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

Figure VI.28
Dominican Republic: real lending and deposit rates, 1992-2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Central American Monetary Council (CMCA).

5. Effect of rising international oil and food prices on inflation

Due to their size and location, it has been difficult for the Central American countries and the Dominican Republic to play a more dynamic role in the global economy. They are also vulnerable to the volatility of trade and financial flows, as well as shocks in the international prices of some commodities. The subregion's countries are net importers of oil and food, which had persistent price increases between 2003 and 2011. For example, the oil bill came in at US$ 3.202 billion in 2003, US$ 6.878 billion in 2006, US$ 11.249 billion in 2008 and US$ 12.540 billion in 2011. This escalation compels them to steer their economies away from oil dependency.

In July 2008, international oil prices jumped to a historic high of US$ 133 per barrel, and food prices rose too, though less sharply. Both phenomena had a strong impact on inflation in countries that are net importers of food, like those in the subregion. In 2008, average inflation in Central America and the Dominican Republic was 11.8%. In 2009, inflation fell by a large margin to 3.3%, owing to, among other factors, the collapse in domestic demand following the global economic crisis and lower international prices for food, fuel and manufacturing inputs. In late 2008 and 2009, the subregion's countries introduced monetary policy measures (e.g. higher benchmark interest rates) and fiscal policy measures to create a buffer against external shocks (Rivas Valdivia, 2012).

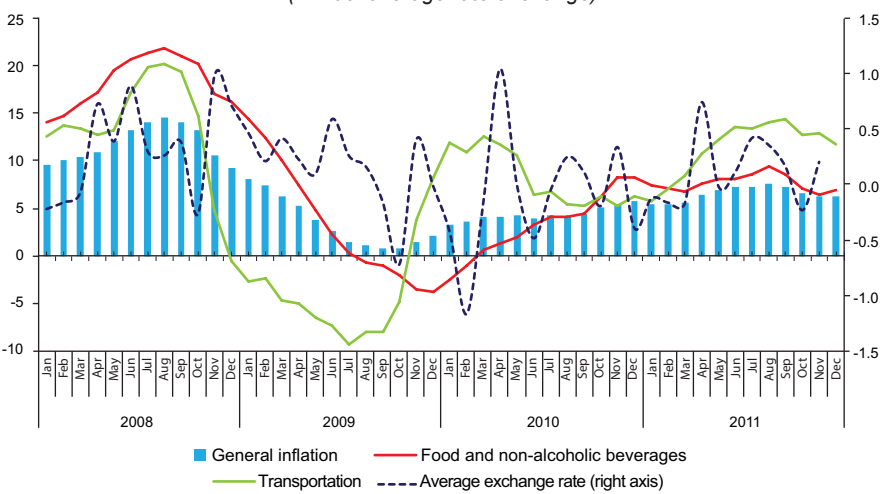
In 2010, the increase in international food and fuel prices sparked another upsurge in inflation. Corn and wheat prices spiked by nearly 50%, while cotton, coffee, rubber and copper, among other commodities, hit new price highs. The food price index compiled by the Food and Agriculture Organization of the United Nations (FAO) rose 30% in 2010. In February 2011, the index hit a 20-year record, climbing to 237 points (a year-on-year increase of 38%), its highest level since it was introduced in 1990 and its eighth consecutive high since July 2010, when the escalation began.

In 2011, this indicator continued to rise, averaging 240 points for the year, a 35% increase over the 2010 average. Another factor driving global inflation was the increase in price of oil. Since 1999, the price per barrel[23] practically quintupled, climbing from about US$ 20 in that year to US$ 90 in 2010. In 2011, the average price per barrel was about US$ 104 (Rivas Valdivia, 2012).

[23] This refers to the average price per barrel of Brent, Dubai and West Texas Intermediate (WTI) oil, as reported by the IMF (2012c).

In addition, independently of the monetary regime, the exchange rate appeared to serve as a nominal anchor in the countries of Central America and the Dominican Republic during this price escalation. Although inflation has remained high, it is below the average level of the past decade. Figure VI.29 provides a disaggregated account of the impact of food and beverage and transportation prices on general inflation between 2008 and 2011.[24] From 2008 to late 2009, food prices had a greater impact on general inflation than did transportation prices, which are subject to pass-through effects from the increase in oil prices. This may be linked to the transfer of subsidies. However, in 2010 and 2011, transportation had a greater impact than food. It should also be noted that inflation, while rebounding at both the aggregate and disaggregated levels, remained below the 2008 levels.

Figure VI.29
Central America and the Dominican Republic: international prices of selected products and inflation, 2008-2011
(Annual average rate of change)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Although wages could be assumed to have been a factor driving inflation, in reality, real wages clearly weakened between 2000 and 2011. It was only in 2009 that nominal wages were increased in some countries in response to the global economic crisis, so this measure did not generate significant negative effects on inflation.

[24] In the countries of Central America and the Dominican Republic, food and beverages and transportation are weighted at between 40% and 50% in the respective consumer price index.

Except in Panama, where the minimum wage lost 2.4% of its real value, the median value of real minimum wages in the subregion climbed by 9.5% in 2009. This sizeable increase reflected both low inflation that year and the orientation of minimum wage policies in the subregion, which were intended to prevent their deterioration during the crisis. Honduras and Nicaragua are outstanding cases, where real minimum wage values rose by 70.4% and 16.8%, respectively. In the rest of the countries, increases ranged from 5.1% (Guatemala) to 9.7% (Costa Rica). In 2010, the situation changed: the median minimum wage lost 0.4% of its real value due to contractual readjustments and an upsurge in inflation, despite nominal wage increases made in 2010 (see figure VI.31).

In 2010, agricultural and non-agricultural wages in Guatemala increased by 2.4% in real terms over the previous year, and wages in the maquila sector rose by 3%. In El Salvador, the median wage of private sector workers contributing to the Salvadoran Social Security Institute (ISSS) rose in real terms by 1.5%, while in the government sector, the increase was 0.4%. In order to minimize persistent wage disparities in the public sector, in early 2011, government workers earning less than US$ 1,000 per month received a nominal wage increase of 10%, and it was further announced that the minimum pension would be brought into line with the minimum wage. The Honduran government mandated an increase in the nominal minimum wage of between 3% and 7% starting on 1 September 2010 in firms with more than 20 employees. Meanwhile, in Panama, the real minimum wage was raised on 1 January 2010 by 4.6% to 7.5% for small firms and by 14% for large companies over the 2008 level. In the second quarter of 2011, the Dominican Republic negotiated a nominal increase of 17% in the minimum wage of non-sectorized workers (28% of the employed population). In 2011 in Guatemala, the minimum wage for agricultural and non-agricultural activities rose by 7.1% in real terms over the previous year. In the maquila industry, there was a real wage increase of 8.2%. Meanwhile, the median wage for all economic activities increased on average by 0.4% in real terms.

In 2011, nominal wage increases did not entirely make up for the earlier losses in their real value, so this category did not exert strong pressure on inflation. Also, due to the income level of the countries in the subregion, food is assigned more weight in the basket of consumer goods in the subregion than in the rest of Latin America. Accordingly, the impact of sustained increases in food prices, such as occurred in 2007-2008 and 2010, on the terms of trade, but especially on poverty levels and income distribution, is significant.

Figure VI.30
Central America and the Dominican Republic: international prices of selected products and inflation, 2008-2011
(Annual average rate of change)

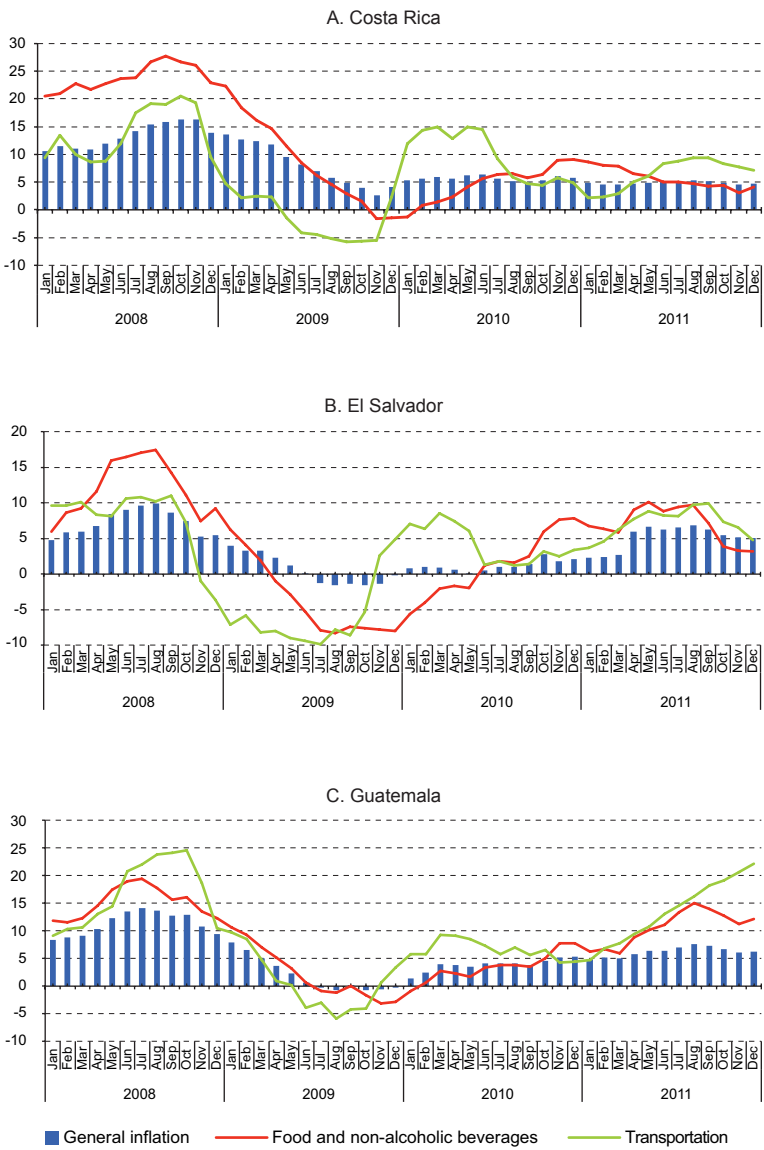
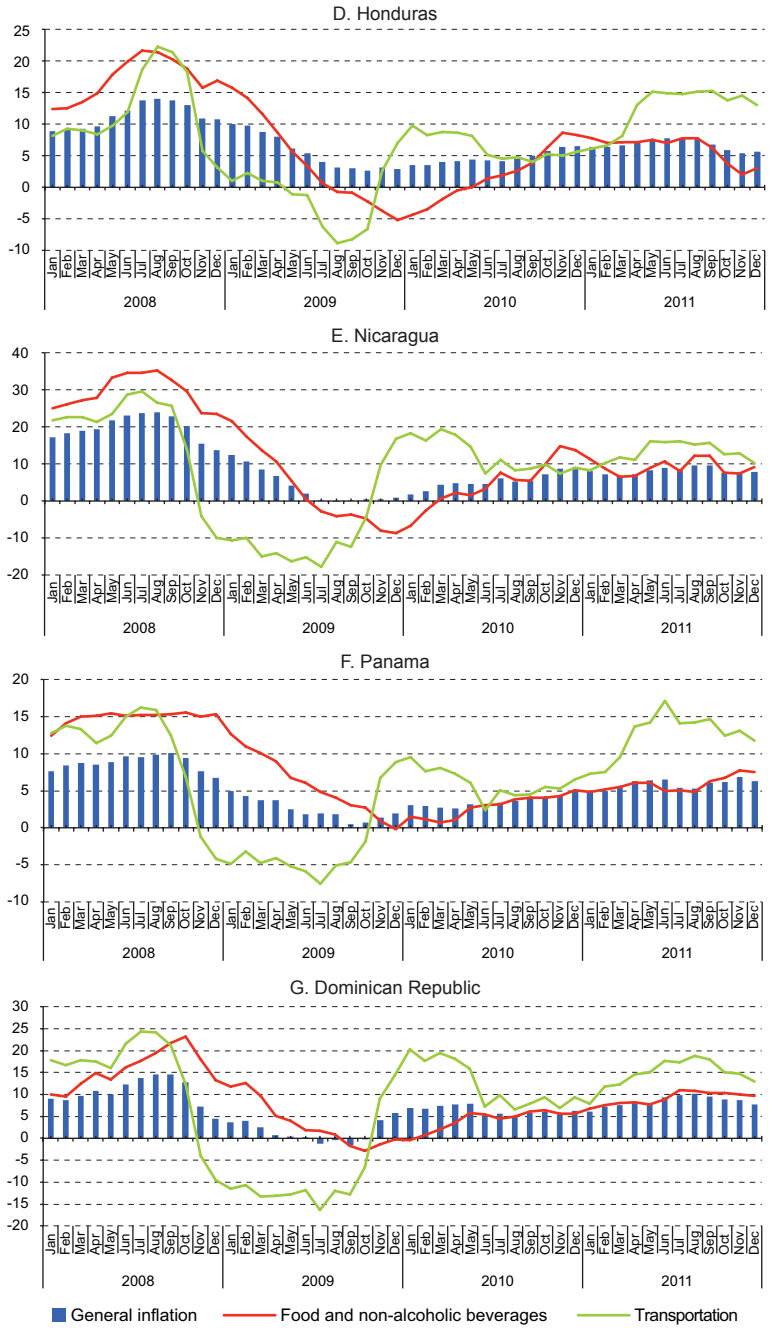
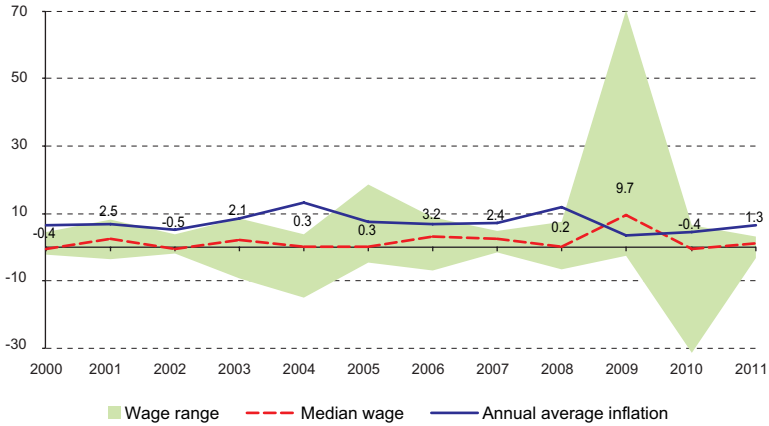


Figure VI.30 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Figure VI.31
Central America and the Dominican Republic: median value and range of the real minimum wage and inflation, 2000-2011
(Annual average rate of change)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

6. Financial regulation

The subregion's financial system emerged relatively unscathed from the 2008-2009 global financial crisis, owing, among other reasons, to the fact that the regulated banking sector holds over 80% of system assets (concentrated in government securities and the credit portfolio). In addition, and unlike in the developed countries, most of the subregion's countries grappled with the financial crises that hit Latin America in the 1980s and early 1990s by implementing sector support programmes for the financial sector,[25] which propelled a set of institutional and legal reforms that strengthened banking regulation. In addition, the shallowness of the financial sector meant that none of the countries had the financial engineering instruments that gave rise, in the absence of appropriate regulation, to the crisis in developed countries, perhaps because the majority of those countries had conducted monetary policy until very recently through direct control instruments, such as portfolio caps, fixed interest rates and bank reserve requirements.

Moreover, although significant progress has been made in the area of banking supervision since the early 2000s, the subregion is still a long way from becoming fully compliant with international criteria. According to the findings of Delgado and Meza (2011) on compliance with the Core Principles for Effective Banking Supervision adopted by the Basel Committee on

[25] Sector support programmes for the financial sector were implemented by the IDB in Guatemala in 1993, in Panama in 1996-1997, in Nicaragua in 1998, in the Dominican Republic in 2003 and in Honduras in 2004.

Banking Supervision in 1997, compliance with what would be considered best practices is only around 50% in the case of risk-based supervision, 68% in the case of cross-border consolidated supervision and just 39.8% in the case of the supervisory perimeter (understood as the areas that the supervisory agency can cover in accordance with the law). Delgado and Meza's findings confirm the need to continue strengthening the rules and regulations (to expand the supervisory perimeter) and the supervisory agencies.

An important aspect of those findings is the large compliance gap seen in the area of cross-border consolidated supervision, which is proving difficult to close given the legal restrictions on information-sharing between supervisors. This is important because in 2008, in practice, 48.7% of bank financial assets were held by subregional groups, a figure that rose to 51.8% in 2011. Of the total assets held by such groups, 41.3% corresponded to local capital. The activities of subregional groups, in the absence of effective cross-border consolidated supervision, could promote regulatory arbitrage and even excessive leveraging of capital, since deposits in one country could be used as capital for banks in other countries.

The definition of the supervisory perimeter is also important and should not be left open to interpretation. Terms such as financial activity and financial institution must be clearly defined. Effective regulation and supervision should be established for cooperatives and microfinance institutions, as well as savings institutions such as credit unions. Legislation along these lines is under consideration in Guatemala and Honduras.

(a) Effects of the crisis on the banking sector in Central America and the Dominican Republic

As previously indicated, the direct effect on the banking sector was not significant, especially because in all the countries, banking assets were heavily concentrated in government debt securities and in loans, both to the private sector and local government.[26]

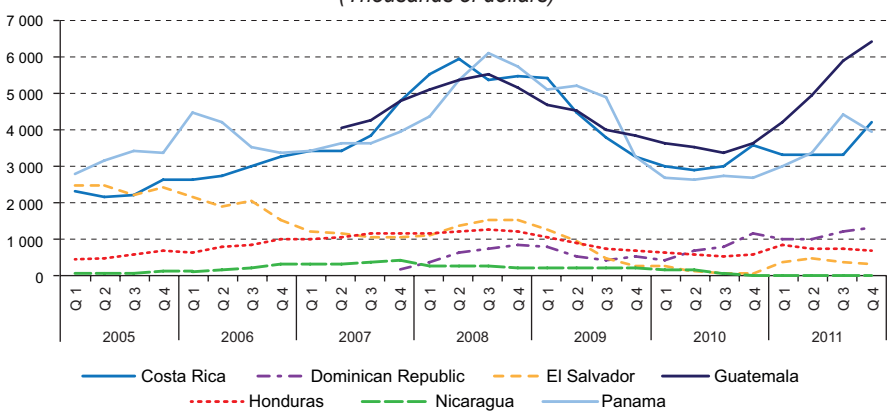
A less optimistic conclusion would be that if the crisis did not seriously affect the financial system, it was because the credit portfolio had contracted (on higher solvency ratios) and risk was concentrated in securities issued by the respective governments (to which regulators assign a zero or near-zero risk weighting).

The direct impact of the crisis was manifested as a contraction in one of the subregion's lines of business, trade credit, which is funded through lines of credit from foreign banks, a source that was heavily restricted during the crisis. However, as illustrated in figure VI.32, in all cases except Nicaragua, which already had a very limited supply of credit, the flows had already recovered

[26] This involves other risks that are not analysed in this chapter.

by the end of the period, even rising above the pre-crisis levels (Nicaragua now has the liquidity that its system needs, as a result of external support from the Bolivian Republic of Venezuela). However, it should be noted that because the terms on trade financing are typically between 90 and 180 days, this situation can very easily change, and the persistence of the debt crisis, as well as the deepening financial crisis in Europe, represent a considerable level of risk. The crisis had a direct impact on foreign trade because this type of credit is working capital for exporters, so any reduction is immediately reflected in weaker foreign sales. This had a profound impact on economic growth.

Figure VI.32
Central America and the Dominican Republic: lines of credit to banks for foreign trade, 2005-2011
(Thousands of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the bank superintendencies and the Central American Monetary Council.

(i) Total credit

In December 2009, the total credit portfolio of the financial sector in the countries of Central America and the Dominican Republic stood at US$ 79.478 billion, which represented nominal growth of 1.5% from December 2008, well below the 13.7% growth observed in 2007-2008. There was no clear pattern of improvement in the evolution of credit in 2009 and the first quarter of 2010, but rather considerable volatility, with growth in credit turning from positive in some quarters to negative in others, and vice versa. Furthermore, the evolution of credit has not been even across the different countries. In the Dominican Republic, quarterly growth rates were positive and high in the last four quarters, while in El Salvador, credit contracted throughout 2009 and in the first quarter of 2010. There was a recovery in 2011, with credit growing by 4.4% over year-end 2010, but as of December 2011, it was still below the pre-crisis peak in absolute terms. In the case of El Salvador, the contraction was

more direct and immediate, which was likely the result of the international orientation of its banking system. In Costa Rica, meanwhile, where growth turned from positive to negative, the strong contraction observed in the first quarter of 2010 stands out. In Nicaragua, as in Panama, credit shrank in the final two quarters of 2009 and the first quarter of 2010.

(ii) Deposits

Deposits were more stable than credit. In the latter three quarters of 2009 and the first quarter of 2010, deposits posted quarterly growth of between 1.5% and 4.1%, though performance did vary from country to country. In the Dominican Republic, El Salvador and Panama, growth in deposits was positive, albeit more limited in El Salvador. In the rest of the countries, deposits have been less stable, with positive growth rates slipping towards negative territory, and vice versa.

(iii) Credit risk

The evolution of various indicators used to quantify the credit risk faced by the subregion's banking sector in 2009 reveals a certain upward trend in the ratio of the overdue portfolio to the total portfolio, from 2.1% at year-end 2008 to 2.4% in March 2010. At the country level, the delinquency rate has varied. In Nicaragua, it was high, at 6% in the first half of 2009, and although there was a downward trend in the subsequent three quarters, it remained well above levels in the rest of the subregion. This may be the result of a decree approved in 2009 by the national legislature authorizing the non-payment of loans issued by microfinance institutions. Although the microfinance sector is not covered in this analysis, bank debtors may have construed that development to mean that a similar measure could be approved for their own debt, which would have led to a worsening of the overdue portfolio. In El Salvador and the Dominican Republic, the delinquency rate deteriorated sharply, rising from 2.8% to 3.8% and from 3.4% to 4.4%, respectively, between December 2008 and March 2009.

The evolution of the overdue portfolio is reflected in the ratio of loan loss provisions to overdue loans (coverage ratio), i.e. the percentage of the portfolio at risk that is covered by provisions. In the subregion as a whole, the loan loss coverage ratio appears quite stable, at 112% in March 2010. However, this varies a great deal from country to country. Honduras has the highest coverage ratio, at 208.5% in March 2010. El Salvador, Panama and the Dominican Republic fall in the middle, with coverage ratios typically around 100%, although the Dominican Republic's coverage ratio has been on a gradual downward slide. Lastly, in Nicaragua, Costa Rica and Guatemala, coverage ratios have generally been below 100%.

A final indicator that is commonly used to measure credit risk is the ratio of non-performing loans net of provisions to bank capital. The higher the value of this indicator, the less auspicious the credit situation of the

banking system. In the countries of Central America and the Dominican Republic, the indicator, which stood at -2% in March 2010, has been quite stable over the period of analysis.[27] The country with the most robust ratio is Honduras, at -16.3% in March 2010. Nicaragua, Costa Rica and Guatemala had the most difficulty in achieving a satisfactory ratio, although in Guatemala the situation has been improving since March 2010.

(iv) Liquidity

The liquidity ratio of the banking system (cash plus negotiable securities over deposits), which measures the capacity of the banks to meet their obligations on time, is especially important during periods of financial crisis. An analysis of the behaviour of this indicator from January 2008 to March 2010 reveals that in Honduras, Costa Rica, the Dominican Republic and Guatemala, there was no directional trend: the ratio remained stable at around 44% in the first three countries and at around 50% in the last one. In contrast, in Nicaragua, there was a pronounced upward trend in the ratio, which increased from 47% in December 2008 to 64.2% in March 2010. This liquidity expansion in Nicaragua's banking system was likely the result of an increase in deposits following major financial assistance from the Bolivarian Republic of Venezuela, and higher perceived risk following major deterioration in the quality of the credit portfolio. In El Salvador, too, the liquidity ratio trended upward, though less sharply. Last, Panama's liquidity ratio, at a stable level of around 65% in the final months of the period, was systematically higher than the levels observed in the rest of the countries in the subregion.

It should be noted that high liquidity ratios are associated with holdings of government and central bank securities. This also explains why solvency ratios remain high since, unlike loan assets, neither cash nor these securities require own capital. This also improves solvency indicators, so any improvement in these indicators should be analysed carefully, especially with respect to their effects on balance sheets, and because at the macroeconomic level, their evolution could adversely affect growth and the financial sector.

(v) Deposit rates, lending rates and the interest rate spread

An important aspect of banking sector performance is the interest rate spread,[28] which is the main source of earnings for the sector. In Costa Rica,

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[27] A ratio of -2% for this indicator means that the provisions made to cover non-performing loans exceed the amount of the overdue portfolio by a fraction that represents 2% of core capital. Conversely, a positive ratio would mean that if the overdue portfolio went unpaid, there would not be enough provisions to cover the losses and the banking system would have to provide additional resources to increase capital.

[28] The interest rate spread has been calculated as the ratio between annualized financial earnings and the average credit portfolio, less annualized financial expenses divided by average deposits.

Nicaragua and Panama, spreads have remained stable in recent years, although they are typically narrower in Panama's banking system due to strong competition. In El Salvador and Honduras, spreads have trended wider on a higher lending rate coupled with a lower deposit rate. Lastly, in the Dominican Republic, the interest rate spread has fallen sharply since 2010 on a big decline in the lending rate, offset partially by a smaller reduction in the deposit rate.

7. Thoughts on macroprudential financial regulation

The international financial crisis compels a re-evaluation of decisions that were thought to be irreversible, such as deregulation of the global financial system. It also raises the need, among others, to regulate and separate investment banking from commercial banking once more, as well as the imperative for the latter to conduct all operations on the balance sheet and assign a percentage of capital to them that accords with the risk they present. All of this will tend to reduce the type of financial engineering operations that led to the abandonment of monetary aggregates. It should be recalled that the decision to transition from a system based on monitoring of monetary aggregates to one based on inflation targeting arose out of the difficulty of estimating a stable demand for money in an increasingly deregulated environment. Volatility in money demand and the technical challenges of estimating it may cease to be a problem in an adequately regulated environment in which, above all, the supervisory institutions have been strengthened.

The financial crisis also underscored the need to improve banking regulation, a process that has been under way in the subregion, with significant progress made in regulating provisioning, improving the capital position of banks and implementing consolidated risk-based supervision. There is the added challenge of optimizing bank resolution mechanisms, as well as establishing agreements and coordination between national supervisory agencies, given the presence of subregional banks that could take advantage of regulatory or supervisory differences between countries to engage in risk arbitrage and thus reduce their capital requirements.

The subregion has made real progress in terms of managing monetary policy. However, it must revisit how best to coordinate this policy with other public policies in an environment in which the central bank does not have instruments to conduct open market operations without incurring political costs, and where no significant headway has been made with respect to a political decision to obtain the required fiscal support. This need stems from the fact that fiscal resources are very limited, and there should be consensus on the use of potential revenue gains and on the possible social and economic benefits of allocating a portion of these

resources to strengthen the central banks. Ensuring that central banks have the political autonomy to define and conduct monetary policy is essential. However, a necessary step on the path to autonomy is to ensure that their financial condition is robust, which means strengthening public finances. This is borne out in countries that have decided to recapitalize their central banks (financial autonomy) but have so far been unable to fully implement the decision due to fiscal constraints, as is the case in Guatemala, Costa Rica and the Dominican Republic.

Some of the countries in the subregion attempted to channel proceeds from the privatization of State-owned enterprises but could not obtain sufficient political support to definitively neutralize the funds and recapitalize the central banks. Without this consensus, no real forward momentum can be made towards greater monetary policy efficiency.

El Salvador, which adopted dollarization as a way to lower inflation, has not been able to do this either, due to the impact of international food and fuel prices and perennial fiscal imbalances that have prevented convergence of the interest rate towards international levels. As a result, nor has the country been able to achieve its objective of increasing long-term economic growth.

Another necessary step is for the various actors to discuss the importance of developing securities and capital markets to enhance the efficiency of monetary and other policies (e.g. fiscal policy). Developing a securities market requires, among many other conditions, the application of financial standards in accordance with international criteria.[29] In addition, public and private debt instruments must be available. Major strides have been made in this regard with respect to the uniformity of securities, but as previously indicated, the central banks must have public securities that they could derive from the different capital replenishment processes.

Given the importance for the public and private sectors of deepening the capital and securities markets, an open and full discussion is needed on the factors that have thus far limited their development.

8. Macroprudential regulation in the past and looking ahead to the future

Macroprudential regulation is understood to be regulation aimed at preventing systemic risks at the macroeconomic level. It is different from the regulation typically subject to oversight by bank superintendencies,

[29] The World Bank's Reports on the Observance of Standards and Codes, available for each of the countries, describe areas of weakness and provide some recommendations for resolving them.

which is intended to guarantee the solvency and liquidity of institutions at the microeconomic level.

Complementarity between these two regulatory models is needed to promote financial stability. Systemic risks tend to develop during the upward swing of the cycle and materialize in the downward swing. This means that a policy mechanism must be designed that lays the groundwork during the expansionary phase for action to be taken when there is a shift in trend.

In the past, the countries of Central America and the Dominican Republic had a number of instruments among their monetary and financial regulation policies that in practice tended to lengthen the expansionary phase of the cycle. Some of those instruments were excluded under the Washington Consensus, almost as if this were axiomatic, for example portfolio caps that sought to channel resources in line with conditions favourable to the growth of a particular sector. The global crisis demonstrated that, at certain junctures, public policy requires an array of instruments to channel resources in a way that makes efficient use of them from an economic viewpoint, but above all from a social viewpoint that is integrally tied into each country's growth and development strategy. Among the instruments used in the past to mitigate the procyclical effects of banking and financial administration were portfolio limits and bank reserve requirements, which were applied in the context of monetary policy as instruments of direct control of monetary aggregates (they were activated when credit was found to be rising above its long-term trend line). In some countries, such as Costa Rica and Nicaragua, prudential regulation measures have been used to reduce exchange rate risks, limiting the exchange rate exposure of financial institutions by establishing specific capital requirements for their net foreign currency positions. For the purposes of prudential regulation, all the countries have limited their loan-to-value ratios.

Future actions to evaluate include the introduction of dynamic or countercyclical provisions of the type implemented in Spain and more recently in Colombia and Peru. This measure was questioned at certain points prior to the crisis for reasons strictly to do with accounting, but it has since proven its usefulness by helping to build a larger stock of provisions during periods of expansion. The situation is similar with capital requirements, which should be higher during growth periods. A discussion of these measures should consider the incorporation of fiscal elements, such as the creation of a tax on financial transactions or capital flows. That would also mean identifying an institution that would be responsible for formulating macroprudential policy, a task that has been assigned until now to financial stability committees composed of representatives from finance ministries, central banks, and financial system supervisory authorities.

Chapter VII

Reflections on a macroeconomic policy for development

The preceding chapters documented the progress made by Central America and the Dominican Republic over the past 21 years, which has primarily taken the recognized form of traditional macroeconomic stability, as reflected in lower inflation rates, small fiscal deficits and moderate economic growth. Despite these achievements, the subregion faces crucial challenges. Economic polarization persists at a level that has made it hard to close gaps in per capita GDP and labour productivity, or to attain higher growth rates in economic activity and in the creation of quality jobs. Furthermore, poverty and inequality have yet to be tackled in the meaningful way demanded by society. The benefits of economic growth must be translated into real gains for the well-being of the population and especially for the lowest income groups.

A key aspect of this challenge is that the subregion, in general, has a very low investment ratio and an incomplete transformation of its productive structure, with many sectors and branches of economic activity characterized by low productivity and little innovation; all of which translates into a heavy external restriction on long-term economic growth.

In an attempt to provide inputs for the analysis of these challenges and with no pretence whatsoever to instruct the governments or offer prescriptions, the chapters in this paper examined the key aspects of the productive and social structure, as well as macroeconomic policy, in the subregion. Through this analysis and the diagnostic assessment of the complex international environment facing the subregion, the intention

has been to identify the right policy tools for each country, individually or in the framework of coordinated actions and agreements, to tackle the major challenges ahead and move forward on a path of development with equality. In this context, regional integration resumes its leading role as a development instrument.

ECLAC, along with various Latin American governments, analysts and academic institutions, has been making a case for quite some time for redirecting macro policy to encompass a broader understanding of economic stability that incorporates production and job growth as priority objectives, without ignoring the evolution of nominal variables —inflation, fiscal sustainability and the solvency of financial institutions.[1] This position is gaining support as the international financial crisis that first hit in 2008-2009 lingers on and macroeconomic policy based on fiscal consolidation has proven unable to correct the situation. In practice, this austerity strategy has tended to deepen recession and exacerbate unemployment while failing to fix fiscal problems or alleviate the balance-of-payment constraint on growth in the vulnerable economies of the European Union.

The traditional approach to analysing macroeconomic policy is through the lens of instruments that are typically under the authority of central banks and finance ministries. In other words, macroeconomic policy is typically defined as the combined action of monetary and financial policy, fiscal policy and exchange rate policy. A complementary approach that is more relevant for understanding the relationship between macroeconomic policy and economic development is to focus on the following three elements or areas of an economy's performance that are shaped by macroeconomic policy.[2]

The first area is economic stabilization, understood as the minimization of volatility in the key variables or ratios in the national economy, especially in the event of adverse shocks originating from world trade or in the international financial markets. In this regard, it is crucial for all governments to identify the set of economic variables whose stability, in their view, should be an objective of macroeconomic policy.

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1 A lesson learned from the economic crises that South America endured in the 1980s and the 2000s, as well as the recent international financial crisis, is that macroeconomic performance can be derailed even in an environment of low inflation and small fiscal deficits due to contagion from external or internal shocks on the balance sheets and in the asset and liability structure of large financial companies or banks. These disruptions may arise when there are sudden, major changes in the valuation of assets, or in the case of maturity profile mismatches, whether in terms of time horizons or exchange rate exposures.

2 This classification has longstanding support, including the contribution by Musgrave and Musgrave (1989), who identify three essential functions of economic policy: (i) to allocate resources; (ii) to provide macroeconomic stability in the face of adverse external shocks; and (iii) to redistribute income.

For much of the post-war era, the main objective of stabilization was to maintain a certain equilibrium on two fronts. The first was that of internal balance, which consisted in preserving price stability and maintaining strong economic growth compatible with full employment. The second was external balance, which consisted in preventing crises in the balance of payments and in stocks of foreign reserves. Later, related in part to the international debt crisis of the 1980s and the economic policy shift in line with the so-called Washington Consensus, an orthodox interpretation of stabilization came into vogue that narrowly defined its functions as preserving low inflation and keeping the fiscal deficit low or at zero. As a result of this change in interpretation, with its emphasis on nominal variables, full employment and economic growth were promptly struck from the set of direct objectives of stabilization policy.

The rationale or assumption behind this shift was twofold. First, the idea took hold that stabilizing the nominal variables was sufficient —and not just necessary— to eventually stabilize the real variables too (particularly employment, output growth and the balance of payments). Second, there was an assumption or conviction that GDP growth and employment were merely the reflection of the evolution of the supply side of the economy —the accumulation of factors and productivity— on which stabilization policy had no real effect. In fact, in some years, and up to the crisis that hit the Mexican economy in 1995, stabilization policy was no longer concerned with the magnitude of the balance-of-payments current account deficit, so long as it was not associated with a fiscal deficit or high inflation. The 1995 balance-of-payments crisis in Mexico, which began in a context of prudent public finances but a growing deficit in the current account and rampant private borrowing —a reflection of private spending in excess of income— showed just how mistaken that interpretation was. Accordingly, the evolution of the current account deficit, relative to GDP, is once again being monitored by macroeconomic policy.

The second area in which macroeconomic policy has a crucial impact on economic development is the transformation of the productive structure. In fact, macroeconomic policy creates incentives for the orientation and use of productive resources and factors by the private sector and also influences the corresponding allocation of public sector resources —including, prominently, gross fixed capital formation— in the economy and its various industries or sectors.

Through various instruments, macroeconomic policy has significant capacity to guide and incentivize economic activity in some areas to the relative detriment of others —for example, between producers of tradable goods and services and producers of non-tradable goods and services. This allocation of resources can affect the long-term growth path of the

economy, to the extent that industries subject to increasing returns to scale, rather than those characterized by constant or decreasing returns, dominate or are promoted.

This concept of high and persistent economic growth resulting from a virtuous circle of structural transformation is crucially important in the design of macroeconomic policy, since it inherently recognizes that the present or short-term composition of production and employment, i.e. the structure of productive activity, dictates, for better or worse, the performance and pace of growth of the economy in the long run.[3]

The third and final area shaped by macroeconomic policy is the redistribution of income, through its effects on both the key nominal variables —inflation and the fiscal balance— and the real variables —employment and economic activity. The basic instruments in this regard are taxes, subsidies and public expenditure, particularly on investment. Macroeconomic policy also influences income distribution through decisions that affect the evolution of key relative prices, such as exchange rates, interest rates and wages. In this way, macroeconomic policy affects the distribution of income among different classes, factors, productive sectors, groups, regions, families and individuals.

A point repeatedly made by ECLAC, especially since the publication of *Time for equality* (ECLAC, 2010), is that equality and economic growth are not mutually exclusive in Latin America. On the contrary, there is a direct interplay between these two phenomena that makes progress towards greater equality in income distribution indispensable to achieving robust economic growth that is sustainable over the long term. The ECLAC motto "growth for equality and equality for growth" takes on special importance given the weak momentum of the global economy at present. The decline in external demand associated with the recession in much of the developed world has forced a number of medium-sized and large economies in Latin America to lean more heavily on the domestic market as an engine of growth.

It is up to the governments to specify the priority objectives of macroeconomic policy in relation to the three areas in which it influences the economic performance. Likewise, governments have the capacity, conditioned by the historical and political context of each country, to select the instruments and determine their use —in both the short term and the

[3] The perspective of development as a process of structural change that results from the constant interplay between the growth rate of the economy and its role in international markets, on the one hand, and the composition of production and employment in sectors subject to increasing returns to scale, on the other hand, is at the heart of the modern structuralist theory of development. In particular, it stands in contrast to traditional visions that view macroeconomic policy as having only two independent objectives besides the stabilization of prices: (i) to position the economy at its production frontier; and (ii) to expand the production frontier.

long term— in accordance with the various objectives established for the macroeconomic policy. This instrument selection process presupposes a diagnosis or identification of the obstacles or binding constraints that have impeded or are impeding attainment of the priority objectives. A crucial step in the process of determining the objectives and instruments of macroeconomic policy is to explicitly consider the institutional framework. In other words, the design and application of macroeconomic policy must carefully consider the existing set of constraints, both formal —legal or regulatory— and informal —norms, customs, practices or codes of behaviour— that shape economic interactions at each particular moment in time. In short, the diversity of institutional contexts or frameworks means that there is no unique macroeconomic policy prescription that can be applied uniformly across countries and time.

In terms of objectives, as established in this final chapter, any macroeconomic policy for development must make its key priority setting the economy on a stable long-term path of strong growth with equality. To achieve this objective through policies that are applied on a day-to-day basis, sometimes in the context of emergencies or extremely adverse external shocks, governments must adopt a perspective that simultaneously takes account of the short run and the long run as they select and apply macroeconomic policy instruments. This task entails, in particular, identifying the major obstacles that stand in the way, now or in the future, of creating and sustaining a robust expansion of economic activity and a more progressive distribution of its benefits.

In conclusion, it is important to note that because macroeconomic policy influences three principal areas of the economy, the various economic policy instruments that are available can have conflicting —and not necessarily complementary— effects on some of the different objectives that have been set. Recognizing these trade-offs and proposing ways to reconcile conflicting results should be the daily work of those responsible for macroeconomic policy. This depends on the technical capacity of the various governments, as well as the political economic and institutional conditions that frame their scope of action and dictate their room to manoeuvre. “Growth for equality and equality for growth” is the inspired principle that should guide this effort in the subregion, in order to attain the much-sought but elusive goal of long-term economic growth and development and improve the standard of living of the people of Central America and the Dominican Republic.

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Annex

Table 1
Central America and the Dominican Republic: main economic indicators, 1990-2011

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						(Growth rates)					
Economic activity and prices											
Gross domestic product (GDP) [a]	1.4	3.3	7.4	5.9	3.4	4.7	3.6	5.7	5.9	4.9	3.7
Per capita GDP [a]	-0.9	0.9	4.9	3.4	0.4	2.4	1.4	3.5	3.7	2.8	2.2
Gross fixed capital formation	-2.2	2.2	25.5	16.3	5.4	4.2	-0.2	15.5	20.5	1.8	-0.7
Consumer price index (CPI), simple average (December-December)	2 095.6	129.8	9.9	9.1	13.3	12.9	10.8	6.9	9.6	5.5	6.6
						(Percentages)					
Fiscal deficit/GDP [b]	0.6	1.3	1.0	0.0	1.1	0.6	0.6	0.5	1.6	1.1	1.3
						(Millions of dollars)					
External sector											
Current account	-1 629.8	-1 641.3	-3 415.1	-3 103.9	-2 771.2	-2 581.1	-2 358.7	-2 954.6	-3 939.3	-4 825.4	-5 356.0
Factor income balance	-1 518.0	-1 632.0	-1 951.5	-2 106.4	-1 986.5	-2 207.6	-2 110.9	-2 307.3	-2 610.1	-4 366.5	-3 880.0
Current transfers balance	1 707.0	2 082.5	2 485.2	3 057.4	3 222.3	3 623.0	3 720.5	4 142.6	5 309.7	5 616.2	5 785.8
Capital and financial account [c]	-743.4	924.0	1 594.5	1 322.3	730.8	1 921.3	2 489.5	4 513.9	4 135.6	5 849.4	5 224.9
Foreign direct investment	523.8	599.9	722.2	855.4	1 061.7	1 238.0	1 197.6	2 571.0	4 600.4	3 517.4	3 016.2
Overall balance	-2 373.2	-717.3	-1 820.6	-1 781.6	-2 040.4	-659.8	130.8	1 559.2	196.3	1 024.0	-131.1
Net resource transfer	356.9	1 521.1	1 680.3	1 315.2	663.0	873.7	1 021.0	2 659.8	1 919.6	2 029.7	1 688.9
Public external debt	31 133.6	31 093.0	30 683.4	29 675.8	31 073.7	30 286.8	24 955.0	24 913.4	26 169.9	27 706.7	27 976.9
						(Index: 2005=100))					
Terms of trade	101.9	104.0	111.5	109.1	108.7	115.6	112.5	115.6	117.3	114.3	109.3
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [d]
						(Growth rates)					
Economic activity and prices											
Gross domestic product (GDP) [a]	1.8	3.7	2.7	3.5	6.0	7.5	7.4	4.4	0.8	5.1	4.8
Per capita GDP [b]	-0.1	1.8	0.8	1.6	4.1	5.6	5.5	2.6	-0.9	3.3	3.1
Gross fixed capital formation	-3.8	3.2	-2.5	2.1	5.9	14.9	15.3	6.8	-15.4	8.0	7.2
Consumer price index (CPI), simple average (December-December)	5.6	6.2	10.8	10.9	7.9	6.0	9.3	9.2	2.2	5.7	6.2
						(Percentages)					
Fiscal deficit/GDP [c]	1.2	0.9	1.0	1.0	0.8	-0.2	-0.4	-1.0	-0.4	1.4	0.3

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [d]
	(Millions of dollars)										
External sector											
Current account	-4 182.9	-4 482.6	-3 403.6	-3 925.3	-5 412.1	-6 311.3	-10 716.1	-16 666.3	-4 681.3	-11 587.5	-16 074.2
Factor income balance	-3 218.2	-3 009.7	-4 319.2	-4 830.0	-4 870.3	-5 024.5	-6 209.7	-5 743.0	-6 701.0	-6 927.8	-7 889.0
Current transfers balance	7 118.4	8 189.8	9 028.4	10 653.9	12 572.9	14 967.3	16 852.3	17 455.5	15 525.4	16 097.1	17 159.0
Capital and financial account [c]	5 295.5	3 873.6	3 344.3	4 594.4	7 356.5	7 823.7	13 515.1	17 050.2	6 605.6	13 780.3	15 889.0
Foreign direct investment	3 198.3	2 829.3	3 014.6	4 177.8	4 761.5	6 889.6	9 067.0	10 384.3	6 694.4	7 939.8	10 617.4
Overall balance	1 112.6	-609.0	-59.3	669.1	1 944.4	1 512.4	2 799.0	383.9	1 924.3	2 192.9	-185.1
Net resource transfer	2 394.8	1 289.4	-411.0	552.4	2 965.6	3 062.2	7 509.0	11 442.1	285.2	7 320.8	8 246.5
Public external debt	29 121.3	30 682.6	33 472.9	34 483.6	34 275.5	33 669.8	32 012.7	33 886.1	38 873.1	42 355.6	44 079.9
	(index: 2005 = 100)										
Terms of trade for goods	108.2	107.1	103.6	101.6	100.0	97.5	96.7	92.7	98.4	96.4	95.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] On the basis of figures in dollars at constant 2005 prices.

[b] Weighted average.

[c] Includes errors and omissions.

[d] Preliminary figures.

Table 2

Central America and the Dominican Republic: economic growth and investment, main indicators, 1990-2011

(Growth rates in percentages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Gross domestic product (GDP) [a]	1.4	3.3	7.4	5.9	3.4	4.7	3.6	5.7	5.9	4.9	3.7
Central America	3.7	4.0	6.5	5.5	3.8	4.5	2.5	4.9	5.5	4.2	3.0
Costa Rica	3.6	2.3	9.2	7.4	4.7	3.9	0.9	5.6	8.4	8.2	1.8
El Salvador	4.8	3.6	7.5	7.4	6.1	6.4	1.7	4.2	3.7	3.4	2.2
Guatemala	3.1	3.7	4.8	3.9	4.0	4.9	3.0	4.4	5.0	3.8	3.6
Hondurass	0.1	3.3	5.6	6.2	-1.3	4.1	3.6	5.0	2.9	-1.9	5.7
Nicaragua	-0.1	-0.2	0.4	-0.4	3.3	5.9	6.3	4.0	3.7	7.0	4.1
Panama	8.1	9.4	8.2	5.5	2.9	1.8	2.8	6.5	7.3	3.9	2.7
Dominican Republic	-5.5	0.9	10.5	7.2	2.3	5.5	7.1	8.0	7.0	6.7	5.7
Per capita GDP	-0.9	0.9	4.9	3.4	0.4	2.4	1.4	3.5	3.7	2.8	2.2
Central America	1.3	1.5	4.0	3.0	0.4	2.1	0.3	2.7	3.3	2.1	1.6
Costa Rica	1.1	-0.1	6.8	4.7	1.7	1.0	-1.8	2.9	5.8	5.7	-0.6
El Salvador	3.1	2.1	5.9	5.7	4.5	5.1	0.7	3.4	3.0	2.8	1.6
Guatemala	0.7	1.3	2.4	1.5	1.6	2.5	0.6	2.0	2.6	1.5	1.2
Hondurass	-3.1	-0.1	2.2	2.8	-4.5	0.7	0.3	1.6	-0.4	-5.0	6.1
Nicaragua	-2.4	-3.1	-2.5	-3.3	-5.3	3.6	4.2	2.0	1.9	5.2	2.4
Panama	5.9	7.2	6.0	3.3	0.8	-0.3	0.8	4.3	5.2	1.9	0.8
Dominican Republic	-7.6	-1.3	8.0	4.8	0.5	3.6	5.2	6.1	5.1	4.8	3.8
Gross fixed capital formation	-2.2	2.2	25.5	16.3	5.4	4.2	-0.2	15.5	20.5	1.8	-0.7
Central America	-0.0	5.4	26.9	17.0	3.5	4.6	-3.3	14.5	15.5	5.8	-5.2
Costa Rica	14.5	-12.8	25.0	12.3	2.2	2.6	-7.8	15.3	25.5	-4.1	-0.9
El Salvador	-2.7	16.2	18.1	15.9	12.6	14.5	-12.8	8.1	9.6	-0.8	5.2
Guatemala	-10.3	3.7	29.8	6.9	-2.6	8.7	-2.0	22.5	17.4	5.8	-8.8
Hondurass	-4.7	0.2	27.0	35.8	-0.1	-14.4	6.3	15.8	10.3	6.5	-7.6
Nicaragua	-8.1	-8.5	17.9	-5.7	15.7	5.2	12.5	11.9	7.1	35.7	-11.1
Panama	44.2	89.4	41.9	41.1	5.6	7.7	-2.8	7.3	14.7	11.1	-7.3
Dominican Republic	-8.6	-8.5	20.3	13.4	13.5	2.7	11.4	19.1	36.5	-9.0	13.5

Table 2 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[b]
Gross domestic product (GDP) [a]	1.8	3.7	2.7	3.5	6.0	7.5	7.4	4.4	0.8	5.1	4.8
Central America	1.7	2.9	3.7	4.2	4.8	6.4	7.0	4.1	-0.2	4.0	4.9
Costa Rica	1.1	2.9	6.4	4.3	5.9	8.8	7.9	2.7	-1.0	4.7	4.2
El Salvador	1.7	2.3	2.3	1.9	3.6	3.9	3.8	1.3	-3.1	1.4	1.5
Guatemala	2.3	3.9	2.5	3.2	3.3	5.4	6.3	3.3	0.5	2.9	3.9
Hondurass	2.7	3.8	4.5	6.2	6.1	6.6	6.2	4.2	-2.1	2.8	3.6
Nicaragua	3.0	0.8	2.5	5.3	4.3	4.2	3.6	2.8	-1.5	4.5	4.7
Panama	0.6	2.2	4.2	7.5	7.2	8.5	12.0	10.1	3.9	7.6	10.6
Dominican Republic	1.8	5.8	-0.3	1.3	9.3	10.7	8.5	5.3	3.5	7.8	4.5
Per capita GDP	-0.1	1.8	0.8	1.6	4.1	5.6	5.5	2.6	-0.9	3.3	3.1
Central America	-0.2	1.1	1.9	2.4	3.0	4.5	5.1	2.3	-1.9	2.2	3.1
Costa Rica	-0.8	1.2	4.7	2.7	4.3	7.2	6.4	1.3	-2.3	3.5	3.0
El Salvador	1.2	2.0	2.0	1.5	3.2	3.5	3.4	0.8	-3.6	0.9	0.9
Guatemala	-0.1	1.3	0.0	0.6	0.7	2.8	3.7	0.8	-1.9	0.4	1.4
Hondurass	0.0	1.3	2.0	3.7	3.6	4.1	3.8	1.9	-4.2	0.6	1.5
Nicaragua	1.5	-0.6	1.2	4.0	2.9	2.8	2.3	1.4	-2.7	3.2	3.3
Panama	-1.3	0.4	2.3	5.6	5.3	6.7	10.2	8.3	2.2	5.9	8.9
Dominican Republic	0.0	3.9	-2.0	-0.5	7.3	8.7	6.6	3.4	1.6	6.4	3.2
Gross fixed capital formation	-3.8	3.2	-2.5	2.1	5.9	14.9	15.3	6.8	-15.4	8.0	7.2
Central America	-3.7	2.5	4.4	3.3	3.8	12.9	16.3	6.0	-15.5	4.8	10.9
Costa Rica	2.6	6.6	7.2	-0.5	4.3	10.8	18.1	11.0	-11.1	4.1	9.6
El Salvador	1.5	3.3	2.5	-5.0	1.9	12.4	7.7	-5.4	-19.2	2.4	11.2
Guatemala	1.8	9.3	-3.1	-1.2	4.3	15.7	5.0	-5.8	-13.1	-2.1	3.5
Hondurass	-3.0	-7.3	6.2	23.4	-1.4	13.4	24.4	6.5	-34.9	7.3	14.2
Nicaragua	-5.4	-6.3	0.6	6.7	9.9	1.9	6.1	5.0	-19.3	7.3	14.7
Panama	-25.7	-5.6	23.3	9.4	6.4	16.6	41.0	25.3	-6.2	11.6	16.0
Dominican Republic	-4.0	5.0	-20.2	-1.8	13.3	21.3	12.5	9.2	-14.8	17.6	-2.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] On the basis of figures in dollars at constant 2005 prices.

[b] Preliminary figures.

Table 3

Central America and the Dominican Republic: total and per capita gross domestic product (GDP), 1990-2011

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						(Millions of dollars at constant 2005 prices)					
Total GDP	67 115.0	69 303.4	74 453.2	78 858.1	81 549.5	85 400.7	88 477.2	93 513.1	99 005.5	103 821.1	107 675.4
Central America	51 464.4	53 505.0	56 993.9	60 137.7	62 398.0	65 197.1	66 832.7	70 136.2	73 989.7	77 125.4	79 469.7
Costa Rica	9 844.4	10 067.4	10 988.8	11 803.5	12 361.7	12 846.4	12 960.3	13 683.2	14 832.3	16 051.9	16 341.0
El Salvador	9 701.9	10 048.9	10 806.9	11 603.3	12 305.4	13 092.5	13 315.8	13 881.2	14 401.6	14 898.3	15 219.1
Guatemala	15 660.9	16 234.3	17 019.8	17 688.3	18 401.6	19 312.4	19 883.5	20 751.2	21 787.6	22 625.6	23 442.1
Honduras	5 625.3	5 808.2	6 134.9	6 517.1	6 432.1	6 694.6	6 934.1	7 280.4	7 491.6	7 350.1	7 772.6
Nicaragua	2 988.8	2 983.2	2 994.7	2 982.9	3 082.5	3 264.7	3 471.9	3 609.6	3 743.5	4 006.9	4 171.3
Panama	7 643.1	8 363.0	9 048.9	9 542.6	9 814.6	9 986.5	10 267.2	10 930.5	11 733.0	12 192.6	12 523.7
Dominican Republic	15 650.7	15 798.4	17 459.3	18 720.4	19 151.5	20 203.6	21 644.4	23 376.9	25 015.8	26 695.7	28 205.7
						(Dollars at constant 2005 prices, per capita)					
Per capita GDP	1 912.9	1 929.2	2 024.0	2 092.9	2 100.6	2 151.9	2 182.5	2 259.2	2 343.4	2 408.0	2 460.4
Central America	1 820.1	1 847.8	1 921.8	1 979.1	1 987.4	2 029.3	2 034.7	2 089.9	2 158.7	2 203.6	2 238.5
Costa Rica	3 227.1	3 225.0	3 443.4	3 604.1	3 665.3	3 702.4	3 635.8	3 742.2	3 958.5	4 182.7	4 158.8
El Salvador	1 821.9	1 859.8	1 969.2	2 081.9	2 176.5	2 287.9	2 304.2	2 382.3	2 454.2	2 523.2	2 562.9
Guatemala	1 758.1	1 780.7	1 824.0	1 852.1	1 882.6	1 930.5	1 942.5	1 981.7	2 033.8	2 063.8	2 088.3
Honduras	1 182.3	1 181.5	1 207.8	1 241.8	1 186.2	1 194.8	1 197.8	1 217.3	1 212.2	1 151.1	1 221.6
Nicaragua	781.7	757.6	738.6	714.5	676.4	700.9	730.6	745.2	759.0	798.7	818.2
Panama	3 170.2	3 398.2	3 602.1	3 721.5	3 750.4	3 739.7	3 768.1	3 931.8	4 137.3	4 215.9	4 248.2
Dominican Republic	2 298.0	2 267.3	2 449.1	2 566.8	2 579.5	2 673.1	2 813.2	2 984.6	3 137.4	3 289.0	3 413.6
						(Millions of dollars at current prices)					
Total GDP	34 966.4	42 321.2	48 302.2	53 480.4	60 232.6	67 304.6	72 661.4	79 513.1	86 405.0	88 886.3	95 050.4
Central America	27 994.7	32 506.7	36 777.1	40 503.9	45 740.8	50 908.0	54 529.6	59 919.7	65 233.8	67 177.2	71 053.6
Costa Rica	5 709.8	7 162.7	8 575.2	9 641.0	10 560.0	11 721.2	11 848.4	12 832.6	14 105.9	15 800.4	15 949.5
El Salvador	4 800.9	5 311.0	5 954.7	6 938.0	8 085.6	9 500.5	10 315.5	11 134.6	12 008.4	12 464.7	13 134.1
Guatemala	7 630.2	9 481.0	10 475.8	11 463.4	12 997.2	14 679.3	15 693.4	17 816.4	19 416.1	18 338.7	19 307.9
Honduras	2 860.7	3 023.0	3 337.3	3 452.5	3 390.9	3 912.8	4 035.5	4 668.6	5 201.9	5 374.4	7 103.5
Nicaragua	1 679.9	1 686.7	1 792.8	1 756.3	2 973.3	3 188.2	3 314.7	3 383.4	3 569.1	3 742.7	3 938.1
Panama	5 313.2	5 842.3	6 641.4	7 252.7	7 733.9	7 906.1	9 322.1	10 084.1	10 932.4	11 456.3	11 620.5
Dominican Republic	6 971.7	9 814.5	11 525.1	12 976.4	14 491.8	16 396.6	18 131.7	19 593.4	21 171.2	21 709.1	23 996.7

Table 3 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	(Dollars at current prices, per capita)										
Per capita GDP	996.6	1 178.1	1 313.1	1 419.4	1 551.5	1 696.0	1 792.3	1 921.0	2 045.1	2 061.6	2 171.9
Central America	990.1	1 122.6	1 240.1	1 333.0	1 456.8	1 584.6	1 660.2	1 785.5	1 903.2	1 919.4	2 001.4
Costa Rica	1 871.7	2 294.5	2 687.1	2 943.8	3 131.1	3 378.1	3 323.9	3 509.5	3 764.6	4 117.2	4 059.2
El Salvador	901.6	982.9	1 085.0	1 244.8	1 430.1	1 660.2	1 785.0	1 910.9	2 046.4	2 111.0	2 211.8
Guatemala	856.6	1 039.9	1 122.7	1 200.3	1 329.7	1 467.4	1 533.2	1 701.5	1 812.5	1 672.8	1 720.0
Honduras	601.3	614.9	657.0	657.9	625.4	698.3	697.1	780.6	841.7	841.7	1 116.4
Nicaragua	439.3	428.4	442.2	420.7	652.4	684.5	697.5	698.5	723.6	746.0	772.5
Panama	2 203.8	2 374.0	2 643.8	2 828.5	2 955.3	2 960.6	3 421.3	3 627.3	3 855.0	3 961.3	3 941.8
Dominican Republic	1 023.7	1 408.5	1 616.7	1 779.2	1 951.9	2 169.4	2 356.6	2 501.6	2 655.3	2 674.6	2 904.2
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**[a]
	(Millions of dollars at constant 2005 prices)										
Total GDP	109 575.4	113 619.7	116 653.5	120 711.2	127 906.1	137 532.7	147 741.5	154 247.8	155 521.6	163 390.8	171 209.1
Central America	80 859.4	83 241.5	86 352.3	90 012.4	94 363.7	100 411.1	107 473.8	111 863.9	111 673.7	116 144.2	121 844.4
Costa Rica	16 516.9	16 996.2	18 084.7	18 855.0	19 964.9	21 717.8	23 441.3	24 081.5	23 836.9	24 952.4	25 991.4
El Salvador	15 479.1	15 841.5	16 205.8	16 505.7	17 093.8	17 762.5	18 444.6	18 679.5	18 094.3	18 341.3	18 611.1
Guatemala	23 988.7	24 916.3	25 546.9	26 352.1	27 211.2	28 675.1	30 482.8	31 483.0	31 648.6	32 569.6	33 829.5
Honduras	7 984.2	8 284.0	8 660.7	9 200.4	9 757.1	10 397.9	11 041.3	11 508.6	11 263.4	11 575.7	11 995.1
Nicaragua	4 294.8	4 327.2	4 436.2	4 671.9	4 872.0	5 074.3	5 259.1	5 404.2	5 324.8	5 563.4	5 822.4
Panama	12 595.6	12 876.4	13 417.9	14 427.2	15 464.7	16 783.5	18 804.6	20 707.1	21 505.6	23 141.7	25 594.9
Dominican Republic	28 716.1	30 378.2	30 301.2	30 698.8	33 542.3	37 121.7	40 267.6	42 383.9	43 847.9	47 246.6	49 364.7
	(Dollars at constant 2005 prices, per capita)										
Per capita GDP	2 456.8	2 501.9	2 522.9	2 564.4	2 669.0	2 819.0	2 974.7	3 051.2	3 022.9	3 124.1	3 220.7
Central America	2 234.4	2 258.8	2 301.4	2 356.4	2 426.5	2 536.1	2 666.5	2 726.7	2 674.9	2 734.6	2 820.1
Costa Rica	4 123.5	4 174.0	4 372.3	4 489.0	4 682.7	5 020.1	5 340.7	5 410.0	5 286.1	5 469.5	5 632.6
El Salvador	2 594.2	2 645.1	2 697.2	2 738.5	2 825.7	2 924.4	3 024.3	3 049.9	2 940.9	2 966.4	2 994.0
Guatemala	2 085.3	2 113.1	2 113.6	2 126.8	2 142.5	2 202.6	2 284.3	2 301.8	2 257.9	2 267.8	2 299.2
Honduras	1 221.7	1 237.4	1 262.3	1 309.0	1 355.7	1 411.4	1 465.0	1 493.3	1 430.0	1 438.7	1 460.1
Nicaragua	830.1	825.1	835.0	868.3	893.9	918.8	939.9	953.3	927.3	956.7	988.7
Panama	4 193.0	4 207.8	4 305.7	4 547.8	4 790.5	5 110.7	5 630.5	6 098.7	6 232.9	6 603.5	7 194.3
Dominican Republic	3 414.0	3 547.8	3 476.3	3 459.7	3 713.4	4 037.1	4 301.9	4 448.0	4 520.4	4 807.5	4 959.7

Table 3 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
	(Millions of dollars at current prices)										
Total GDP	97 315.0	102 387.6	100 737.7	107 492.9	128 002.2	140 285.8	159 439.3	179 278.0	178 956.1	199 175.5	221 963.7
Central America	72 420.0	76 034.9	79 696.2	85 813.2	94 319.7	104 556.0	118 313.8	133 631.0	132 287.3	147 523.4	166 320.9
Costa Rica	16 406.8	16 849.2	17 522.4	18 600.0	19 969.3	22 529.6	26 322.0	29 837.9	29 382.7	36 217.5	41 007.0
El Salvador	13 812.7	14 306.7	15 046.7	15 798.3	17 093.8	18 550.7	20 104.9	21 431.0	20 661.0	21 427.9	23 054.1
Guatemala	18 724.6	20 805.4	21 952.2	23 998.7	27 247.8	30 266.7	34 155.7	39 198.5	37 791.6	41 404.2	46 979.4
Honduras	7 565.9	7 775.1	8 140.3	8 772.2	9 672.1	10 841.7	12 275.5	13 789.7	14 077.2	15 293.6	17 306.2
Nicaragua	4 102.4	4 026.0	4 101.5	4 464.7	4 872.0	5 230.3	5 662.0	6 372.2	6 212.8	6 590.6	7 297.5
Panama	11 807.6	12 272.4	12 933.2	14 179.3	15 464.7	17 137.0	19 793.7	23 001.6	24 162.0	26 589.6	30 676.8
Dominican Republic	24 895.0	26 352.7	21 041.5	21 679.7	33 682.6	35 729.7	41 125.5	45 647.0	46 668.8	51 652.1	55 642.9
	(Dollars at current prices. per capita)										
Per capita GDP	2 181.9	2 254.5	2 178.7	2 283.6	2 671.0	2 875.4	3 210.3	3 546.3	3 478.4	3 808.3	4 175.5
Central America	2 001.2	2 063.3	2 124.0	2 246.5	2 425.3	2 640.8	2 935.5	3 257.3	3 168.7	3 473.4	3 849.5
Costa Rica	4 096.0	4 138.0	4 236.3	4 428.3	4 683.8	5 207.8	5 997.0	6 703.2	6 515.9	7 938.8	8 886.5
El Salvador	2 315.0	2 388.8	2 504.3	2 621.1	2 825.7	3 054.2	3 296.6	3 499.1	3 358.1	3 465.6	3 708.7
Guatemala	1 627.7	1 764.5	1 816.2	1 936.9	2 145.4	2 324.8	2 559.5	2 865.8	2 696.1	2 883.0	3 192.9
Honduras	1 157.7	1 161.4	1 186.5	1 248.1	1 343.8	1 471.7	1 628.7	1 789.3	1 787.2	1 900.8	2 106.7
Nicaragua	792.9	767.6	772.0	829.8	893.9	947.1	1 011.9	1 124.1	1 081.9	1 133.3	1 239.2
Panama	3 930.7	4 010.5	4 150.2	4 469.6	4 790.5	5 218.4	5 926.6	6 774.4	7 002.8	7 587.3	8 622.7
Dominican Republic	2 959.7	3 077.7	2 414.0	2 443.3	3 728.9	3 885.7	4 393.5	4 790.4	4 811.2	5 255.8	5 590.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 4

Central America and the Dominican Republic: gross domestic product (GDP) by type of expenditure, 1990-2011

(Millions of dollars at constant 2005 prices)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Overall supply	92 641.8	98 712.6	107 435.1	113 090.7	117 304.4	124 003.2	126 714.2	136 779.1	149 250.0	153 653.2	160 518.2
GDP	67 115.0	69 303.4	74 453.2	78 858.1	81 549.5	85 400.7	88 477.2	93 513.1	99 005.5	103 821.1	107 675.4
Imports of goods and services	25 526.7	29 409.2	32 981.9	34 232.6	35 755.0	38 602.4	38 237.0	43 265.9	50 244.5	49 832.1	52 842.8
Overall demand	92 641.8	98 712.6	107 435.1	113 090.7	117 304.4	124 003.2	126 714.2	136 779.1	149 250.0	153 653.2	160 518.2
Domestic demand	71 033.8	74 044.4	81 568.4	86 345.8	90 163.7	93 928.2	95 853.2	102 579.6	112 365.6	115 455.4	118 950.6
Gross domestic investment	10 782.5	11 397.0	14 258.0	15 443.8	16 839.6	17 295.9	16 574.7	18 955.9	23 634.1	23 528.5	23 627.8
Gross fixed investment	9 652.8	9 863.1	12 380.8	14 395.1	15 177.5	15 810.5	15 773.1	18 225.4	21 968.3	22 358.5	22 204.6
Construction [a]	3 373.3	3 801.3	4 718.8	5 512.8	5 632.1	5 884.2	5 284.2	5 756.3	6 214.0	6 995.6	6 647.1
Machinery [a]	4 024.1	3 997.7	5 179.5	6 067.8	6 350.2	6 645.5	6 834.7	8 117.3	9 812.8	9 957.8	9 425.1
Public [b]	1 496.0	1 597.4	2 238.6	2 438.2	2 385.0	2 518.0	2 590.4	2 635.2	2 750.1	3 063.9	2 594.4
Private [b]	4 005.2	4 548.3	5 593.6	6 823.0	7 228.7	7 580.8	7 288.2	8 656.0	10 036.5	10 782.1	10 399.9
Change in inventories	1 129.7	1 533.9	1 877.2	1 048.6	1 662.2	1 485.4	801.6	730.6	1 665.8	1 170.0	1 423.1
Total consumption	60 251.2	62 647.4	67 310.4	70 902.1	73 324.1	76 632.2	79 278.4	83 623.7	88 731.5	91 926.9	95 322.8
General government	8 481.9	7 196.9	7 317.7	7 563.0	7 573.7	7 690.0	7 746.1	8 019.8	8 529.6	8 913.3	9 490.9
Private consumption	51 769.3	55 450.5	59 992.6	63 339.1	65 750.3	68 942.2	71 532.4	75 603.9	80 201.9	83 013.6	85 831.9
Exports of goods and services	24 144.3	27 594.7	28 252.6	28 625.3	28 794.8	31 967.6	32 734.1	35 928.3	38 101.3	38 804.4	42 259.8
Statistical discrepancy	-2 536.3	-2 926.6	-2 385.9	-1 880.4	-1 654.0	-1 892.6	-1 873.0	-1 728.8	-1 216.9	-606.6	-692.2
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [c]
Overall supply	162 707.3	168 172.4	170 389.4	178 984.8	190 391.3	204 486.4	220 907.2	230 556.5	220 483.2	236 658.0	250 959.9
GDP	109 575.4	113 619.7	116 653.5	120 711.2	127 906.1	137 532.7	147 741.5	154 247.8	155 521.6	163 390.8	171 209.1
Imports of goods and services	53 131.9	54 552.7	53 735.9	58 273.6	62 485.2	66 953.7	73 165.7	76 308.7	64 961.7	73 267.2	79 750.8
Overall demand	162 707.3	168 172.4	170 389.4	178 984.8	190 391.3	204 486.4	220 907.2	230 556.5	220 483.3	236 658.0	250 959.9
Domestic demand	122 345.5	126 844.3	126 667.2	131 177.8	140 592.3	151 732.0	163 032.9	170 400.3	163 343.0	176 054.5	184 771.7
Gross domestic investment	23 755.3	24 389.3	22 898.7	24 163.2	25 517.6	28 832.6	32 270.9	34 012.1	26 509.7	30 335.2	33 065.3

Table 4 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [c]
Gross fixed investment	21 358.8	22 034.9	21 483.7	21 940.1	23 238.3	26 702.4	30 793.4	32 877.1	27 826.2	30 057.7	32 224.6
Construction [a]	6 811.6	7 038.1	7 384.7	7 208.5	7 367.0	8 304.4	9 253.1	10 188.5	8 769.6	8 514.7	5 723.6
Machinery [a]	8 661.5	8 814.3	9 165.0	9 887.3	10 381.8	11 737.5	14 047.9	14 506.7	9 714.1	10 799.4	9 109.7
Public [b]	2 594.8	2 468.1	2 501.7	2 178.0	2 203.3	2 294.0	2 627.9	2 873.7	2 992.3	3 034.0	1 981.5
Private [b]	9 720.9	10 019.8	10 441.6	11 329.9	11 804.9	13 604.1	15 781.0	16 388.9	13 037.8	13 799.6	10 251.6
Change in inventories	2 396.5	2 354.4	1 414.9	2 223.1	2 279.3	2 130.3	1 477.5	1 134.9	-1 316.4	277.5	840.7
Total consumption	98 590.1	102 455.1	103 768.5	107 014.7	115 074.7	122 899.4	130 762.0	136 388.2	136 833.2	145 719.3	151 706.4
General government	9 946.8	10 241.6	10 132.0	10 167.9	10 580.3	11 046.7	11 718.5	12 390.6	13 116.9	13 845.8	14 196.8
Private consumption	88 643.4	92 213.5	93 636.5	96 846.7	104 494.4	111 852.7	119 043.4	123 997.7	123 716.3	131 873.5	137 509.6
Exports of goods and services	40 951.4	41 760.6	43 208.0	47 357.7	49 799.0	53 000.6	58 519.7	61 268.6	57 925.5	61 336.5	66 664.4
Statistical discrepancy	-589.6	-432.5	514.3	449.3	0.0	-246.2	-645.4	-1 112.4	-785.2	-733.0	-476.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Does not include the Dominican Republic.

[b] Does not include Costa Rica or the Dominican Republic.

[c] Preliminary figures.

Table 5

Central America and the Dominican Republic: gross domestic product (GDP) by kind of economic activity, 1990-2011

(Millions of dollars at constant 2005 prices)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	67 115.0	69 303.4	74 453.2	78 858.1	81 549.5	85 400.7	88 477.2	93 513.1	99 005.5	103 821.1	107 675.4
Goods	24 434.2	25 097.2	27 276.9	28 363.2	29 059.1	30 514.3	31 408.7	33 041.6	34 970.0	37 353.3	37 723.8
Agriculture	7 973.3	8 203.8	8 637.0	8 717.0	8 741.5	9 233.2	9 493.2	9 610.8	9 834.2	10 102.1	10 473.1
Mining	330.7	345.9	395.4	404.6	436.3	480.6	522.0	633.1	713.8	745.2	710.4
Manufacturing	12 699.8	13 155.0	14 181.8	14 672.5	15 200.7	15 904.0	16 508.3	17 693.8	18 706.9	20 170.3	20 517.5
Construction	3 430.4	3 392.4	4 062.7	4 569.2	4 680.6	4 896.4	4 885.2	5 103.8	5 715.0	6 335.7	6 022.8
Basic services	5 215.0	5 249.8	5 695.6	6 102.4	6 402.5	6 828.8	7 225.5	7 911.1	8 560.7	9 277.9	10 097.9
Electricity, gas and water	1 488.7	1 363.0	1 510.2	1 704.3	1 789.7	1 847.3	2 019.9	2 262.7	2 358.5	2 535.9	2 757.8
Transport, storage and communicatios	3 726.3	3 886.8	4 185.4	4 398.1	4 612.8	4 981.5	5 205.6	5 648.4	6 202.2	6 742.0	7 340.1
Other services	36 339.4	37 284.9	39 762.5	41 835.6	43 467.7	45 198.5	46 634.5	49 228.7	51 572.1	53 411.8	55 481.5
Commerce, restaurants and hotels	11 289.7	11 864.7	13 118.7	14 100.3	14 820.9	15 803.8	16 262.3	17 379.2	18 246.9	18 843.6	19 518.2
Financial establishments, insurance, real estate and rental of movable assets and intangibles	10 159.4	10 486.2	11 173.4	11 632.9	12 156.9	12 591.9	13 088.7	13 723.7	14 386.2	15 129.0	15 758.8
Community, social and personal services	14 890.3	14 934.1	15 470.4	16 102.4	16 489.9	16 802.8	17 283.5	18 125.8	18 939.0	19 439.3	20 204.5
Import duties and value added tax (+)	2 317.6	3 465.6	3 909.7	5 134.8	5 460.1	5 530.1	5 948.2	6 383.9	7 185.2	7 173.7	7 519.0
Adjustment for banking services (-)	657.2	748.5	1 004.0	1 167.4	1 554.5	1 660.2	1 808.3	2 166.1	2 485.6	2 782.8	3 055.4
Statistical discrepancy	-534.0	-1 045.7	-1 187.4	-1 410.5	-1 285.5	-1 010.7	-931.3	-886.2	-796.9	-612.8	-91.3
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [a]
GDP	109 575.4	113 619.7	116 653.5	120 711.2	127 906.1	137 532.7	147 741.5	154 247.8	155 521.6	163 390.8	171 209.1
Goods	37 831.2	38 992.2	39 778.4	40 663.4	42 487.5	45 394.9	47 548.5	48 431.3	47 626.1	49 079.6	51 113.0
Agriculture	10 764.9	11 008.7	11 369.3	11 639.5	12 018.3	12 714.0	13 275.8	13 388.0	13 612.8	13 859.5	14 166.0
Mining	725.5	804.2	827.4	804.1	792.1	896.2	973.1	969.0	929.4	975.6	1 170.1
Manufacturing	20 296.1	20 950.0	21 548.2	22 255.7	23 456.2	24 559.0	25 516.2	25 862.4	25 240.6	26 343.9	27 464.5
Construction	6 044.7	6 229.2	6 033.5	5 964.0	6 220.8	7 225.7	7 783.3	8 211.8	7 843.4	7 900.6	8 312.3

Table 5 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
Basic services	10 831.7	11 667.4	12 391.1	13 228.2	14 717.8	16 503.7	18 526.3	20 467.1	21 529.4	23 058.8	24 234.2
Electricity, gas and water	2 858.4	3 035.0	3 022.4	2 881.2	3 051.7	3 215.2	3 445.1	3 590.5	3 682.9	3 842.1	3 905.8
Transport, storage and communications	7 973.2	8 632.4	9 368.7	10 347.0	11 666.1	13 288.6	15 081.2	16 876.6	17 846.4	19 216.7	20 328.5
Other services	56 758.1	58 600.1	59 989.3	61 633.4	64 505.3	68 545.5	73 446.7	77 119.0	78 220.8	82 169.2	85 982.0
Commerce, restaurants and hotels	19 770.0	20 252.4	20 441.7	21 028.7	22 516.7	23 970.3	25 634.6	26 540.8	25 624.8	27 254.8	28 635.7
Financial establishments, insurance, real estate and rental of movable assets and intangibles	16 232.3	16 937.0	17 634.5	18 251.0	19 269.6	20 850.8	22 929.3	24 582.5	25 460.0	26 686.8	28 080.5
Community, social and personal services	20 755.7	21 410.8	21 913.1	22 353.7	22 719.0	23 724.4	24 882.9	25 995.7	27 136.0	28 227.5	29 265.9
Import duties and value added tax (+)	9 070.2	9 362.9	9 116.9	9 406.4	10 317.1	11 464.3	13 173.4	13 572.5	13 632.4	14 637.1	15 745.8
Adjustment for banking services (-)	3 566.2	3 756.5	3 596.7	3 580.9	4 121.5	4 769.4	5 407.1	5 910.7	6 168.0	6 472.2	6 720.2
Statistical discrepancy	-1 349.5	-1 246.4	-1 025.4	-639.1	-0.1	393.6	453.7	568.7	681.0	918.4	854.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 6
Central America and the Dominican Republic: structural change in gross domestic product (GDP) by kind of economic activity, 1990-2011
(Percentages)

	2000-1990	2011-2000	2011-1990
Total			
GDP	5.092	7.684	9.994
Agriculture	0.972	0.679	1.651
Mining	0.093	0.019	0.112
Manufacturing	0.308	1.419	1.111
Construction	0.316	0.339	0.023
Electricity, gas and water	0.207	0.124	0.083
Transport, storage and communications	0.729	2.748	3.477
Commerce, restaurants and hotels	0.893	0.572	0.321
Financial establishments, insurance, real estate and rental of movable assets and intangibles	0.070	1.075	1.005
Community, social and personal services	1.503	0.709	2.212
Costa Rica			
GDP	5.803	9.599	11.331
Agriculture	0.320	0.759	1.080
Mining	0.019	0.021	0.040
Manufacturing	1.768	1.318	0.449
Construction	0.259	0.435	0.176
Electricity, gas and water	0.084	0.077	0.006
Transport, storage and communications	0.896	2.199	3.094
Commerce, restaurants and hotels	0.155	1.358	1.203
Financial establishments, insurance, real estate and rental of movable assets and intangibles	0.227	2.166	1.940
Community, social and personal services	2.077	1.266	3.343
El Salvador			
GDP	7.845	1.446	8.638
Agriculture	1.572	0.016	1.588
Mining	0.021	0.056	0.035
Manufacturing	1.353	0.004	1.356
Construction	0.207	0.310	0.103
Electricity, gas and water	0.629	0.098	0.531
Transport, storage and communications	0.822	0.596	1.418
Commerce, restaurants and hotels	1.519	0.025	1.544
Financial establishments, insurance, real estate and rental of movable assets and intangibles	0.208	0.062	0.270
Community, social and personal services	1.512	0.280	1.792
Guatemala			
GDP	4.535	7.277	11.184
Agriculture	0.836	0.647	1.482
Mining	0.395	0.026	0.420
Manufacturing	1.390	1.345	2.735
Construction	0.042	0.532	0.574
Electricity, gas and water	0.572	0.089	0.483
Transport, storage and communications	0.411	2.283	2.693
Commerce, restaurants and hotels	0.225	1.025	0.801
Financial establishments, insurance, real estate and rental of movable assets and intangibles	0.452	1.200	1.652
Community, social and personal services	0.214	0.130	0.344

Table 6 (concluded)

	2000-1990	2011-2000	2011-1990
Honduras			
GDP	4.318	11.386	13.607
Agriculture	0.558	0.994	1.552
Mining	0.057	0.143	0.086
Manufacturing	0.613	0.750	0.137
Construction	0.508	1.812	2.321
Electricity, gas and water	0.187	0.070	0.117
Transport, storage and communications	0.010	2.189	2.198
Commerce, restaurants and hotels	0.101	1.924	1.823
Financial establishments, insurance, real estate and rental of movable assets and intangibles	1.191	3.297	4.488
Community, social and personal services	1.092	0.208	0.885
Nicaragua			
GDP	6.912	4.673	9.500
Agriculture	1.221	0.275	0.946
Mining	0.294	0.005	0.299
Manufacturing	0.207	1.474	1.681
Construction	0.412	1.457	1.045
Electricity, gas and water	0.092	0.092	0.184
Transport, storage and communications	0.133	0.516	0.650
Commerce, restaurants and hotels	0.732	0.355	0.377
Financial establishments, insurance, real estate and rental of movable assets and intangibles	0.365	0.249	0.614
Community, social and personal services	3.456	0.249	3.705
Panama			
GDP	9.958	13.679	21.460
Agriculture	0.626	1.453	2.079
Mining	0.260	0.436	0.697
Manufacturing	1.230	2.011	3.241
Construction	1.968	1.035	3.003
Electricity, gas and water	0.025	0.286	0.260
Transport, storage and communications	0.591	4.327	4.918
Commerce, restaurants and hotels	0.087	1.042	1.129
Financial establishments, insurance, real estate and rental of movable assets and intangibles	2.047	1.063	0.984
Community, social and personal services	3.123	2.027	5.150
Dominican Republic			
GDP	10.284	8.774	12.876
Agriculture	1.315	0.107	1.422
Mining	0.141	0.112	0.253
Manufacturing	0.964	1.665	0.701
Construction	0.453	0.952	0.500
Electricity, gas and water	0.526	0.326	0.200
Transport, storage and communications	1.160	3.531	4.691
Commerce, restaurants and hotels	2.040	0.493	1.547
Financial establishments, insurance, real estate and rental of movable assets and intangibles	2.058	0.856	1.202
Community, social and personal services	1.628	0.732	2.360

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Table 7
Central America and the Dominican Republic: real disposable gross national income, 1990-2011
(Millions of dollars at constant 2005 prices)

Year	Gross domestic product	Terms-of-trade effect	Real gross domestic income	Net factor payments to the rest of the world	Real gross national income	Net current transfers	Real disposable gross national income
1990	67 115.3	-466.1	66 649.2	-1 872.0	64 777.2	2 309.5	67 086.7
1991	69 303.3	-380.7	68 922.6	-2 042.7	66 879.9	2 607.4	69 487.3
1992	74 453.2	516.0	74 969.2	-2 459.9	72 509.3	3 046.4	75 555.6
1993	78 858.0	905.9	79 763.9	-2 628.7	77 135.3	3 697.6	80 832.8
1994	81 549.5	1 057.2	82 606.7	-2 333.7	80 272.9	3 849.0	84 121.9
1995	85 400.7	3 021.1	88 421.7	-2 700.5	85 721.2	3 993.1	89 714.3
1996	88 477.1	2 795.0	91 272.1	-2 367.0	88 905.1	4 086.9	92 992.0
1997	93 513.0	4 092.1	97 605.2	-2 693.8	94 911.4	4 607.1	99 518.5
1998	99 005.4	4 702.7	103 708.1	-3 068.3	100 639.8	6 117.1	106 756.9
1999	103 821.0	4 020.0	107 841.0	-5 026.7	102 814.3	6 581.6	109 395.9
2000	107 675.3	2 879.9	110 555.2	-4 276.8	106 278.4	6 510.8	112 789.2
2001	109 575.3	2 871.9	112 447.3	-3 709.9	108 737.4	8 332.1	117 069.5
2002	113 619.6	2 688.5	116 308.1	-3 513.4	112 794.7	9 641.7	122 436.4
2003	116 653.4	1 221.7	117 875.0	-4 809.5	113 065.5	10 240.1	123 305.6
2004	120 711.1	500.5	121 211.6	-5 070.7	116 140.9	11 301.3	127 442.2
2005	127 906.0	0.0	127 906.0	-4 870.3	123 035.6	12 573.0	135 608.7
2006	137 532.6	-1 297.4	136 235.2	-4 779.3	131 455.9	14 185.2	145 641.1
2007	147 752.9	-1 586.9	146 165.9	-5 647.9	140 518.0	15 069.2	155 587.2
2008	154 260.8	-3 767.3	150 493.5	-4 716.8	145 776.7	14 093.8	159 870.5
2009	155 535.1	-469.8	155 065.2	-6 152.3	148 912.9	13 984.1	162 897.0
2010	163 404.6	-1 211.9	162 192.8	-5 909.8	156 283.0	13 390.2	169 673.2
2011 [a]	171 225.0	-2 410.5	168 814.5	-6 036.8	162 777.7	12 821.9	175 599.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), "CEPALSTAT database [online] http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp.

[a] Preliminary figures.

Table 8

Central America and the Dominican Republic: indicators of trade in goods, FOB, 1990-2011

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						(Millions of dollars)					
Exports of goods, FOB	8 554.0	9 342.0	11 093.5	15 022.4	16 834.9	19 166.9	19 886.6	23 135.6	25 003.4	24 836.9	28 537.1
Central America	7 819.5	8 683.7	10 531	11 811	13 382	15 387	15 834	18 522	20 023	19 700	22 800.4
Costa Rica	1 354.2	1 498.1	2 386	2 625	2 882	3 482	3 774	4 221	5 538	6 576	5 813.4
El Salvador	643.9	586.8	598	1 032	1 252	1 652	1 788	2 437	2 460	2 534	2 963.2
Guatemala	1 247.6	1 298.3	1 380	1 469	1 687	2 157	2 232	2 603	2 848	2 781	3 961.3
Honduras	895.2	840.6	839	1 002	1 141	1 460	1 621	1 847	2 067	1 756	3 343.4
Nicaragua	332.4	268.1	223	267	376	545	595	745	761	749	880.6
Panama	3 346.2	4 191.8	5 104	5 417	6 045	6 091	5 823	6 670	6 350	5 303	5 838.5
Dominican Republic	734.5	658.3	562.5	3 211.0	3 452.5	3 779.5	4 052.8	4 613.7	4 980.5	5 136.7	5 736.7
Imports of goods, FOB	-11 307.6	-12 582.7	-16 027.4	-19 949.6	-21 873.8	-24 302.4	-25 009.6	-29 316.6	-33 146.8	-33 127.5	-38 535.9
Central America	-9 514.8	-10 853.9	-13 853	-15 295	-16 971	-19 132	-19 283	-22 708	-25 550	-25 086	-29 057.4
Costa Rica	-1 796.7	-1 697.6	-2 724	-3 274	-3 506	-3 804	-4 023	-4 718	-5 937	-5 996	-6 023.8
El Salvador	-1 309.5	-1 291.4	-1 560	-1 994	-2 407	-3 115	-3 031	-3 580	-3 765	-3 890	-4 702.8
Guatemala	-1 428.0	-1 673.0	-2 328	-2 384	-2 559	-3 033	-2 880	-3 543	-4 256	-4 181	-5 560.1
Honduras	- 907.0	- 912.5	-990	-1 233	-1 399	-1 571	-1 759	-2 039	-2 371	-2 510	-3 987.8
Nicaragua	- 569.7	- 688.0	-771	-659	-804	-930	-1 122	-1 473	-1 510	-1 820	-1 801.5
Panama	-3 503.9	-4 591.4	-5 480	-5 751	-6 295	-6 680	-6 467	-7 355	-7 711	-6 689	-6 981.4
Dominican Republic	-1 792.8	-1 728.8	-2 174.3	-4 654.2	-4 903.2	-5 170.4	-5 727.0	-6 608.7	-7 597.3	-8 041.1	-9 478.5
						(Growth rates, in percentages)					
Exports of goods, FOB		9.2	18.7	35.4	12.1	13.9	3.8	16.3	8.1	-0.7	14.9
Central America		11.1	21.3	12.2	13.3	15.0	2.9	17.0	8.1	-1.6	15.7
Costa Rica		10.6	59.3	10.0	9.8	20.8	8.4	11.8	31.2	18.7	-11.6
El Salvador		-8.9	1.9	72.5	21.4	31.9	8.3	36.3	0.9	3.0	16.9
Guatemala		4.1	6.3	6.4	14.8	27.9	3.5	16.6	9.4	-2.3	42.4
Honduras		-6.1	-0.2	19.4	13.9	27.9	11.0	13.9	11.9	-15.0	90.4
Nicaragua		-19.3	-16.8	19.7	40.8	45.0	9.2	25.1	2.2	-1.6	17.6
Panama		25.3	21.8	6.1	11.6	0.8	-4.4	14.5	-4.8	-16.5	10.1
Dominican Republic		-10.4	-14.6	470.8	7.5	9.5	7.2	13.8	8.0	3.1	11.7
						(Growth rates, in percentages)					
Imports of goods, FOB		11.3	27.4	24.5	9.6	11.1	2.9	17.2	13.1	-0.1	16.3
Central America		14.1	27.6	10.4	11.0	12.7	0.8	17.8	12.5	-1.8	15.8
Costa Rica		-5.5	60.5	20.2	7.1	8.5	5.8	17.3	25.8	1.0	0.5
El Salvador		-1.4	20.8	27.8	20.7	29.4	-2.7	18.1	5.2	3.3	20.9
Guatemala		17.2	39.1	2.4	7.3	18.5	-5.0	23.0	20.1	-1.8	33.0
Honduras		0.6	8.5	24.5	13.5	12.3	12.0	15.9	16.3	5.9	58.9
Nicaragua		20.8	12.0	-14.5	22.0	15.6	20.7	31.3	2.5	20.5	-1.0
Panama		31.0	19.3	5.0	9.5	6.1	-3.2	13.7	4.8	-13.3	4.4
Dominican Republic		-3.6	25.8	114.1	5.4	5.4	10.8	15.4	15.0	5.8	17.9

Table 8 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						(Index: 2005=100)					
Terms of trade for goods FOB/FOB											
Central America	100.6	102.7	111.1	110.1	109.0	117.0	113.6	116.8	118.2	115.2	110.6
Costa Rica	99.5	108.0	124.2	119.4	110.5	116.8	115.5	142.5	133.0	121.1	113.2
El Salvador	96.0	70.9	86.3	89.0	102.3	106.8	100.3	98.2	99.1	103.0	103.4
Guatemala	102.3	107.7	110.0	96.4	104.7	127.1	101.6	107.2	126.2	111.6	109.5
Honduras	99.8	89.4	95.8	121.5	112.6	152.6	166.8	144.0	124.9	123.3	114.7
Nicaragua	57.7	77.0	110.9	104.9	93.6	122.9	103.7	100.8	97.8	117.2	122.9
Panama	112.6	112.6	112.7	113.2	111.6	109.7	112.8	111.1	111.9	111.8	106.9
Dominican Republic	122.4	125.1	112.2	105.3	107.1	109.8	108.0	110.8	112.7	110.3	104.4
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [a]
						(Millions of dollars)					
Exports of goods, FOB	27 512.0	27 652.4	29 194.6	32 732.4	36 245.8	40 261.0	45 130.4	49 607.0	44 798.3	50 961.4	63 047.9
Central America	22 235.7	22 487.4	23 723.8	26 796.5	30 101.1	33 650.8	37 970.2	42 859.5	39 315.4	44 207.9	54 512.0
Costa Rica	4 923.2	5 269.9	6 163.0	6 369.7	7 099.4	8 101.7	9 299.5	9 555.4	8 838.2	9 516.3	10 383.1
El Salvador	2 891.6	3 019.8	3 152.6	3 339.1	3 464.9	3 783.0	4 069.6	4 702.7	3 929.6	4 576.6	5 401.8
Guatemala	4 110.6	4 223.7	4 526.3	5 105.0	5 459.5	6 082.1	6 983.1	7 846.5	7 294.9	8 535.6	10 517.3
Honduras	3 422.7	3 744.9	3 754.0	4 533.9	5 048.0	5 276.6	5 783.6	6 198.5	4 824.6	5 741.9	7 204.3
Nicaragua	895.3	914.4	1 056.0	1 369.0	1 654.1	1 932.1	2 186.2	2 531.3	2 390.5	3 157.5	4 057.0
Panama	5 992.4	5 314.7	5 071.9	6 079.9	7 375.2	8 475.3	9 648.2	12 025.1	12 037.5	12 680.0	16 948.5
Dominican Republic	5 276.3	5 165.0	5 470.8	5 935.9	6 144.7	6 610.2	7 160.2	6 747.5	5 482.9	6 753.5	8 535.9
Imports of goods, FOB	-38 314.5	-39 915.6	-40 880.2	-46 316.6	-53 713.6	-62 254.1	-72 500.1	-84 620.5	-66 300.4	-80 016.8	-97 647.1
Central America	-29 535.2	-31 077.9	-33 253.4	-38 428.6	-43 844.2	-50 080.2	-58 903.1	-68 627.6	-54 004.5	-64 527.7	-80 224.4
Costa Rica	-5 743.3	-6 547.7	-7 252.3	-7 791.0	-9 258.3	-10 828.9	-12 284.9	-14 568.7	-10 877.3	-12 955.9	-15 533.3
El Salvador	-4 824.1	-4 884.7	-5 439.3	-5 999.5	-6 502.1	-7 419.0	-8 434.4	-9 379.6	-7 037.5	-8 188.6	-9 800.9
Guatemala	-6 322.2	-7 061.1	-7 486.4	-8 737.0	-9 650.1	-10 934.4	-12 470.2	-13 421.2	-10 643.1	-12 806.5	-15 481.7
Honduras	-4 151.9	-4 381.6	-4 774.1	-5 827.2	-6 544.6	-7 303.3	-8 887.7	-10 453.1	-7 299.3	-8 549.5	-10 337.6
Nicaragua	-1 805.1	-1 853.0	-2 027.0	-2 457.4	-2 956.1	-3 404.3	-3 989.2	-4 731.0	-3 929.1	-4 792.2	-6 125.4
Panama	-6 688.6	-6 349.8	-6 274.2	-7 616.5	-8 933.0	-10 190.4	-12 836.7	-16 074.0	-14 218.2	-17 234.9	-22 945.5
Dominican Republic	-8 779.3	-8 837.7	-7 626.8	-7 888.0	-9 869.4	-12 173.9	-13 597.0	-15 992.9	-12 295.9	-15 489.1	-17 422.7
						(Growth rates, in percentages)					
Exports of goods, FOB	-3.6	0.5	5.6	12.1	10.7	11.1	12.1	9.9	-9.7	13.8	23.7
Central America	-2.5	1.1	5.5	13.0	12.3	11.8	12.8	12.9	-8.3	12.4	23.3
Costa Rica	-15.3	7.0	16.9	3.4	11.5	14.1	14.8	2.8	-7.5	7.7	9.1
El Salvador	-2.4	4.4	4.4	5.9	3.8	9.2	7.6	15.6	-16.4	16.5	18.0
Guatemala	3.8	2.8	7.2	12.8	6.9	11.4	14.8	12.4	-7.0	17.0	23.2
Honduras	2.4	9.4	0.2	20.8	11.3	4.5	9.6	7.2	-22.2	19.0	25.5
Nicaragua	1.7	2.1	15.5	29.6	20.8	16.8	13.2	15.8	-5.6	32.1	28.5
Panama	2.6	-11.3	-4.6	19.9	21.3	14.9	13.8	24.6	0.1	5.3	33.7
Dominican Republic	-8.0	-2.1	5.9	8.5	3.5	7.6	8.3	-5.8	-18.7	23.2	26.4

Table 8 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[a]
	(Growth rates, in percentages)										
Imports of goods, FOB	-0.6	4.2	2.4	13.3	16.0	15.9	16.5	16.7	-21.6	20.7	22.0
Central America	1.6	5.2	7.0	15.6	14.1	14.2	17.6	16.5	-21.3	19.5	24.3
Costa Rica	-4.7	14.0	10.8	7.4	18.8	17.0	13.4	18.6	-25.3	19.1	19.9
El Salvador	2.6	1.3	11.4	10.3	8.4	14.1	13.7	11.2	-25.0	16.4	19.7
Guatemala	13.7	11.7	6.0	16.7	10.5	13.3	14.0	7.6	-20.7	20.3	20.9
Honduras	4.1	5.5	9.0	22.1	12.3	11.6	21.7	17.6	-30.2	17.1	20.9
Nicaragua	0.2	2.7	9.4	21.2	20.3	15.2	17.2	18.6	-16.9	22.0	27.8
Panama	-4.2	-5.1	-1.2	21.4	17.3	14.1	26.0	25.2	-11.5	21.2	33.1
Dominican Republic	-7.4	0.7	-13.7	3.4	25.1	23.3	11.7	17.6	-23.1	26.0	12.5
	(Index: 2005=100)										
Terms of trade for goods FOB/FOB	108.2	107.1	103.6	101.6	100.0	97.5	96.7	92.7	98.4	96.4	95.2
Central America	109.0	107.3	103.9	101.8	100.0	97.2	95.7	91.9	97.0	95.4	95.0
Costa Rica	111.4	109.7	108.1	104.0	100.0	97.1	96.1	92.5	95.6	91.8	88.4
El Salvador	105.9	105.0	101.0	100.0	100.0	98.7	97.7	95.0	98.1	94.4	94.4
Guatemala	106.0	104.9	101.9	100.9	100.0	98.1	96.3	93.8	101.8	101.3	100.4
Honduras	108.8	105.5	100.9	100.0	100.0	95.4	93.6	87.9	94.0	96.6	104.7
Nicaragua	108.6	106.9	103.3	101.4	100.0	97.6	96.6	92.4	101.3	102.2	101.8
Panama	109.8	108.7	103.9	101.9	100.0	97.1	96.2	91.8	96.3	94.4	92.4
Dominican Republic	105.4	106.0	102.2	101.0	100.0	99.0	102.3	97.7	105.7	101.8	96.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 9

Central America and the Dominican Republic: balance-of-payments indicators, 1990-2011

(Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Current account balance	-1 629.8	-1 641.3	-3 415.1	-3 103.9	-2 771.2	-2 581.1	-2 358.7	-2 954.6	-3 939.3	-4 825.4	-5 356.0
Central America	-1 350.2	-1 484.0	-2 707.2	-2 571.0	-2 488.2	-2 398	-2 146.0	-2 791.6	-3 600.9	-4 396.2	-4 329.7
Costa Rica	-494.0	-99.2	-406.8	-679.3	-520.1	-357	-264.0	-479.7	-520.7	-650.5	-690.7
El Salvador	-260.8	-212.4	-195.1	-122.8	-17.9	-262	-169.1	-97.7	-90.7	-239.3	-430.5
Guatemala	-232.9	-183.7	-705.9	-701.7	-700.2	-511	-390.8	-634.5	-997.2	-1 015.1	-1 049.0
Honduras	-186.4	-213.4	-298.2	-327.2	-351.5	-177	-193.9	-169.9	-128.1	-240.9	-508.3
Nicaragua	-385.2	-534.2	-834.0	-644.3	-907.5	-722	-826.3	-842.5	-688.3	-930.3	-935.7
Panama	209.1	-241.1	-267.2	-95.7	9.0	-369	-301.9	-567.3	-1 175.9	-1 320.2	-715.5
Dominican Republic	-279.6	-157.3	-707.9	-532.9	-283.0	-182.8	-212.7	-163.0	-338.4	-429.2	-1 026.3
Balance of trade in goods and services	-1 818.9	-2 091.7	-3 948.7	-4 054.9	-4 007.0	-3 996.5	-3 968.3	-4 789.9	-6 638.9	-6 075.0	-7 261.8
Central America	-1 417.4	-1 740.6	-3 130.4	-3 325.0	-3 423.1	-3 591	-3 312.7	-4 070.2	-5 204.1	-4 772.9	-5 374.3
Costa Rica	- 383.2	- 42.9	- 356.0	- 583.3	- 532.8	- 265.8	-228.9	-357.4	-165.5	1 067.2	468.4
El Salvador	- 651.1	- 716.6	- 949.9	-1 013.4	-1 211.8	-1 581.1	-1 333.1	-1 295.3	-1 454.5	-1 538.7	-1 974.5
Guatemala	- 244.2	- 340.6	- 955.4	- 946.5	- 937.6	- 919.6	-767.0	-1 008.4	-1 562.8	-1 549.2	-1 707.9
Honduras	- 94.3	- 123.6	- 192.1	- 319.9	- 344.9	- 178.4	-212.2	-269.3	-407.3	-822.6	-830.9
Nicaragua	- 289.8	- 485.9	- 609.8	- 448.8	- 485.3	- 488.3	-652.0	-812.6	-834.3	-1 193.6	-1 050.3
Panama	245.2	- 31.1	- 67.2	- 13.2	89.3	- 157.3	-119.5	-327.2	-779.7	-736.0	-279.0
Dominican Republic	- 401.5	- 351.1	- 818.3	- 729.9	- 583.9	- 406.0	- 655.6	- 719.7	-1 434.8	-1 302.1	-1 887.5
Current transfers balance	1 707.0	2 082.5	2 485.2	3 057.4	3 222.3	3 623.0	3 720.5	4 142.6	5 309.7	5 616.2	5 785.8
Central America	1 336.4	1 696.0	2 053.4	2 163.4	2 239.5	2 631	2 552.8	2 790.5	3 323.2	3 768.4	3 883.5
Costa Rica	121.9	117.6	163.3	143.1	155.2	134	149.5	125.5	113.2	104.0	93.4
El Salvador	521.9	625.0	852.1	1 002.1	1 288.5	1 390	1 254.5	1 360.9	1 526.8	1 581.5	1 797.1
Guatemala	207.0	259.7	390.5	363.2	386.0	553	587.4	606.7	705.3	714.8	868.2
Honduras	144.7	156.3	175.9	218.3	210.9	264	276.7	312.0	487.6	736.9	537.6
Nicaragua	121.6	315.0	270.6	233.6	50.0	138	150.0	234.8	331.3	460.1	410.2
Panama	219.3	222.4	201.0	203.1	148.9	153	134.7	150.6	159.0	171.1	177.0
Dominican Republic	370.6	386.5	431.8	894.0	982.8	992.2	1 167.7	1 352.1	1 986.5	1 847.8	1 902.3
Capital and financial account [a]	- 743.4	924.0	1 594.5	1 322.3	730.8	1 921.3	2 489.5	4 513.9	4 135.6	5 849.4	5 224.9
Central America	-548.8	509.8	950.7	1 333.8	958.8	1 592	2 316.6	4 260.0	3 786.1	5 268.8	4 246.8
Costa Rica	-47.4	262.0	543.8	703.1	415.4	537	186.5	695.7	371.1	1 130.6	538.5
El Salvador	288.0	64.5	61.3	181.4	130.9	408	334.0	460.3	393.9	447.1	385.0
Guatemala	-10.0	815.1	692.3	901.4	706.5	354	567.2	921.6	1 239.8	889.7	1 703.3
Honduras	-124.1	53.7	51.2	135.0	331.0	216	296.6	358.3	250.1	456.9	380.2
Nicaragua	-310.3	-598.5	-478.0	-374.7	-254.1	45	366.2	915.6	458.8	839.9	737.6
Panama	-345.0	-87.0	80.1	-212.4	-370.9	32	566.1	908.5	1 072.5	1 504.6	502.1
Dominican Republic	-194.5	414.2	643.9	-11.5	-228.0	328.9	172.9	253.9	349.5	580.6	978.1

Table 9 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Overall balance	-2 373.2	- 717.3	-1 820.6	-1 781.6	-2 040.4	- 659.8	130.8	1 559.2	196.3	1 024.0	- 131.1
Central America	-1 899.1	-974.2	-1 756.5	-1 237.2	-1 529.4	-806	170.6	1 468.3	185.2	872.5	-82.9
Costa Rica	-541.4	162.8	137.0	23.8	-104.7	180	-77.5	216.0	-149.6	480.1	-152.2
El Salvador	27.2	-147.9	-133.8	58.6	113.0	147	164.9	362.6	303.2	207.8	-45.5
Guatemala	-242.9	631.4	-13.6	199.7	6.3	-157	176.4	287.0	242.6	-125.4	654.4
Honduras	-310.5	-159.7	-247.0	-192.2	-20.5	39	102.7	188.4	122.0	216.0	-128.0
Nicaragua	-695.5	-1 132.7	-1 312.0	-1 019.0	-1 161.6	-677	-460.1	73.1	-229.5	-90.4	-198.1
Panama	-136	-328	-187	-308	-362	-337	264.2	341.2	-103.4	184.4	-213.4
Dominican Republic	-474	257	-64	-544	-511	146	-40	91	11	151	-48
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [b]
Current account balance	-4 182.9	-4 482.6	-3 403.6	-3 925.3	-5 412.1	-6 311.3	-10 716.1	-16 666.3	-4 681.3	-11 587.5	-16 074.2
Central America	-3 442.1	-3 684.7	-4 439.9	-4 966.8	-4 939.1	-5 023.9	-8 549.8	-12 147.7	-2 350.4	-7 258.0	-11 575.2
Costa Rica	-602.9	-856.9	-880.1	-791.5	-981.0	-1 022.6	-1 646.4	-2 787.3	-576.0	-1 274.3	-2 200.2
El Salvador	-150.3	-405.1	-702.3	-641.9	-621.6	-765.5	-1 216.5	-1 532.2	-312.2	-657.9	-1 221.7
Guatemala	-1 211.3	-1 261.5	-1 019.7	-1 164.5	-1 240.8	-1 524.1	-1 785.9	-1 680.3	7.5	-626.2	-1 455.6
Honduras	-478.7	-281.6	-552.8	-678.4	-290.3	-403.9	-1 116.1	-2 127.9	-515.6	-954.8	-1 503.2
Nicaragua	-820.3	-784.1	-705.5	-687.4	-783.6	-845.1	-1 224.5	-1 507.4	-775.1	-883.0	-1 302.1
Panama	-178.6	-95.5	-579.5	-1 003.2	-1 021.8	-462.7	-1 560.4	-2 512.6	-179.0	-2 861.8	-3 892.4
Dominican Republic	-740.8	-797.9	1 036.2	1 041.5	-473.0	-1 287.4	-2 166.3	-4 518.6	-2 330.9	-4 329.5	-4 499.0
Balance of trade in goods and services	-8 083.0	-9 662.7	-8 112.8	-9 749.2	-13 114.7	-16 254.1	-21 358.8	-28 378.7	-13 505.7	-20 756.7	-25 344.1
Central America	-6 406.4	-7 747.3	-8 206.2	-10 087.8	-11 846.8	-13 675.6	-17 974.5	-22 095.1	-9 680.0	-14 990.0	-19 566.6
Costa Rica	-74.5	-592.6	-313.0	-563.9	-1 042.9	-1 376.1	-1 251.4	-2 812.4	149.0	-892.5	-1 950.2
El Salvador	-2 182.9	-2 104.6	-2 393.5	-2 739.0	-3 166.1	-3 800.1	-4 505.9	-4 889.8	-3 198.0	-3 705.9	-4 432.0
Guatemala	-2 357.8	-3 087.9	-3 222.8	-3 875.9	-4 332.4	-5 111.9	-5 797.1	-5 850.8	-3 507.0	-4 360.6	-5 109.9
Honduras	-935.9	-826.7	-1 182.2	-1 497.4	-1 725.8	-2 317.4	-3 392.2	-4 580.8	-2 624.6	-3 117.4	-3 606.5
Nicaragua	-1 050.4	-1 068.5	-1 090.2	-1 211.6	-1 441.7	-1 628.3	-2 085.9	-2 423.5	-1 643.0	-1 780.9	-2 246.4
Panama	195.0	-67.0	-4.6	-199.9	-137.9	558.2	-942.0	-1 537.8	1 143.5	-1 132.7	-2 221.7
Dominican Republic	-1 676.6	-1 915.4	93.4	338.6	-1 267.9	-2 578.5	-3 384.3	-6 283.6	-3 825.7	-5 766.7	-5 777.5
Current transfers balance	7 118.4	8 189.8	9 028.4	10 653.9	12 572.9	14 967.3	16 852.3	17 455.5	15 525.4	16 097.1	17 159.0
Central America	5 090.9	5 920.5	6 692.5	8 126.4	9 875.8	11 823.2	13 451.1	13 942.6	12 309.8	12 973.5	13 753.0
Costa Rica	150.9	175.5	208.8	212.4	270.4	349.2	469.8	442.2	358.7	366.4	324.3
El Salvador	2 298.3	2 022.9	2 114.3	2 555.0	3 034.7	3 472.1	3 745.7	3 746.6	3 441.8	3 598.6	3 842.6
Guatemala	1 214.9	2 101.8	2 506.4	3 121.5	3 576.4	4 268.2	4 853.9	5 108.1	4 625.6	4 945.7	5 207.4
Honduras	715.0	846.3	991.2	1 265.3	1 895.1	2 450.3	2 671.3	2 973.4	2 639.0	2 760.5	3 058.5
Nicaragua	485.7	530.3	625.4	755.0	857.4	1 003.3	1 074.6	1 139.9	1 118.4	1 172.8	1 191.6
Panama	226.1	243.8	246.4	217.1	241.7	280.1	635.9	532.3	126.3	129.4	128.7
Dominican Republic	2 027.5	2 269.3	2 335.9	2 527.5	2 697.1	3 144.1	3 401.2	3 512.9	3 215.6	3 123.6	3 406.0

Table 9 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[b]
Capital and financial account[a]	5 295.5	3 873.6	3 344.3	4 594.4	7 356.5	7 823.7	13 515.1	17 050.2	6 605.6	13 780.3	15 889.0
Central America	4 039.8	3 630.5	4 926.9	5 456.6	6 178.6	6 342.1	10 722.3	12 857.5	3 868.7	9 393.0	11 236.0
Costa Rica	616.1	1 019.9	1 218.9	871.8	1 374.4	2 053.4	2 794.1	2 439.3	836.5	1 835.3	2 332.6
El Salvador	-27.4	281.6	1 018.5	589.4	431.3	812.2	1 495.7	1 865.5	734.8	363.1	807.4
Guatemala	1 685.9	1 268.5	1 554.2	1 768.9	1 479.5	1 776.1	2 002.2	2 013.0	465.4	1 303.1	1 661.5
Honduras	418.7	272.0	358.4	1 040.1	477.2	687.3	929.8	1 971.1	91.4	1 523.4	1 560.1
Nicaragua	557.5	571.2	483.1	569.5	719.6	900.0	1 311.5	1 494.4	956.0	1 054.7	1 329.2
Panama	789.0	217.2	293.9	616.9	1 696.6	113.1	2 189.0	3 074.1	784.7	3 313.4	3 545.3
Dominican Republic	1 255.8	243.1	-1 582.7	-862.2	1 177.9	1 481.6	2 792.8	4 192.8	2 736.9	4 387.3	4 653.0
Overall balance	1 112.6	- 609.0	- 59.3	669.1	1 944.4	1 512.4	2 799.0	383.9	1 924.3	2 192.9	- 185.1
Central America	597.7	-54.2	487.1	489.8	1 239.5	1 318.2	2 172.5	709.8	1 518.3	2 135.1	-339.1
Costa Rica	13.1	163.0	338.8	80.3	393.5	1 030.8	1 147.7	-348.0	260.5	561.1	132.4
El Salvador	-177.7	-123.5	316.2	-52.5	-190.3	46.7	279.2	333.3	422.6	-294.8	-414.2
Guatemala	474.6	7.0	534.5	604.4	238.7	252.0	216.3	332.7	472.9	676.9	205.8
Honduras	-60.0	-9.5	-194.5	361.8	186.9	283.4	-186.3	-156.8	-424.2	568.6	56.9
Nicaragua	-262.8	-212.9	-222.4	-117.9	-64.0	54.9	87.0	-13.0	180.9	171.7	27.1
Panama	610.4	121.7	-285.6	-386.3	674.8	-349.6	628.6	561.5	605.7	451.6	-347.1
Dominican Republic	515	-555	-546	179	705	194	626	-326	406	58	154

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Includes errors and omissions.

[b] Preliminary figures.

Table 10

Central America and the Dominican Republic: balance of payments indicators, 1990-2011

(Percentages of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Current account balance	-4.7	-3.9	-7.1	-5.8	-4.6	-3.8	-3.2	-3.7	-4.6	-5.4	-5.6
Central America	-4.8	-4.6	-7.4	-6.3	-5.4	-4.7	-3.9	-4.7	-5.5	-6.5	-6.1
Costa Rica	-8.7	-1.4	-4.7	-7.0	-4.9	-3.0	-2.2	-3.7	-3.7	-4.1	-4.3
El Salvador	-5.4	-4.0	-3.3	-1.8	-0.2	-2.8	-1.6	-0.9	-0.8	-1.9	-3.3
Guatemala	-3.1	-1.9	-6.7	-6.1	-5.4	-3.5	-2.5	-3.6	-5.1	-5.5	-5.4
Honduras	-6.5	-7.1	-8.9	-9.5	-10.4	-4.5	-4.8	-3.6	-2.5	-4.5	-7.2
Nicaragua	-22.9	-31.7	-46.5	-36.7	-30.5	-22.7	-24.9	-24.9	-19.3	-24.9	-23.8
Panama	3.9	-4.1	-4.0	-1.3	0.1	-4.7	-3.2	-5.6	-10.8	-11.5	-6.2
Dominican Republic	-4.0	-1.6	-6.1	-4.1	-2.0	-1.1	-1.2	-0.8	-1.6	-2.0	-4.3
Balance of trade in goods and services	-6.3	-6.6	-4.2	-2.9	-3.8	-3.5	-1.7	-2.5	-3.0	-5.4	-5.2
Central America	-5.0	-6.9	-3.6	-2.3	-3.6	-3.3	-1.3	-2.2	-3.2	-5.1	-5.1
Costa Rica	-10.4	-5.0	2.7	-0.7	0.4	-1.8	0.9	-4.2	-2.0	-4.5	-6.7
El Salvador	1.2	-7.0	-6.7	-4.7	-6.0	-5.3	-4.6	-7.5	-7.5	-13.6	-13.6
Guatemala	-2.9	-6.7	-4.0	-1.6	-2.1	-0.9	1.4	-6.4	-5.9	-5.0	-3.2
Honduras	-7.3	-6.3	-2.0	-3.7	-6.6	-4.9	-1.7	-3.0	-2.5	-2.4	-3.3
Nicaragua	-19.8	-19.6	-13.4	-11.3	-9.4	-13.0	-8.4	-1.5	-36.0	-33.4	-17.3
Panama	0.7	-1.8	1.2	4.2	-0.4	1.6	3.3	4.4	14.4	5.8	4.6
Dominican Republic	-12.1	-5.2	-6.9	-5.8	-4.6	-4.7	-3.6	-6.1	-1.8	-6.9	-5.8
Current transfers balance	1.9	1.8	2.1	1.9	2.1	2.3	2.5	1.9	4.3	4.5	4.9
Central America	1.5	1.4	1.8	1.5	1.6	1.6	2.1	1.5	3.9	4.2	4.8
Costa Rica	0.3	1.0	1.3	1.2	1.1	1.4	1.6	2.3	2.8	2.4	2.1
El Salvador	1.5	1.8	5.9	3.8	3.9	3.4	7.0	8.1	7.1	8.4	10.9
Guatemala	1.4	1.1	0.7	0.3	0.3	0.2	0.9	2.7	2.9	2.8	2.7
Honduras	0.8	1.0	1.0	1.0	0.7	1.6	1.3	2.7	4.0	3.5	5.1
Nicaragua	6.0	2.9	1.8	2.4	2.0	1.8	1.7	0.3	8.0	17.3	7.2
Panama	1.1	1.4	1.5	1.6	2.4	2.6	2.4	2.1	2.2	2.0	4.1
Dominican Republic	3.8	3.3	3.6	3.7	6.5	7.1	4.7	5.2	6.3	5.8	5.3
Capital and financial account [a]	3.5	5.8	2.7	- 0.9	1.2	0.3	- 1.4	- 1.4	- 4.3	- 1.8	- 2.1
Central America	1.5	5.7	2.8	- 0.8	0.5	- 0.3	- 2.4	- 1.9	- 5.3	- 2.4	- 2.0
Costa Rica	6.8	1.4	- 2.6	- 2.4	- 6.2	- 3.7	- 4.6	- 7.0	- 0.9	0.4	- 0.8
El Salvador	- 8.1	3.8	2.2	0.9	- 0.4	0.5	- 3.2	- 1.3	- 1.1	5.0	6.0
Guatemala	- 2.1	1.3	- 0.1	1.7	- 1.1	- 0.7	- 3.1	1.6	1.0	3.2	- 0.1
Honduras	7.7	7.5	5.3	3.7	8.3	3.7	1.9	1.5	- 1.0	- 3.6	- 4.3
Nicaragua	- 1.5	18.1	13.1	- 6.0	3.2	3.9	- 5.8	0.1	18.2	- 14.8	- 18.5
Panama	8.9	10.5	3.7	- 5.2	1.6	- 3.8	1.7	- 19.1	- 35.4	- 19.3	- 6.5
Dominican Republic	12.6	6.1	2.1	- 1.4	6.4	4.0	4.1	3.5	0.4	1.0	- 2.8
Overall balance	- 5.2	- 4.3	- 4.4	- 5.9	- 5.0	- 4.4	- 5.0	- 3.8	- 7.3	- 7.1	- 6.8
Central America	- 6.1	- 5.2	- 4.0	- 5.3	- 6.0	- 5.4	- 6.2	- 3.9	- 8.8	- 7.8	- 6.8
Costa Rica	- 8.0	- 13.8	- 13.6	- 13.0	- 13.0	- 11.1	- 8.3	- 15.3	- 7.4	- 8.8	- 9.5
El Salvador	- 7.2	- 3.5	- 1.2	- 2.8	- 4.7	- 3.0	- 3.7	- 2.9	- 3.8	- 2.1	0.6
Guatemala	- 4.1	- 5.3	- 4.7	- 0.8	- 5.0	- 2.9	- 3.3	- 4.6	- 4.3	- 1.0	- 3.2
Honduras	- 4.6	- 3.3	- 2.6	- 3.8	- 3.0	- 4.7	- 4.0	- 4.4	- 4.5	- 7.1	- 10.9
Nicaragua	- 21.3	- 6.1	- 5.0	- 21.5	- 10.0	- 13.4	- 16.3	- 1.7	- 25.9	- 51.8	- 41.4
Panama	0.3	- 1.9	- 0.4	- 1.2	- 2.3	- 2.4	- 0.1	- 9.4	- 20.6	- 17.0	- 2.6
Dominican Republic	- 0.9	- 0.5	- 5.8	- 8.7	2.4	1.8	1.1	- 2.2	0.0	- 3.9	- 6.8

Table 10 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [b]
Current account balance	-4.3	-4.4	-3.4	-3.7	-4.2	-4.5	-6.7	-9.3	-2.6	-5.8	-7.2
Central America	-4.8	-4.8	-5.6	-5.8	-5.2	-4.8	-7.2	-9.1	-1.8	-4.9	-7.0
Costa Rica	-3.7	-5.1	-5.0	-4.3	-4.9	-4.5	-6.3	-9.3	-2.0	-3.5	-5.4
El Salvador	-1.1	-2.8	-4.7	-4.1	-3.6	-4.1	-6.1	-7.1	-1.5	-3.1	-5.3
Guatemala	-6.5	-6.1	-4.6	-4.9	-4.6	-5.0	-5.2	-4.3	0.0	-1.5	-3.1
Honduras	-6.3	-3.6	-6.8	-7.7	-3.0	-3.7	-9.1	-15.4	-3.7	-6.2	-8.7
Nicaragua	-20.0	-19.5	-17.2	-15.4	-16.1	-16.2	-21.6	-23.7	-12.5	-13.4	-17.8
Panama	-1.5	-0.8	-4.5	-7.1	-6.6	-2.7	-7.9	-10.9	-0.7	-10.8	-12.7
Dominican Republic	-3.0	-3.0	4.9	4.8	-1.4	-3.6	-5.3	-9.9	-5.0	-8.4	-8.1
Balance of trade in goods and services	-4.9	-8.2	-7.6	-6.7	-5.9	-5.5	-6.0	-7.7	-6.8	-7.6	-8.3
Central America	-5.4	-8.5	-8.2	-7.5	-7.1	-6.1	-6.8	-8.0	-7.1	-7.6	-8.8
Costa Rica	-0.6	-4.2	-6.0	-5.0	-2.3	-1.9	-2.8	-1.2	6.8	2.9	-0.5
El Salvador	-13.5	-16.0	-14.6	-15.0	-16.6	-12.9	-11.6	-12.1	-12.3	-15.0	-15.8
Guatemala	-3.6	-9.1	-8.3	-7.2	-6.3	-4.9	-5.7	-8.0	-8.4	-8.8	-12.6
Honduras	-4.1	-5.8	-9.3	-10.2	-4.6	-5.3	-5.8	-7.8	-15.3	-11.7	-12.4
Nicaragua	-28.8	-34.0	-25.6	-16.3	-15.3	-19.7	-24.0	-23.4	-31.9	-26.7	-25.6
Panama	-0.5	-1.0	-0.2	1.2	-2.0	-1.3	-3.2	-7.1	-6.4	-2.4	1.7
Dominican Republic	-3.6	-7.1	-5.6	-4.0	-2.5	-3.6	-3.7	-6.8	-6.0	-7.9	-6.7
Current transfers balance	4.9	5.1	5.7	5.3	5.4	5.1	5.2	6.1	6.3	6.1	7.3
Central America	5.2	5.6	5.3	4.9	5.2	4.7	4.7	5.1	5.6	5.5	7.0
Costa Rica	1.6	1.9	1.5	1.5	1.1	1.3	1.0	0.8	0.7	0.6	0.9
El Salvador	11.8	14.3	14.4	15.9	14.6	12.2	12.2	12.7	12.7	13.7	16.6
Guatemala	2.7	3.7	3.2	3.0	3.8	3.7	3.4	3.6	3.9	4.5	6.5
Honduras	5.2	5.3	6.3	6.2	6.7	6.9	6.7	9.4	13.7	7.6	9.5
Nicaragua	18.7	15.1	13.3	1.7	4.3	4.5	6.9	9.3	12.3	10.4	11.8
Panama	3.8	3.0	2.8	1.9	1.9	1.4	1.5	1.5	1.5	1.5	1.9
Dominican Republic	3.9	3.7	6.9	6.8	6.1	6.4	6.9	9.4	8.5	7.9	8.1
Capital and financial account [a]	2.2	3.3	2.5	1.2	2.9	3.4	5.7	4.8	6.6	5.5	5.4
Central America	1.6	2.6	3.3	2.1	3.1	4.2	7.1	5.8	7.8	6.0	5.6
Costa Rica	3.7	6.3	7.3	3.9	4.6	1.6	5.4	2.6	7.2	3.4	3.8
El Salvador	1.2	1.0	2.6	1.6	4.3	3.2	4.1	3.3	3.6	2.9	- 0.2
Guatemala	8.6	6.6	7.9	5.4	2.4	3.6	5.2	6.4	4.9	8.8	9.0
Honduras	1.8	1.5	3.9	9.8	5.5	7.3	7.7	4.8	8.5	5.4	5.5
Nicaragua	- 35.5	- 26.7	- 21.3	- 8.5	1.4	11.0	27.1	12.9	22.4	18.7	13.6
Panama	- 1.5	1.2	- 2.9	- 4.8	0.4	6.1	9.0	9.8	13.1	4.3	6.7
Dominican Republic	4.2	5.6	- 0.1	- 1.6	2.0	1.0	1.3	1.7	2.7	4.1	5.0
Overall balance	- 1.7	- 3.8	- 3.3	- 3.4	- 1.0	0.2	2.0	0.2	1.2	- 0.1	1.1
Central America	- 3.0	- 4.8	- 3.1	- 3.3	- 1.6	0.3	2.5	0.3	1.3	- 0.1	0.8
Costa Rica	2.3	1.6	0.2	- 1.0	1.5	- 0.7	1.7	- 1.1	3.0	- 1.0	0.1
El Salvador	- 2.8	- 2.2	0.8	1.4	1.5	1.6	3.3	2.5	1.7	- 0.3	- 1.3
Guatemala	6.7	- 0.1	1.7	0.0	- 1.1	1.1	1.6	1.2	- 0.7	3.4	2.5
Honduras	- 5.3	- 7.4	- 5.6	- 0.6	1.0	2.5	4.0	2.3	4.0	- 1.8	- 0.8
Nicaragua	- 67.2	- 73.2	- 58.0	- 39.1	- 21.2	- 13.9	2.2	- 6.4	- 2.4	- 5.0	- 6.4
Panama	- 5.6	- 2.8	- 4.2	- 4.7	- 4.3	2.8	3.4	- 0.9	1.6	- 1.8	5.2
Dominican Republic	2.6	- 0.6	- 4.2	- 3.5	0.9	- 0.2	0.5	0.1	0.7	- 0.2	2.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Includes errors and omissions.

[b] Preliminary figures.

Table 11

Central America and the Dominican Republic: net current transfers and income from family remittances, 1990-2011

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						(Millions of dollars)					
Current transfers balance	1 707.0	2 082.5	2 485.2	3 057.4	3 222.3	3 623.0	3 720.5	4 142.6	5 309.7	5 616.2	5 785.8
Central America	1 336.4	1 696.0	2 053.4	2 163.4	2 239.5	2 630.8	2 552.8	2 790.5	3 323.2	3 768.4	3 883.5
Costa Rica	121.9	117.6	163.3	143.1	155.2	133.9	149.5	125.5	113.2	104.0	93.4
El Salvador	521.9	625.0	852.1	1 002.1	1 288.5	1 389.5	1 254.5	1 360.9	1 526.8	1 581.5	1 797.1
Guatemala	207.0	259.7	390.5	363.2	386.0	552.8	587.4	606.7	705.3	714.8	868.2
Honduras	144.7	156.3	175.9	218.3	210.9	264.0	276.7	312.0	487.6	736.9	537.6
Nicaragua	121.6	315.0	270.6	233.6	50.0	138.0	150.0	234.8	331.3	460.1	410.2
Panama	219.3	222.4	201.0	203.1	148.9	152.6	134.7	150.6	159.0	171.1	177.0
Dominican Republic	370.6	386.5	431.8	894.0	982.8	992.2	1 167.7	1 352.1	1 986.5	1 847.8	1 902.3
Income from family remittances	972.0	1 472.1	1 622.3	2 035.7	2 275.2	2 573.6	2 736.8	3 138.4	3 669.0	4 105.8	4 900.5
Central America	657.0	1 142.1	1 275.3	1 315.1	1 518.5	1 779	1 822.8	2 049.5	2 343.0	2 587.1	3 211.5
Costa Rica	12.0	13.0	14.0	16.0	17.0	115.9	121.7	115.8	112.4	111.8	120.4
El Salvador	366.0	790.1	858.3	864.1	962.5	1 061.4	1 086.5	1 199.5	1 338.3	1 373.8	1 750.7
Guatemala	119.0	179.0	231.0	241.0	302.0	416.5	375.4	408.0	456.4	465.5	563.4
Honduras	50.0	52.0	60.0	60.0	75.0	94.0	128.4	160.0	220.0	320.0	440.6
Nicaragua	...	...	10.0	25.0	50.0	75.0	95.0	150.0	200.0	300.0	320.0
Panama	110.0	108.0	102.0	109.0	112.0	16.3	15.8	16.2	15.9	16.0	16.4
Dominican Republic	315.0	330.0	347.0	720.6	756.7	794.5	914.0	1 088.9	1 326.0	1 518.7	1 689.0
						(Percentages of GDP)					
Net current transfers/GDP	4.9	4.9	5.1	5.7	5.3	5.4	5.1	5.2	6.1	6.3	6.1
Central America	4.8	5.2	5.6	5.3	4.9	5.2	4.7	4.7	5.1	5.6	5.5
Costa Rica	2.1	1.6	1.9	1.5	1.5	1.1	1.3	1.0	0.8	0.7	0.6
El Salvador	10.9	11.8	14.3	14.4	15.9	14.6	12.2	12.2	12.7	12.7	13.7
Guatemala	2.7	2.7	3.7	3.2	3.0	3.8	3.7	3.4	3.6	3.9	4.5
Honduras	5.1	5.2	5.3	6.3	6.2	6.7	6.9	6.7	9.4	13.7	7.6
Nicaragua	7.2	18.7	15.1	13.3	1.7	4.3	4.5	6.9	9.3	12.3	10.4
Panama	4.1	3.8	3.0	2.8	1.9	1.9	1.4	1.5	1.5	1.5	1.5
Dominican Republic	5.3	3.9	3.7	6.9	6.8	6.1	6.4	6.9	9.4	8.5	7.9

Table 11 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						(Percentages of GDP)					
Family remittances/GDP	2.8	3.5	3.4	3.8	3.8	3.8	3.8	3.9	4.2	4.6	5.2
Central America	2.3	3.5	3.5	3.2	3.3	3.5	3.3	3.4	3.6	3.9	4.5
Costa Rica	0.2	0.2	0.2	0.2	0.2	1.0	1.0	0.9	0.8	0.7	0.8
El Salvador	7.6	14.9	14.4	12.5	11.9	11.2	10.5	10.8	11.1	11.0	13.3
Guatemala	1.6	1.9	2.2	2.1	2.3	2.8	2.4	2.3	2.4	2.5	2.9
Honduras	1.7	1.7	1.8	1.7	2.2	2.4	3.2	3.4	4.2	6.0	6.2
Nicaragua	0.0	0.0	0.6	1.4	1.7	2.4	2.9	4.4	5.6	8.0	8.1
Panama	2.1	1.8	1.5	1.5	1.4	0.2	0.2	0.2	0.1	0.1	0.1
Dominican Republic	4.5	3.4	3.0	5.6	5.2	4.8	5.0	5.6	6.3	7.0	7.0
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [a]
						(Millions of dollars)					
Current transfers balance	7 118.4	8 189.8	9 028.4	10 653.9	12 572.9	14 967.3	16 852.3	17 455.5	15 525.4	16 097.1	17 159.0
Central America	5 090.9	5 920.5	6 692.5	8 126.4	9 875.8	11 823.2	13 451.1	13 942.6	12 309.8	12 973.5	13 753.0
Costa Rica	150.9	175.5	208.8	212.4	270.4	349.2	469.8	442.2	358.7	366.4	324.3
El Salvador	2 298.3	2 022.9	2 114.3	2 555.0	3 034.7	3 472.1	3 745.7	3 746.6	3 441.8	3 598.6	3 842.6
Guatemala	1 214.9	2 101.8	2 506.4	3 121.5	3 576.4	4 268.2	4 853.9	5 108.1	4 625.6	4 945.7	5 207.4
Honduras	715.0	846.3	991.2	1 265.3	1 895.1	2 450.3	2 671.3	2 973.4	2 639.0	2 760.5	3 058.5
Nicaragua	485.7	530.3	625.4	755.0	857.4	1 003.3	1 074.6	1 139.9	1 118.4	1 172.8	1 191.6
Panama	226.1	243.8	246.4	217.1	241.7	280.1	635.9	532.3	126.3	129.4	128.7
Dominican Republic	2 027.5	2 269.3	2 335.9	2 527.5	2 697.1	3 144.1	3 401.2	3 512.9	3 215.6	3 123.6	3 406.0
Income from family remittances	5 477.5	6 934.8	7 953.5	9 392.4	11 355.4	13 483.7	14 958.4	15 674.7	14 232.9	14 682.1	15 628.0
Central America	3 669.7	4 975.2	5 893.0	7 162.2	8 925.5	10 745.9	11 912.8	12 453.2	11 191.4	11 684.1	12 428.0
Costa Rica	184.0	234.3	306.0	302.2	399.8	489.8	595.6	583.9	488.6	505.5	487.0
El Salvador	1 910.5	1 935.2	2 105.3	2 547.6	3 017.1	3 470.9	3 695.2	3 742.1	3 387.1	3 430.9	3 648.7
Guatemala	592.3	1 579.4	2 106.5	2 550.6	2 992.8	3 609.8	4 128.4	4 314.7	3 912.3	4 126.8	4 378.0
Honduras	574.0	765.3	842.3	1 138.0	1 775.8	2 328.6	2 580.7	2 807.5	2 467.9	2 594.1	2 797.6
Nicaragua	335.7	376.5	438.8	518.8	615.7	697.5	739.6	818.1	768.4	822.8	911.6
Panama	73.1	84.6	94.1	105.0	124.4	149.3	173.2	186.9	167.1	204.0	205.0
Dominican Republic	1 807.8	1 959.6	2 060.5	2 230.2	2 429.9	2 737.8	3 045.6	3 221.5	3 041.5	2 998.0	3 200.0

Table 11 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
						(Percentages of GDP)					
Net current transfers/GDP	7.3	8.0	9.0	9.9	9.8	10.7	10.6	9.7	8.7	8.1	7.7
Central America	7.0	7.8	8.4	9.5	10.5	11.3	11.4	10.4	9.3	8.8	8.3
Costa Rica	0.9	1.0	1.2	1.1	1.4	1.5	1.8	1.5	1.2	1.0	0.8
El Salvador	16.6	14.1	14.1	16.2	17.8	18.7	18.6	17.5	16.7	16.8	16.7
Guatemala	6.5	10.1	11.4	13.0	13.1	14.1	14.2	13.0	12.2	11.9	11.1
Honduras	9.5	10.9	12.2	14.4	19.6	22.6	21.8	21.6	18.7	18.1	17.7
Nicaragua	11.8	13.2	15.2	16.9	17.6	19.2	19.0	17.9	18.0	17.8	16.3
Panama	1.9	2.0	1.9	1.5	1.6	1.6	3.2	2.3	0.5	0.5	0.4
Dominican Republic	8.1	8.6	11.1	11.7	8.0	8.8	8.3	7.7	6.9	6.0	6.1
Family remittances/GDP	5.6	6.8	7.9	8.7	8.9	9.6	9.4	8.7	8.0	7.4	7.0
Central America	5.1	6.5	7.4	8.3	9.5	10.3	10.1	9.3	8.5	7.9	7.5
Costa Rica	1.1	1.4	1.7	1.6	2.0	2.2	2.3	2.0	1.7	1.4	1.2
El Salvador	13.8	13.5	14.0	16.1	17.7	18.7	18.4	17.5	16.4	16.0	15.8
Guatemala	3.2	7.6	9.6	10.6	11.0	11.9	12.1	11.0	10.4	10.0	9.3
Honduras	7.6	9.8	10.3	13.0	18.4	21.5	21.0	20.4	17.5	17.0	16.2
Nicaragua	8.2	9.4	10.7	11.6	12.6	13.3	13.1	12.8	12.4	12.5	12.5
Panama	0.6	0.7	0.7	0.7	0.8	0.9	0.9	0.8	0.7	0.8	0.7
Dominican Republic	7.3	7.4	9.8	10.3	7.2	7.7	7.4	7.1	6.5	5.8	5.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 12

Central America and the Dominican Republic: capital and financial account, 1990-2011

(Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Capital and financial account	-607.6	-713.2	101.7	139.3	848.1	1 916.3	2 055.8	4 180.8	5 792.0	6 946.0	4 360.5
Central America	-533.8	-579.1	26.9	365.9	480.1	1 662.7	1 991.7	3 733.2	5 103.9	5 885.0	2 763.9
Costa Rica	-90.8	162.1	247.1	293.4	39.7	482.1	67.6	537.6	547.6	934.4	159.3
El Salvador	-11.4	-61.1	-4.3	73.9	115.8	408.6	329.2	664.8	1 062.8	653.0	396.8
Guatemala	-46.2	731.8	610.5	816.2	717.6	488.6	639.0	856.3	1 456.5	1 173.5	1 141.2
Honduras	-16.7	-98.3	22.0	206.6	248.9	214.3	227.2	227.4	171.8	335.6	419.7
Nicaragua	-161.1	-615.7	-538.3	-502.8	-362.8	-98.5	193.2	542.3	548.5	1 054.8	542.2
Panama	-207.6	-697.9	-310.1	-521.4	-279.1	167.6	535.5	904.8	1 316.8	1 733.7	104.6
Dominican Republic	-73.8	-134.1	74.8	-226.6	368.0	253.6	64.1	447.6	688.1	1 061.0	1 596.6
Capital account	...	...	140.0	...	318.2	297.1	357.8	363.4	344.9	459.4	687.9
Central America	...	...	140.0	...	318.2	297.1	357.8	363.4	344.9	459.4	687.9
Costa Rica	...	...	10.0	...	10.4	...	28.2	...	...	2.2	18.1
El Salvador	...	...	...	...	...	...	...	11.6	28.6	78.6	109.0
Guatemala	...	...	...	...	62.4	61.6	65.0	85.0	71.0	68.4	86.7
Honduras	...	...	...	...	...	...	...	...	...	...	164.1
Nicaragua	...	...	...	...	245.4	227.0	262.1	194.1	194.4	307.2	308.3
Panama	...	...	130.0	...	...	8.5	2.5	72.7	50.9	3.0	1.7
Dominican Republic	...	...	...	...	...	...	...	...	...	...	...
Net foreign investment	521.7	594.3	718.0	851.9	1 056.0	1 232.5	1 191.9	2 566.6	4 594.6	3 458.6	3 006.3
Central America	388.9	449.3	538.3	662.6	849.2	818.2	1 095.4	2 146.0	3 894.8	2 120.8	2 053.4
Costa Rica	160.4	172.8	221.8	243.2	291.9	331.4	421.2	402.5	606.9	614.5	400.1
El Salvador	1.9	25.2	15.3	16.4	...	...	...	59.0	1 102.7	162.0	178.4
Guatemala	47.6	90.7	94.1	142.5	65.2	75.3	76.8	84.5	672.8	154.6	229.8
Honduras	43.5	52.1	47.6	52.1	41.5	69.4	90.0	127.7	99.0	237.3	375.2
Nicaragua	...	...	15.0	38.8	40.0	75.4	97.0	172.1	194.7	300.0	266.5
Panama	135.5	108.5	144.5	169.6	410.6	266.7	410.4	1 300.2	1 218.7	652.4	603.4
Dominican Republic	132.8	145.0	179.7	189.3	206.8	414.3	96.5	420.6	699.8	1 337.8	952.9
Net debt in securities	-284.3	-190.4	-121.5	-728.9	-44.9	295.8	424.4	-665.7	321.5	-2.6	-30.6
Central America	-284.3	-190.4	-121.5	-728.9	-6.0	298.7	427.7	-660.3	329.1	5.3	-24.5
Costa Rica	-28.2	-13.0	-16.9	-5.1	45.9	-24.4	-21.5	99.2	-46.0	113.3	-64.8
El Salvador	...	...	...	...	...	...	...	115.9	-226.4	73.5	-25.7
Guatemala	-21.3	71.1	11.4	85.4	-2.7	...	...	79.6	54.0	90.4	42.9
Honduras	...	...	...	...	...	...	...	...	...	...	-60.9
Nicaragua	...	...	...	...	...	5.3	18.0	160.7	-128.2	-6.9	0.0
Panama	-234.8	-248.5	-116.0	-809.2	-49.2	317.8	431.2	-1 115.7	675.7	-265.0	83.9
Dominican Republic	...	...	...	...	-38.9	-2.9	-3.3	-5.4	-7.6	-7.9	-6.1

Table 12 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Other net investment	-845.0	-1 117.1	-634.8	16.2	-481.2	90.9	81.7	1 916.5	531.0	3 030.6	696.9
Central America	-638.4	-838.0	-529.9	432.1	-681.3	248.7	110.8	1 884.1	535.1	3 299.5	47.1
Costa Rica	-223.0	2.3	32.2	55.3	-308.5	175.1	-360.3	35.9	-13.4	204.4	-194.1
El Salvador	-13.3	-86.3	-19.6	57.5	115.8	408.6	329.2	478.3	157.9	338.9	135.1
Guatemala	-72.5	570.0	505.0	588.3	592.7	351.7	497.2	607.2	658.7	860.1	781.8
Honduras	-60.2	-150.4	-25.6	154.5	207.4	144.9	137.2	99.7	72.8	98.3	-58.7
Nicaragua	-161.1	-615.7	-553.3	-541.6	-648.2	-406.2	-183.9	15.4	287.6	454.5	-32.6
Panama	-108.3	-557.9	-468.6	118.2	-640.5	-425.4	-308.6	647.6	-628.5	1 343.3	-584.4
Dominican Republic	-206.6	-279.1	-104.9	-415.9	200.1	-157.8	-29.1	32.4	-4.1	-268.9	649.8
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [a]
Capital and financial account	5 920.0	3 751.6	3 777.3	4 595.0	7 943.8	8 275.5	12 080.2	15 581.3	5 632.5	14 679.7	17 551.3
Central America	4 216.5	3 368.6	3 793.7	4 477.3	6 307.9	6 670.7	9 699.3	11 372.8	2 766.6	9 331.9	13 162.0
Costa Rica	447.6	1 070.9	1 183.9	843.0	1 230.0	1 903.9	2 622.1	2 487.0	707.2	2 038.8	2 580.9
El Salvador	429.3	897.1	1 162.0	223.3	880.2	1 296.6	712.6	1 701.5	41.8	70.1	926.4
Guatemala	1 363.9	76.3	351.8	933.7	680.5	1 343.5	1 613.9	1 465.4	205.8	1 586.5	2 004.5
Honduras	462.6	255.0	353.3	998.9	679.1	1 013.1	1 283.7	1 503.3	444.8	1 331.6	1 700.8
Nicaragua	331.0	899.2	583.3	972.7	782.2	1 301.1	1 345.2	1 808.3	1 035.2	1 355.0	1 716.5
Panama	1 182.1	170.0	159.4	505.8	2 055.9	-187.5	2 121.8	2 407.4	331.8	2 950.0	4 232.9
Dominican Republic	1 703.5	383.0	-16.4	117.6	1 635.9	1 604.8	2 380.9	4 208.5	2 865.9	5 347.8	4 389.3
Capital account	680.3	615.6	462.6	467.1	1 015.9	2 354.1	2 002.9	755.1	851.4	768.2	782.4
Central America	680.3	615.6	462.6	467.1	1 015.9	2 099.9	1 807.8	620.1	744.9	686.3	706.1
Costa Rica	19.3	13.0	25.4	12.7	15.9	1.1	21.2	7.4	58.3	53.5	21.6
El Salvador	198.9	208.9	112.9	100.3	93.6	96.8	152.8	79.8	131.2	232.0	266.4
Guatemala	-	-	-	-	-	142.2	-	1.1	1.0	2.5	2.6
Honduras	160.5	85.2	49.1	50.8	593.5	1 484.8	1 206.6	97.0	130.4	84.4	156.4
Nicaragua	300.0	308.5	265.2	294.2	297.1	359.8	383.5	377.9	394.0	271.3	250.2
Panama	1.6	0.0	10.0	9.1	15.8	15.2	43.7	56.9	30.0	42.5	8.9
Dominican Republic	-	-	-	-	-	254.2	195.1	135.0	106.5	81.9	76.3
Net foreign investment	3 185.3	2 792.4	2 911.2	4 084.9	4 652.4	6 777.3	8 682.4	10 283.5	6 660.0	7 892.9	10 537.1
Central America	2 106.2	1 875.6	2 298.2	3 175.9	3 529.7	5 692.7	7 015.0	7 413.5	4 494.6	5 996.6	8 166.0
Costa Rica	450.8	625.3	548.1	733.3	904.0	1 371.0	1 633.7	2 072.3	1 339.0	1 440.9	2 047.7
El Salvador	288.7	495.9	123.1	365.9	398.2	267.5	1 455.2	823.6	365.8	116.6	385.5
Guatemala	488.2	183.2	217.6	254.8	470.0	551.6	719.7	737.4	573.7	782.3	967.4
Honduras	301.4	268.7	390.6	552.9	598.8	668.5	926.1	1 007.3	522.5	798.8	1 007.7
Nicaragua	150.2	203.9	201.3	250.0	241.1	286.8	381.7	626.1	434.2	508.0	967.9
Panama	426.8	98.6	817.5	1 019.1	917.6	2 547.3	1 898.6	2 146.7	1 259.3	2 350.1	2 789.8
Dominican Republic	1 079.1	916.8	613.0	909.0	1 122.7	1 084.6	1 667.4	2 870.0	2 165.4	1 896.3	2 371.1

Table 12 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[a]
Net debt in securities	813.0	455.2	1 073.7	685.0	-623.6	272.3	-31.8	-375.4	263.3	-881.6	-524.9
Central America	337.5	478.4	523.4	707.0	-866.8	-483.7	-980.9	-9.9	715.1	-881.6	-524.9
Costa Rica	40.6	98.8	12.7	148.2	-338.4	-497.0	41.8	413.2	-283.3	370.8	263.0
El Salvador	26.6	268.0	189.3	52.3	99.6	777.8	-134.0	134.1	769.7	-125.3	1.0
Guatemala	283.4	27.8	267.5	398.9	-76.4	-83.4	-184.6	62.2	-124.1	-12.0	-330.0
Honduras	-12.6	-3.5	-1.6	-10.6	-11.4	-22.7	-23.0	-22.6	5.6	-17.4	-2.2
Nicaragua	...	...	...	...	...	...	...	...	...	...	...
Panama	-0.4	87.3	55.5	118.2	-540.2	-658.4	-681.1	-596.8	347.3	-1 097.6	-456.7
Dominican Republic	475.5	-23.2	550.3	-22.1	243.3	756.1	949.1	-365.5	-451.8	...	...
Other net investment	1 241.3	-111.6	-670.1	-642.1	2 899.1	-1 128.2	1 426.7	4 918.2	-2 142.3	6 900.2	6 756.7
Central America	1 092.4	399.0	509.5	127.2	2 629.2	-638.2	1 857.4	3 349.2	-3 188.1	3 530.6	4 814.8
Costa Rica	-63.2	333.9	597.7	-51.2	648.5	1 028.9	925.5	-6.0	-406.8	173.7	248.6
El Salvador	-84.9	-75.7	736.7	-295.2	288.8	154.5	-761.4	664.1	-1 224.8	-153.3	273.5
Guatemala	592.3	-134.7	-133.3	280.0	286.9	733.1	1 078.8	664.7	-244.8	813.7	1 364.5
Honduras	13.3	-95.3	-84.8	405.7	-501.7	-1 117.5	-826.0	421.5	-213.8	465.8	538.9
Nicaragua	-119.2	386.8	116.8	428.5	244.0	654.5	580.0	804.3	207.0	575.7	498.4
Panama	754.1	-16.0	-723.6	-640.6	1 662.7	-2 091.6	860.6	800.6	-1 304.8	1 655.0	1 890.9
Dominican Republic	148.8	-510.6	-1 179.7	-769.3	270.0	-490.1	-430.7	1 569.0	1 045.8	3 369.6	1 941.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 13

Central America and the Dominican Republic: net resource transfer, 1990-2011

(Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Net resource transfer	356.9	1 521.1	1 680.3	1 315.2	663.0	873.7	1 021.0	2 659.8	1 919.6	2 029.7	1 688.9
Central America	375.0	1 199.1	1 230.3	1 325.9	1 446.6	1 328.7	1 548.3	3 252.7	2 373.1	2 381.7	1 773.4
Costa Rica	64.1	341.4	329.7	464.0	272.9	311.5	1.9	447.9	-97.4	-691.1	-713.9
El Salvador	293.7	21.6	189.5	123.2	36.3	338.2	243.5	297.0	230.9	165.0	131.9
Guatemala	-4.6	632.2	513.2	703.8	598.9	209.5	356.0	716.9	1 100.1	709.1	1 494.0
Honduras	-30.3	34.2	108.2	-4.0	151.2	50.8	109.8	253.6	149.7	559.6	348.4
Nicaragua	160.9	212.6	339.7	135.8	519.9	338.8	555.1	751.0	472.5	889.8	624.4
Panama	-108.8	-42.9	-250.0	-96.9	-132.6	79.9	282.0	786.3	517.3	749.3	-111.4
Dominican Republic	-18.1	322.0	450.0	-10.6	-783.6	-455.0	-527.3	-592.9	-453.5	-352.0	-84.5
Income balance	-1 518.0	-1 632.0	-1 951.5	-2 106.4	-1 986.5	-2 207.6	-2 110.9	-2 307.3	-2 610.1	-4 366.5	-3 880.0
Central America	-1 269.3	-1 439.3	-1 630.1	-1 409.4	-1 304.6	-1 438.6	-1 386.1	-1 511.9	-1 720.0	-3 391.7	-2 838.9
Costa Rica	-232.7	-173.9	-214.1	-239.1	-142.5	-225.4	-184.6	-247.8	-468.4	-1 821.6	-1 252.4
El Salvador	-131.7	-120.8	-97.2	-111.6	-94.6	-70.0	-90.5	-163.3	-163.0	-282.1	-253.1
Guatemala	-195.7	-102.8	-141.0	-118.4	-148.6	-144.3	-211.2	-232.8	-139.7	-180.7	-209.3
Honduras	-236.8	-246.1	-282.0	-225.6	-217.5	-262.5	-258.4	-212.6	-208.4	-155.2	-214.9
Nicaragua	-217.0	-363.3	-494.8	-429.1	-472.2	-372.0	-324.3	-264.7	-185.3	-196.8	-295.6
Panama	-255.4	-432.4	-401.0	-285.6	-229.2	-364.4	-317.1	-390.7	-555.2	-755.3	-613.5
Dominican Republic	-248.7	-192.7	-321.4	-697.0	-681.9	-769.0	-724.8	-795.4	-890.1	-974.9	-1 041.1
Capital account	...	...	140.0	...	318.2	297.1	357.8	363.4	344.9	459.4	687.9
Central America	...	...	140.0	...	318.2	297.1	357.8	363.4	344.9	459.4	687.9
Costa Rica	...	...	10.0	...	10.4	...	28.2	...	...	2.2	18.1
El Salvador	...	...	...	...	...	...	...	11.6	28.6	78.6	109.0
Guatemala	...	...	...	...	62.4	61.6	65.0	85.0	71.0	68.4	86.7
Honduras	...	...	...	...	...	...	...	...	...	...	164.1
Nicaragua	...	...	...	...	245.4	227.0	262.1	194.1	194.4	307.2	308.3
Panama	...	...	130.0	...	...	8.5	2.5	72.7	50.9	3.0	1.7
Dominican Republic	...	...	...	...	...	...	...	...	...	...	...
Financial account	-607.6	-713.2	-38.3	139.3	529.9	1 619.2	1 698.0	3 817.4	5 447.1	6 486.6	3 672.5
Central America	-533.8	-579.1	-113.1	365.9	161.9	1 365.6	1 633.9	3 369.8	4 759.0	5 425.6	2 075.9
Costa Rica	-90.8	162.1	237.1	293.4	29.3	482.1	39.4	537.6	547.6	932.2	141.2
El Salvador	-11.4	-61.1	-4.3	73.9	115.8	408.6	329.2	653.2	1 034.2	574.4	287.8
Guatemala	-46.2	731.8	610.5	816.2	655.2	427.0	574.0	771.3	1 385.5	1 105.1	1 054.5
Honduras	-16.7	-98.3	22.0	206.6	248.9	214.3	227.2	227.4	171.8	335.6	255.6
Nicaragua	-161.1	-615.7	-538.3	-502.8	-608.2	-325.5	-68.9	348.2	354.1	747.6	233.9
Panama	-207.6	-697.9	-440.1	-521.4	-279.1	159.1	533.0	832.1	1 265.9	1 730.7	102.9
Dominican Republic	-73.8	-134.1	74.8	-226.6	368.0	253.6	64.1	447.6	688.1	1 061.0	1 596.6

Table 13 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Errors and omissions	-135.7	1 637.2	1 492.8	1 183.0	-117.3	5.0	433.7	333.1	-1 656.4	-1 096.6	864.5
Central America	-15.0	1 088.9	923.7	967.9	478.7	-70.3	324.9	526.8	-1 317.8	-616.3	1 482.9
Costa Rica	43.4	99.9	296.7	409.7	375.7	54.8	118.9	158.1	-176.5	196.1	379.2
El Salvador	299.4	125.6	65.6	107.6	15.1	-0.4	4.8	-204.5	-668.9	-205.9	-11.8
Guatemala	36.2	83.3	81.8	85.2	-11.1	-134.8	-71.8	65.3	-216.7	-283.8	562.1
Honduras	-107.4	152.0	29.2	-71.6	82.1	1.6	69.4	130.9	78.3	121.3	-39.4
Nicaragua	-149.2	17.2	60.2	128.1	108.7	143.9	173.0	373.3	-89.7	-214.9	195.4
Panama	-137.4	610.9	390.2	309.0	-91.8	-135.4	30.6	3.7	-244.3	-229.1	397.5
Dominican Republic	-120.7	548.3	569.0	215.1	-596.0	75.3	108.8	-193.7	-338.6	-480.4	-618.5
Use of IMF credit and loans	-174.5	49.1	-12.2	36.0	28.7	-68.4	-41.7	-42.1	49.5	103.1	37.4
Central America	-117.7	33.1	-49.6	-27.9	36.8	-34.4	17.7	20.3	22.7	103.1	37.4
Costa Rica	-25.6	67.7	...	...	...	...	...	...	...	...	...
El Salvador	-5.3	-0.2	...	...	...	...	...	...	...	...	...
Guatemala	-11.9	-2.8	-31.7	-31.3	...	...	...	...	...	...	...
Honduras	-4.2	1.1	80.7	...	...	...	...	...	...	...	16.4
Nicaragua	...	23.1	...	...	24.2	-11.6	-8.6	...	22.7	103.1	21.0
Panama	-70.7	-55.7	-98.6	3.4	12.6	-22.8	26.3	20.3	...	...	...
Dominican Republic	-56.9	15.9	37.3	63.9	-8.1	-34.0	-59.4	-62.4	26.8	...	...
Exceptional financing	2 792.8	2 180.1	2 049.6	2 063.3	1 890.0	1 228.4	684.2	495.3	344.6	443.7	306.6
Central America	2 310.8	2 095.5	1 959.4	1 429.3	1 755.6	1 209.3	600.1	484.3	284.3	401.5	328.1
Costa Rica	369.8	185.6	...	...	...	...	...	...	...	...	...
El Salvador	142.7	78.1	225.5	53.3	...	...	...	...	...	...	...
Guatemala	213.0	-77.3	-6.4	-47.9	41.0	...	...	28.1	...	...	...
Honduras	334.8	225.5	258.3	86.6	37.7	97.4	71.6	107.9	108.0	257.9	166.7
Nicaragua	688.2	1 151.3	1 312.5	939.6	1 222.0	677.0	521.8	100.1	176.3	143.6	161.4
Panama	562.3	532.3	169.5	397.7	454.9	434.9	6.7	248.2	...	...	...
Dominican Republic	482.0	84.6	90.2	634.0	134.4	19.1	84.1	11.0	60.3	42.2	-21.5
Net resource transfer	2 394.8	1 289.4	-411.0	552.4	2 965.6	3 062.2	7 509.0	11 442.1	285.2	7 320.8	8 246.5
Central America	2 227.2	2 169.9	2 376.2	2 876.7	3 286.1	3 283.4	6 843.4	8 980.6	-962.7	4 225.2	5 544.2
Costa Rica	-63.3	580.1	443.0	431.8	1 165.9	2 057.7	1 929.3	2 022.2	-247.3	1 087.2	1 758.2
El Salvador	-293.1	-41.8	595.4	131.6	-59.0	374.7	1 039.4	1 476.6	178.8	-187.5	175.2
Guatemala	1 617.5	993.1	1 250.9	1 358.8	994.7	1 095.7	1 159.5	1 075.4	-645.7	91.8	108.4
Honduras	322.0	86.2	94.4	742.5	177.0	149.4	612.2	1 529.8	-368.0	949.0	629.0
Nicaragua	454.8	607.3	519.9	616.4	590.0	803.8	1 178.4	1 315.1	783.7	829.8	1 127.5
Panama	189.3	-55.1	-527.4	-404.4	417.5	-1 197.8	924.6	1 561.6	-664.1	1 454.9	1 745.9
Dominican Republic	167.6	-880.5	-2 787.2	-2 324.3	-320.5	-221.3	665.6	2 461.5	1 247.9	3 095.6	2 702.3

Table 13 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Income balance	-3 218.2	-3 009.7	-4 319.2	-4 830.0	-4 870.3	-5 024.5	-6 209.7	-5 743.0	-6 701.0	-6 927.8	-7 889.0
Central America	-2 126.5	-1 858.0	-2 926.1	-3 005.4	-2 968.1	-3 171.5	-4 026.5	-3 995.1	-4 980.2	-5 241.4	-5 761.5
Costa Rica	-679.3	-439.8	-775.9	-440.0	-208.5	4.3	-864.7	-417.1	-1 083.7	-748.2	-574.3
El Salvador	-265.7	-323.4	-423.1	-457.9	-490.3	-437.5	-456.3	-389.0	-556.0	-550.6	-632.2
Guatemala	-68.4	-275.4	-303.3	-410.1	-484.8	-680.4	-842.7	-937.6	-1 111.1	-1 211.3	-1 553.1
Honduras	-257.8	-301.2	-361.8	-446.3	-459.6	-536.8	-395.2	-520.6	-530.1	-598.0	-955.2
Nicaragua	-255.6	-245.9	-240.7	-230.8	-199.3	-220.1	-213.2	-223.8	-250.5	-274.9	-247.3
Panama	-599.7	-272.3	-821.3	-1 020.4	-1 125.6	-1 301.0	-1 254.3	-1 507.1	-1 448.8	-1 858.5	-1 799.4
Dominican Republic	-1 091.7	-1 151.8	-1 393.1	-1 824.6	-1 902.2	-1 853.0	-2 183.2	-1 747.9	-1 720.8	-1 686.4	-2 127.5
Capital account	680.3	615.6	462.6	467.1	1 015.9	2 354.1	2 002.9	755.1	851.4	768.2	782.4
Central America	680.3	615.6	462.6	467.1	1 015.9	2 099.9	1 807.8	620.1	744.9	686.3	706.1
Costa Rica	19.3	13.0	25.4	12.7	15.9	1.1	21.2	7.4	58.3	53.5	21.6
El Salvador	198.9	208.9	112.9	100.3	93.6	96.8	152.8	79.8	131.2	232.0	266.4
Guatemala	...	...	...	...	...	142.2	...	1.1	1.0	2.5	2.6
Honduras	160.5	85.2	49.1	50.8	593.5	1 484.8	1 206.6	97.0	130.4	84.4	156.4
Nicaragua	300.0	308.5	265.2	294.2	297.1	359.8	383.5	377.9	394.0	271.3	250.2
Panama	1.6	0.0	10.0	9.1	15.8	15.2	43.7	56.9	30.0	42.5	8.9
Dominican Republic	...	...	...	...	...	254.2	195.1	135.0	106.5	81.9	76.3
Financial account	5 239.6	3 136.0	3 314.7	4 127.8	6 927.9	5 921.4	10 077.3	14 826.3	4 781.0	13 911.6	16 768.8
Central America	3 536.2	2 753.0	3 331.1	4 010.2	5 292.0	4 570.8	7 891.5	10 752.8	2 021.6	8 645.7	12 455.8
Costa Rica	428.3	1 058.0	1 158.5	830.3	1 214.1	1 902.8	2 600.9	2 479.5	648.8	1 985.3	2 559.3
El Salvador	230.4	688.2	1 049.1	123.0	786.6	1 199.8	559.8	1 621.7	-89.4	-161.9	660.0
Guatemala	1 363.9	76.3	351.8	933.7	680.5	1 201.3	1 613.9	1 464.3	204.8	1 584.0	2 001.9
Honduras	302.1	169.8	304.2	948.1	85.6	-471.7	77.1	1 406.3	314.4	1 247.1	1 544.4
Nicaragua	31.0	590.7	318.1	678.5	485.1	941.3	961.7	1 430.4	641.2	1 083.7	1 466.3
Panama	1 180.5	170.0	149.4	496.7	2 040.1	-202.7	2 078.1	2 350.5	301.8	2 907.5	4 224.0
Dominican Republic	1 703.5	383.0	-16.3	117.6	1 635.9	1 350.6	2 185.8	4 073.5	2 759.4	5 265.9	4 313.0
Errors and omissions	-624.4	122.0	-433.0	-0.6	-587.3	-451.8	1 434.9	1 468.9	973.1	-899.4	-1 662.2
Central America	-176.7	261.9	1 133.3	979.3	-129.3	-328.6	1 023.0	1 484.6	1 102.1	61.1	-1 925.9
Costa Rica	168.5	-51.0	35.0	28.8	144.4	149.5	172.0	-47.7	129.3	-203.4	-248.3
El Salvador	-456.7	-615.5	-143.5	366.1	-448.9	-484.4	783.1	164.0	693.0	293.0	-119.0
Guatemala	322.0	1 192.2	1 202.4	835.2	799.0	432.6	388.3	547.6	259.6	-283.4	-343.0
Honduras	-44.0	17.0	5.1	41.2	-201.9	-325.8	-353.8	467.9	-353.5	191.8	-140.7
Nicaragua	226.5	-328.0	-100.2	-403.2	-62.6	-401.1	-33.7	-313.9	-79.2	-300.3	-387.3
Panama	-393.1	47.2	134.5	111.1	-359.3	300.6	67.2	666.7	452.9	363.4	-687.6
Dominican Republic	-447.7	-139.9	-1 566.3	-979.9	-458.0	-123.2	411.9	-15.7	-129.0	-960.5	263.7

Table 13 (concluded)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Use of IMF credit and loans	8.3	-55.8	73.3	100.3	182.8	-57.8	71.3	-18.2	312.7	410.4	188.4
Central America	8.3	-30.2	-19.5	34.6	-36.3	-95.3	8.5	23.5	38.0	19.6	15.6
Costa Rica	...	...	...	...	...	...	...	...	...	...	...
El Salvador	...	...	...	...	...	...	...	...	...	...	...
Guatemala	...	...	...	...	...	...	...	...	...	...	...
Honduras	13.3	-35.1	-40.9	20.7	1.9	-113.9	...	...	...	...	...
Nicaragua	-5.0	4.9	21.4	23.9	-28.4	28.5	18.6	28.9	38.0	19.6	15.6
Panama	...	...	...	-10.0	-9.8	-9.9	-10.1	-5.4	...	...	...
Dominican Republic	...	-25.6	92.8	65.7	219.1	37.5	62.8	-41.7	274.7	390.8	172.8
Exceptional financing	309.2	481.4	490.6	687.7	296.7	320.7	132.3	153.1	68.0	57.9	58.1
Central America	305.7	427.6	394.9	390.8	111.9	208.1	139.1	94.8	110.9	54.0	54.1
Costa Rica	...	...	...	...	...	...	...	...	...	...	...
El Salvador	...	...	...	...	...	...	...	...	...	...	...
Guatemala	...	...	...	...	...	...	...	...	...	...	...
Honduras	147.8	150.5	138.8	127.9	157.5	112.7	77.6	79.2	70.7	23.6	24.1
Nicaragua	157.9	277.1	256.1	253.8	98.1	95.4	61.5	15.6	40.2	30.4	30.0
Panama	...	...	...	9.1	-143.7	...	...	...	...	...	...
Dominican Republic	3.5	53.8	95.7	296.9	184.7	112.6	-6.8	58.3	-42.9	3.9	4.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Table 14

Central America and the Dominican Republic: value of goods exports, FOB, and selected products, 1990-2011

(Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total	9 445.8	11 038.3	12 515.6	15 030.6	16 874.8	19 198.4	19 956.9	23 501.8	25 695.7	25 808.5	27 383.7
Central America	7 860.6	9 327.4	10 754.2	11 818.6	13 422.3	15 418.9	15 904.1	18 888.1	20 715.2	20 671.7	21 647.0
Costa Rica	1 448.9	1 899.3	2 385.2	2 625.5	2 878.3	3 475.9	3 758.4	4 205.5	5 525.6	6 662.3	5 849.7
El Salvador	582.2	724.9	795.6	1 032.1	1 250.0	1 646.8	1 783.2	2 429.9	2 456.7	2 534.3	2 941.3
Guatemala	1 247.6	1 298.3	1 379.8	1 468.7	1 686.6	2 157.3	2 231.9	2 602.8	2 847.6	2 781.3	3 081.9
Honduras	877.9	903.9	999.5	1 123.5	1 326.8	1 691.2	1 905.7	2 350.9	2 849.7	2 723.3	3 330.5
Nicaragua	330.6	278.0	226.0	283.9	371.9	541.2	590.7	739.8	754.8	742.4	873.5
Panama	3 373.5	4 223.1	4 968.1	5 284.9	5 908.7	5 906.5	5 634.3	6 559.1	6 280.8	5 228.1	5 570.1
Dominican Republic	1 585.2	1 710.9	1 761.3	3 212.0	3 452.5	3 779.5	4 052.8	4 613.7	4 980.5	5 136.8	5 736.7
Traditional products	3 367.4	3 161.3	2 966.0	3 030.8	3 386.5	4 463.8	4 312.8	4 725.5	4 564.0	3 665.6	4 038.7
Central America	2 738.4	2 605.3	2 545.0	2 667.8	2 900.0	3 872.6	3 688.9	4 057.8	4 056.6	3 322.9	3 607.9
Costa Rica	635.0	754.2	837.7	858.0	948.2	1 187.2	1 103.1	1 049.2	1 142.6	969.4	877.8
El Salvador	294.9	271.4	215.7	295.7	321.2	420.6	409.3	599.0	420.0	307.3	353.7
Guatemala	666.1	606.2	583.6	623.3	711.3	1 048.0	956.7	1 175.1	1 167.9	1 057.6	1 175.1
Honduras	650.6	561.6	514.7	451.6	453.2	642.1	670.2	665.7	736.6	399.1	564.2
Nicaragua	221.7	165.8	145.5	188.6	223.4	329.2	319.1	330.7	391.5	355.0	431.8
Panama	270.1	246.1	247.7	250.6	242.6	245.4	230.5	238.1	198.0	234.5	205.3
Dominican Republic	629.0	556.0	421.0	363.0	486.5	591.2	623.9	667.7	507.3	342.7	430.8
Coffee	1 134.4	1 002.1	835.3	908.5	1 274.8	1 954.0	1 674.8	2 075.5	2 012.4	1 557.3	1 711.4
Central America	1 087.4	959.1	809.3	881.5	1 211.6	1 871.8	1 610.7	2 007.6	1 945.3	1 533.5	1 678.4
Costa Rica	245.4	263.6	201.6	201.6	307.6	417.3	385.4	402.3	409.4	288.7	272.0
El Salvador	260.2	219.5	151.2	235.4	270.9	361.9	339.0	520.5	323.7	245.1	297.9
Guatemala	316.0	280.8	253.0	276.4	346.0	578.6	472.6	620.4	584.5	587.9	569.1
Honduras	181.0	146.0	147.7	124.6	200.1	349.3	278.9	326.3	429.8	256.1	362.5
Nicaragua	71.0	36.2	45.3	31.9	73.0	131.3	116.0	115.7	173.4	135.6	160.9
Panama	13.8	13.0	10.5	11.6	14.0	33.4	18.8	22.4	24.5	20.1	16.0
Dominican Republic	47.0	43.0	26.0	27.0	63.2	82.2	64.1	67.9	67.1	23.8	33.0
Sugar	464.2	429.0	370.1	375.8	382.7	481.9	515.6	616.5	604.4	372.0	388.1
Central America	286.2	262.0	255.1	263.8	266.3	378.5	369.7	440.8	487.4	305.8	317.2
Costa Rica	25.1	24.7	29.5	27.9	28.6	46.1	44.4	41.3	41.8	30.0	28.6
El Salvador	20.3	32.0	44.7	34.5	27.6	32.6	31.5	49.0	63.7	37.3	40.0
Guatemala	152.9	141.1	136.5	158.4	172.4	245.4	220.4	258.4	310.6	188.1	179.6
Honduras	12.5	8.4	5.4	5.2	4.8	6.8	9.5	12.1	10.2	5.3	7.8
Nicaragua	38.6	31.4	19.1	16.0	15.8	29.6	41.3	51.4	35.6	30.6	41.3
Panama	36.8	24.4	20.0	21.8	17.1	18.0	22.6	28.7	25.5	14.5	19.9
Dominican Republic	178.0	167.0	115.0	112.0	116.4	103.4	145.9	175.6	116.9	66.3	70.9

Table 14 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Bananas	999.0	1 016.3	1 153.0	1 099.8	1 049.3	1 244.7	1 309.7	1 159.7	1 223.3	1 005.9	1 026.6
Central America	999.0	1 016.3	1 153.0	1 099.8	1 049.3	1 244.7	1 309.7	1 159.7	1 223.3	1 005.9	1 026.6
Costa Rica	315.0	396.6	562.6	564.8	561.0	680.2	631.1	577.3	667.5	623.5	546.5
El Salvador	-	-	-	-	-	-	-	-	-	-	-
Guatemala	86.2	80.1	111.7	102.7	120.3	145.6	162.2	161.6	177.9	143.1	187.8
Honduras	357.9	314.4	256.1	225.6	155.1	214.2	310.8	224.6	219.6	38.1	124.2
Nicaragua	27.1	28.7	10.0	5.5	6.3	14.3	21.6	16.4	19.6	13.1	8.3
Panama	212.8	196.5	212.5	201.2	206.6	190.4	184.0	179.8	138.7	188.1	159.8
Dominican Republic	-	-	-	-	-	-	-	-	-	-	-
Non-traditional products	1 929.0	2 412.5	2 976.4	3 432.4	3 869.2	4 470.0	5 120.9	6 116.9	7 597.4	8 949.3	8 533.6
Central America	1 823.0	2 310.5	2 831.4	3 283.4	3 713.1	4 292.4	4 915.6	5 900.1	7 365.0	8 664.3	8 181.4
Costa Rica	813.9	1 145.1	1 547.5	1 767.5	1 930.1	2 288.7	2 655.3	3 156.3	4 382.9	5 693.0	4 972.0
El Salvador	287.3	316.7	381.7	446.3	498.4	579.6	609.8	775.9	852.0	893.6	978.6
Guatemala	257.4	299.7	304.6	322.1	363.9	377.4	521.6	532.1	646.3	646.1	717.7
Honduras	180.3	230.8	286.8	410.2	512.3	578.1	645.8	780.0	796.2	765.3	728.5
Nicaragua	108.9	112.2	77.6	81.1	111.2	136.8	147.3	246.0	181.7	191.1	211.0
Panama	175.2	206.0	233.2	256.2	297.2	331.8	335.9	409.8	505.9	475.3	573.7
Dominican Republic	106.0	102.0	145.0	149.0	156.1	177.6	205.3	216.8	232.4	285.0	352.2
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**[a]
Total	27 229.1	27 249.2	28 769.5	32 214.6	35 666.2	40 337.7	44 920.5	48 076.8	44 270.3	50 148.0	61 723.6
Central America	21 952.8	22 084.3	23 298.7	26 278.7	29 521.5	33 727.4	37 760.4	41 328.8	38 787.0	43 394.5	53 188.0
Costa Rica	5 021.4	5 263.5	6 102.1	6 303.9	7 026.4	8 199.8	9 336.4	9 503.7	8 783.7	9 448.1	10 408.4
El Salvador	2 863.7	2 995.1	3 128.0	3 304.5	3 436.5	3 730.1	4 014.6	4 641.0	3 866.1	4 499.3	5 308.9
Guatemala	4 110.6	4 162.1	4 459.4	5 033.6	5 380.9	6 012.8	6 897.7	7 737.4	7 213.7	8 462.6	10 401.1
Honduras	3 348.8	3 653.8	3 678.6	4 454.9	4 979.0	5 183.9	5 702.1	6 198.5	4 813.0	5 733.0	7 192.4
Nicaragua	885.7	905.7	1 044.6	1 356.5	1 639.7	1 914.1	2 163.4	2 496.8	2 365.9	3 128.3	4 016.3
Panama	5 722.6	5 104.1	4 885.9	5 825.2	7 058.9	8 686.7	9 646.2	10 751.4	11 744.6	12 123.1	15 860.9
Dominican Republic	5 276.3	5 164.9	5 470.8	5 935.9	6 144.7	6 610.3	7 160.1	6 748.0	5 483.3	6 753.6	8 535.6
Traditional products	3 160.5	3 094.7	3 271.3	3 726.6	4 153.2	5 022.4	6 038.5	6 106.0	5 377.6	6 655.9	9 111.0
Central America	2 842.3	2 734.0	2 822.3	3 137.8	3 603.8	4 083.2	4 689.8	5 367.8	5 056.9	6 251.2	8 391.3
Costa Rica	738.8	691.1	793.8	803.2	757.2	915.2	1 001.9	1 066.9	921.7	1 081.1	1 242.7
El Salvador	204.6	160.8	162.8	165.6	233.1	262.8	259.8	334.7	318.9	343.3	597.4
Guatemala	897.8	946.9	970.5	996.6	1 232.3	1 294.2	1 621.9	1 923.1	2 000.5	2 349.2	2 930.7
Honduras	476.6	451.1	403.0	575.3	738.0	839.9	993.7	1 153.1	1 007.5	1 246.6	1 969.3
Nicaragua	365.9	331.8	344.9	453.4	496.9	612.7	655.4	745.8	710.1	1 118.2	1 500.2
Panama	158.6	152.3	147.3	143.7	146.2	158.3	157.2	144.3	98.2	112.8	151.0
Dominican Republic	318.2	360.7	449.1	588.9	549.4	939.3	1 348.7	738.2	320.7	404.6	719.7

Table 14 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[a]
Coffee	887.8	819.7	899.8	1 069.6	1 373.8	1 542.8	1 752.3	2 139.2	1 842.3	2 272.8	3 855.2
Central America	876.7	806.9	883.2	1 063.9	1 366.2	1 524.4	1 739.1	2 122.1	1 822.7	2 262.5	3 828.9
Costa Rica	161.8	165.1	193.6	197.6	232.7	225.8	251.9	305.0	232.2	257.5	374.9
El Salvador	115.0	106.9	105.4	123.4	163.6	188.7	187.2	258.7	230.3	213.2	464.0
Guatemala	306.6	261.8	294.5	327.9	464.0	463.6	577.3	646.2	582.3	713.9	1 174.1
Honduras	178.9	190.2	192.0	277.2	366.3	425.8	518.3	617.9	531.5	722.6	1 377.3
Nicaragua	103.3	73.6	85.5	126.8	125.9	207.1	188.1	278.3	236.8	341.6	429.3
Panama	11.1	9.3	12.2	11.0	13.6	13.4	16.3	16.0	9.6	13.7	9.3
Dominican Republic	11.1	12.8	16.5	5.7	7.6	18.4	13.1	17.1	19.7	10.4	26.4
Sugar	473.8	431.8	385.1	399.3	516.0	628.7	688.1	651.6	807.4	1 289.1	1 260.6
Central America	409.2	357.8	312.2	325.2	441.7	523.8	590.1	574.3	716.1	1 125.8	1 084.7
Costa Rica	35.5	27.0	24.8	38.1	29.7	42.5	48.7	34.4	27.7	81.0	68.6
El Salvador	70.0	44.4	46.6	37.2	66.6	71.7	71.8	75.5	88.2	127.7	132.6
Guatemala	212.5	227.0	189.2	188.0	236.6	298.5	358.1	378.1	507.7	726.7	648.8
Honduras	28.1	15.6	13.2	14.9	24.8	29.6	19.4	20.9	29.1	44.4	41.1
Nicaragua	49.1	28.6	25.7	36.8	60.3	60.3	74.5	50.4	50.0	126.8	156.3
Panama	13.9	15.1	12.8	10.4	23.7	21.3	17.6	15.1	13.3	19.2	37.2
Dominican Republic	64.6	74.0	72.9	74.0	74.3	104.9	98.0	77.3	91.3	163.3	175.9
Bananas	1 036.9	989.8	1 042.0	1 099.4	1 085.7	1 196.1	1 384.2	1 498.9	1 437.3	1 463.3	1 714.4
Central America	1 036.9	989.8	1 042.0	1 099.4	1 085.7	1 196.1	1 384.2	1 498.9	1 437.3	1 463.3	1 714.4
Costa Rica	516.0	477.5	553.1	543.3	481.1	620.2	673.1	689.7	622.4	702.9	752.4
El Salvador	-	-	-	-	-	-	-	-	-	-	-
Guatemala	182.5	215.8	230.6	228.2	236.2	215.5	300.2	317.1	414.8	353.3	475.5
Honduras	204.7	172.3	133.3	208.8	260.3	241.3	289.3	383.8	327.2	335.4	397.8
Nicaragua	11.6	11.0	12.2	10.7	11.6	9.6	9.9	9.6	11.7	6.6	2.4
Panama	122.1	113.2	112.8	108.5	96.5	109.4	111.6	98.7	61.2	65.1	86.3
Dominican Republic	-	-	-	-	-	-	-	-	-	-	-
Non-traditional products	10 436.8	10 780.9	12 162.1	13 226.8	14 831.6	17 079.5	20 015.9	21 726.9	19 416.3	22 066.6	25 840.4
Central America	10 102.6	10 406.7	11 698.9	12 798.9	14 322.7	16 462.4	19 144.2	20 613.6	18 383.3	20 356.6	23 477.5
Costa Rica	4 282.6	4 572.4	5 308.3	5 500.8	6 269.1	7 284.6	8 334.6	8 436.8	7 862.0	8 367.0	9 165.8
El Salvador	1 008.8	1 076.8	1 092.2	1 215.8	1 627.6	1 988.2	2 530.0	2 937.8	2 601.9	3 021.6	3 510.5
Guatemala	3 212.8	3 215.2	3 488.9	4 037.0	4 148.6	4 718.6	5 275.8	5 814.3	5 213.2	6 113.4	7 470.4
Honduras	724.5	708.2	885.8	991.5	1 091.1	1 176.4	1 467.7	1 695.5	1 298.8	1 507.3	1 932.9
Nicaragua	223.5	226.9	266.0	306.4	369.2	431.2	566.6	729.5	683.8	732.9	763.8
Panama	650.4	607.2	657.7	747.4	817.0	863.5	969.6	999.7	723.7	614.4	634.2
Dominican Republic	334.2	374.2	463.2	427.9	508.9	617.1	871.7	1 113.3	1 033.0	1 710.0	2 362.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 15

Central America and the Dominican Republic: imports, c.i.t., by type of goods, 1990-2011

(Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total	10 585.0	11 600.8	14 153.4	17 157.1	18 778.3	21 034.6	22 197.1	25 779.4	29 899.1	31 078.8	34 176.9
Central America	8 227.6	9 163.0	11 173.8	12 502.9	13 875.1	15 864.2	16 470.1	19 170.7	22 301.8	23 037.7	24 698.4
Costa Rica	2 224.1	2 393.5	2 940.1	3 514.9	3 789.2	4 089.4	4 327.7	4 969.7	6 238.7	6 354.6	6 388.5
El Salvador	1 262.5	1 516.2	1 854.5	2 144.8	2 575.5	3 329.1	3 221.3	3 744.4	3 968.0	4 094.6	4 948.3
Guatemala	1 648.8	1 851.2	2 431.4	2 599.4	2 781.4	3 292.5	3 146.2	3 851.9	4 650.9	4 560.0	5 171.4
Honduras	934.8	955.2	1 036.6	1 290.6	1 460.3	1 642.7	1 840.0	2 148.6	2 534.9	2 676.1	2 979.7
Nicaragua	662.8	751.3	893.1	753.4	866.6	975.2	1 153.8	1 449.8	1 491.7	1 861.1	1 805.5
Panama	1 494.6	1 695.7	2 018.1	2 199.8	2 402.1	2 535.3	2 781.1	3 006.3	3 417.7	3 491.4	3 405.0
Dominican Republic	2 357.4	2 437.8	2 979.5	4 654.2	4 903.2	5 170.4	5 727.0	6 608.7	7 597.3	8 041.1	9 478.5
Consumption goods	1 543.6	1 603.9	2 092.9	2 545.6	4 265.3	4 539.8	5 064.3	5 471.8	6 404.8	6 781.6	8 421.2
Central America	1 543.6	1 603.9	2 092.9	2 545.6	2 876.4	3 124.4	3 342.1	3 973.1	4 727.7	5 041.5	6 330.3
Costa Rica	461.2	439.4	638.2	822.7	897.3	800.2	982.9	1 078.4	1 301.3	1 143.1	1 167.5
El Salvador	398.8	372.7	489.0	522.0	606.7	798.5	788.7	910.0	928.0	1 002.1	1 220.3
Guatemala	317.1	364.3	441.8	709.0	828.3	925.5	877.9	1 084.9	1 371.5	1 279.2	1 435.6
Honduras	200.4	204.0	219.9	270.3	318.8	356.8	400.2	567.6	692.2	732.8	871.1
Nicaragua	166.0	223.5	304.0	221.6	225.3	243.4	292.4	332.2	434.7	541.5	536.3
Panama	...	...	...	...	...	...	...	...	...	342.8	1 099.5
Dominican Republic	...	...	...	...	1 388.9	1 415.4	1 722.2	1 498.7	1 677.1	1 740.1	2 090.9
Intermediate goods	5 389.5	5 944.7	6 635.7	6 917.3	8 318.9	9 600.8	10 082.3	11 895.6	13 156.6	13 936.0	14 865.6
Central America	4 872.5	5 507.7	6 147.7	6 464.3	7 330.2	8 452.8	8 782.1	9 896.0	11 025.9	11 519.8	11 737.7
Costa Rica	1 279.7	1 550.5	1 669.5	1 891.0	2 191.3	2 555.5	2 629.7	3 010.7	3 736.1	4 053.1	4 120.7
El Salvador	629.1	709.9	778.4	837.9	979.1	1 213.2	1 208.4	1 321.3	1 359.1	1 319.4	1 615.2
Guatemala	1 008.2	1 133.4	1 363.7	1 238.0	1 325.4	1 615.2	1 574.6	1 835.9	2 057.0	1 970.4	2 461.1
Honduras	524.0	549.2	555.4	667.8	762.6	861.8	964.1	1 044.9	1 059.7	1 144.6	1 348.7
Nicaragua	293.0	337.1	364.8	340.3	423.5	499.1	570.7	723.6	605.0	723.1	824.7
Panama	1 138.5	1 227.6	1 415.8	1 489.3	1 648.3	1 708.0	1 834.5	1 959.5	2 209.0	2 309.2	1 367.2
Dominican Republic	517.0	437.0	488.0	453.0	988.6	1 148.0	1 300.2	1 999.6	2 130.7	2 416.2	3 127.9
Petroleum and fuels	1 268.9	1 209.0	1 286.1	1 253.9	1 390.0	1 652.7	1 980.9	1 962.5	1 764.7	2 180.0	3 747.6
Central America	751.9	772.0	798.1	800.9	868.3	1 047.8	1 213.3	1 138.3	1 102.6	1 295.9	2 242.4
Costa Rica	149.5	153.1	163.3	174.1	203.3	200.8	238.7	222.0	260.8	320.2	472.1
El Salvador	121.8	126.8	128.2	123.0	150.6	191.4	224.0	228.8	199.9	217.2	375.4
Guatemala	186.0	205.2	223.5	216.8	200.5	286.6	329.7	269.0	284.2	321.6	540.4
Honduras	168.2	172.4	160.7	182.7	190.6	221.6	246.2	233.7	214.4	256.4	383.6
Nicaragua	126.4	114.5	122.4	104.3	123.3	147.4	174.7	184.8	143.3	180.5	291.5
Panama	...	...	...	...	...	...	...	...	...	...	179.3
Dominican Republic	517.0	437.0	488.0	453.0	521.7	604.9	767.6	824.2	662.1	884.1	1 505.2

Table 15 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Capital goods	1 626.4	1 766.6	2 545.5	3 015.0	3 707.4	4 143.0	4 041.8	4 868.5	6 356.4	6 456.6	6 590.2
Central America	1 626.4	1 766.6	2 545.5	3 015.0	3 093.2	3 542.2	3 483.5	4 174.8	5 267.6	5 406.1	5 393.0
Costa Rica	467.5	394.4	614.0	786.1	692.5	728.1	709.6	878.6	1 199.8	1 156.7	1 098.2
El Salvador	234.5	323.3	431.0	564.9	667.7	844.4	673.6	749.2	834.1	818.4	960.1
Guatemala	319.3	351.4	620.7	644.2	623.5	748.7	690.6	930.7	1 222.2	1 310.1	1 274.4
Honduras	201.2	188.0	241.8	314.1	350.6	392.5	440.2	449.0	680.2	687.2	679.4
Nicaragua	203.7	190.5	223.5	190.9	217.0	232.2	289.9	390.5	448.9	594.3	442.6
Panama	200.2	319.0	414.5	514.7	541.9	596.3	679.6	776.8	882.4	839.4	938.3
Dominican Republic	...	...	...	...	614.2	600.8	558.3	693.7	1 088.8	1 050.5	1 197.2
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**[a]
Total	33 812.3	35 405.3	37 630.6	41 999.3	48 629.4	56 895.9	66 651.2	77 869.6	59 906.4	71 847.0	85 871.1
Central America	25 033.0	26 567.6	30 003.8	34 111.3	38 760.0	44 722.0	53 054.2	61 876.7	47 610.5	56 357.9	68 448.4
Costa Rica	6 568.6	7 187.9	7 663.2	8 286.9	9 823.6	11 569.1	12 953.1	15 372.5	11 394.7	13 569.6	16 219.5
El Salvador	5 026.8	5 184.5	5 754.1	6 329.2	6 809.1	7 762.7	8 820.6	9 817.7	7 325.4	8 498.2	10 118.2
Guatemala	5 606.5	6 304.1	8 130.1	9 481.1	10 498.6	11 914.6	13 575.7	14 546.5	11 531.3	13 838.2	16 612.7
Honduras	3 069.4	3 081.9	3 447.6	4 212.3	4 852.5	5 643.1	7 224.4	8 813.5	6 069.7	7 133.5	8 952.7
Nicaragua	1 775.3	1 774.0	1 886.6	2 209.6	2 623.2	3 014.8	3 610.6	4 316.7	3 489.0	4 173.2	5 203.7
Panama	2 986.4	3 035.3	3 122.3	3 592.2	4 152.8	4 817.7	6 869.9	9 009.9	7 800.6	9 145.3	11 341.5
Dominican Republic	8 779.3	8 837.7	7 626.8	7 888.0	9 869.4	12 173.9	13 597.0	15 992.9	12 295.9	15 489.1	17 422.7
Consumption goods	8 702.5	9 645.0	9 635.6	10 744.8	12 906.8	15 319.2	18 846.7	21 351.6	18 467.4	21 822.5	24 818.5
Central America	6 792.4	7 485.0	8 203.7	9 259.3	10 674.1	12 306.6	15 339.5	17 494.4	15 188.6	17 807.9	20 800.9
Costa Rica	1 273.7	1 387.8	1 369.8	1 493.8	1 663.1	1 918.9	2 443.2	2 767.6	2 241.8	2 722.5	3 259.6
El Salvador	1 271.2	1 362.3	1 588.7	1 783.6	2 214.6	2 521.7	3 017.7	3 141.3	2 743.9	3 047.2	3 493.9
Guatemala	1 784.0	2 003.1	2 398.1	2 687.0	2 875.9	3 167.8	3 616.4	3 738.2	3 289.5	3 853.9	4 448.3
Honduras	890.2	953.0	980.6	1 071.7	1 303.7	1 579.3	2 155.5	2 370.6	2 022.1	2 350.8	2 559.2
Nicaragua	554.2	571.5	634.1	742.4	823.9	1 065.5	1 195.5	1 398.6	1 250.1	1 497.4	1 654.8
Panama	1 019.1	1 207.3	1 232.4	1 480.8	1 793.0	2 053.5	2 911.2	4 078.0	3 641.2	4 336.1	5 385.1
Dominican Republic	1 910.1	2 160.0	1 431.9	1 485.5	2 232.7	3 012.5	3 507.2	3 857.2	3 278.9	4 014.5	4 017.6
Intermediate goods	14 826.7	15 258.9	17 481.8	20 111.9	24 046.2	28 192.6	32 488.3	39 951.7	28 501.9	34 758.7	43 141.7
Central America	12 120.9	12 447.4	14 733.0	17 069.4	20 040.9	23 202.5	26 695.1	32 377.2	23 427.3	28 086.8	34 741.2
Costa Rica	4 245.4	4 556.5	4 857.2	5 534.3	6 695.3	7 966.6	8 428.0	10 214.4	7 231.1	8 689.1	10 402.0
El Salvador	1 691.5	1 660.3	1 852.1	2 097.9	2 450.9	2 933.0	3 505.6	4 301.5	2 947.0	3 611.8	4 484.4
Guatemala	2 625.7	2 932.0	4 336.9	5 138.5	5 764.6	6 453.0	7 508.7	8 454.9	6 405.1	7 656.3	9 424.2
Honduras	1 512.2	1 439.9	1 755.9	2 074.4	2 577.0	2 950.5	3 520.4	4 698.3	3 054.8	3 711.4	4 922.9
Nicaragua	810.2	766.5	886.7	1 053.2	1 287.1	1 410.0	1 728.8	2 081.5	1 569.1	1 898.4	2 593.8
Panama	1 235.8	1 092.2	1 044.2	1 171.1	1 266.0	1 489.3	2 003.7	2 626.6	2 220.2	2 519.7	2 914.0
Dominican Republic	2 705.8	2 811.5	2 748.8	3 042.5	4 005.3	4 990.1	5 793.2	7 574.5	5 074.6	6 671.9	8 400.4

Table 15 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
Petroleum and fuels	3 428.0	3 602.1	4 397.8	5 380.7	7 662.0	8 982.7	11 075.0	14 750.5	9 716.2	12 105.0	16 966.6
Central America	2 175.6	2 305.1	2 981.9	3 713.2	5 210.9	6 194.5	7 851.0	10 509.2	7 075.2	8 663.5	12 296.4
Costa Rica	410.5	371.7	446.0	582.2	836.5	1 005.5	1 143.9	1 667.3	1 077.1	1 352.5	2 093.4
El Salvador	318.0	323.6	400.9	465.1	599.1	698.7	923.5	1 201.9	709.4	875.6	1 133.4
Guatemala	595.9	650.2	908.5	1 088.8	1 586.3	1 876.6	2 418.9	2 822.4	2 206.9	2 475.6	3 284.3
Honduras	396.6	410.2	538.1	658.9	911.0	1 087.9	1 304.3	1 961.8	1 110.1	1 486.8	2 103.7
Nicaragua	269.7	253.6	328.5	401.8	541.5	680.9	829.0	990.5	699.0	776.0	1 256.4
Panama	184.9	295.7	359.9	516.3	736.6	844.8	1 231.4	1 865.4	1 272.8	1 697.0	2 425.2
Dominican Republic	1 252.4	1 297.0	1 415.9	1 667.5	2 451.1	2 788.2	3 224.0	4 241.3	2 641.0	3 441.5	4 670.2
Capital goods	6 220.5	6 531.4	6 505.7	7 065.2	7 934.7	9 522.7	11 695.0	12 887.2	9 829.6	11 870.9	13 914.9
Central America	4 883.5	5 265.6	5 590.5	6 225.1	6 806.4	7 966.6	9 898.1	10 754.9	8 237.0	9 532.0	11 810.6
Costa Rica	1 048.0	1 241.8	1 435.3	1 258.8	1 465.2	1 658.6	2 062.2	2 359.6	1 909.9	2 151.5	2 557.8
El Salvador	903.5	879.3	934.1	989.5	1 035.4	1 236.6	1 397.7	1 369.7	1 029.8	1 086.3	1 286.3
Guatemala	1 196.4	1 368.5	1 393.7	1 653.9	1 857.7	2 293.3	2 449.8	2 352.7	1 836.4	2 327.5	2 739.7
Honduras	597.9	609.2	618.7	971.2	845.0	969.9	1 355.0	1 541.1	863.6	908.5	1 237.1
Nicaragua	406.2	431.0	363.1	411.5	509.3	533.3	678.4	826.5	658.1	768.6	947.2
Panama	731.6	735.8	845.6	940.2	1 093.9	1 274.9	1 955.0	2 305.3	1 939.2	2 289.5	3 042.4
Dominican Republic	1 337.0	1 265.8	915.2	840.1	1 128.3	1 556.1	1 796.9	2 132.2	1 592.6	2 338.9	2 104.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 16

Central America and the Dominican Republic: intrarregional exports, 1990-2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						(Millions of dollars)					
Total	753.7	875.4	1 092.3	1 271.2	1 444.8	1 749.2	1 895.6	2 265.2	2 531.2	2 682.4	2 899.7
Central America	753.7	875.4	1 092.3	1 271.2	1 444.8	1 749.2	1 895.6	2 265.2	2 531.2	2 682.4	2 899.7
Costa Rica	184.6	231.2	307.0	335.5	351.6	428.0	470.5	489.8	570.7	637.5	663.2
El Salvador	183.9	203.6	269.2	321.6	355.2	442.8	479.6	603.5	642.2	674.5	776.1
Guatemala	315.6	352.2	421.8	446.3	507.7	601.9	624.3	725.9	815.9	854.3	870.0
Honduras	25.0	34.1	50.4	107.9	143.5	183.1	217.2	217.5	268.0	260.4	314.3
Nicaragua	44.6	54.3	43.8	59.8	86.8	93.3	104.0	127.5	124.4	153.9	166.6
Panama	...	...	...	...	...	...	...	101.0	110.1	101.8	109.5
Dominican Republic	...	...	...	...	...	...	...	...	...	...	...
						(Growth rates, in percentages)					
Total	...	16.2	24.8	16.4	13.7	21.1	8.4	19.5	11.7	6.0	8.1
Central America	...	16.2	24.8	16.4	13.7	21.1	8.4	19.5	11.7	6.0	8.1
Costa Rica	...	25.2	32.8	9.3	4.8	21.7	9.9	4.1	16.5	11.7	4.0
El Salvador	...	10.7	32.2	19.5	10.4	24.7	8.3	25.8	6.4	5.0	15.1
Guatemala	...	11.6	19.8	5.8	13.7	18.6	3.7	16.3	12.4	4.7	1.8
Honduras	...	36.3	48.0	114.0	33.0	27.6	18.6	0.1	23.2	-2.8	20.7
Nicaragua	...	21.7	-19.4	36.8	45.0	7.5	11.5	22.6	-2.4	23.7	8.2
Panama	...	...	...	...	...	...	...	...	9.0	-7.5	7.5
Dominican Republic	...	...	...	...	...	...	...	...	...	...	...
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [a]
						(Millions of dollars)					
Total	3 248.4	3 172.5	3 449.1	3 899.4	4 511.7	5 073.4	5 971.9	7 002.2	6 005.7	6 863.4	8 082.5
Central America	3 223.8	3 154.9	3 424.8	3 881.8	4 487.4	5 044.5	5 930.7	6 927.0	5 961.9	6 818.6	8 036.8
Costa Rica	675.9	633.5	696.5	797.7	903.8	1 041.1	1 196.6	1 313.5	1 174.3	1 336.4	1 541.9
El Salvador	771.6	785.4	792.5	867.5	1 238.6	1 286.1	1 466.5	1 781.1	1 522.1	1 716.0	2 052.2
Guatemala	1 150.0	1 140.2	1 250.2	1 439.5	1 546.0	1 742.4	2 080.6	2 518.5	2 173.5	2 612.5	3 057.8
Honduras	320.0	281.0	363.5	431.4	397.8	488.1	630.2	695.3	539.4	627.7	833.3
Nicaragua	183.2	200.6	227.8	253.2	294.9	363.6	441.1	506.4	458.9	429.7	450.3
Panama	123.1	114.2	94.3	92.6	106.3	123.1	115.6	112.3	93.8	96.4	101.3
Dominican Republic	24.6	17.5	24.3	17.6	24.3	28.9	41.1	75.2	43.7	44.7	45.7

Table 16 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[a]
	(Growth rates, in percentages)										
Total	12.0	-2.3	8.7	13.1	15.7	12.4	17.7	17.3	-14.2	14.3	17.8
Central America	11.2	-2.1	8.6	13.3	15.6	12.4	17.6	16.8	-13.9	14.4	17.9
Costa Rica	1.9	-6.3	9.9	14.5	13.3	15.2	14.9	9.8	-10.6	13.8	15.4
El Salvador	-0.6	1.8	0.9	9.5	42.8	3.8	14.0	21.5	-14.5	12.7	19.6
Guatemala	32.2	-0.9	9.6	15.1	7.4	12.7	19.4	21.0	-13.7	20.2	17.0
Honduras	1.8	-12.2	29.4	18.7	-7.8	22.7	29.1	10.3	-22.4	16.4	32.8
Nicaragua	10.0	9.5	13.6	11.1	16.5	23.3	21.3	14.8	-9.4	-6.4	4.8
Panama	12.5	-7.3	-17.4	-1.8	14.8	15.8	-6.1	-2.9	-16.5	2.8	5.1
Dominican Republic	...	-28.7	38.9	-27.8	38.1	19.2	42.2	82.6	-41.8	2.3	2.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from central banks and the Comptroller General of the Republic of Panama.

[a] Preliminary figures.

Table 17

Central America and the Dominican Republic: value added of the maquila industry and free zones, 1990-2011

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	(Millions of dollars)										
Total	463.2	961.8	1 228.0	1 951.3	2 188.3	1 831.1	2 160.3	2 822.1	3 905.6	5 603.5	5 908.8
Central America	185.5	618.0	837.6	1 201.2	1 383.7	929.9	1 199.3	1 642.4	2 506.1	4 106.4	4 200.7
Costa Rica	102.5	411.6	500.2	758.8	764.2	91.7	174.5	164.4	495.1	1 805.9	1 241.6
El Salvador	...	26.5	42.1	70.1	108.4	173.6	213.5	291.1	337.9	378.7	456.3
Guatemala	36.1	68.4	96.2	105.5	136.4	166.5	175.6	212.2	284.9	287.7	373.8
Honduras	46.9	111.5	198.0	261.7	361.3	471.0	589.7	905.3	1 316.9	1 558.9	2 037.8
Nicaragua	...	...	1.1	5.1	13.4	27.1	46.0	60.6	69.0	74.6	82.4
Panama	...	...	...	...	...	...	...	8.9	2.3	0.5	8.8
Dominican Republic	277.7	343.9	390.4	750.1	804.6	901.2	961.0	1 179.7	1 399.5	1 497.2	1 708.1
	(Growth rates, in percentages)										
Total		107.7	27.7	58.9	12.1	-16.3	18.0	30.6	38.4	43.5	5.4
Central America	...	233.1	35.5	43.4	15.2	-32.8	29.0	36.9	52.6	63.9	2.3
Costa Rica	...	301.6	21.5	51.7	0.7	-88.0	90.3	-5.8	201.2	264.8	-31.2
El Salvador	...	...	58.9	66.5	54.6	60.1	23.0	36.3	16.1	12.1	20.5
Guatemala	...	89.5	40.6	9.7	29.3	22.1	5.5	20.8	34.3	1.0	29.9
Honduras	...	137.7	77.7	32.2	38.1	30.4	25.2	53.5	45.5	18.4	30.7
Nicaragua	...	...	...	363.6	162.7	102.2	69.7	31.7	13.9	8.1	10.5
Panama	...	...	...	...	...	...	...	...	-74.2	-78.3	1 660.0
Dominican Republic		23.8	13.5	92.1	7.3	12.0	6.6	22.8	18.6	7.0	14.1
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [a]
	(Millions of dollars)										
Total	5 345.1	5 770.0	6 604.0	7 146.9	7 067.8	7 155.6	8 430.3	8 100.3	7 382.9	7 943.7	12 988.8
Central America	3 689.8	4 053.2	4 728.2	4 981.6	4 821.3	5 091.9	6 404.9	6 175.1	5 939.1	6 190.1	11 004.7
Costa Rica	450.6	521.2	1 178.0	897.7	662.2	822.9	1 928.3	1 524.0	1 976.2	1 615.1	5 570.2
El Salvador	489.7	474.9	493.8	464.9	467.5	407.7	325.1	363.4	340.6	381.5	347.5
Guatemala	491.8	450.5	532.8	563.9	319.4	450.5	647.6	651.2	843.4	856.8	1 306.5
Honduras	2 147.7	2 494.5	2 389.9	2 888.1	3 149.8	3 167.6	3 240.8	3 350.0	2 506.8	2 979.1	3 290.1
Nicaragua	108.5	111.5	132.8	167.0	222.2	243.5	263.4	285.9	272.1	357.5	490.4
Panama	1.6	0.6	0.8	-0.1	0.2	-0.3	-0.2	0.6	...	...	...
Dominican Republic	1 655.2	1 716.9	1 875.9	2 165.3	2 246.5	2 063.7	2 025.4	1 925.2	1 443.8	1 753.6	1 984.1

Table 17 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[a]
	(Growth rates, in percentages)										
Total	-9.5	8.0	14.5	8.2	-1.1	1.2	17.8	-3.9	-8.9	7.6	63.5
Central America	-12.2	9.8	16.7	5.4	-3.2	5.6	25.8	-3.6	-3.8	4.2	77.8
Costa Rica	-63.7	15.7	126.0	-23.8	-26.2	24.3	134.3	-21.0	29.7	-18.3	244.9
El Salvador	7.3	-3.0	4.0	-5.9	0.5	-12.8	-20.3	11.8	-6.3	12.0	-8.9
Guatemala	31.6	-8.4	18.3	5.8	-43.4	41.0	43.7	0.6	29.5	1.6	52.5
Honduras	5.4	16.1	-4.2	20.8	9.1	0.6	2.3	3.4	-25.2	18.8	10.4
Nicaragua	31.7	2.8	19.1	25.8	33.1	9.6	8.2	8.5	-4.8	31.4	37.2
Panama	-81.8	-62.5	33.3	-	-	-250.0	-33.3	-400.0	...	...	...
Dominican Republic	-3.1	3.7	9.3	15.4	3.7	-8.1	-1.9	-4.9	-25.0	21.5	13.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 18

Central America and the Dominican Republic: public debt indicators, 1990-2011

(Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total public debt	32 494.5	33 320.9	33 631.5	34 771.3	37 139.9	36 427.8	32 299.1	32 462.0	34 090.1	36 179.7	38 267.9
Central America	27 995.4	28 707.2	29 218.7	31 586.8	33 984.5	33 261.0	29 312.2	29 696.2	31 235.0	33 185.7	34 818.8
Costa Rica	3 172.6	3 266.9	3 987.4	4 203.8	4 759.1	5 056.3	5 509.2	5 061.0	5 748.3	5 982.3	6 637.7
El Salvador	2 076.1	3 133.9	3 322.9	3 043.8	3 392.0	3 528.8	3 949.7	4 047.3	3 958.5	4 316.8	4 798.8
Guatemala	3 197.5	3 141.1	2 995.4	2 684.1	3 022.6	2 851.7	2 924.5	3 086.0	3 282.6	3 633.2	3 761.8
Honduras	3 222.6	3 040.9	3 152.8	3 485.3	3 630.3	3 761.6	3 600.3	3 899.0	3 999.8	4 260.1	4 284.8
Nicaragua	10 715.7	10 313.3	10 792.7	11 075.1	11 869.6	10 492.4	6 480.4	6 834.3	7 158.5	7 299.0	7 603.6
Panama	5 610.8	5 811.2	4 967.5	7 094.9	7 310.9	7 570.3	6 848.0	6 768.5	7 087.3	7 694.3	7 732.1
Dominican Republic	4 499.1	4 613.7	4 412.8	3 184.5	3 155.4	3 166.8	2 986.9	2 765.8	2 855.1	2 994.0	3 449.2
External public debt	31 133.6	31 093.0	30 683.4	29 675.8	31 073.7	30 286.8	24 955.0	24 913.4	26 169.9	27 706.7	27 976.9
Central America	26 634.5	26 479.3	26 270.6	26 491.4	27 918.3	27 120.1	21 968.2	22 147.6	23 314.8	24 712.7	24 990.5
Costa Rica	3 172.6	3 266.9	3 288.7	3 158.4	3 255.5	3 258.6	2 858.9	2 640.2	2 872.4	3 056.5	3 150.6
El Salvador	2 076.1	2 200.3	2 343.0	1 975.8	2 055.7	2 168.4	2 517.4	2 689.4	2 646.0	2 788.9	2 831.3
Guatemala	2 487.2	2 402.8	2 251.6	2 086.2	2 160.2	2 107.4	2 074.9	2 135.1	2 367.9	2 631.3	2 643.7
Honduras	2 572.4	2 485.6	2 627.7	3 012.7	3 246.4	3 446.3	3 353.1	3 630.9	3 792.7	4 119.0	4 101.0
Nicaragua	10 715.4	10 312.5	10 792.1	10 987.3	11 695.0	10 248.4	6 094.3	6 001.0	6 287.1	6 548.9	6 659.9
Panama	5 610.8	5 811.2	4 967.5	5 271.0	5 505.5	5 891.0	5 069.6	5 051.0	5 348.8	5 568.1	5 604.1
Dominican Republic	4 499.1	4 613.7	4 412.8	3 184.5	3 155.4	3 166.8	2 986.9	2 765.8	2 855.1	2 994.0	2 986.4
External public debt servicing	2 861.1	2 770.1	2 302.1	2 292.2	2 131.2	2 332.7	2 886.9	3 719.3	3 660.4	3 401.2	4 011.7
Central America	2 788.2	2 629.3	2 138.1	2 149.1	2 006.8	2 190.1	2 766.4	3 604.9	2 676.5	2 573.7	2 899.3
Costa Rica	1 313.6	347.4	509.3	524.2	489.8	578.6	555.6	652.7	477.7	527.9	591.0
El Salvador	312.7	204.2	194.0	213.8	182.1	301.1	442.5	843.4	647.3	563.0	363.3
Guatemala	504.3	795.3	720.3	584.2	408.8	316.2	356.7	321.9	257.3	237.7	231.6
Honduras	349.9	371.3	342.2	403.9	380.2	366.1	425.4	497.4	447.5	330.1	770.7
Nicaragua	54.0	617.9	141.8	201.2	259.5	329.5	240.7	355.1	212.2	171.3	184.7
Panama	253.7	293.2	230.5	221.8	286.4	298.6	745.5	934.4	634.5	743.7	758.0
Dominican Republic	72.9	140.8	164.0	143.1	124.4	142.6	120.5	114.4	984.0	827.5	1 112.4
Domestic public debt	1 360.9	2 227.9	2 948.1	5 095.5	6 066.2	6 141.0	7 344.1	7 548.6	7 920.2	8 472.9	10 291.0
Central America	1 360.9	2 227.9	2 948.1	5 095.5	6 066.2	6 141.0	7 344.1	7 548.6	7 920.2	8 472.9	9 828.2
Costa Rica	...	...	698.7	1 045.4	1 503.6	1 797.7	2 650.4	2 420.8	2 875.9	2 925.8	3 487.1
El Salvador	...	933.6	979.9	1 068.0	1 336.3	1 360.4	1 432.3	1 357.9	1 312.5	1 527.9	1 967.5
Guatemala	710.3	738.3	743.8	597.9	862.4	744.3	849.6	950.9	914.7	1 001.9	1 118.1
Honduras	650.2	555.3	525.1	472.6	383.9	315.3	247.2	268.1	207.1	141.1	183.8
Nicaragua	0.3	0.8	0.6	87.8	174.6	244.0	386.1	833.3	871.4	750.1	943.8
Panama	...	...	...	1 823.9	1 805.4	1 679.3	1 778.4	1 717.6	1 738.6	2 126.2	2 128.0
Dominican Republic	...	...	...	...	...	...	...	...	...	...	462.8

Table 18 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Domestic public debt servicing	570.2	480.7	500.1	848.3	967.1	1 666.1	1 979.5	2 033.1	3 360.8	2 802.0	1 817.1
Central America	570.2	480.7	500.1	848.3	967.1	1 666.1	1 979.5	2 033.1	3 360.8	2 802.0	1 817.1
Costa Rica	...	...	...	...	...	...	...	...	...	...	...
El Salvador	...	...	...	...	...	205.9	236.9	216.9	1 697.9	1 580.6	236.1
Guatemala	137.6	149.4	139.5	413.1	655.0	987.9	1 279.8	1 240.2	1 029.1	664.4	992.5
Honduras	258.8	169.1	135.8	220.2	139.1	210.3	222.1	197.2	177.3	115.4	121.3
Nicaragua	...	...	...	...	...	...	...	...	...	...	...
Panama	173.9	162.2	224.8	215.0	172.9	262.0	240.7	378.7	456.5	441.7	467.2
Dominican Republic	...	...	...	...	...	...	...	...	...	...	...
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [a]
Total public debt	41 281.1	42 940.5	46 330.8	49 172.6	49 501.3	49 769.8	48 631.5	53 863.8	61 738.8	69 142.4	76 047.6
Central America	37 741.0	39 301.0	42 058.3	44 006.7	43 873.5	43 591.6	42 185.6	43 694.7	49 132.6	55 661.1	62 277.2
Costa Rica	7 550.7	7 870.1	8 198.6	8 766.9	8 471.2	8 715.0	8 486.7	8 190.5	10 020.3	12 909.9	14 941.3
El Salvador	5 499.2	6 326.4	7 084.8	7 295.3	7 721.7	8 374.0	8 652.4	9 723.5	11 173.5	11 778.2	12 951.2
Guatemala	4 089.5	4 169.7	4 842.6	5 503.5	5 885.0	6 613.0	7 403.6	7 758.6	8 600.8	10 156.2	11 393.9
Honduras	4 425.6	4 604.2	5 181.0	5 523.4	4 686.2	3 451.0	2 431.8	2 819.3	3 385.5	4 046.9	4 934.0
Nicaragua	7 775.1	7 809.3	8 089.7	6 816.8	6 785.3	5 862.6	4 652.4	4 765.5	4 979.2	5 140.4	5 242.5
Panama	8 400.8	8 521.2	8 661.6	10 100.8	10 324.2	10 576.0	10 558.7	10 437.4	10 973.3	11 629.5	12 814.3
Dominican Republic	3 540.1	3 639.5	4 272.6	5 165.9	5 627.8	6 178.2	6 445.9	10 169.1	12 606.2	13 481.3	13 770.4
External public debt	29 121.3	30 682.6	33 472.9	34 483.6	34 275.5	33 669.8	32 012.7	33 886.1	38 873.1	42 355.6	44 079.9
Central America	26 182.1	27 553.4	29 797.0	30 315.8	29 622.6	28 602.9	26 569.4	27 717.5	31 306.2	33 745.4	35 277.0
Costa Rica	3 242.5	3 337.7	3 729.8	3 883.7	3 632.3	3 607.2	3 212.7	3 186.1	3 556.4	4 206.4	4 345.3
El Salvador	3 147.7	3 987.1	4 717.2	4 777.9	4 976.1	5 692.6	5 444.3	5 837.3	6 550.3	6 831.4	7 141.6
Guatemala	2 925.0	3 119.1	3 467.2	3 843.8	3 723.2	3 958.3	4 226.0	4 382.4	4 927.6	5 562.0	5 604.9
Honduras	4 229.6	4 397.8	4 783.4	5 200.6	4 363.8	3 029.9	2 026.2	2 322.9	2 460.8	2 830.7	3 202.2
Nicaragua	6 374.5	6 362.6	6 595.8	5 390.6	5 347.5	4 526.6	3 384.6	3 511.5	3 660.9	3 876.4	4 072.6
Panama	6 262.8	6 349.1	6 503.6	7 219.2	7 579.7	7 788.3	8 275.6	8 477.3	10 150.2	10 438.5	10 910.4
Dominican Republic	2 939.2	3 129.2	3 675.9	4 167.8	4 652.9	5 066.9	5 443.3	6 168.7	7 566.9	8 610.2	8 802.9
External public debt servicing	4 057.1	4 450.8	4 153.7	4 875.5	5 861.6	8 538.4	5 802.5	5 834.5	5 189.5	5 096.0	5 975.0
Central America	3 013.6	3 548.1	3 028.7	3 904.6	4 973.2	7 056.7	4 338.5	3 941.6	3 459.6	2 997.5	3 533.3
Costa Rica	708.5	691.6	1 125.9	1 096.5	759.7	536.6	553.7	844.3	748.0	508.8	950.9
El Salvador	534.9	733.0	498.1	946.4	920.3	1 136.9	904.3	770.4	1 005.4	904.6	1 505.0
Guatemala	322.6	306.9	313.3	391.5	396.8	566.8	601.7	506.4	520.9	538.4	883.6
Honduras	343.8	263.9	230.7	330.9	1 097.2	1 766.6	1 349.2	166.5	242.1	107.2	96.1
Nicaragua	153.3	158.0	98.3	76.3	92.6	102.0	151.1	101.3	104.6	96.8	97.7
Panama	950.5	1 394.7	762.4	1 063.0	1 706.7	2 947.9	778.5	1 552.7	838.6	841.7	...
Dominican Republic	1 043.6	902.7	1 125.0	970.9	888.4	1 481.7	1 464.0	1 892.9	1 729.8	2 098.5	2 441.7

Table 18 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
Domestic public debt	12 159.8	12 257.9	12 858.0	14 689.0	15 225.7	16 100.1	16 618.8	19 977.7	22 865.8	26 786.8	31 967.7
Central America	11 558.8	11 747.6	12 261.3	13 690.9	14 250.9	14 988.7	15 616.2	15 977.2	17 826.4	21 915.7	27 000.2
Costa Rica	4 308.2	4 532.4	4 468.8	4 883.2	4 838.9	5 107.8	5 273.9	5 004.4	6 463.9	8 703.5	10 596.0
El Salvador	2 351.5	2 339.3	2 367.6	2 517.4	2 745.6	2 681.4	3 208.1	3 886.2	4 623.2	4 946.8	5 809.6
Guatemala	1 164.5	1 050.6	1 375.4	1 659.7	2 161.8	2 654.7	3 177.6	3 376.2	3 673.2	4 594.2	5 789.0
Honduras	196.0	206.4	397.6	322.8	322.4	421.1	405.6	496.4	924.7	1 216.2	1 731.8
Nicaragua	1 400.6	1 446.7	1 493.9	1 426.2	1 437.8	1 336.0	1 267.8	1 254.0	1 318.3	1 264.0	1 169.9
Panama	2 138.0	2 172.1	2 158.0	2 881.6	2 744.5	2 787.7	2 283.1	1 960.1	823.1	1 191.0	1 903.8
Dominican Republic	600.9	510.3	596.7	998.1	974.9	1 111.3	1 002.6	4 000.4	5 039.3	4 871.1	4 967.5
Domestic public debt servicing	2 895.0	4 557.5	3 535.5	3 570.7	6 197.9	6 585.5	6 049.8	5 560.5	9 983.5	9 895.9	10 888.4
Central America	2 895.0	4 557.5	3 535.5	3 570.7	5 026.7	5 721.8	5 465.6	4 818.4	8 432.7	8 023.2	8 642.0
Costa Rica	...	...	...	1 957.9	3 188.8	3 710.9	3 087.1	2 243.1	3 232.7	4 400.8	5 992.8
El Salvador	533.4	856.9	63.5	239.1	272.5	309.0	330.9	612.6	1 363.3	881.3	501.9
Guatemala	1 204.9	520.5	398.8	365.8	405.0	635.0	406.4	520.6	387.5	556.9	599.4
Honduras	174.2	126.7	143.5	241.0	210.2	242.4	223.7	126.3	142.6	548.6	0.0
Nicaragua	600.5	2 738.6	2 340.0	354.2	357.4	415.1	454.5	511.1	745.2	661.0	573.4
Panama	381.9	314.8	589.8	412.6	592.8	409.4	963.0	804.6	2 561.5	974.6	974.6
Dominican Republic	...	...	...	...	1 171.3	863.7	584.2	742.1	1 550.7	1 872.7	2 246.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 19
Central America and the Dominican Republic: public debt indicators, 1990-2011
(Percentages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total public debt/GDP	92.9	78.7	69.6	65.0	61.7	54.1	44.5	40.8	39.5	40.7	40.3
Central America	100.0	88.3	79.4	78.0	74.3	65.3	53.8	49.6	47.9	49.4	49.0
Costa Rica	55.6	45.6	46.5	43.6	45.1	43.1	46.5	39.4	40.8	37.9	41.6
El Salvador	43.2	59.0	55.8	43.9	42.0	37.1	38.3	36.3	33.0	34.6	36.5
Guatemala	41.9	33.1	28.6	23.4	23.3	19.4	18.6	17.3	16.9	19.8	19.5
Honduras	112.7	100.6	94.5	100.9	107.1	96.1	89.2	83.5	76.9	79.3	60.3
Nicaragua	637.9	611.4	602.0	630.6	399.2	329.1	195.5	202.0	200.6	195.0	193.1
Panama	105.6	99.5	74.8	97.8	94.5	95.8	73.5	67.1	64.8	67.2	66.5
Dominican Republic	64.5	47.0	38.3	24.5	21.8	19.3	16.5	14.1	13.5	13.8	14.4
Domestic public debt/GDP	89.0	73.5	63.5	55.5	51.6	45.0	34.3	31.3	30.3	31.2	29.4
Central America	95.1	81.5	71.4	65.4	61.0	53.3	40.3	37.0	35.7	36.8	35.2
Costa Rica	55.6	45.6	38.4	32.8	30.8	27.8	24.1	20.6	20.4	19.3	19.8
El Salvador	43.2	41.4	39.3	28.5	25.4	22.8	24.4	24.2	22.0	22.4	21.6
Guatemala	32.6	25.3	21.5	18.2	16.6	14.4	13.2	12.0	12.2	14.3	13.7
Honduras	89.9	82.2	78.7	87.3	95.7	88.1	83.1	77.8	72.9	76.6	57.7
Nicaragua	637.9	611.4	602.0	625.6	393.3	321.4	183.9	177.4	176.2	175.0	169.1
Panama	105.6	99.5	74.8	72.7	71.2	74.5	54.4	50.1	48.9	48.6	48.2
Dominican Republic	64.5	47.0	38.3	24.5	21.8	19.3	16.5	14.1	13.5	13.8	12.4
Domestic public debt	3.9	5.3	6.1	9.5	10.1	9.1	10.1	9.5	9.2	9.5	10.8
Central America	4.9	6.9	8.0	12.6	13.3	12.1	13.5	12.6	12.1	12.6	13.8
Costa Rica	0.0	0.0	8.1	10.8	14.2	15.3	22.4	18.9	20.4	18.5	21.9
El Salvador	0.0	17.6	16.5	15.4	16.5	14.3	13.9	12.2	10.9	12.3	15.0
Guatemala	9.3	7.8	7.1	5.2	6.6	5.1	5.4	5.3	4.7	5.5	5.8
Honduras	22.7	18.4	15.7	13.7	11.3	8.1	6.1	5.7	4.0	2.6	2.6
Nicaragua	0.0	0.0	0.0	5.0	5.9	7.7	11.6	24.6	24.4	20.0	24.0
Panama	0.0	0.0	0.0	25.1	23.3	21.2	19.1	17.0	15.9	18.6	18.3
Dominican Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9
Total public debt/Exports of goods and services	266.4	248.8	216.6	174.6	166.6	145.5	124.2	108.6	105.4	109.2	101.0
Central America	270.0	248.8	214.6	208.3	199.3	172.3	147.9	130.0	125.6	131.9	120.3
Costa Rica	161.6	149.2	130.2	120.7	124.7	113.6	114.1	94.6	83.5	72.4	85.5
El Salvador	213.3	349.1	340.7	222.6	206.9	172.7	179.3	138.9	129.9	136.0	131.1
Guatemala	204.0	186.0	157.8	132.6	132.2	101.8	105.7	97.1	94.7	105.8	79.4
Honduras	312.1	299.4	302.8	287.9	265.1	216.8	188.0	178.6	163.3	191.0	111.3
Nicaragua	2 732.2	3 048.6	3 489.4	3 016.1	2 414.5	1 589.3	896.7	759.5	759.1	759.4	690.0
Panama	126.4	107.5	78.5	105.7	98.2	99.5	92.8	81.4	87.7	108.4	98.9
Dominican Republic	245.6	248.4	230.9	67.1	60.2	55.3	48.2	39.2	38.2	37.5	38.5

Table 19 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Servicing of total external public debt/ Exports of goods and services	23.5	20.7	14.8	11.5	9.6	9.3	11.1	12.4	11.3	10.3	10.6
Central America	26.9	22.8	15.7	14.2	11.8	11.3	14.0	15.8	10.8	10.2	10.0
Costa Rica	66.9	15.9	16.6	15.1	12.8	13.0	11.5	12.2	6.9	6.4	7.6
El Salvador	32.1	22.7	19.9	15.6	11.1	14.7	20.1	29.0	21.2	17.7	9.9
Guatemala	32.2	47.1	38.0	28.9	17.9	11.3	12.9	10.1	7.4	6.9	4.9
Honduras	33.9	36.6	32.9	33.4	27.8	21.1	22.2	22.8	18.3	14.8	20.0
Nicaragua	13.8	182.6	45.8	54.8	52.8	49.9	33.3	39.5	22.5	17.8	16.8
Panama	5.7	5.4	3.6	3.3	3.8	3.9	10.1	11.2	7.9	10.5	9.7
Dominican Republic	4.0	7.6	8.6	3.0	2.4	2.5	1.9	1.6	13.2	10.4	12.4
Servicing of total external public debt /Tax revenues	75.8	62.6	42.4	38.3	34.0	31.2	36.8	41.6	37.3	33.0	36.8
Central America	91.7	74.9	51.2	47.3	42.3	38.5	46.6	54.5	36.7	33.6	36.8
Costa Rica	164.3	42.9	50.0	45.3	40.0	40.0	37.4	40.6	27.0	28.0	30.2
El Salvador	71.3	40.3	33.8	29.9	21.6	28.3	41.0	74.5	53.5	44.2	27.0
Guatemala	96.8	115.0	83.4	62.6	45.3	27.1	25.8	19.3	14.2	13.1	12.0
Honduras	82.8	79.7	64.1	75.1	75.5	57.5	72.2	75.5	50.6	34.8	79.1
Nicaragua	23.1	200.8	39.8	59.7	73.3	84.7	58.9	76.4	41.5	32.9	34.0
Panama	40.7	40.1	27.9	25.8	31.3	30.2	75.8	86.2	57.4	61.4	67.7
Dominican Republic	9.9	15.5	13.1	9.9	8.1	8.0	6.3	4.9	38.9	31.2	36.9
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [a]
Total public debt/GDP	42.4	41.9	46.0	45.7	38.7	35.5	30.5	30.0	34.5	34.7	34.3
Central America	52.1	51.7	52.8	51.3	46.5	41.7	35.7	32.7	37.1	37.7	37.4
Costa Rica	46.0	46.7	46.8	47.1	42.4	38.7	32.2	27.5	34.1	35.6	36.4
El Salvador	39.8	44.2	47.1	46.2	45.2	45.1	43.0	45.4	54.1	55.0	56.2
Guatemala	21.8	20.0	22.1	22.9	21.6	21.8	21.7	19.8	22.8	24.5	24.3
Honduras	58.5	59.2	63.6	63.0	48.5	31.8	19.8	20.4	24.0	26.5	28.5
Nicaragua	189.5	194.0	197.2	152.7	139.3	112.1	82.2	74.8	80.1	78.0	71.8
Panama	71.1	69.4	67.0	71.2	66.8	61.7	53.3	45.4	45.4	43.7	41.8
Dominican Republic	14.2	13.8	20.3	23.8	16.7	17.3	15.7	22.3	27.0	26.1	24.7
External public debt/GDP	29.9	30.0	33.2	32.1	26.8	24.0	20.1	18.9	21.7	21.3	19.9
Central America	36.2	36.2	37.4	35.3	31.4	27.4	22.5	20.7	23.7	22.9	21.2
Costa Rica	19.8	19.8	21.3	20.9	18.2	16.0	12.2	10.7	12.1	11.6	10.6
El Salvador	22.8	27.9	31.4	30.2	29.1	30.7	27.1	27.2	31.7	31.9	31.0
Guatemala	15.6	15.0	15.8	16.0	13.7	13.1	12.4	11.2	13.0	13.4	11.9
Honduras	55.9	56.6	58.8	59.3	45.1	27.9	16.5	16.8	17.5	18.5	18.5
Nicaragua	155.4	158.0	160.8	120.7	109.8	86.5	59.8	55.1	58.9	58.8	55.8
Panama	53.0	51.7	50.3	50.9	49.0	45.4	41.8	36.9	42.0	39.3	35.6
Dominican Republic	11.8	11.9	17.5	19.2	13.8	14.2	13.2	13.5	16.2	16.7	15.8

Table 19 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[a]
Domestic public debt	12.5	12.0	12.8	13.7	11.9	11.5	10.4	11.1	12.8	13.4	14.4
Central America	16.0	15.5	15.4	16.0	15.1	14.3	13.2	12.0	13.5	14.9	16.2
Costa Rica	26.3	26.9	25.5	26.3	24.2	22.7	20.0	16.8	22.0	24.0	25.8
El Salvador	17.0	16.4	15.7	15.9	16.1	14.5	16.0	18.1	22.4	23.1	25.2
Guatemala	6.2	5.0	6.3	6.9	7.9	8.8	9.3	8.6	9.7	11.1	12.3
Honduras	2.6	2.7	4.9	3.7	3.3	3.9	3.3	3.6	6.6	8.0	10.0
Nicaragua	34.1	35.9	36.4	31.9	29.5	25.5	22.4	19.7	21.2	19.2	16.0
Panama	18.1	17.7	16.7	20.3	17.7	16.3	11.5	8.5	3.4	4.5	6.2
Dominican Republic	2.4	1.9	2.8	4.6	2.9	3.1	2.4	8.8	10.8	9.4	8.9
Total public debt/Exports of goods and services	112.3	115.3	116.3	111.1	100.5	89.8	78.6	78.9	97.8	96.9	88.7
Central America	132.9	135.6	136.1	126.4	111.9	98.5	84.5	77.2	93.1	93.6	86.7
Costa Rica	110.2	110.3	100.2	101.8	87.1	78.7	66.0	59.8	80.2	93.2	97.1
El Salvador	153.0	166.4	172.8	170.0	175.1	174.5	166.3	168.8	233.1	212.1	200.0
Guatemala	83.3	82.9	90.1	88.7	87.0	87.0	85.0	79.8	93.3	93.8	88.5
Honduras	112.7	107.4	119.2	106.7	81.5	57.3	37.0	39.7	58.6	59.8	59.5
Nicaragua	695.2	685.1	615.8	411.9	345.7	257.4	181.7	155.9	168.8	137.8	111.2
Panama	105.1	112.2	114.2	113.8	97.3	84.8	75.1	60.6	62.5	62.0	53.2
Dominican Republic	42.2	44.2	47.8	54.7	56.0	55.4	53.9	87.1	122.5	113.2	99.2
Servicing of total external public debt/Exports of goods and services	11.0	12.0	10.4	11.0	11.9	15.4	9.4	8.5	8.2	7.1	7.0
Central America	10.6	12.2	9.8	11.2	12.7	15.9	8.7	7.0	6.6	5.0	4.9
Costa Rica	10.3	9.7	13.8	12.7	7.8	4.8	4.3	6.2	6.0	3.7	6.2
El Salvador	14.9	19.3	12.1	22.1	20.9	23.7	17.4	13.4	21.0	16.3	23.2
Guatemala	6.6	6.1	5.8	6.3	5.9	7.5	6.9	5.2	5.6	5.0	6.9
Honduras	8.8	6.2	5.3	6.4	19.1	29.3	20.6	2.3	4.2	1.6	1.2
Nicaragua	13.7	13.9	7.5	4.6	4.7	4.5	5.9	3.3	3.5	2.6	2.1
Panama	11.9	18.4	10.1	12.0	16.1	23.6	5.5	9.0	4.8	4.5	0.0
Dominican Republic	12.4	11.0	12.6	10.3	8.8	13.3	12.2	16.2	16.8	17.6	17.6
Servicing of total external public debt/Tax revenues	34.6	35.5	34.5	37.4	35.8	45.0	25.7	23.7	23.0	20.2	20.8
Central America	36.6	39.8	31.9	38.1	43.4	51.8	27.1	22.1	21.1	16.1	16.4
Costa Rica	32.7	31.1	48.2	44.2	28.0	17.0	13.8	18.1	18.5	10.5	17.0
El Salvador	36.9	46.0	28.7	52.0	43.2	45.7	33.2	26.7	38.5	31.4	47.1
Guatemala	15.9	12.4	12.2	14.1	13.0	15.8	14.6	11.5	13.3	12.5	17.0
Honduras	33.5	25.4	20.6	26.0	78.0	106.9	67.1	7.5	11.8	4.7	3.7
Nicaragua	29.4	29.1	15.8	10.8	11.4	11.0	14.7	9.0	9.6	8.1	6.9
Panama	91.6	132.7	67.6	87.9	127.1	162.5	36.5	62.5	30.6	27.1	0.0
Dominican Republic	30.0	24.9	44.2	34.7	18.1	27.7	22.3	27.7	28.2	31.7	34.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 20

Central America and the Dominican Republic: nominal and real bilateral exchange rates with respect to the United States dollar, 1990-2011

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	(Local currency units to the dollar) [a]										
Nominal exchange rate											
Costa Rica	91.57	122.43	134.48	142.13	157.03	179.65	207.62	232.53	257.12	285.61	308.13
El Salvador	7.67	8.08	8.44	8.78	8.78	8.79	8.79	8.79	8.79	8.79	8.75
Guatemala	4.50	4.99	5.15	5.60	5.75	5.80	6.08	6.06	6.39	7.38	7.76
Honduras	4.38	5.40	5.63	6.57	8.51	9.59	11.84	13.14	13.54	14.35	15.01
Nicaragua	689 955.21	4.28	5.00	6.12	6.73	7.54	8.45	9.45	10.59	11.81	12.68
Panama	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Dominican Republic	8.65	12.58	12.50	12.50	12.62	12.87	12.90	14.01	14.70	15.83	16.18
Real exchange rate at 2000 prices											
Costa Rica	303.42	328.53	305.29	302.58	302.12	288.45	292.00	295.54	297.20	306.56	308.13
El Salvador	12.49	11.98	11.59	10.47	10.03	9.41	8.82	8.64	8.55	8.70	8.75
Guatemala	10.14	8.67	8.37	8.27	7.73	7.40	7.20	6.71	6.74	7.56	7.76
Honduras	17.75	17.00	16.81	18.23	19.90	17.80	18.26	17.26	15.89	15.41	15.01
Nicaragua	0.00	9.53	9.24	10.14	10.55	10.95	11.32	11.86	11.94	12.23	12.68
Panama	0.86	0.87	0.89	0.91	0.92	0.94	0.95	0.96	0.97	0.98	1.00
Dominican Republic	17.71	18.25	17.93	17.53	16.77	15.63	15.30	15.70	15.96	16.50	16.18
					(Index: 2000 = 100)						
Nominal exchange rate index											
Costa Rica	29.72	39.73	43.64	46.13	50.96	58.30	67.38	75.47	83.44	92.69	100.00
El Salvador	87.69	92.31	96.46	100.34	100.34	100.46	100.49	100.46	100.46	100.46	100.00
Guatemala	57.99	64.33	66.45	72.26	74.08	74.80	78.45	78.12	82.36	95.12	100.00
Honduras	29.19	35.94	37.52	43.77	56.69	63.84	78.83	87.48	90.19	95.54	100.00
Nicaragua	5 439 410.34	33.75	39.42	48.25	53.05	59.42	66.62	74.49	83.51	93.10	100.00
Panama	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Dominican Republic	53.46	77.72	77.25	77.25	77.97	79.54	79.70	86.56	90.86	97.85	100.00
Real exchange rate index											
Costa Rica	98.47	106.62	99.08	98.20	98.05	93.61	94.77	95.91	96.45	99.49	100.00
El Salvador	142.72	136.89	132.46	119.71	114.61	107.50	100.82	98.78	97.76	99.38	100.00
Guatemala	130.70	111.84	107.96	106.63	99.69	95.46	92.79	86.57	86.93	97.51	100.00
Honduras	118.19	113.24	111.93	121.39	132.52	118.52	121.65	114.94	105.86	102.63	100.00
Nicaragua	0.00	75.12	72.88	79.97	83.14	86.29	89.21	93.46	94.13	96.43	100.00
Panama	85.77	87.36	88.91	90.97	92.16	93.81	95.31	96.39	97.27	98.18	100.00
Dominican Republic	109.46	112.78	110.78	108.36	103.66	96.60	94.53	97.01	98.65	101.97	100.00

Table 20 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [b]
	(Local currency units to the dollar) [a]										
Nominal exchange rate											
Costa Rica	328.81	359.72	398.55	437.82	477.68	511.23	516.62	526.24	573.29	525.83	505.66
El Salvador	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Guatemala	7.85	7.81	7.93	7.94	7.62	7.59	7.66	7.55	8.15	8.05	7.77
Honduras	15.65	16.61	17.54	18.41	19.00	19.03	19.03	19.03	19.03	19.03	19.05
Nicaragua	13.44	14.25	15.11	15.94	16.73	17.57	18.45	19.37	20.34	21.36	22.42
Panama	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Dominican Republic	16.69	17.59	29.37	41.93	30.28	33.30	33.17	34.53	35.97	36.82	38.09
Real exchange rate at 2000 prices											
Costa Rica	303.89	309.37	320.30	321.66	318.86	316.01	300.35	280.08	281.93	248.75	235.28
El Salvador	8.67	8.65	8.66	8.51	8.41	8.34	8.20	7.94	7.87	7.91	7.76
Guatemala	7.53	7.03	6.91	6.60	6.01	5.80	5.64	5.18	5.47	5.28	4.96
Honduras	14.68	14.69	14.74	14.69	14.40	14.10	13.56	12.64	11.94	11.59	11.21
Nicaragua	13.04	13.54	13.94	13.92	13.79	13.69	13.31	12.11	12.22	12.36	12.39
Panama	1.03	1.03	1.04	1.06	1.07	1.08	1.06	1.01	0.99	0.97	0.94
Dominican Republic	15.76	16.04	21.49	20.80	14.90	15.73	15.18	14.83	15.18	14.85	14.61
	(Index:(2000=100))										
Nominal exchange rate index											
Costa Rica	106.71	116.74	129.35	142.09	155.03	165.91	167.66	170.78	186.05	170.65	164.11
El Salvador	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Guatemala	101.21	100.71	102.23	102.32	98.30	97.91	98.82	97.32	105.07	103.74	100.22
Honduras	104.24	110.65	116.85	122.63	126.53	126.73	126.73	126.75	126.73	126.73	126.87
Nicaragua	105.99	112.35	119.09	125.65	131.92	138.52	145.44	152.72	160.38	168.37	176.79
Panama	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Dominican Republic	103.15	108.72	181.50	259.13	187.15	205.79	205.00	213.39	222.30	227.55	235.38
Real exchange rate index											
Costa Rica	98.62	100.40	103.95	104.39	103.48	102.56	97.47	90.90	91.50	80.73	76.36
El Salvador	99.11	98.84	98.98	97.30	96.09	95.34	93.77	90.78	89.98	90.39	88.69
Guatemala	97.03	90.71	89.14	85.16	77.52	74.80	72.69	66.76	70.51	68.12	63.91
Honduras	97.74	97.86	98.16	97.83	95.92	93.93	90.34	84.22	79.54	77.21	74.69
Nicaragua	102.83	106.73	109.88	109.73	108.69	107.94	104.89	95.45	96.33	97.47	97.68
Panama	102.51	103.09	103.96	106.24	106.79	107.59	106.23	101.43	98.69	96.92	94.44
Dominican Republic	97.41	99.13	132.79	128.52	92.11	97.19	93.82	91.65	93.78	91.76	90.28

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] For Costa Rica and El Salvador, colones; for Guatemala, quetzales; for Honduras, lempiras; for Nicaragua, córdobas; for Panama, balboas; and for the Dominican Republic, Dominican pesos.

[b] Preliminary figures.

Table 21

Central America and the Dominican Republic: central government indicators, 1990-2011

(Percentages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total income/Gross domestic product (GDP) [a]	15.3	16.1	15.9	16.0	13.5	14.6	13.9	14.0	14.3	14.9	14.5
Costa Rica	14.5	11.6	12.2	12.2	11.9	12.6	12.8	12.7	12.7	12.5	12.5
El Salvador	12.2	12.3	12.9	13.2	13.2	13.1	12.9	11.8	11.7	11.3	12.1
Guatemala	8.1	9.1	10.6	9.4	7.9	8.9	9.5	10.0	10.3	11.0	11.0
Honduras	17.0	18.0	18.5	18.0	16.7	19.1	17.4	17.6	19.3	20.0	15.7
Nicaragua	17.6	32.0	25.6	28.2	15.6	18.0	17.1	17.1	17.4	19.6	18.8
Panama	24.4	18.5	19.0	18.6	17.7	18.7	16.3	16.3	16.2	17.0	18.2
Dominican Republic	12.9	11.1	12.4	12.4	11.7	11.9	11.4	12.7	12.5	12.8	13.3
Total expenditure/GDP [a]	18.6	16.9	17.8	17.9	16.2	15.7	15.8	15.5	16.2	17.3	16.9
Costa Rica	19.0	14.1	13.7	13.7	17.3	16.0	16.8	15.6	15.1	14.7	15.5
El Salvador	13.4	15.5	16.2	14.5	13.9	13.6	14.9	12.9	13.6	13.5	14.3
Guatemala	10.2	9.1	10.7	10.7	9.3	9.4	9.4	10.7	12.5	13.8	12.8
Honduras	24.1	22.2	25.4	27.9	23.8	23.3	21.2	20.6	20.4	23.6	19.9
Nicaragua	33.0	27.7	29.0	28.2	18.8	18.3	18.1	17.9	18.5	22.5	23.6
Panama	18.0	21.0	19.6	17.8	18.4	17.9	17.5	17.1	20.4	19.0	19.3
Dominican Republic	12.5	8.4	9.8	12.3	12.1	11.5	12.6	13.7	12.7	14.1	12.9
Fiscal deficit/GDP [a]	- 3.3	- 0.8	- 1.9	- 1.9	- 2.7	- 1.1	- 1.9	- 1.5	- 1.9	- 2.4	- 2.4
Costa Rica	-4.4	-2.4	-1.5	-1.5	-5.4	-3.5	-4.0	-2.9	-2.5	-2.2	-3.0
El Salvador	-1.2	-3.2	-3.3	-1.3	-0.7	-0.6	-2.0	-1.1	-2.0	-2.1	-2.3
Guatemala	-2.1	0.0	-0.0	-1.3	-1.4	-0.5	0.1	-0.7	-2.2	-2.8	-1.8
Honduras	-7.2	-4.2	-6.9	-9.9	-7.0	-4.2	-3.8	-3.0	-1.1	-3.6	-4.1
Nicaragua	-15.4	4.2	-3.4	-0.1	-3.2	-0.3	-0.9	-0.8	-1.1	-2.9	-4.7
Panama	6.4	-2.5	-0.6	0.8	-0.7	0.9	-1.1	-0.8	-4.2	-2.0	-1.1
Dominican Republic	0.5	2.6	2.6	0.1	-0.4	0.4	-1.2	-1.0	-0.2	-1.3	0.4
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [b]
Total income/GDP [a]	14.8	15.1	15.1	15.1	15.6	17.3	18.0	17.6	16.9	16.7	17.1
Costa Rica	13.4	13.3	13.9	13.6	13.9	14.2	15.5	15.9	14.0	14.4	14.6
El Salvador	11.9	12.5	13.2	13.3	13.5	14.5	14.8	15.1	13.8	15.0	15.4
Guatemala	12.4	12.8	12.5	12.3	12.0	12.7	12.8	12.0	11.1	11.2	11.8
Honduras	16.7	16.4	16.5	17.2	17.6	18.1	19.1	19.9	17.5	17.4	17.3
Nicaragua	17.0	19.5	21.2	20.5	21.4	23.1	23.4	21.9	21.3	21.6	23.0
Panama	17.7	16.8	15.4	14.4	15.2	22.1	22.4	22.6	26.8	23.8	23.8
Dominican Republic	14.5	14.6	13.1	14.1	15.7	16.2	17.7	15.9	13.7	13.6	13.5

Table 21 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[b]
Total expenditure/GDP[a]	18.2	17.6	18.2	17.6	17.5	17.5	17.9	18.6	19.2	19.3	19.1
Costa Rica	16.4	17.6	16.8	16.3	16.0	15.3	14.9	15.7	17.4	19.6	18.7
El Salvador	15.5	15.7	15.9	14.4	14.5	14.9	15.0	15.8	17.6	17.7	17.7
Guatemala	14.5	13.9	15.1	13.4	13.7	14.7	14.3	13.6	14.2	14.5	14.7
Honduras	21.7	20.3	21.3	19.8	19.8	19.2	22.0	22.4	23.8	22.1	21.9
Nicaragua	24.1	20.8	23.2	22.8	23.2	23.0	23.1	23.2	24.1	22.6	22.6
Panama	19.4	18.8	19.2	19.8	18.4	18.5	18.5	20.2	20.5	22.4	21.9
Dominican Republic	15.6	16.2	16.1	16.6	16.8	17.3	17.6	19.5	16.9	16.4	16.1
Fiscal deficit/GDP[a]	- 3.4	- 2.5	- 3.1	- 2.5	- 1.9	- 0.3	0.1	- 1.0	- 2.3	- 2.6	- 2.0
Costa Rica	-2.9	-4.3	-2.9	-2.7	-2.1	-1.1	0.6	0.2	-3.4	-5.2	-4.1
El Salvador	-3.6	-3.1	-2.7	-1.1	-1.0	-0.4	-0.2	-0.6	-3.7	-2.7	-2.3
Guatemala	-2.1	-1.1	-2.6	-1.1	-1.7	-1.9	-1.4	-1.6	-3.1	-3.3	-2.8
Honduras	-5.1	-3.9	-4.7	-2.6	-2.2	-1.1	-2.9	-2.4	-6.2	-4.8	-4.6
Nicaragua	-7.1	-1.3	-2.0	-2.2	-1.9	0.1	0.4	-1.2	-2.8	-1.0	0.5
Panama	-1.7	-1.9	-3.8	-5.4	-3.2	3.6	3.9	2.4	6.3	1.4	1.9
Dominican Republic	-1.1	-1.6	-3.0	-2.4	-1.1	-1.1	0.1	-3.7	-3.2	-2.7	-2.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Simple average.

[b] Preliminary figures.

Table 22

Central America and the Dominican Republic: tax revenues of the central government, 1990-2011

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						(Millions of dollars)					
Total	3 772.5	4 422.8	5 424.5	5 988.9	6 271.5	7 480.9	7 852.9	8 945.3	9 820.1	10 304.4	10 887.2
Central America	3 039.8	3 512.1	4 172.8	4 539.9	4 740.8	5 690.9	5 933.3	6 613.8	7 292.7	7 653.8	7 875.7
Costa Rica	799.7	809.1	1 018.6	1 156.3	1 224.3	1 446.0	1 487.3	1 607.4	1 771.7	1 886.7	1 959.4
El Salvador	438.3	506.3	574.1	714.6	843.2	1 062.5	1 080.3	1 131.8	1 208.9	1 274.7	1 344.1
Guatemala	521.2	691.8	863.4	933.2	901.9	1 167.9	1 384.4	1 667.5	1 811.8	1 811.4	1 934.5
Honduras	422.8	465.9	533.5	537.9	503.6	636.5	589.1	658.7	884.2	949.5	973.8
Nicaragua	233.9	307.7	355.9	337.0	353.9	389.0	408.3	464.9	511.1	520.5	544.0
Panama	623.8	731.3	827.4	860.9	913.9	989.0	983.8	1 083.6	1 105.0	1 211.0	1 120.0
Dominican Republic	732.7	910.7	1 251.7	1 449.0	1 530.7	1 790.1	1 919.6	2 331.5	2 527.4	2 650.5	3 011.4
						(Percentages of GDP)					
Total	10.8	10.5	11.2	11.2	10.4	11.1	10.8	11.3	11.4	11.6	11.5
Central America	10.9	10.8	11.3	11.2	10.4	11.2	10.9	11.0	11.2	11.4	11.1
Costa Rica	14.0	11.3	11.9	12.0	11.6	12.3	12.6	12.5	12.6	11.9	12.3
El Salvador	9.1	9.5	9.6	10.3	10.4	11.2	10.5	10.2	10.1	10.2	10.2
Guatemala	6.8	7.3	8.2	8.1	6.9	8.0	8.8	9.4	9.3	9.9	10.0
Honduras	14.8	15.4	16.0	15.6	14.9	16.3	14.6	14.1	17.0	17.7	13.7
Nicaragua	13.9	18.2	19.8	19.2	11.9	12.2	12.3	13.7	14.3	13.9	13.8
Panama	11.7	12.5	12.5	11.9	11.8	12.5	10.6	10.7	10.1	10.6	9.6
Dominican Republic	10.5	9.3	10.9	11.2	10.6	10.9	10.6	11.9	11.9	12.2	12.5
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011** [a]
						(Millions of dollars)					
Total	11 712.3	12 553.6	12 047.4	13 053.4	16 369.4	18 956.6	22 585.0	24 635.6	22 561.5	25 252.4	28 712.9
Central America	8 233.8	8 923.4	9 501.8	10 255.9	11 467.2	13 616.9	16 014.2	17 796.0	16 435.2	18 627.4	21 541.7
Costa Rica	2 168.3	2 226.8	2 337.7	2 480.3	2 714.3	3 151.2	4 000.7	4 660.1	4 041.0	4 854.9	5 608.7
El Salvador	1 448.9	1 595.2	1 736.3	1 820.0	2 131.7	2 487.5	2 724.4	2 885.8	2 609.4	2 881.6	3 193.3
Guatemala	2 029.3	2 470.3	2 558.0	2 769.1	3 057.6	3 586.9	4 115.9	4 419.4	3 903.7	4 322.0	5 184.1
Honduras	1 027.6	1 037.1	1 119.0	1 271.6	1 405.8	1 652.1	2 011.3	2 224.4	2 051.5	2 269.0	2 599.9
Nicaragua	521.8	543.0	623.7	706.1	815.5	925.6	1 029.0	1 121.7	1 090.1	1 198.0	1 419.2
Panama	1 038.0	1 051.0	1 127.0	1 208.9	1 342.4	1 813.5	2 132.8	2 484.6	2 739.4	3 101.8	3 536.6
Dominican Republic	3 478.4	3 630.2	2 545.6	2 797.5	4 902.1	5 339.7	6 570.8	6 839.6	6 126.3	6 625.0	7 171.2

Table 22 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
	(Percentages of GDP)										
Total	12.0	12.3	12.0	12.1	12.8	13.5	14.2	13.7	12.6	12.7	12.9
Central America	11.4	11.7	11.9	12.0	12.2	13.0	13.5	13.3	12.4	12.6	13.0
Costa Rica	13.2	13.2	13.3	13.3	13.6	14.0	15.2	15.6	13.8	13.4	13.7
El Salvador	10.5	11.2	11.5	11.5	12.5	13.4	13.6	13.5	12.6	13.4	13.9
Guatemala	10.8	11.9	11.7	11.5	11.2	11.9	12.1	11.3	10.3	10.4	11.0
Honduras	13.6	13.3	13.7	14.5	14.5	15.2	16.4	16.1	14.6	14.8	15.0
Nicaragua	12.7	13.5	15.2	15.8	16.7	17.7	18.2	17.6	17.5	18.2	19.4
Panama	8.8	8.6	8.7	8.5	8.7	10.6	10.8	10.8	11.3	11.7	11.5
Dominican Republic	14.0	13.8	12.1	12.9	14.6	14.9	16.0	15.0	13.1	12.8	12.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 23

Central America and the Dominican Republic: monetary and financial overview, 2001-2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
						(Millions of dollars)					
Central America and the Dominican Republic											
Monetary assets	33 619.2	45 086.9	48 887.3	55 630.2	60 573.0	69 692.9	81 447.8	86 075.2	91 763.1	100 719.1	108 629.7
Net external assets	3 506.9	5 131.1	7 137.0	10 273.1	13 136.3	16 267.7	19 864.0	19 788.0	25 461.5	28 552.1	25 544.8
Net domestic assets	30 112.2	39 955.8	41 750.3	45 357.1	47 436.7	53 425.2	61 583.8	66 287.2	66 301.6	72 167.0	83 084.9
Public sector	5 140.1	4 616.8	5 327.3	7 632.6	9 132.9	12 208.5	11 938.1	12 720.0	15 023.0	16 289.3	18 947.9
Private sector	24 972.2	35 339.1	36 423.0	37 724.5	38 303.8	41 216.6	49 645.7	53 567.3	51 278.5	55 877.7	64 137.0
Money (M1)	8 832.5	10 595.5	11 289.8	12 358.2	14 138.9	17 754.9	21 471.2	21 771.3	23 250.4	27 126.8	30 056.2
Liquidity in national currency (M2)	27 294.7	37 545.3	38 860.2	43 823.9	47 760.4	56 068.2	66 382.0	69 259.5	73 213.2	81 032.4	87 342.8
Broad money (M3)	33 619.2	45 086.9	48 887.3	55 630.2	60 573.0	69 692.9	81 447.8	86 075.2	91 763.1	100 700.8	108 629.7
Costa Rica											
Monetary assets	6 280.1	6 850.6	7 739.0	8 674.2	10 225.6	12 062.0	15 135.4	15 997.4	17 016.8	18 868.5	20 467.0
Net external assets	325.5	479.3	813.9	1 364.2	2 470.1	3 237.9	3 645.8	3 197.0	4 038.3	4 480.5	3 703.1
Net domestic assets	5 954.6	6 371.3	6 925.0	7 310.0	7 755.5	8 824.1	11 489.6	12 800.4	12 978.5	14 388.0	16 763.8
Public sector	635.1	946.2	1 157.0	1 723.7	1 417.2	1 131.8	737.2	729.8	1 180.0	1 384.0	1 872.1
Private sector	5 319.5	5 425.1	5 768.0	5 586.4	6 338.3	7 692.3	10 752.4	12 070.6	11 798.5	13 003.9	14 891.7
Money (M1)	2 012.7	2 149.1	2 256.2	2 173.0	2 506.8	3 291.2	4 531.3	4 250.6	4 204.8	5 480.1	6 282.3
Liquidity in national currency (M2)	3 748.4	4 045.6	4 449.2	4 729.1	5 820.7	7 261.6	10 008.8	9 843.3	10 063.3	12 117.8	13 279.4
Broad money (M3)	6 280.1	6 850.6	7 739.0	8 674.2	10 225.6	12 062.0	15 135.4	15 997.4	17 016.8	18 868.5	20 467.0
El Salvador											
Monetary assets	7 271.4	7 074.9	7 190.5	7 420.0	7 784.0	8 710.5	10 263.5	10 203.3	10 417.0	10 411.5	10 065.8
Net external assets	1 463.7	1 307.0	1 062.8	1 033.9	1 126.8	1 422.9	2 205.7	2 149.8	2 970.7	3 246.5	2 471.8
Net domestic assets	5 807.7	5 767.9	6 127.7	6 386.1	6 657.2	7 287.6	8 057.7	8 053.5	7 446.3	7 165.0	7 594.0
Public sector	461.4	170.5	440.7	497.9	528.3	440.6	666.0	723.8	588.4	799.9	1 026.1
Private sector	5 346.3	5 597.4	5 687.0	5 888.2	6 129.0	6 847.0	7 391.7	7 329.7	6 857.9	6 365.1	6 567.9
Money (M1)	1 210.4	1 100.2	1 116.7	1 261.6	1 364.1	1 566.7	1 835.2	1 870.0	2 153.2	2 527.2	2 561.1
Liquidity in national currency (M2)	7 271.4	7 074.9	7 190.5	7 420.0	7 784.0	8 710.5	10 263.5	10 203.3	10 417.0	10 411.5	10 065.8
Broad money (M3)	7 271.4	7 074.9	7 190.5	7 420.0	7 784.0	8 710.5	10 263.5	10 203.3	10 417.0	10 411.5	10 065.8
Guatemala											
Monetary assets	5 974.2	6 639.1	9 336.5	10 730.5	12 425.3	14 027.9	15 454.1	16 446.1	17 068.3	19 372.3	21 353.2
Net external assets	1 138.2	1 176.6	2 621.1	3 163.7	3 337.6	3 671.1	3 741.5	4 114.0	5 068.5	5 904.4	5 385.1
Net domestic assets	4 836.0	5 462.5	6 715.4	7 566.8	9 087.7	10 356.8	11 712.6	12 332.2	11 999.8	13 468.0	15 968.0
Public sector	829.2	1 093.9	1 157.0	1 218.4	2 367.0	3 079.1	3 424.0	3 498.0	4 310.3	5 089.5	6 019.2
Private sector	4 006.9	4 368.6	5 558.4	6 348.4	6 720.7	7 277.6	8 288.6	8 834.1	7 689.5	8 378.4	9 948.8
Money (M1)	2 643.6	2 882.8	3 336.0	3 724.7	4 427.8	5 261.9	5 899.3	6 119.5	6 005.7	6 816.8	7 525.2
Liquidity in national currency (M2)	5 713.0	6 170.7	6 738.3	7 558.4	9 100.6	10 643.9	11 640.2	12 254.8	12 374.8	14 184.4	15 922.9
Broad money (M3)	5 974.2	6 639.1	9 336.5	10 730.5	12 425.3	14 027.9	15 454.1	16 446.1	17 068.3	19 372.3	21 353.2

Table 23 (continued)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
Honduras											
Monetary assets	3 353.8	3 557.9	3 804.5	4 278.7	4 950.3	6 018.9	7 019.6	7 361.3	7 402.6	8 127.2	9 075.3
Net external assets	1 784.2	1 980.5	1 907.9	2 438.3	2 783.7	2 947.4	2 757.9	2 755.6	2 210.1	2 702.3	2 808.2
Net domestic assets	1 569.6	1 577.4	1 896.6	1 840.4	2 166.7	3 071.5	4 261.7	4 605.7	5 192.6	5 424.9	6 267.1
Public sector	-85.5	-108.6	-5.2	-102.3	-116.0	-303.3	-257.8	-117.2	240.8	360.4	746.8
Private sector	1 655.1	1 686.1	1 901.8	1 942.6	2 282.7	3 374.8	4 519.5	4 722.9	4 951.8	5 064.5	5 520.3
Money (M1)	757.5	843.6	961.9	995.8	1 124.0	1 388.5	1 600.8	1 633.4	1 714.4	1 978.0	2 173.0
Liquidity in national currency (M2)	2 480.1	2 599.1	2 780.3	3 080.6	3 640.2	4 512.8	5 286.6	5 418.2	5 408.8	6 126.4	6 871.9
Broad money (M3)	3 353.8	3 557.9	3 804.5	4 278.7	4 950.3	6 018.9	7 019.6	7 361.3	7 402.6	8 127.2	9 075.3
Nicaragua											
Monetary assets	1 467.6	1 568.7	1 667.0	1 861.0	1 945.7	2 009.1	2 267.0	2 317.3	2 523.4	2 924.1	3 136.3
Net external assets	-1 424.0	-1 374.5	-1 363.7	-1 093.2	-1 101.6	-1 056.1	-969.1	-999.0	-342.3	163.0	399.3
Net domestic assets	2 891.7	2 943.2	3 030.7	2 954.1	3 047.3	3 065.2	3 236.1	3 316.3	2 865.7	2 761.1	2 737.1
Public sector	3 047.7	2 925.5	2 807.8	2 578.9	2 422.1	2 118.7	1 935.8	1 932.8	2 000.1	1 990.6	1 906.1
Private sector	-156.1	17.7	222.9	375.2	625.2	946.5	1 300.3	1 383.6	865.6	770.6	831.0
Money (M1)	222.0	213.2	244.6	294.4	337.4	368.5	465.0	507.6	549.8	660.5	749.8
Liquidity in national currency (M2)	222.0	213.2	244.6	294.4	337.4	368.5	465.0	507.6	549.8	660.5	749.8
Broad money (M3)	1 467.6	1 568.7	1 667.0	1 861.0	1 945.7	2 009.1	2 267.0	2 317.3	2 523.4	2 924.1	3 136.3
Panama											
Monetary assets	...	10 071.6	10 369.4	11 228.1	12 206.1	14 947.3	17 538.3	19 780.2	21 812.1	24 234.2	26 276.5
Net external assets	...	1 880.4	2 359.6	2 546.1	2 535.1	3 536.4	5 181.5	5 652.8	7 849.6	7 965.5	6 541.8
Net domestic assets	...	8 191.2	8 009.8	8 682.0	9 671.0	11 410.9	12 356.8	14 127.3	13 962.6	16 268.7	19 734.7
Public sector	...	-789.9	-510.7	-2.0	-568.8	-551.2	-1 520.7	-2 074.7	-2 176.1	-1 831.8	-1 220.9
Private sector	...	8 981.2	8 520.4	8 684.1	10 239.8	11 962.1	13 877.6	16 202.0	16 138.7	18 100.6	20 955.6
Money (M1)	...	1 335.5	1 463.5	1 633.1	1 906.3	2 610.3	3 053.9	3 763.6	4 403.5	5 230.4	6 229.3
Liquidity in national currency (M2)	...	10 071.6	10 369.4	11 228.1	12 206.1	14 947.3	17 538.3	19 780.2	21 812.1	24 234.2	26 276.5
Broad money (M3)	...	10 071.6	10 369.4	11 228.1	12 206.1	14 947.3	17 538.3	19 780.2	21 812.1	24 234.2	26 276.5
Dominican Republic											
Monetary assets	9 272.0	9 324.1	8 780.4	11 437.6	11 035.9	11 917.2	13 769.9	13 969.6	15 522.8	16 781.3	18 255.6
Net external assets	219.3	-318.2	-264.7	820.0	1 984.7	2 508.0	3 300.6	2 917.8	3 666.8	4 090.0	4 235.4
Net domestic assets	9 052.6	9 642.3	9 045.1	10 617.6	9 051.3	9 409.2	10 469.3	11 051.8	11 856.1	12 691.3	14 020.3
Public sector	252.3	379.2	280.7	1 718.0	3 083.2	6 292.8	6 953.7	8 027.4	8 879.4	8 496.7	8 598.5
Private sector	8 800.4	9 263.1	8 764.4	8 899.6	5 968.1	3 116.4	3 515.6	3 024.3	2 976.7	4 194.6	5 421.8
Money (M1)	1 986.3	2 071.0	1 911.0	2 275.6	2 472.4	3 267.7	4 085.6	3 626.7	4 219.0	4 433.8	4 535.4
Liquidity in national currency (M2)	7 859.6	7 370.1	7 088.0	9 513.4	8 871.5	9 623.6	11 179.6	11 252.1	12 587.3	13 297.4	14 176.4
Broad money (M3)	9 272.0	9 324.1	8 780.4	11 437.6	11 035.9	11 917.2	13 769.9	13 969.6	15 522.8	16 763.0	18 255.6

Table 23 (continued)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
						(Nominal growth rates)					
Central America and the Dominican Republic											
Monetary assets	34.1	8.4	13.8	8.9	15.1	16.9	5.7	6.6	9.8	7.9	
Net external assets	46.3	39.1	43.9	27.9	23.8	22.1	-0.4	28.7	12.1	-10.5	
Net domestic assets	32.7	4.5	8.6	4.6	12.6	15.3	7.6	0.0	8.8	15.1	
Public sector	-10.2	15.4	43.3	19.7	33.7	-2.2	6.5	18.1	8.4	16.3	
Private sector	41.5	3.1	3.6	1.5	7.6	20.5	7.9	-4.3	9.0	14.8	
Money (M1)	20.0	6.6	9.5	14.4	25.6	20.9	1.4	6.8	16.7	10.8	
Liquidity in national currency (M2)	37.6	3.5	12.8	9.0	17.4	18.4	4.3	5.7	10.7	7.8	
Broad money (M3)	34.1	8.4	13.8	8.9	15.1	16.9	5.7	6.6	9.7	7.9	
Costa Rica											
Monetary assets	9.1	13.0	12.1	17.9	18.0	25.5	5.7	6.4	10.9	8.5	
Net external assets	47.2	69.8	67.6	81.1	31.1	12.6	-12.3	26.3	11.0	-17.3	
Net domestic assets	7.0	8.7	5.6	6.1	13.8	30.2	11.4	1.4	10.9	16.5	
Public sector	49.0	22.3	49.0	-17.8	-20.1	-34.9	-1.0	61.7	17.3	35.3	
Private sector	2.0	6.3	-3.1	13.5	21.4	39.8	12.3	-2.3	10.2	14.5	
Money (M1)	6.8	5.0	-3.7	15.4	31.3	37.7	-6.2	-1.1	30.3	14.6	
Liquidity in national currency (M2)	7.9	10.0	6.3	23.1	24.8	37.8	-1.7	2.2	20.4	9.6	
Broad money (M3)	9.1	13.0	12.1	17.9	18.0	25.5	5.7	6.4	10.9	8.5	
El Salvador											
Monetary assets	-2.7	1.6	3.2	4.9	11.9	17.8	-0.6	2.1	-0.1	-3.3	
Net external assets	-10.7	-18.7	-2.7	9.0	26.3	55.0	-2.5	38.2	9.3	-23.9	
Net domestic assets	-0.7	6.2	4.2	4.2	9.5	10.6	-0.1	-7.5	-3.8	6.0	
Public sector	-63.0	158.5	13.0	6.1	-16.6	51.1	8.7	-18.7	35.9	28.3	
Private sector	4.7	1.6	3.5	4.1	11.7	8.0	-0.8	-6.4	-7.2	3.2	
Money (M1)	-9.1	1.5	13.0	8.1	14.9	17.1	1.9	15.1	17.4	1.3	
Liquidity in national currency (M2)	-2.7	1.6	3.2	4.9	11.9	17.8	-0.6	2.1	-0.1	-3.3	
Broad money (M3)	-2.7	1.6	3.2	4.9	11.9	17.8	-0.6	2.1	-0.1	-3.3	
Guatemala											
Monetary assets	11.1	40.6	14.9	15.8	12.9	10.2	6.4	3.8	13.5	10.2	
Net external assets	3.4	122.8	20.7	5.5	10.0	1.9	10.0	23.2	16.5	-8.8	
Net domestic assets	13.0	22.9	12.7	20.1	14.0	13.1	5.3	-2.7	12.2	18.6	
Public sector	31.9	5.8	5.3	94.3	30.1	11.2	2.2	23.2	18.1	18.3	
Private sector	9.0	27.2	14.2	5.9	8.3	13.9	6.6	-13.0	9.0	18.7	
Money (M1)	9.0	15.7	11.7	18.9	18.8	12.1	3.7	-1.9	13.5	10.4	
Liquidity in national currency (M2)	8.0	9.2	12.2	20.4	17.0	9.4	5.3	1.0	14.6	12.3	
Broad money (M3)	11.1	40.6	14.9	15.8	12.9	10.2	6.4	3.8	13.5	10.2	

Table 23 (continued)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
						(Nominal growth rates)					
Honduras											
Monetary assets	6.1	6.9	12.5	15.7	21.6	16.6	4.9	0.6	9.8	11.7	
Net external assets	11.0	-3.7	27.8	14.2	5.9	-6.4	-0.1	-19.8	22.3	3.9	
Net domestic assets	0.5	20.2	-3.0	17.7	41.8	38.8	8.1	12.7	4.5	15.5	
Public sector	27.1	-95.2	1 868.5	13.5	161.4	-15.0	-54.6	-305.5	49.7	107.2	
Private sector	1.9	12.8	2.1	17.5	47.8	33.9	4.5	4.8	2.3	9.0	
Money (M1)	11.4	14.0	3.5	12.9	23.5	15.3	2.0	5.0	15.4	9.9	
Liquidity in national currency (M2)	4.8	7.0	10.8	18.2	24.0	17.1	2.5	-0.2	13.3	12.2	
Broad money (M3)	6.1	6.9	12.5	15.7	21.6	16.6	4.9	0.6	9.8	11.7	
Nicaragua											
Monetary assets	6.9	6.3	11.6	4.6	3.3	12.8	2.2	8.9	15.9	7.3	
Net external assets	-3.5	-0.8	-19.8	0.8	-4.1	-8.2	3.1	-65.7	-147.6	145.0	
Net domestic assets	1.8	3.0	-2.5	3.2	0.6	5.6	2.5	-13.6	-3.7	-0.9	
Public sector	-4.0	-4.0	-8.1	-6.1	-12.5	-8.6	-0.2	3.5	-0.5	-4.2	
Private sector	-111.3	1 159.0	68.3	66.6	51.4	37.4	6.4	-37.4	-11.0	7.8	
Money (M1)	-4.0	14.7	20.3	14.6	9.2	26.2	9.2	8.3	20.1	13.5	
Liquidity in national currency (M2)	-4.0	14.7	20.3	14.6	9.2	26.2	9.2	8.3	20.1	13.5	
Broad money (M3)	6.9	6.3	11.6	4.6	3.3	12.8	2.2	8.9	15.9	7.3	
Panama											
Monetary assets		3.0	8.3	8.7	22.5	17.3	12.8	10.3	11.1	8.4	
Net external assets		25.5	7.9	-0.4	39.5	46.5	9.1	38.9	1.5	-17.9	
Net domestic assets		-2.2	8.4	11.4	18.0	8.3	14.3	-1.2	16.5	21.3	
Public sector		-35.4	-99.6	28 189.5	-3.1	175.9	36.4	4.9	-15.8	-33.3	
Private sector		-5.1	1.9	17.9	16.8	16.0	16.8	-0.4	12.2	15.8	
Money (M1)		9.6	11.6	16.7	36.9	17.0	23.2	17.0	18.8	19.1	
Liquidity in national currency (M2)		3.0	8.3	8.7	22.5	17.3	12.8	10.3	11.1	8.4	
Broad money (M3)		3.0	8.3	8.7	22.5	17.3	12.8	10.3	11.1	8.4	
Dominican Republic											
Monetary assets		-5.8	30.3	-3.5	8.0	15.5	1.5	11.1	8.1	8.8	
Net external assets		-16.8	-409.7	142.0	26.4	31.6	-11.6	25.7	11.5	3.6	
Net domestic assets		-6.2	17.4	-14.8	4.0	11.3	5.6	7.3	7.0	10.5	
Public sector		-26.0	512.0	79.5	104.1	10.5	15.4	10.6	-4.3	1.2	
Private sector		-5.4	1.5	-32.9	-47.8	12.8	-14.0	-1.6	40.9	29.3	
Money (M1)		-7.7	19.1	8.6	32.2	25.0	-11.2	16.3	5.1	2.3	
Liquidity in national currency (M2)		-3.8	34.2	-6.7	8.5	16.2	0.6	11.9	5.6	6.6	
Broad money (M3)		-5.8	30.3	-3.5	8.0	15.5	1.5	11.1	8.0	8.9	

Table 23 (continued)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
						(Percentages of GDP)					
Central America and the Dominican Republic											
Monetary assets	34.5	44.0	48.5	51.8	47.3	49.7	51.1	48.0	51.3	50.6	48.9
Net external assets	3.6	5.0	7.1	9.6	10.3	11.6	12.5	11.0	14.2	14.3	11.5
Net domestic assets	30.9	39.0	41.4	42.2	37.1	38.1	38.6	37.0	37.0	36.2	37.4
Public sector	5.3	4.5	5.3	7.1	7.1	8.7	7.5	7.1	8.4	8.2	8.5
Private sector	25.7	34.5	36.2	35.1	29.9	29.4	31.1	29.9	28.7	28.1	28.9
Money (M1)	9.1	10.3	11.2	11.5	11.0	12.7	13.5	12.1	13.0	13.6	13.5
Liquidity in national currency (M2)	28.0	36.7	38.6	40.8	37.3	40.0	41.6	38.6	40.9	40.7	39.4
Broad money (M3)	34.5	44.0	48.5	51.8	47.3	49.7	51.1	48.0	51.3	50.6	48.9
Costa Rica											
Monetary assets	38.3	40.7	44.2	46.6	51.2	53.5	57.5	53.6	57.9	52.1	49.9
Net external assets	2.0	2.8	4.6	7.3	12.4	14.4	13.9	10.7	13.7	12.4	9.0
Net domestic assets	36.3	37.8	39.5	39.3	38.8	39.2	43.7	42.9	44.2	39.7	40.9
Public sector	3.9	5.6	6.6	9.3	7.1	5.0	2.8	2.4	4.0	3.8	4.6
Private sector	32.4	32.2	32.9	30.0	31.7	34.1	40.8	40.5	40.2	35.9	36.3
Money (M1)	12.3	12.8	12.9	11.7	12.6	14.6	17.2	14.2	14.3	15.1	15.3
Liquidity in national currency (M2)	22.8	24.0	25.4	25.4	29.1	32.2	38.0	33.0	34.2	33.5	32.4
Broad money (M3)	38.3	40.7	44.2	46.6	51.2	53.5	57.5	53.6	57.9	52.1	49.9
El Salvador											
Monetary assets	52.6	49.5	47.8	47.0	45.5	47.0	51.0	47.6	50.4	48.6	43.7
Net external assets	10.6	9.1	7.1	6.5	6.6	7.7	11.0	10.0	14.4	15.2	10.7
Net domestic assets	42.0	40.3	40.7	40.4	38.9	39.3	40.1	37.6	36.0	33.4	32.9
Public sector	3.3	1.2	2.9	3.2	3.1	2.4	3.3	3.4	2.8	3.7	4.5
Private sector	38.7	39.1	37.8	37.3	35.9	36.9	36.8	34.2	33.2	29.7	28.5
Money (M1)	8.8	7.7	7.4	8.0	8.0	8.4	9.1	8.7	10.4	11.8	11.1
Liquidity in national currency (M2)	52.6	49.5	47.8	47.0	45.5	47.0	51.0	47.6	50.4	48.6	43.7
Broad money (M3)	52.6	49.5	47.8	47.0	45.5	47.0	51.0	47.6	50.4	48.6	43.7
Guatemala											
Monetary assets	31.9	31.9	42.5	44.7	45.6	46.3	45.2	42.0	45.2	46.8	45.5
Net external assets	6.1	5.7	11.9	13.2	12.2	12.1	11.0	10.5	13.4	14.3	11.5
Net domestic assets	25.8	26.3	30.6	31.5	33.4	34.2	34.3	31.5	31.8	32.5	34.0
Public sector	4.4	5.3	5.3	5.1	8.7	10.2	10.0	8.9	11.4	12.3	12.8
Private sector	21.4	21.0	25.3	26.5	24.7	24.0	24.3	22.5	20.3	20.2	21.2
Money (M1)	14.1	13.9	15.2	15.5	16.3	17.4	17.3	15.6	15.9	16.5	16.0
Liquidity in national currency (M2)	30.5	29.7	30.7	31.5	33.4	35.2	34.1	31.3	32.7	34.3	33.9
Broad money (M3)	31.9	31.9	42.5	44.7	45.6	46.3	45.2	42.0	45.2	46.8	45.5

Table 23 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
	(Percentages of GDP)										
Honduras											
Monetary assets	44.3	45.8	46.7	48.8	51.2	55.5	57.2	53.4	52.6	53.1	52.4
Net external assets	23.6	25.5	23.4	27.8	28.8	27.2	22.5	20.0	15.7	17.7	16.2
Net domestic assets	20.7	20.3	23.3	21.0	22.4	28.3	34.7	33.4	36.9	35.5	36.2
Public sector	-1.1	-1.4	-0.1	-1.2	-1.2	-2.8	-2.1	-0.8	1.7	2.4	4.3
Private sector	21.9	21.7	23.4	22.1	23.6	31.1	36.8	34.2	35.2	33.1	31.9
Money (M1)	10.0	10.9	11.8	11.4	11.6	12.8	13.0	11.8	12.2	12.9	12.6
Liquidity in national currency (M2)	32.8	33.4	34.2	35.1	37.6	41.6	43.1	39.3	38.4	40.1	39.7
Broad money (M3)	44.3	45.8	46.7	48.8	51.2	55.5	57.2	53.4	52.6	53.1	52.4
Nicaragua											
Monetary assets	35.8	39.0	40.6	41.7	39.9	38.4	40.0	36.4	40.6	44.4	43.0
Net external assets	-34.7	-34.1	-33.2	-24.5	-22.6	-20.2	-17.1	-15.7	-5.5	2.5	5.5
Net domestic assets	70.5	73.1	73.9	66.2	62.5	58.6	57.2	52.0	46.1	41.9	37.5
Public sector	74.3	72.7	68.5	57.8	49.7	40.5	34.2	30.3	32.2	30.2	26.1
Private sector	-3.8	0.4	5.4	8.4	12.8	18.1	23.0	21.7	13.9	11.7	11.4
Money (M1)	5.4	5.3	6.0	6.6	6.9	7.0	8.2	8.0	8.8	10.0	10.3
Liquidity in national currency (M2)	5.4	5.3	6.0	6.6	6.9	7.0	8.2	8.0	8.8	10.0	10.3
Broad money (M3)	35.8	39.0	40.6	41.7	39.9	38.4	40.0	36.4	40.6	44.4	43.0
Dominican Republic											
Monetary assets	37.2	35.4	41.7	52.8	32.8	33.4	33.5	30.6	33.3	32.5	32.8
Net external assets	0.9	-1.2	-1.3	3.8	5.9	7.0	8.0	6.4	7.9	7.9	7.6
Net domestic assets	36.4	36.6	43.0	49.0	26.9	26.3	25.5	24.2	25.4	24.6	25.2
Public sector	1.0	1.4	1.3	7.9	9.2	17.6	16.9	17.6	19.0	16.4	15.5
Private sector	35.4	35.2	41.7	41.1	17.7	8.7	8.5	6.6	6.4	8.1	9.7
Money (M1)	8.0	7.9	9.1	10.5	7.3	9.1	9.9	7.9	9.0	8.6	8.2
Liquidity in national currency (M2)	31.6	28.0	33.7	43.9	26.3	26.9	27.2	24.7	27.0	25.7	25.5
Broad money (M3)	37.2	35.4	41.7	52.8	32.8	33.4	33.5	30.6	33.3	32.5	32.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 24

Central America and the Dominican Republic: net domestic assets, 2002-2011

(Real growth rates) [a]

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [b]
Net domestic assets										
Costa Rica	-2.4	-1.1	-6.7	-7.0	4.0	17.5	-2.2	-2.6	4.8	11.2
El Salvador	-3.4	3.6	-1.1	-0.0	4.4	5.4	-5.2	-7.4	-5.8	0.9
Guatemala	6.2	16.1	3.2	10.6	7.7	4.0	-3.8	-2.4	6.5	11.6
Honduras	-7.0	12.6	-11.1	9.3	34.6	27.4	-2.5	9.5	-1.9	9.4
Nicaragua	-2.0	-3.3	-10.8	-5.9	-8.1	-9.7	-9.9	-14.4	-11.8	-8.2
Panama	-1.7	-3.9	6.7	7.8	15.5	1.8	7.1	-3.0	11.0	14.1
Dominican Republic	-9.5	-34.2	-8.8	-20.7	-1.0	2.2	1.0	1.4	0.8	2.5
Private sector net domestic assets										
Costa Rica	-7.0	-3.2	-14.4	-0.5	10.9	26.1	-1.4	-6.1	4.2	9.3
El Salvador	1.9	-0.9	-1.7	-0.2	6.5	3.0	-6.0	-6.3	-9.1	-1.8
Guatemala	2.5	20.2	4.6	-2.5	2.4	4.7	-2.6	-12.7	3.4	11.8
Honduras	-5.8	5.6	-6.4	9.1	40.4	23.0	-5.7	1.8	-4.0	3.2
Nicaragua	-110.9	1 082.4	54.1	52.1	38.3	17.5	-6.5	-38.0	-18.5	-0.1
Panama	-1.7	-6.7	0.3	14.1	14.3	9.1	9.4	-2.2	6.9	8.9
Dominican Republic	-9.5	-33.7	-21.1	-37.6	-50.3	3.6	-17.7	-6.9	32.6	19.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC) and Central American Monetary Council (CAMC).

[a] On the basis of end-of-year nominal balances.

[b] Preliminary figures.

Table 25
Central America and the Dominican Republic: annual nominal interest rates, 2009-2011
(Percentages)

	Costa Rica [a]		El Salvador [b]		Guatemala [c]		Honduras [d]		Nicaragua [e]		Panama [f]		Dominican Republic [g]	
	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit
2009														
January	21.07	11.25	9.56	5.30	13.91	5.50	19.50	7.84	13.72	8.08	8.16	2.98	22.82	13.42
February	20.55	12.00	9.57	5.18	13.95	5.55	19.94	7.88	14.85	7.26	8.26	3.01	20.15	12.14
March	20.19	11.75	9.67	5.08	13.83	5.60	20.06	7.75	14.47	6.64	8.36	2.99	18.50	10.57
April	20.10	11.50	9.57	5.02	13.85	5.64	19.94	7.43	14.36	8.21	8.11	3.18	16.16	8.45
May	19.01	11.25	9.38	4.86	13.85	5.69	19.82	7.05	13.99	7.13	8.22	3.16	15.94	7.92
June	18.74	11.00	9.51	4.75	13.82	5.73	19.60	6.75	14.14	7.06	8.24	2.98	16.83	7.18
July	19.14	12.00	9.28	4.47	13.89	5.68	19.32	6.70	13.98	6.30	8.31	3.04	19.85	7.22
August	19.56	11.50	9.45	4.19	13.95	5.66	19.07	6.76	13.39	7.02	8.30	3.02	16.87	6.86
September	19.75	11.50	9.22	3.97	13.98	5.66	19.06	6.83	14.20	6.61	8.33	2.85	11.31	5.81
October	19.27	9.00	9.03	3.71	13.93	5.66	19.12	7.00	13.73	6.25	8.30	2.33	14.74	4.88
November	17.99	9.25	9.12	3.63	13.68	5.65	18.97	7.08	13.44	5.86	8.33	2.23	13.12	4.70
December	18.05	8.25	8.42	3.65	13.57	5.61	18.94	7.04	14.27	5.72	8.32	2.54	13.10	4.60
2010														
January	17.08	8.00	8.60	3.59	13.52	5.62	19.07	7.13	13.96	3.82	8.27	2.59	12.06	4.39
February	17.16	8.00	8.81	3.57	13.50	5.62	19.06	7.11	13.94	3.60	8.31	2.65	10.04	4.35
March	17.43	8.00	8.22	3.47	13.48	5.62	18.89	7.09	13.73	3.37	8.20	2.48	9.71	4.57
April	17.30	7.75	8.23	3.20	13.42	5.58	18.97	7.02	13.91	2.32	8.20	2.41	9.95	4.52
May	16.89	8.50	7.86	3.10	13.36	5.53	18.78	6.93	12.98	3.66	8.00	2.40	9.95	4.48
June	16.85	8.25	7.49	2.98	13.36	5.50	18.89	6.77	16.99	2.57	8.15	3.11	8.94	4.63
July	16.72	8.00	7.47	2.93	13.29	5.44	18.88	6.60	12.74	3.80	8.23	3.08	8.92	4.68
August	16.82	8.25	7.33	2.78	13.27	5.42	18.64	6.47	13.05	4.02	7.51	3.40	7.88	4.71
September	16.75	7.50	7.07	2.57	13.27	5.42	18.64	6.28	13.43	2.74	7.52	3.42	9.45	4.85
October	16.59	7.25	6.89	2.32	13.21	5.41	18.60	6.19	13.23	2.02	7.46	2.11	8.76	5.27
November	16.85	7.00	6.93	2.09	13.21	5.40	19.03	6.08	11.71	2.87	7.42	2.05	9.42	5.65
December	16.71	8.00	6.59	1.80	13.25	5.34	18.96	5.96	10.16	2.04	7.43	2.11	9.34	6.17

Table 25 (concluded)

	Costa Rica [a]		El Salvador [b]		Guatemala [c]		Honduras [d]		Nicaragua [e]		Panama [f]		Dominican Republic [g]	
	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit
							2011							
January	17.22	7.75	6.59	1.70	13.28	5.35	18.97	6.01	11.17	2.18	7.42	2.11	9.40	5.70
February	17.06	7.50	6.56	1.73	13.37	5.33	18.98	5.99	11.02	2.18	7.36	2.32	12.37	6.45
March	16.85	7.50	6.41	1.72	13.37	5.30	18.93	5.93	10.90	1.93	7.37	2.11	11.26	7.33
April	16.53	7.00	6.26	1.68	13.44	5.27	18.89	5.76	9.40	2.53	7.39	2.66	12.82	7.41
May	15.87	7.25	6.34	1.71	13.37	5.28	18.81	5.67	9.55	2.26	7.32	2.06	11.19	7.19
June	15.66	7.25	5.63	1.82	13.39	5.26	18.68	5.50	9.43	2.40	7.03	2.01	12.15	8.18
July	15.79	7.25	5.82	1.81	13.37	5.24	18.24	5.49	9.68	1.26	7.17	1.64	13.57	9.51
August	15.69	7.25	5.75	1.79	13.45	5.25	18.32	5.53	9.58	2.45	7.25	1.57	13.57	8.62
September	15.71	7.75	5.89	1.80	13.51	5.24	18.26	5.49	11.81	2.30	7.18	1.42	14.01	7.96
October	16.87	8.00	5.64	1.75	13.53	5.24	18.30	5.50	9.46	2.03	7.15	1.53	14.39	8.38
November	17.14	8.00	5.54	1.75	13.55	5.25	18.22	5.52	8.67	2.26	7.18	1.50	13.80	8.07
December	16.99	8.00	5.43	1.91	13.51	5.19	18.10	5.47	12.82	1.96	7.20	1.40	14.20	9.69

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Lending rate in national currency for manufacturing industry. Deposit rate calculated by the Central Bank of Costa Rica.

[b] Monthly weighted average interest rate in the banking system: lending rates up to one year, 180-day deposit rates.

[c] Weighted average in the banking system.

[d] Weighted average in the national financial system: lending rates on loans, deposit rates correspond to weighted average for savings and time deposits and deposit certificates.

[e] Average rates of interest: short-term lending rates, three-month deposit rates.

[f] Average rates of interest: one-year lending rates for commerce; three-month deposit rates.

[g] Average rates of interest: lending rates for loans of 91-180 days; three-month deposit rates.

Table 26
Central America and the Dominican Republic: inflation indicators, 1990-2000
(Growth rates)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Consumer price index (December-December)	2 095.6	129.8	9.9	9.1	13.3	12.9	10.8	6.9	9.6	5.5	6.6
Central America	2 431.5	150.1	10.7	10.2	13.1	13.6	12.0	6.6	9.9	5.6	6.1
Costa Rica	27.3	25.3	17.0	9.0	19.9	22.6	13.9	11.2	12.4	10.1	10.2
El Salvador	19.3	9.9	19.9	12.1	5.2	11.4	7.4	1.9	4.2	-1.0	4.3
Guatemala	59.8	10.0	14.2	11.6	11.6	8.6	10.9	7.1	7.5	4.9	5.1
Honduras	36.3	21.4	6.8	12.7	29.1	26.9	25.2	12.7	15.7	11.0	10.1
Nicaragua	14 445.1	832.6	4.7	14.7	11.7	11.1	12.1	7.3	18.5	7.2	6.5
Panama	1.2	1.6	1.6	0.9	1.4	0.8	2.3	-0.5	1.4	1.5	0.7
Dominican Republic	79.9	7.9	5.2	2.8	14.3	9.2	3.9	8.4	7.8	5.1	9.0
Consumer price index (annual average)	1 238.2	406.6	11.7	10.4	10.4	13.6	11.5	9.4	7.6	6.6	6.7
Central America	1 436.2	466.5	12.9	11.3	10.8	13.8	12.5	9.6	8.0	6.6	6.5
Costa Rica	19.0	28.7	21.8	9.8	13.5	23.2	17.5	13.2	11.7	10.0	11.0
El Salvador	23.9	14.4	11.3	18.5	7.2	9.7	9.8	4.4	2.6	0.5	2.3
Guatemala	41.0	35.1	10.2	13.4	12.5	8.4	11.1	9.2	6.6	5.2	6.0
Honduras	23.3	34.0	8.8	10.7	21.7	29.5	23.8	20.2	13.7	11.7	11.0
Nicaragua	8 509.1	2 684.7	24.0	14.8	8.5	10.9	11.6	9.2	13.0	11.2	7.1
Panama	0.6	2.3	1.2	0.6	1.3	1.0	1.3	1.2	0.6	1.2	1.5
Dominican Republic	50.5	47.1	4.3	5.3	8.3	12.5	5.4	8.3	4.8	6.5	7.7
Food price index (December-December)	2 197.1	183.3	8.0	9.0	12.8	10.3	12.1	8.1	11.0	1.4	6.1
Central America	2 197.1	183.3	9.1	11.2	11.9	10.5	13.9	7.7	10.9	1.9	6.6
Costa Rica	...	...	...	...	...	...	14.9	12.5	15.5	7.9	9.5
El Salvador	18.7	12.3	23.4	21.2	1.4	4.2	12.4	-0.4	7.6	-6.4	2.5
Guatemala	55.9	52.9	7.7	8.1	4.6	5.5	13.2	19.7	4.0	7.1	10.7
Honduras	44.3	24.7	5.6	14.8	35.7	22.1	28.5	9.4	15.4	4.8	8.7
Nicaragua	10 864.8	824.8	5.1	11.6	15.2	10.4	12.7	6.1	23.1	-3.6	5.8
Panama	1.7	1.8	3.8	0.2	2.5	...	1.7	-0.9	-0.3	1.6	2.6
Dominican Republic	...	...	2.3	-1.7	17.4	9.1	1.3	10.2	11.3	-1.8	3.0
Food price index (annual average)	2 909.2	185.3	5.9	11.7	12.0	11.3	12.2	8.7	8.4	4.5	3.9
Central America	2 909.2	185.3	7.0	13.5	13.0	10.6	13.5	8.9	8.7	4.3	4.5
Costa Rica	...	...	...	...	...	...	18.8	14.8	14.4	9.7	9.8
El Salvador	25.8	17.9	12.8	25.8	6.8	4.9	13.2	4.2	1.7	-1.4	0.1
Guatemala	47.1	32.3	7.3	14.5	16.1	8.8	11.5	6.8	4.6	2.2	4.3
Honduras	26.6	41.1	6.6	12.2	29.2	27.7	24.4	19.6	12.9	8.2	7.6
Nicaragua	14 445.1	832.6	4.7	14.7	11.7	11.1	12.1	7.3	18.5	7.2	4.9
Panama	1.3	2.4	3.5	0.3	1.5	0.5	0.7	0.7	0.4	0.2	0.5
Dominican Republic	...	...	0.3	3.0	6.8	14.5	4.5	7.6	6.5	5.3	-0.1

Table 26 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [a]
Consumer price index (December-December)	5.6	6.2	10.8	10.9	7.9	6.0	9.3	9.2	2.2	5.7	6.2
Central America	5.8	5.4	5.5	8.0	7.9	6.2	9.4	10.0	1.6	5.7	6.0
Costa Rica	11.0	9.7	9.9	13.1	14.1	9.4	10.8	13.9	4.0	5.8	4.7
El Salvador	1.4	2.8	2.5	5.4	4.3	4.9	4.9	5.5	-0.2	2.1	5.1
Guatemala	8.9	6.4	5.9	9.2	8.6	5.8	8.7	9.4	-0.3	5.4	6.2
Honduras	8.8	8.1	6.8	9.2	7.7	5.3	8.9	10.8	3.0	6.5	5.6
Nicaragua	4.8	3.9	6.5	9.3	9.6	9.4	16.9	13.8	0.9	9.2	8.0
Panama	0.0	1.8	1.7	1.6	3.4	2.2	6.4	6.8	1.9	4.9	6.3
Dominican Republic	4.4	10.5	42.7	28.7	7.4	5.0	8.9	4.5	5.8	6.2	7.8
Consumer price index (annual average)	6.7	5.3	8.4	13.3	7.6	6.7	7.0	11.8	3.3	4.4	6.5
Central America	6.4	5.3	5.3	6.9	8.1	6.5	7.2	12.0	3.6	4.1	6.2
Costa Rica	11.3	9.2	9.4	12.3	13.8	11.5	9.4	13.4	7.8	5.7	4.9
El Salvador	3.8	1.9	2.1	4.5	4.7	4.0	4.6	7.3	0.5	1.2	5.1
Guatemala	7.3	8.1	5.6	7.6	9.1	6.6	6.8	11.4	1.9	3.9	6.2
Honduras	9.7	7.7	7.7	8.1	8.8	5.6	6.9	11.4	5.5	4.7	6.8
Nicaragua	6.0	3.8	5.3	8.5	9.6	9.1	11.1	19.8	3.7	5.5	8.1
Panama	0.3	1.0	1.4	0.5	2.9	2.5	4.2	8.8	2.4	3.5	5.9
Dominican Republic	8.9	5.2	27.4	51.5	4.2	7.6	6.1	10.6	1.4	6.3	8.5
Food price index (December-December)	4.0	3.8	12.4	12.2	7.4	6.4	12.8	16.8	-3.4	8.0	6.1
Central America	4.3	2.8	5.7	8.7	8.5	6.7	13.7	17.4	-3.9	8.4	5.4
Costa Rica	11.5	10.2	10.0	14.6	16.5	-	21.0	22.8	-1.5	9.0	4.1
El Salvador	2.7	0.8	4.3	6.9	4.7	5.3	6.5	9.2	-8.0	7.9	3.2
Guatemala	1.0	2.2	5.6	6.4	9.6	9.3	5.0	16.8	0.3	6.6	...
Honduras	8.0	2.3	5.0	9.3	6.7	5.6	13.7	16.9	-5.2	8.3	3.1
Nicaragua	6.3	2.0	6.9	12.2	9.7	11.3	25.8	23.5	-8.7	13.7	9.2
Panama	-3.6	-0.4	2.4	2.7	4.0	2.0	10.4	15.4	-0.2	5.1	7.5
Dominican Republic	2.0	9.7	52.9	33.0	0.3	5.0	7.0	13.3	-0.2	5.5	9.7
Food price index (annual average)	6.3	4.7	7.7	17.2	8.4	4.5	9.0	18.3	3.1	3.2	7.6
Central America	6.6	4.7	4.3	8.3	10.2	4.8	9.9	18.7	3.0	3.0	7.4
Costa Rica	10.7	10.1	9.4	13.7	16.4	-	-	23.9	8.2	4.6	5.6
El Salvador	4.1	1.1	1.6	6.2	6.0	3.1	6.2	12.0	-3.8	1.0	6.9
Guatemala	10.0	10.5	5.7	10.3	13.2	7.1	9.9	15.1	2.0	3.4	10.7
Honduras	8.7	3.9	3.6	6.8	10.0	4.2	9.6	17.2	3.6	1.8	6.1
Nicaragua	6.6	3.1	4.2	11.2	11.5	8.2	17.2	29.4	2.5	4.5	9.1
Panama	-0.4	-0.7	1.3	1.3	4.3	1.3	6.7	14.9	5.8	2.9	5.9
Dominican Republic	4.4	4.6	27.8	71.2	-2.8	3.3	4.2	15.8	3.3	4.2	9.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Table 27
Central America and the Dominican Republic: minimum wage indices, 1989-2011
(Index: 2000=100)

Year	Costa Rica [a]	El Salvador [b]	Guatemala [c]	Honduras [d]	Nicaragua [e]	Panama [f]	Dominican Republic [g]
1989	90.6	100.0	90.9	83.6	88.3	92.6	...
1990	19.9	50.0	20.2	18.6	31.0	72.1	...
1991	24.9	56.0	25.6	25.0	24.8	72.3	...
1992	30.9	64.3	32.4	30.8	36.6	73.3	...
1993	35.3	73.8	39.3	34.7	40.9	77.1	...
1994	41.1	83.3	44.5	33.5	46.4	82.6	...
1995	49.6	91.7	54.1	40.4	52.5	83.7	...
1996	59.4	91.7	65.9	49.0	57.3	81.8	...
1997	69.8	91.7	73.9	63.4	62.6	87.0	...
1998	80.6	100.0	81.7	74.3	76.0	90.2	...
1999	90.6	100.0	90.9	83.6	88.3	92.6	100.0
2000	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2001	111.5	100.0	107.8	115.9	112.1	98.7	110.0
2002	120.9	100.0	115.5	126.3	121.3	98.9	116.6
2003	131.8	107.5	122.6	143.7	131.1	101.1	124.8
2004	145.6	107.5	128.9	157.6	142.6	102.0	136.0
2005	166.2	107.5	135.0	172.9	165.0	104.9	166.6
2006	188.3	118.3	142.3	189.0	186.6	107.0	176.8
2007	208.6	124.4	149.6	207.2	191.8	111.2	176.8
2008	233.5	130.6	162.3	234.8	206.7	115.6	245.3
2009	261.7	141.0	165.5	327.2	232.5	124.7	341.2
2010	283.2	141.0	176.7	338.9	244.5	155.7	341.2
2011 [h]	301.0	152.3	188.5	378.4	255.9	...	341.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Minimum wage.
[b] Minimum wage in the manufacturing industry in San Salvador.
[c] Average wages and salaries.
[d] Average minimum wage.
[e] National average wage.
[f] National average wages and salaries in the public sector.
[g] Monthly average wage in the public sector.
[h] Preliminary figures.

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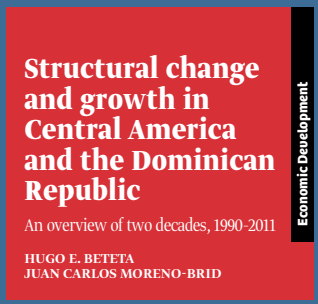

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ISBN 978-92-1-121864-0