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

(Final evaluation)

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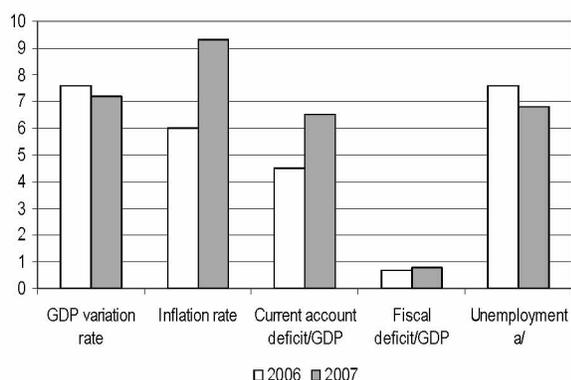
THE CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: ECONOMIC EVOLUTION DURING 2007 AND PROSPECTS FOR 2008

1. General trends of the recent evolution

Economic activity in the Central American Isthmus ¹ and the Dominican Republic in 2007 expanded 7.2%, four tenths less than in 2006. Thus, the economic growth of the sub-region ² was one and a half percentage points greater than the registered average of Latin America and the Caribbean. In terms of gross domestic product (GDP) per capita, growth was 5.1%. This performance represents a continuation of the expansionary phase of the economic cycle that began in 2004, characterized by an improvement in the majority of the economic and social indicators and linked to the positive evolution of the U. S. economy during this period. However, the deterioration in the external macroeconomic context—in particular, the decrease in the rate of growth of the U. S. economy and the price increase in petroleum and certain raw materials—has adverse repercussions for the evolution and prospects of the sub-region in 2008. Consequently, for this year, a deceleration of the growth of economic activity is envisioned within the context of inflationary pressures in the sub-region.

Graph 1

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



Source: ECLAC, based on official figures.

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

Some key macroeconomic indicators started to deteriorate ...

Four of the five macroeconomic indicators, presented in graph 1, showed a slight deterioration in 2007 compared to the performance of the previous year. The economic growth—though still high for the traditional patterns of the sub-region—was modestly lower than in the previous year. At the same time, the current account deficit in the balance of payments widened from 4.5% of GDP to 6.5%. This is a warning sign, since due to this negative result, the economies of the sub-region are more vulnerable to external shocks.

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

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

The fiscal deficit rose from the equivalent of 0.7% of GDP in 2006 to 0.8% in 2007. This slight deterioration does not jeopardize the recent process of fiscal consolidation. The situation of the labor market also continues to improve, which is reflected by the reduced unemployment rate. Although calculated with data from six countries, the trend is positive and strong, as shown by the fall in the average from 7.6% in 2006 to 6.8% in 2007.

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

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

Capital inflow in some cases was stimulated by elevated differentials of the interest rates and the scarce or decreasing exchange rate volatility. This converted some countries into attractive destinations for international arbitrage opera-

tions. Besides this, the flows of net Foreign Direct Investment (FDI) have been the most abundant for a decade (5.3% of GDP), helping to expand the productive capacity of the economies and partly as a response to the favorable conditions stipulated in the Free Trade Agreement (FTA) between the Central American countries, the Dominican Republic and the United States (DR-CAFTA). Another beneficial element was the net transfer of resources (NTR) to the region, traditionally positive, which was equivalent to 2.7% of GDP in 2007. The deterioration of the terms of trade continued with a fall of 1.1% mainly due to the aforementioned increases of international petroleum and food prices.

Macroeconomic policy faces difficult dilemmas

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

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

The international context in 2008 will be far less favourable for high rates of economic growth. The U. S. economy will be performing below its potential and its 2007 levels, dragging down the growth of those countries whose export sectors are highly dependent on the U. S. such as those of Central America and the Domini-

can Republic. The economic authorities in the United States did not achieve the so-called “smooth landing” scenario for the U. S. economy, which occurs when there is a deceleration of the growth rate to lessen inflationary pressures but avoiding a recession. At the moment, the situation of the United States is characterized by the urgent need of economic authorities to avoid a generalized worsening of the financial crisis and the need to mitigate the recessionary trends leaving the fight against inflation as a lower priority.

Although global liquidity continued to be abundant in the first six months of 2008 in September 2008 it was sharply reduced. As a result developing countries’ access to financing will be more expensive in 2008 and 2009 as investors increase their preference for less risky assets. Both the price of petroleum and the price of food and other raw materials will remain high and maintain the inflationary pressure experienced at the end of 2007. Family remittances, one of the pillars of consumption growth in the Central American Isthmus and the Dominican Republic in the previous period, will further decelerate in

2008. External demand will weaken in accordance with the lower dynamism of the world economy.

Given that the deterioration in external economic conditions has not yet had a profound effect on the economies of the sub-region, economic outcomes in 2008 will be acceptable. However, two key risks continue to be latent: i) a disorderly adjustment of global imbalances which could result in a rapid and substantial depreciation of the U. S. dollar compared to other currencies (see box 5). In this case, economic conditions would quickly worsen with an accelerated downturn in which case a macroeconomic response coordinated at international level would be necessary and ii) a general deterioration in investment prospects—above all in export sectors—given a prolonged stagnation of the United States economy. For the moment the second risk appears most probable, but the negative effects will be felt with greatest force in 2009. If these risks are avoided, the economies of the sub-region will on average be expected to obtain a growth of 4.8% in 2008, which is in any case considerably below the 7.2% of 2007.

2. The evolution of the external sector

In 2007, the current account of balance of payments of the Central American Isthmus and the Dominican Republic recorded a deficit of 10,349 million dollars (equivalent to 6.5% of GDP), a figure more than two percentage point above that of 2006 (4.5%). This outcome was the result of a trade deficit of 20,660 million dollars (13% of GDP), which rose mainly due to a higher petroleum bill (7.5% of the GDP). Inflows from family remittances reached 14,913 million dollars (equivalent to 9.4% of GDP) and covered 72.2% of the trade deficit which was once again an important factor in alleviating the current account. For 2008, taking into account the deterioration of external conditions, lower dynamism of exports and imports is expected, and a greater deceleration in the transmission of remittances in the sub-region than was experienced in 2007.

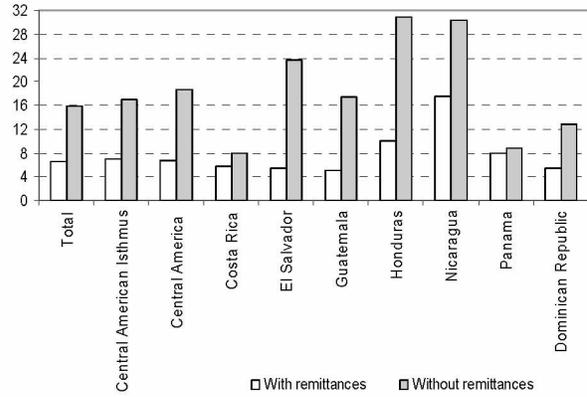
For the sixth consecutive year, the total value of exports in the sub-region (44,771 million dollars) increased, reaching a growth rate of 11.3%, almost a full percentage point higher than in 2006. This figure was very close to the average growth rate for Latin America and the Caribbean (12%). Guatemala and Costa Rica achieved an increase in their exports of approximately 15%. And exports grew by 13.7% in Nicaragua, 9.9% in Panama

and 9.5% in the Dominican Republic, whereas Honduras and El Salvador had the lowest growth rates for exports (7.7% and 7.3% respectively).

As was the case in the previous year, and in contrast to the majority of other countries of Latin America and the Caribbean, the export growth of the economies of the Central American Isthmus during 2007 was due more to an increase in volume exported than in

prices, 7.9 and 3.8 percentage points respectively, of the total growth of the value of exports, although important differences in this performance were observed between countries. In Honduras and El Salvador both effects were almost equal, whilst in the Dominican Republic price increases were predominant, a fact explained by the increased price of ferronickel.

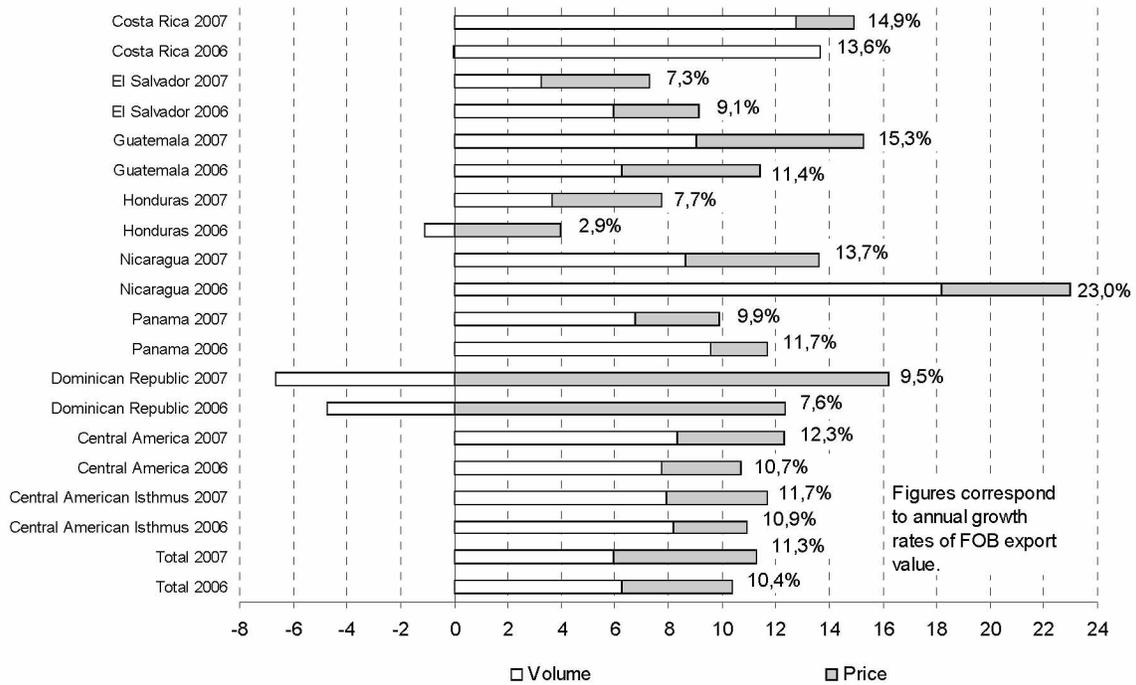
Graph 2
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: CURRENT ACCOUNT DEFICIT AS A PERCENTAGE OF GDP, 2007 a



Source: ECLAC, based on official figures.

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

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



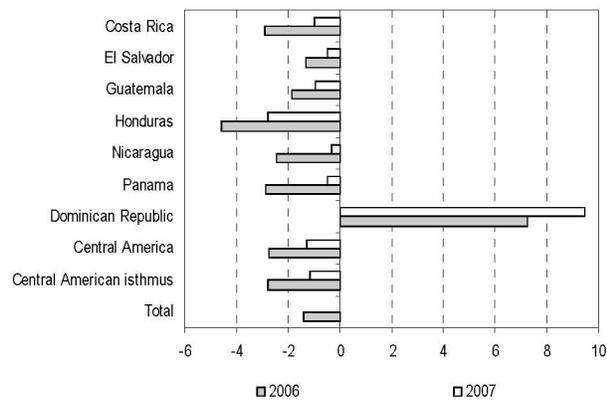
Source: ECLAC, based on official figures.

The Central American Isthmus endured a continued deterioration of the terms of trade (-1.1%), although it was a lower figure than in 2006. Honduras experienced the worst deterioration in the sub-region with a rate of 2.8%. In contrast, the Dominican Republic enjoyed an improvement in the terms of trade of 9.4%. As in previous years, the prices for goods produced and exported by the countries of the sub-region, of which the majority are manufactured goods, continued to decline. At the same time, in contrast to the majority of the southern countries of the continent that benefited from the international price increase of raw materials, the Central American Isthmus and the Dominican Republic have not done so as they are net importers of those products (see graph 5).

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

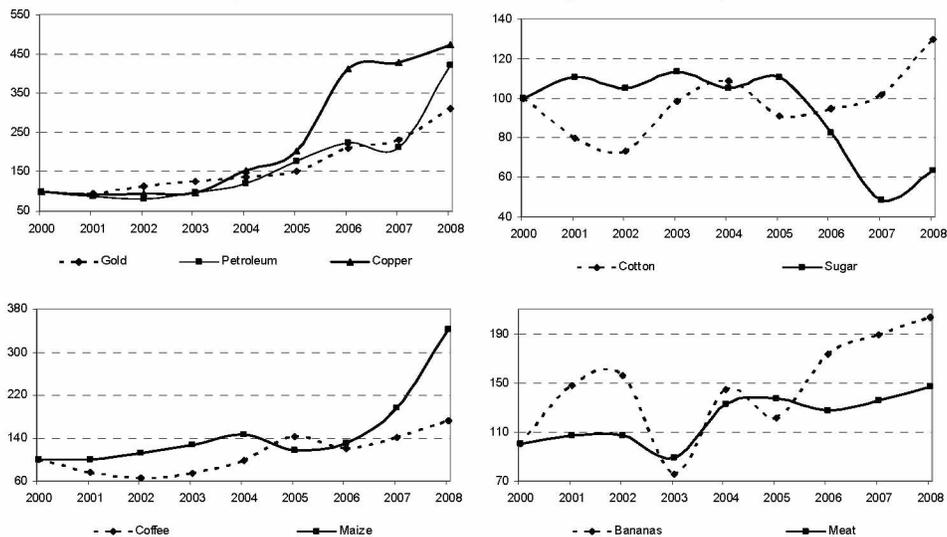
growth result of 10% in Nicaragua, which profited mainly from the privileges granted by the DR-CAFTA. Continually increasing competition from Asia and the elimination of the textile and apparel agreements (which were replaced by the Multi-fiber Agreement) affected almost the entire sub-region, despite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

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



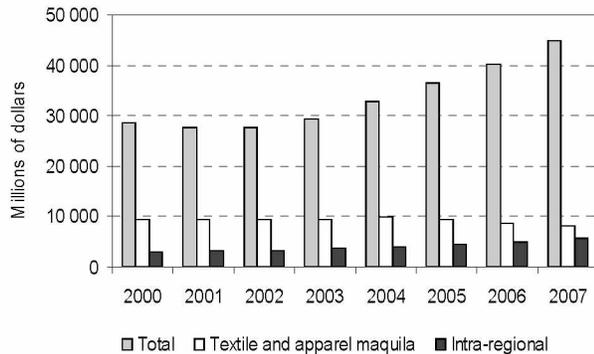
Source: ECLAC, based on official figures.

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



Source: ECLAC, based on official figures.

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

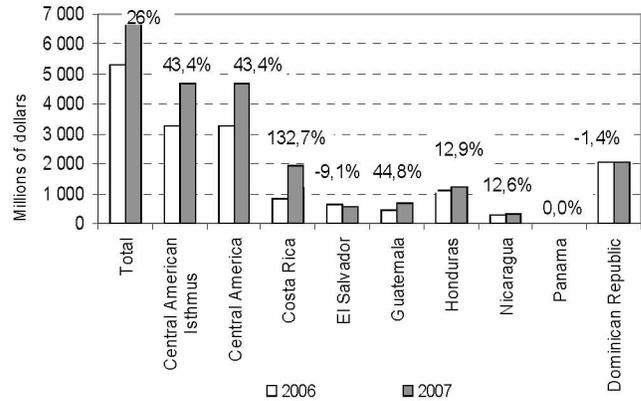


Source: ECLAC, based on official figures.

Intra-regional exports grew by 17% in 2007, seven percentage points higher than in 2006. The sub-regional trade in recent years has exhibited unprecedented dynamism, which has fortified the process of integration in the sub-region. By analyzing the trade with Mexico, it can be shown that the value of the exports of the sub-region increased by 13.7%. However, the value of imports from Mexico rose by 25.2%. This meant that the trade balance for the sub-region with respect to Mexico showed a deficit of 3,191 million dollars, which is equivalent to an increase of 32.8% compared to 2006.

In 2007, the net value added of in-bond assembly plants and free trade zones (*maquila*) in the Central American Isthmus and the Dominican Republic showed strong improvements (26%) compared to the previous year, mostly due to the remarkable increase in Costa Rica (132.7%), and lesser increases in Guatemala (44.8%), Honduras (12.9%) and Nicaragua (12.6%). Decreases were observed in El Salvador (-9.1%) and the Dominican Republic (-1.4%). This positive performance of the sub-region, on average, contrasts with the negative results of the in-bond assembly plants of simple garments. At the same time the results confirm the existence of a restructuring process where companies pursue strategies of either greater vertical integration through the so-called “full package”, providing a greater value added and higher chances of survival or greater diversification towards products in other sectors, as is the case in Costa Rica.

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



Source: ECLAC, based on official figures.

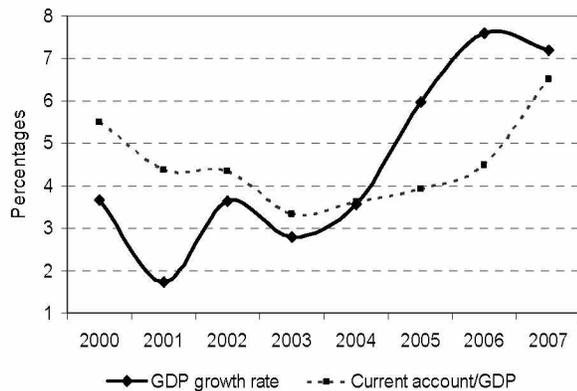
Regional imports of goods totaled 71,922 million dollars in 2007, rising by 15.6%, half a percentage point less than in 2006. The increased prices of foods, intermediate goods, oil and fuels continued to drive up the value of imports. It should also be noted that for the second year in a row, the imports were largely directed towards the purchase of capital goods, which will extend the productive capacity of the economies.

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

Including 2007, the Central American Isthmus and the Dominican Republic has achieved six years of consecutive growth in the revenue of the balance of payments account for travel abroad (tourism), which represents a surplus of 7,043 million dollars. In particular, foreign currency inflows are notable for Panama, with and

increase of 23.4%, and in Guatemala, Honduras and Costa Rica, countries which experienced an increase of 14%. In the last two years the majority of the countries of the Isthmus have given priority to boosting the tourism sector whose income currently represents around 6.2% of the GDP of the sub-region.

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



Source: ECLAC, based on official figures.

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

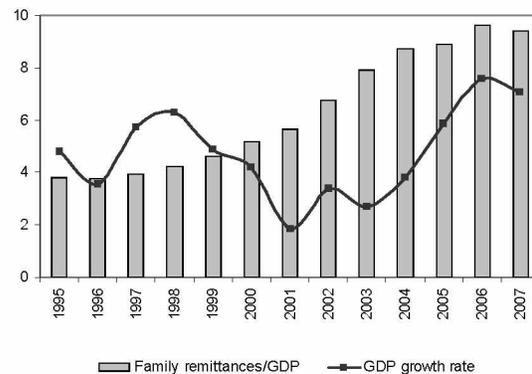
Since 2002, family remittances of the Central American Isthmus and the Dominican Republic have shown continual growth in absolute terms. However, in 2007, their growth rate fell significantly to 10.6% compared to 18.7% in 2006, equivalent to 14,913 million dollars. Despite that, remittances continued to provide a higher amount of foreign exchange than the corresponding external revenues from indebtedness and investments.

At the same time family remittances represented a slightly lower proportion of GDP, 9.4% in 2007 compared to 9.6% in 2006. Nevertheless, remittance income continued to rise and this offset a great deal of the sub-region's trade deficit, and by doing so, mitigated to some extent the current account deficit of the balance of payments.

Remittance inflows were concentrated towards El Salvador and Honduras, and to a lower extent, Guatemala and Nicaragua. In 2007, they reached highly elevated proportions of GDP in Honduras (21%) and El Salvador (18%). In con-

trast, the inflow of remittances as proportion of GDP were moderate in the Dominican Republic and low in Costa Rica and Panama (see graph 10). In general, family remittances relieved the trade deficit, but at the same time contributed to the appreciation of national currencies and consequently had a negative impact on the performance of the non-traditional export sector. Indeed, Honduras, Guatemala and Nicaragua —the economies receiving the highest revenue from remittances — have experienced continued appreciation of their currencies since 2003. However, in these economies the income has had a revitalizing effect on economic growth.

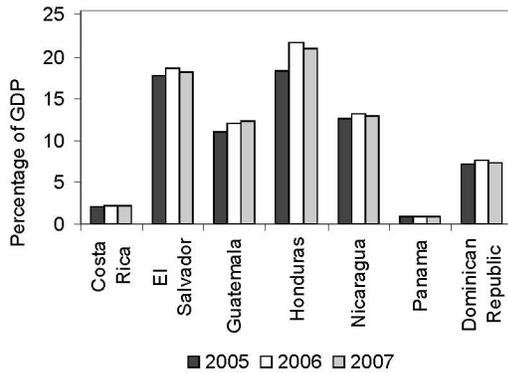
Graph 9
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT AND FAMILY REMITTANCES, 1995-2007
(Percentages)



Source: ECLAC, on the basis of official figures.

During 2007, family remittances to El Salvador, Guatemala, Honduras and Nicaragua showed a decline in their growth rate (see graph 11). The problems in U.S. economy, which have persisted in 2008, had negative repercussions by reducing remittances sent by Central Americans to their home countries due to their loss of employment or decreased income. Additionally, this reduction may also have been influenced by the apparent increase in deportations of undocumented Central American immigrants from the United States. Due to the crisis in the United States economy in 2008, it is predicted that the growth rate of family remittances to the sub-region will decrease from 9% in 2007 to around 5%, or even less, in 2008, and perhaps zero in 2009.

Graph 10
FAMILY REMITTANCES, 2005-2007



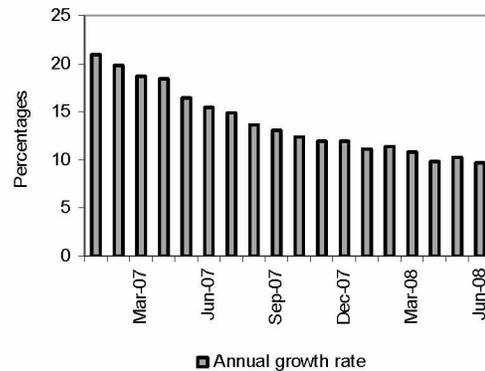
Source: ECLAC, based on official figures.

In 2007, financial flows and investment of the Central American Isthmus and the Dominican Republic, registered a positive balance of 13,202 million dollars, an amount 58% above that of 2006. This was equivalent to 8.3% of GDP in 2007 (6% in 2006), the highest proportion since 2000 and continued an increasing trend since 2004. The inflow of foreign direct investment (FDI) was an important contributor to this performance, with minor contributions from the net inflows of short and medium-term capital (bank loans) and a modest reduction of net borrowing of foreign debts.

Net FDI in the Central American Isthmus and the Dominican Republic rose in 2007 to 8,382 million dollars (equivalent to 5.3% of GDP, the best performance in a decade), an amount 19% higher compared to that of 2006 (see graph 12). The top performer was Costa Rica, which registered a record of FDI of 1,661 million dollars (6.3% of GDP) destined mostly for the real estate and tourism sectors. Also in 2007, and for the first time since 2000, there was significant inflow to El Salvador (6.8% of GDP), mainly towards the financial and communication sectors.

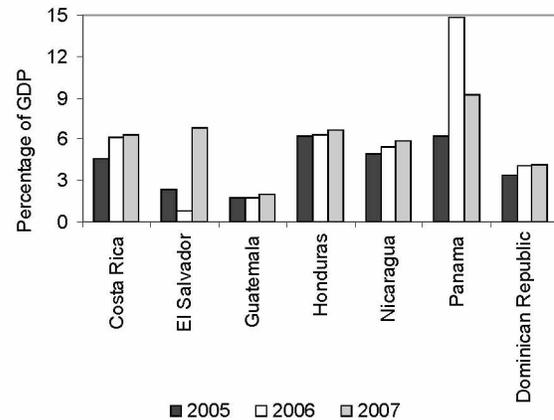
In Guatemala the foreign investment was concentrated towards the communication, commercial and chemical industry sectors, whilst in Honduras the FDI went to the communication and transport sectors as well as in-bond assembly plants. In Nicaragua, FDI remained at about 300 million dollars and was directed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

Graph 11
MONTHLY FAMILY REMITTANCES:
EL SALVADOR, GUATEMALA,
HONDURAS AND NICARAGUA
(January 2007 – June 2008)



Source: ECLAC, based on official figures.

Graph 12
NET FOREIGN DIRECT INVESTMENT,
2005-2007



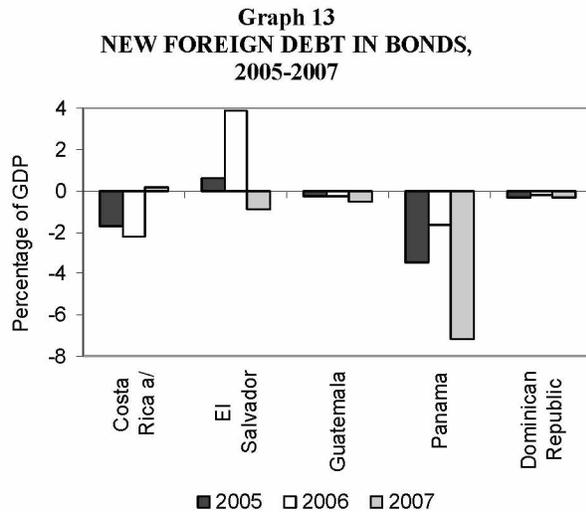
Source: ECLAC, based on official figures.

In Panama investment flows increased to 1,825 million dollars in 2007, mainly concentrated in the real estate and hotel sector. FDI inflows in the Dominican Republic topped 1,700 million dollars, continuing a growth trend that began in 2004, and mainly oriented towards the real estate, tourism and telecommunication sectors.

The net flow of foreign debt (bonds) was negative at 1.878 billion dollars and principally corresponded to debt reduction in Panamá and Costa Rica (see graph 13). In recent years, the majority of the governments have decided to

finance the fiscal deficit with debt issues in the local market. Honduras and Nicaragua, for their part, do not issue bonds in international financial markets as they are committed to the Initiative for Debt Reduction for Highly Indebted Poor Countries (HIPC). In Panama, new debt issued has been used to restructure its foreign debts.

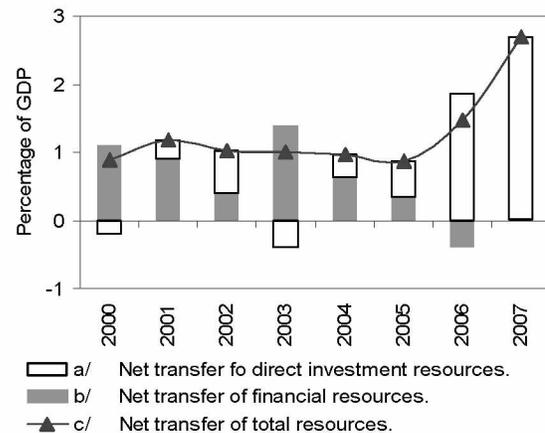
With respect to foreign bank debt, Panama (1,285 billion dollars) and Guatemala (1,140 million dollars) recorded the largest increases in their external debt with commercial banks followed by Costa Rica and the Dominican Republic.



Source: ECLAC, based on official figures.
a/ 2007 no information available.

The total net transfer of resources (NTR) towards the Central American Isthmus and the Dominican Republic was positive as has been a tradition for the sub-region. In 2007, the NTR was equivalent to 2.7% of GDP (see graph 14). In contrast to previous years, this result was due to a positive NTR with a higher rate of direct investment (2.7% of GDP) while the net transfer of current financial flows was also positive.

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



Source: based on official figures.

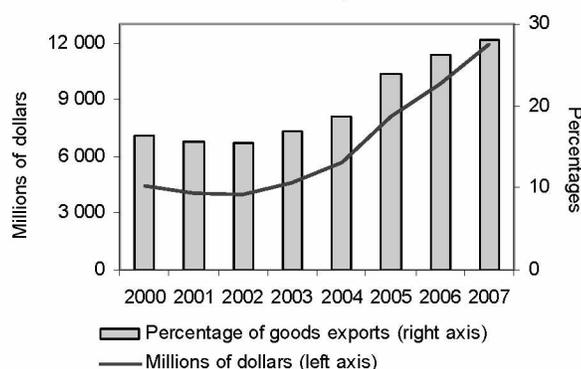
- a/ Corresponds to net inflow of foreign direct investment (FDI), minus repatriation of net profits.
 b/ Corresponds to inflow of capital, other than FDI, minus net payment of interest
 c/ Corresponds to NTR of direct investment plus NTR of financial resources.

Box 1

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

The sub-region of the Central American Isthmus and the Dominican Republic continued to suffer from the price increases in petroleum and petroleum derivatives. The petroleum bill continued to grow and in 2007 increased to an unprecedented amount of almost 12,000 million dollars. This amount contributed to half the trade deficit of goods in the sub-region. Furthermore, it was equivalent to 27% of goods exports. In 2008, the petroleum bill could rise to approximately 18,000 million dollars.

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



Source: ECLAC, based on official figures.

The greatest price increase in petroleum was recorded in the fourth quarter of 2007, and in many cases it corresponded to shipment and inventories which were to be used in early 2008. During the first two quarters of 2007, the international petroleum price was lower than in 2006, however on average over the entire year, the price was 9% higher in 2007 than in 2006.

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

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

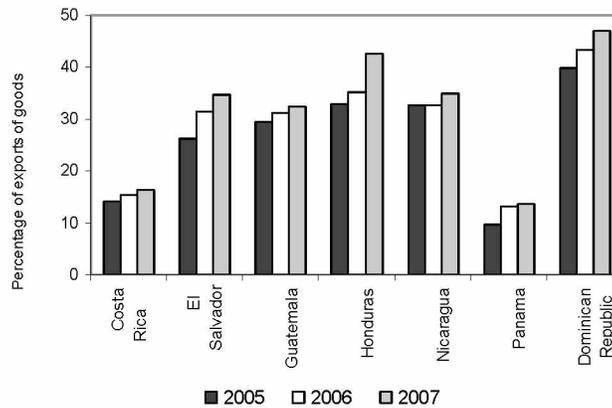
Source: US Department of Energy.

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

/Continued

Box 1 (Concluded)

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



Source: ECLAC, based on official figures.

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

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

An evaluation of sovereign debt instruments by international companies in 2007 shows a general improvement. In the beginning of 2007, *Standard & Poor's* (S&P) raised its classification for Guatemalan bonds denominated in local currency from BB to BB+ and the forecast for bonds denominated in foreign currency from stable to positive. For Panama, both S&P and *Fitch Ratings* improved their outlook for the stability of foreign currency bonds. For *Fitch Ratings*, this was due to the fact that Panama has shown good economic performance in the last four years. If the country maintains its current growth rate and prudent fiscal management, it could achieve "investment grade" status in the next two years. In August 2008, S&P raised their classification of sovereign debt from BB to BB+ with a stable outlook.

In the case of the Dominican Republic, *Moody's Investors Service* modified their classification of foreign currency denominated sovereign debt from B3 to B2, and in the beginning of 2008, S&P raised its classification from B to B+, but with a negative forecast. In the same period these two investment reviewers raised their evaluation from stable to positive for bonds denominated in foreign currency in Costa Rica. For the remaining countries of the Central American Isthmus, the classification of international sovereign risk for long-term debt instruments remained constant in 2007. However, by the end of 2008, the positive trend in sovereign risk classification could change due to the fact that the current growth cycle is finishing and also the forecast of possible turbulences in the international financial system, with both factors leading to a so-called "flight to quality" of investors.

3. Economic policy

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

a) Fiscal policy

In 2007, for the fourth year in a row, there was an improvement in the fiscal stance of the sub-region. The fiscal deficit of the central governments decreased on average from 2.3% of GDP in 2002 to 0.6% in 2007. The results were the same when compared

with 2006. The growth in economic activity was reflected in the continuing rise of fiscal revenue. Total expenditures showed great dynamism compared to previous years. In general, strong fiscal discipline lowered pressure on aggregate demand thus helping to contain the expansion phase of the economic cycle.

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

	Fiscal result of the central government/GDP		Stock of external public debt		Stock of internal public debt	
	2006	2007	2006	2007	2006	2007
Costa Rica	-1.1	-1.3	16.0	13.9	22.7	20.0
El Salvador	-0.4	-0.4	30.5	26.7	14.3	15.7
Guatemala	-1.9	-1.0	13.1	12.6	8.8	9.5
Honduras	-1.1	-2.0	28.2	16.7	3.9	3.3
Nicaragua	0.1	-0.9	85.5	59.1	23.3	19.7
Panama	0.2	0.6	45.5	41.9	15.5	11.1
Dominican Republic	0.1	0.6	14.0	13.1	3.2	2.4

Source: ECLAC, based on official figures.

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

With respect to this last cause, significant progress was achieved thanks to the joint efforts of the countries in the sub-region. For instance, Costa Rica and Panama signed the Protocol of Cooperation Procedures and the Exchange of Customs Information with the aim to coordinate efforts in the fight against customs fraud and contraband. Another noteworthy effort is the establishment of a specific unit on the part of the Guatemalan Superintendency of Tax Ad-

ministration (SAT) to investigate complaints of fiscal fraud, smuggling, money-laundering and financing of terrorism and drug trafficking. Better efficiency in tax collection in the Dominican Republic was guaranteed by the introduction of fiscal vouchers in the operations of the transfer of goods or the provision of services.

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

Another problem is the great magnitude of tax expenditures that, although differing from one country to another, are an important element of the loss of fiscal revenue. The major issue in this case concerns the tax revenue loss that the treasury accepts in order to grant discretionary tax exemptions (tax incentives) for specific sectors. The most extreme case is that of Guatemala, where the tax expenditures surpass the total tax burden. One of the main reasons for this situation is the “*race to the bottom*” with tax incentives used to attract investment, generally foreign investment in predetermined sectors. This race initiates a competition in the reduction of tax burdens, in a way that the countries, in absence of tax cooperation and tax coordination structures, grant continually more generous tax incentives and face the consequential reduction of their fiscal revenue. Within this conceptual framework, the recent passing of the law on international services on the part of El Salvador has an aim of attracting investment in the service sector. Investors are exempted from tax payment on income for at least 15 years, and in some cases also exempted from local tax payments and the value added tax (VAT). The remaining countries of the sub-region now consider themselves obliged to match the incentives, which will eliminate the advantage of the country which was the first to offer such benefits.

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

The stock of the public debt maintained the downward trend that began in 2004. Public debt averaged 30.7% of GDP in 2007, which is a decrease of more than 18 percentage points of GDP in the last four years and an almost five point decline from 2006. The greatest part of this fall was recorded in two countries, Honduras and Nicaragua, which profited from different initiatives for reducing their debts. The latest initiative was the debt decrease contracted with the Inter-American Development Bank, which in 2007 meant a fall in the public debt for Honduras of around 1,500 million dollars. The result of this and other initiatives is a reduction in foreign public debt for Honduras from the equivalent to 59.3% of GDP in 2004 to only 16.7% of GDP in 2007. In Nicaragua, there was greater progress made reducing the debt from 169% of GDP in 2000 to 59.1% in 2007. Towards the end of the year 2007, the Government of Nicaragua declared its intention to buy back more than 1,330 million dollars of its foreign public debt at a price of 4.5% of the nominal value of the securities with contributions from various donor countries. This would provide additional relief from foreign public debt for the country.

In other countries, particularly those that recorded high GDP growth, even if they did not register a change in the total amount of the debt there was still a strong decline in their indicator of indebtedness. Thus, foreign public debt was reduced by two percentage points of GDP in Costa Rica and almost four percentage points in Panama. In terms of domestic public debt, there

have been no significant variations, on average, in neither their stock nor in their participation in GDP. Domestic debt continued to be very important in Costa Rica and Nicaragua, representing nearly two thirds and one third, respectively, of all debt in each country.

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

b) Monetary and exchange-rate policy

The conduct of monetary policy was complicated due to strong foreign exchange inflows and in some cases, due to the trade-off between inflation and exchange-rate targets. Inflationary pressures drove the central banks to raise interest rates and widen the sterilization operations to slow down the rapid growth of monetary aggregates. Despite this, the large inflow of foreign exchange in the first half of 2007, tended to surpass the possibilities of sterilization. The interventions stemmed partly from concerns about the appreciation of the real exchange-rate and the deterioration of competitiveness, and were also motivated by a policy to accumulate precautionary reserves.

It is worth mentioning that the large amount of financial resources directed towards the countries of the sub-region cushioned the impact of imported inflation by stimulating the appreciation of the currencies in the sub-region. As shown in table 3, every currency in the sub-region appreciated against the U. S. dollar. How-

ever a more varied situation appears when an indicator showing the variation of the total effective real-exchange rate is used. In 4 of the 6 countries (El Salvador, Nicaragua, Panama and the Dominican Republic), two of them with the U. S. dollar as their national currency, a depreciation of the total effective real-exchange rate occurred, mainly caused by the loss of purchasing power of the U. S. dollar versus the Euro and the Yen. In the other countries a slight appreciation of the total effective real-exchange rate was recorded.

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

Panama and El Salvador adopted the U. S. dollar as legal currency at different times. Honduras and Nicaragua apply a strategy of fixed explicit objectives for the exchange-rate. Honduras has an exchange-rate regime of sliding parity with respect to the U. S. dollar. Nicaragua uses an exchange-rate policy of daily mini-devaluations consistent with a pre-announced annual devaluation rate as an anchor for inflation expectations. Costa Rica recently decided to substitute the daily adjustment of the nominal exchange-rate of the colon with respect to the U. S. dollar with an exchange-rate band that has moderate initial bandwidth, but which in time would allow for a more flexible exchange rate. Furthermore, the regime is a transitional one towards a more flexible floating and a strategy of inflation targeting. The Dominican Republic and Guatemala, for their part, follow flexible exchange rate regimes, although with certain interventions.

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

Country	2000	2001	2002	2003	2004	2005 b/	2006 b/	2007 c/
Index of the real bilateral exchange rate with the U. S. dollar (2000 = 100)								
Costa Rica	100.0	98.6	100.4	103.9	104.4	103.5	102.6	97.5
El Salvador	100.0	99.1	98.8	99.0	97.3	96.1	95.3	93.8
Guatemala	100.0	97.0	90.7	89.1	85.2	77.5	74.8	72.7
Honduras	100.0	97.7	97.9	98.2	97.8	95.9	93.9	90.3
Nicaragua	100.0	102.8	106.7	109.9	109.7	108.7	107.9	104.9
Panama	100.0	102.5	103.1	104.0	106.2	106.8	107.6	106.2
Dominican Republic	100.0	97.4	99.1	132.8	128.5	92.1	97.2	93.8
Index of the real total effective exchange rate (2000 = 100) d/								
Costa Rica	100.00	97.0	98.7	104.5	106.1	107.2	106.1	103.8
El Salvador	100.00	99.8	99.7	100.2	98.9	100.9	101.3	102.6
Guatemala	100.00	95.9	88.4	88.7	85.7	79.8	77.5	77.5
Honduras	100.00	97.2	96.9	98.5	100.9	100.5	98.0	96.3
Nicaragua	100.00	101.1	103.2	106.9	107.8	108.5	107.2	109.4
Panama	100.00	103.1	101.2	103.2	108.4	110.9	112.4	114.1
Dominican Republic	100.00	96.5	98.5	131.3	125.5	87.4	95.7	95.8

Source: ECLAC, based on official figures.

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

b/ Preliminary figures.

c/ Estimated figures.

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

Net international reserves continued to grow on average, but at a lower rate than in the recent past. Nevertheless, the situation varied significantly among the countries. In the Dominican Republic reserves increased 25%, in El Salvador 21% and in Nicaragua 20%. In contrast, the net international reserves fell slightly in Honduras and Guatemala and they grew at very low rates in Costa Rica. In 2007, the monetary aggregates on average grew at similar rates to those of the previous year. However, this average is the result of high growth of monetary aggregates (close to one-third increase) in the case of Costa Rica, and lower growth in the other countries. Internally available credit on average accelerated its expansion from a real rate of 6.8% in 2006 to 9% in 2007. All of this increase was caused by loans to

the private sector, as loans to the public sector recorded a negative variation rate.

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

percentage points. This forced the monetary authority to reverse its activity towards the end of the year.

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

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

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

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

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

In 2007, the majority of the indicators of the banking system strengthened. The improvement in the quality of the assets has been reflected in an increase in the value of total assets as a proportion of GDP and in a decline in the rate of defaulted or outstanding loans when compared to the overall uptake of credit. In this way, greater volumes of loans contributed to raising bank profits in almost all countries of the Central American Isthmus and the Dominican Republic. During the first 6 months of 2008, however, in a context of increasing bank activities and rising profits, there was a significant decline in the quality of the assets and overall liquidity in the banking system in Central America and the Dominican Republic as the reserves for portfolio loss and deposits declined when compared to total credit. As a result there was an important reduction in cash reserves as a proportion of total liabilities in all seven countries. This reflects a slight deterioration in the economic and banking conditions in the majority of countries in the sub-region and draws attention to the need for financial systems to be prepared for external shocks, especially given that financial crises tend to have severe macroeconomic repercussions (see table 4).

Table 4
CENTRAL AMERICAN ISTHMUS AND THE DOMINICAN REPUBLIC, BANKING SYSTEM INDICATORS, 2007-2008

Financial indicators	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama		Dominican Republic	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
	May		June		June		March		May		June		June	
a) Number of banks	17	17	11	11	22	20	18	18	7	7	75	75	13	12
b) Total asset/GDP	0,55	0,71	0,58	0,62	0,43	0,48	0,71	0,86	0,56	0,57	2,46	3,16	0,30	0,34
c) Total asset 5 top banks/GDP	0,42	0,56	0,53	0,56	0,32	0,38	0,45	0,53	0,52	0,53	1,02	1,39	0,26	0,30
d) Total liabilities/GDP	0,49	0,64	0,51	0,55	0,39	0,43	0,65	0,79	0,50	0,52	2,16	2,77	0,27	0,31
e) Patrimony/GDP	0,06	0,07	0,07	0,08	0,04	0,05	0,06	0,07	0,05	0,06	0,30	0,39	0,03	0,03
f) Non performing portfolio/total credit a/	1,56	1,28	2,07	2,37	2,19	2,63	3,80	3,41	2,03	2,52	1,33	1,04	4,97	3,62
g) Non performing portfolio provisions loss/total credit	2,33	1,93	2,53	2,68	2,25	1,87	2,93	2,58	3,57	3,61	1,89	1,59	6,36	4,81
h) Non performing portfolio provisions loss/non performing portfolio	149,01	151,12	121,89	113,33	102,77	70,97	76,92	75,57	176,17	143,02	142,38	152,96	128,01	132,82
i) Total deposits/total credit	127,23	112,08	98,77	94,51	139,76	124,29	108,04	100,94	129,73	118,20	121,55	119,20	124,46	109,53
j) Implicit margin of financial intermediation b/	8,70	7,20	6,66	6,62	9,81	11,15	8,81	8,30	12,13	12,86	2,59	2,57	12,34	11,76
k) Financial availabilities + investment/total liabilities	42,11	34,07	30,00	29,83	44,25	39,64	30,22	26,76	44,72	38,13	39,99	39,93	44,39	38,66
l) Loans less portfolio provisions/total deposits	76,77	87,49	98,68	102,97	69,94	78,95	89,85	96,51	74,33	81,55	80,71	82,56	75,23	86,91
m) Patrimony/total asset	10,61	9,66	11,77	12,49	8,79	9,63	8,34	8,69	9,70	9,69	12,08	12,35	9,08	9,58
n) Profit before income tax/average asset	1,08	0,94	0,82	0,92	0,98	1,27	0,53	0,63	2,29	3,27	1,08	1,13	1,35	1,59
o) Profit before income tax/average patrimony	10,32	9,92	6,94	7,56	11,49	13,39	6,34	7,23	24,72	34,23	8,81	9,05	14,33	17,06
p) Financial expenditure/total deposits	1,99	1,24	1,33	1,34	1,65	2,47	1,34	1,62	3,35	3,32	2,51	2,14	2,39	2,27

Source: ECLAC, based on Central American Monetary Council and Supervision of Banks and Central Banks.

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

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

Moreover, the recent process of regional financial integration, that has improved competitiveness, efficiency and increased economies of scale, has also increased the likelihood of the spread of a crisis and for “contagion” in the financial systems of neighbouring countries. Other important factors of vulnerability are also present: high levels of dollarization, the deterioration in general balances, liabilities resulting from pensions systems, lax definition of default loans, and the mostly passive supervision. As a result, it is imperative that the sub-region moves forward in developing a consolidated and integrated system of financial supervision both internally as well as regionally.

c) Trade policy

The efforts of the Central American countries to form a Central American Customs Union received some important impetus. In June of 2007, the Central American countries, with the exception of Costa Rica, subscribed to the Framework Convention for the establishment of a Customs Union. In October, Costa Rica announced its accession to this Framework Convention.

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

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

areas. Panama participated in this round as an observer.

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

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

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

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

Finally, in the third quarter of 2008, Honduras made a decision to join the Bolivarian Alternative for the Peoples of the Americas (ALBA).

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

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

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

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

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

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

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

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

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

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

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

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

4. Production, prices, remuneration, and employment

a) Economic activity ³

In 2007, the economies of the Central American Isthmus and the Dominican Republic expanded on average by 7.2%, one and a half percentage points higher than the average for Latin America and the Caribbean. Nevertheless, this variation represents a growth rate almost four tenths of a percentage point less than that of the previous year and only Panama, Honduras, Guatemala and El Salvador registered higher growth rates in 2007. Panama (11.2%) and the Dominican Republic (8.5%) were the economies with the highest growth rates whilst Nicaragua, for the second year in a row, displayed the lowest growth of the sub-region (3.8%).

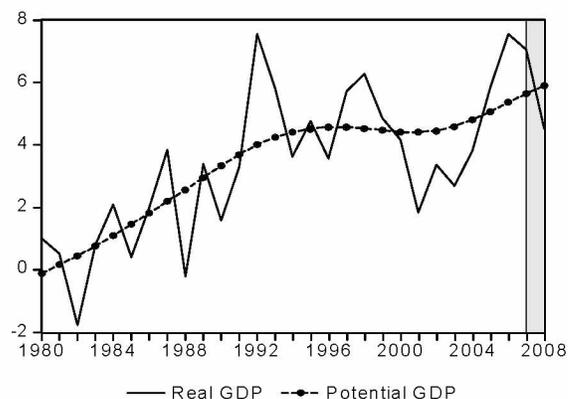
An important fact for the sub-region is that in the last four years the real product has been above the potential product. ⁴ Growth in this period was more balanced than in the past decade, in the sense of that not just the foreign demand growing at high rates, but also the domestic demand showing dynamism. Even though the export increase (11.3% on average) played a significant role in the dynamism of the GDP, the growing family remittances allowed unprecedented consumption levels for some strata of the population that are less wealthy. On the other hand, the same family remittances resulted in an increase of imports higher than the increase of the exports, emphasizing the vulnerability of the economies to external shocks.

The real product —although higher than the potential product in 2007— began to show a reversal of its trend which after various years of a positive gap, will grow significantly slower in 2008 (see graph 17). At the same time, this augurs a period of more macroeconomic difficulties and a higher level of uncertainty for the entire population, complicating decisions that have a greater long term effect. In particular, it is very probable that the deceleration of the U. S. economy in 2008 will have an adverse effect for the sub-region on the flows of foreign currency, namely the inflow of investment and remittances. This will reinforce the trend of the real product to fall below the potential one for the sub-region.

In 2007, the exports of goods and services from the Central American Isthmus and the Dominican Republic increased 7.6% at constant 2000 prices, a rate one percentage point above that of the previous year. The growth of foreign

demand therefore remains an important source for economic expansion in the sub-region. This fact underlines the challenges export companies will face in 2008 due to the weakening of foreign demand, especially U. S. demand.

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

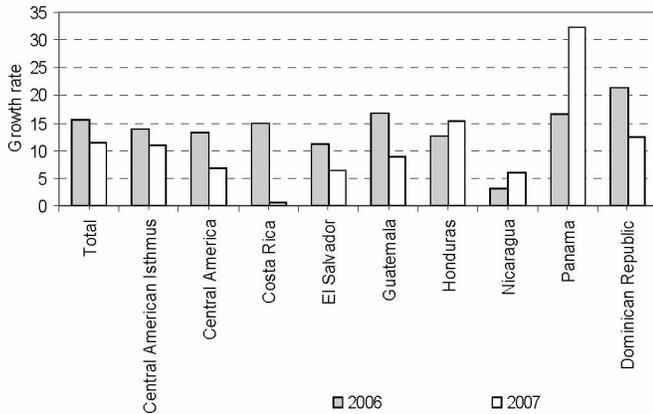


Source: ECLAC, based on official figures.

The advance in domestic demand by 8.2% showed a similar dynamism than the previous year. This performance was due to a large increase in consumption (7.3%), on the strength of higher inflows of family remittances to Central America. Private and public consumption grew at rates of 7.9% and 6.1%, respectively. The fixed gross investment maintained its rhythm from the previous year, growing more than 11% and continuing the trend in the expansion of installed capacity. In this area it is noteworthy

that investment rose in Panama (32.2%) and that only Costa Rica recorded a significant slowdown from 14.9% in 2006 to 0.7% in 2007.

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



Source: ECLAC, based on official figures.

In terms of aggregate supply, the imports of goods and services grew 9.3% in 2007, almost two percentage points higher than that of 2006. This expansion was due largely to increases in the international prices of food and petroleum, and also because of the purchase of intermediate inputs and capital in the sub-region.

The analysis of the sources of variation in GDP in 2007 shows the importance of consumption, given its contribution of 6.7 percentage points to the total growth figure. This implies strong repercussions for the public policy as a great part of this dynamism was provided by imports. Hence, there is a widening gap between imports and exports of goods of these countries, a pattern that is not sustainable outside the short term. Investment added 2.1 percentage points to total growth, and exports another 3.1 percentage points. However, the imports subtracted 4.6 percentage points from

total growth, thus making the total contribution of the external sector negative.

By areas of economic activity, the manufacturing industry reached a growth rate of 3.9%, a percentage point lower than the last years, with a stand out performance by Nicaragua (7.6%). By increasing just 4.1% compared to 6.2% in 2006, the agriculture sector returned to a more moderate growth trajectory, similar to the one of the period 2003-2005. In this area the cases of El Salvador (8.6%) and Costa Rica (6.8%) were above average. The mining industry also registered a dynamic performance by growing 8% in the sub-region.

Basic services, telecommunications, transportation, commerce, banking and financial services and community services once again continued to progress steadily, reaching an average growth rate of 9%. These sectors continue to expand at higher than average growth rates for the Central American Isthmus and the Dominican Republic, widening their participation in the structure of the economy. Together with the service sector, construction presented the highest growth of the economic sectors in the sub-region (9.1%), but this was slower expansion than the previous year, with a growth slowdown of almost six percentage points. The expansion was especially substantial in Panama (19.6%), Costa Rica (18.2%), and in Guatemala (12.1%). In Nicaragua, services declined 3%, equal to the fall in 2006.

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

Box 3**DISASTERS AFFECT DEVELOPMENT SUSTAINABILITY IN 2007**

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

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

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

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

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

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

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

Table 5
POPULATION AFFECTED BY DISASTERS IN 2007

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

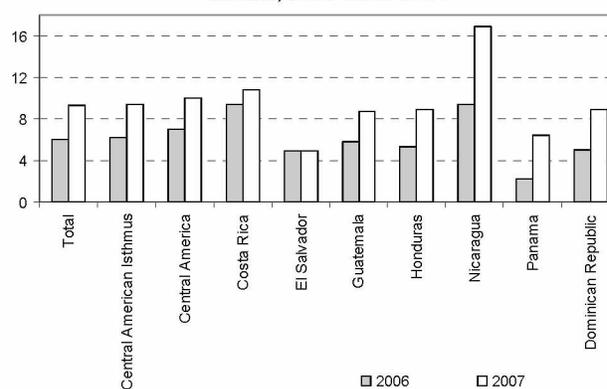
Source: ECLAC Estimations, based on evaluated events.

b) Prices, remuneration, and employment

After two years of decline, in 2007, the average inflation rate from December to December in the Central American Isthmus and the Dominican Republic grew more than three percentage points compared to 2006, and stood at 9.3%. Thus, inflation was also more than three percentage points higher than the average level registered in Latin America and the Caribbean. In contrast to the previous year, a greater deviation of the inflation rate among the countries of the sub-region is predicted, as in two of those countries inflation exceeded single digits, a situation which has recently only been seen in 2004. The extremes of inflation changed from 2.2% and 9.4% in 2006, to 4.9% and 16.9%, in 2007.

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

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



Source: ECLAC, based on official figures.

In the first six months of 2008, inflationary pressures increased even further. In five of the seven countries, the variation in prices, measured by the Consumer Price Index (CPI) for the 12 months until July 2008, reached two digits, varying between 14% and 24% while inflation remained at approximately 9.6% in Panama and El Salvador.

The economic expansion was reflected once again in an improvement in the labor markets situation. The open unemployment rate in the majority of the countries in the sub-region

decreased and a slight increase of nominal salaries was recorded in some economies to offset the effect of growing prices of food and fuels.

However, these measures were insufficient to contain the fall of the real salaries, given the inflation upturn.

Box 4

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

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

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

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

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

In El Salvador, in mid-November of 2007, the minimum wage rose 3% in the case of the in-bond assembly plant industry and 5% for other economic activities. Nevertheless, this increase did not compensate for the previous fall of the real wage, which in the year previously registered a fall of 1%. In Guatemala, the daily minimum wage for agricultural activities was 44.58 quetzals, whereas for non-agricultural activities it

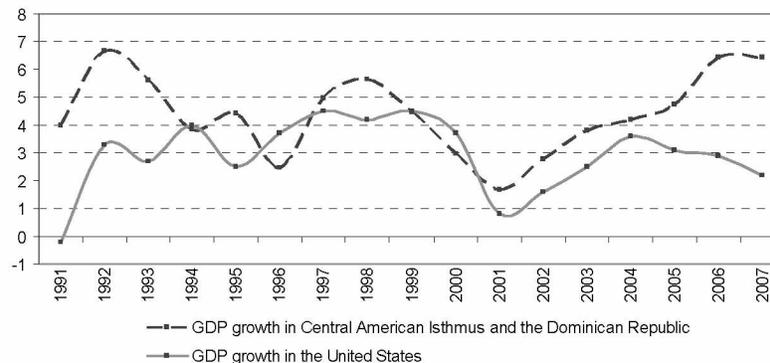
was at 45.82 quetzals. Nevertheless, the cost of a basic food basket was 55.16 quetzals a day, which could not be covered with the minimum wage and due to the inflation, the real minimum wage was reduced 1%. In the beginning of 2007, in Honduras, the average daily minimum wage had a nominal change of 9.6% and in the Dominican Republic the minimum wage of the private sector, frozen since the end of 2005, rose 11.3%.

5. Prospects for 2008

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

The economies of the Central America and the Dominican Republic, and to a lesser extent that of Panama, are strongly dependent upon the economic cycle of the United States. The main channel for this dependency is the U. S. demand for products imported from the sub-region. Among these products, the most vulnerable are manufactured products because they possess a higher income elasticity than food products. Moreover, another important channel of dependency can be seen in family remittances which have financed the consumption upturn in the countries in the last four years. Finally, the inflow of FDI from U. S. companies is a third channel which links the economic cycle of the countries of the area with the U. S. economy. As shown in graph 20, the economic cycle of the Central American Isthmus and the Dominican Republic is highly synchronized with the U. S. GDP growth. ⁵ Recently, however, it seems that this relationship has weakened, possibly because of the exceptional circumstances relating to the flow of family remittances and their dynamizing effect on internal demand in receiving countries.

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



Source: ECLAC, based on official figures.

Box 5

THE ECONOMIC CRISIS OF THE UNITED STATES: DIAGNOSIS AND PROSPECTS

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

/Continued

Box 5 (Concluded)

Thus, the U. S. economy has started to suffer from a mechanism which for various years financed the consumption, but now works in reverse. It is the so called wealth effect, that is, the consumption change caused by a change in wealth. In other words, increasing the value of the persons' assets makes them feel wealthier. Consequently, people adjusted their consumption upwards, thinking that this value was permanently higher. In the concrete case of the real estate sector bubble of the United States, the presumed unstoppable increase of the real estate prices permitted millions of people to run debts against the value of their house without recognizing that the sustainability of such debts depended on the continuation of the price increase of their houses.

Economic growth depended crucially on this wealth effect. When the mechanism was exhausted a serious problem occurred. The wealth effect works in the opposite direction in a similar way: changing the level of the perceived permanent value of assets for the affected persons causes them to adjust their consumption. The price reduction of real estate changed the relation between the value of the debts and the value of the dwellings, leaving millions of families with a negative net worth.

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

The crisis of confidence within the financial system occurred due to the fact that no one knows exactly where these irrecoverable loans are now. As a result, financial institutions have become far more conservative, which had repercussions on the reduction of available loans among the financial institutions to companies and consumers. What has started as liquidity crisis in one segment of the market is later perceived as a solvency crisis in the same market and has expanded to the whole financial system. As a result, banks have suffered losses which in September of 2008, surpassed 500,000 million dollars, thus making them even more conservative in loans procedures.

Macroeconomic policy has reacted relatively quickly. Hundreds of billions of dollars were injected into the U. S. economy to relieve the loan crisis. The interest rate of the Central Bank was also reduced in five separate occasions, dropping from 5.25% in August 2007 to 2.0% in just nine months. In the area of fiscal policy, an aid package was passed to the value of 168,000 million dollars, has helped cushion the effect on consumption in the second quarter of 2008, but has been insufficient to direct the economy on the path of recovery.

Because of that, an integral approach has been necessary to stabilize the financial system and to support the US economy at a moment when sources of credit have almost entirely disappeared. c/

The worldwide stock market losses until the end of September of 2008 showed that the contagion from the United States has already reached the rest of the world. Although, until now, no significant slowdown of the other economies has been observed (with the exception of some European ones and the Japanese economy), the fact that trillions of dollars have been lost in stock markets points towards a strong negative wealth effect which sooner or later will have consequences for the reevaluation of the sustainability of previous trends and will affect economic growth in the rest of the world. d/

The scenario in the rest of 2008 is uncertain, with volatility in the financial markets in US and in the rest of the world. Hence, the real economy will be adversely affected and the economic crisis will continue during much of 2009. Lower growth of the world GDP will be reflected in a reduction of commodity prices and prices of food, thereby easing inflationary pressures.

- a/ Reinhart and Rogoff encountered many similarities, both qualitative and quantitative, of the current financial crisis in the United States with 18 cases of financial crisis in industrialized countries during the postwar period. See, Reinhart, Carmen M., Kenneth S. Rogoff, "Is the 2007 U. S. Subprime Financial Crisis so Different? An International Historical Comparison", NBER Working Paper Series N° 13761, National Bureau of Economic Research, Cambridge, Massachusetts, 2008.
- b/ According to the analysis of Dimitri B. Papadimitriou, Grez Hannsgen y Gennaro Zezza, "Cracks in the Foundations of Growth", Public Policy Brief N° 90, The Levy Economics Institute of Bard College, Annandale-on-Hudson, USA, 2007, the oversight in the loans area was recently very lax compared to other historical periods.
- c/ At the moment of finalization of this document (30 September 2008), the financial rescue package was not yet approved.
- d/ See, Roubini, N., "The Coming Financial Pandemic: Why America's Economic Crisis Will Infect the World", Foreign Policy, March-April, 2008.

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

In contrast to previous years, the uncertainty concerning the impact of this crisis on the rest of the world is very large. In a concrete example, a lower U. S. demand for imports will reduce the exports of countries like China, Mexico, Central America, for which the U. S. market is the main destination. For the same reason, the imports of these countries will be reduced, producing a second wave of effects, mostly regionally as the production processes are today more regionally integrated than before, and because the imported component is a higher proportion of the total of inputs in the production process. This is especially the case in Asia, where China imports raw materials or intermediate goods from its regional business partners and exports final goods to the United States and Europe. Consequently, the impact of the crisis on the rest of the world will be palpable, but it is impossible to evaluate the magnitude and the significance of the impact at this stage.

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

As shown in this document, the external vulnerability of the countries of the sub-region has been reduced substantially, although with great differences between the countries. Firstly, foreign debts are much lower now than during the U. S. recession of 2001, and at the same time they are more diversified with respect to the type of currency. Their temporal profile has also improved, with a lower proportion of short-term debts. Secondly, international net reserves are at higher levels than before, and cover various months of imports. Thirdly, fiscal deficits are smaller, and so there is lesser need for financing. A great part of this financing is obtained from sources in the domestic market without the need to seek outside contributors. Fourthly, some

countries of the region have diversified their export destinations, whereby now, they are less dependent on the U. S. market. Finally, macro-economic policy enjoys a greater credibility now compared to some years ago and this allows greater room for policy intervention to mitigate the effects of the external shocks.

... but important vulnerabilities still persist

Among the persistent vulnerabilities, probably the most important is the enormous trade deficit. In various countries, this has reached unprecedented levels, above 20% of GDP. Until now, these deficits were financed to a great extent by family remittances, but this could change in the future. A deficit of the current account of the balance of payments of around 5% of GDP is manageable in a boom period, but when the international economic situation deteriorates, this could be a great source of instability. Another type of vulnerability is related to investment flows and family remittances. These two sources are by far the most important in financing the deficits in the exchange of goods and services, but now, there are no guarantees that they will continue doing so. Finally, despite recent efforts to reach fiscal consolidation, some countries continue to be weak in this respect.

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

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

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

	2006	2007	2008
Total	7.5	7.2	4.8
Central American Isthmus	6.4	6.7	4.6
Central America	6.0	5.8	4.0
Costa Rica	8.8	6.8	4.3
El Salvador	4.2	4.7	3.7
Guatemala	5.0	5.7	4.3
Honduras	6.0	6.3	4.5
Nicaragua	3.7	3.8	3.0
Panama	8.7	11.2	8.0
Dominican Republic	10.7	8.5	5.5

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

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

In the current situation, the constant monitoring is essential. The authorities should be prepared to act with greater rapidity than in the previous period in case of changes of economic conditions. Since clear signs of a drastic slowdown in the economic growth have still not developed, the emphasis of the majority of the countries should be on containment of inflation which has reached double-digit figures in five of the seven economies. However, in order not to aggravate the problem of a slowdown which will be stronger at the beginning of 2009, it is better to use the heterodox means than to opt for a more restrictive monetary and fiscal policy. In particular, the general increase of wages should be controlled if possible, especially in the public sector, so as to avoid an indexation problem that would cause a price and wage spiral. Another action, where public finances permit, could be the subsidy of energy and transportation to mitigate the effect of the international price increase of petroleum and gas. In cases where the government counts with strategic food reserves, they

could intervene in the market to prevent price increases due to speculation. Finally, agreements to avoid price increases for some key goods or services, or the products of a sector, could play an important role in the fight to keep inflation under control. This last point is of the highest priority due to the differentiated impact and regressive character of inflation that has greater effects on the poorer social strata, and due to the loss of macroeconomic policy credibility involved.

The governments of the countries in the sub-region have adopted various measures in order to fight off the most urgent problems, especially in relation with the increases of international prices of food and petroleum. Some have reduced tariffs on imports of food since it is a measure that permits to mitigate the problem swiftly. Other measures have tended to strengthen the domestic production of food by facilitating financing, providing technical cooperation, distributing inputs like fertilizers, and so on, whose effects should be perceived in the coming months. In the meantime, the increase in conditional transfers should serve to protect the most vulnerable.

As the growth of GDP decelerates, the macroeconomic policy should begin to be more strongly countercyclical. Obviously, the room for this kind of policy differs strongly from one country to the other, for which reason the economic authorities should know clearly the monetary and fiscal space within which they can act. The only country which should consider adopting a restrictive fiscal policy is Panama, as it does not count on monetary policy and faces a clear overheating of its economy. As the growth of the world economy decelerates, the inflationary pressures should diminish in the coming months, opening up the space for governments to adopt a more aggressive countercyclical policy.

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

FOOTNOTES

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

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

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

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

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

Statistical Annex

Table A-1

CENTRAL AMERICAN ISTHMUS: MAIN INDICATORS, 2000-2007

Country	2000	2001	2002	2003	2004	2005	2006	2007
Area (km ²)								
Costa Rica	50 700	50 700	50 700	50 700	50 700	50 700	50 700	50 700
El Salvador	21 041	21 041	21 041	21 041	21 041	21 041	21 041	21 041
Guatemala	108 889	108 889	108 889	108 889	108 889	108 889	108 889	108 889
Honduras	112 492	112 492	112 492	112 492	112 492	112 492	112 492	112 492
Nicaragua	130 000	130 000	130 000	130 000	130 000	130 000	130 000	130 000
Panama	75 517	75 517	75 517	75 517	75 517	75 517	75 517	75 517
Dominican Republic	48 442	48 442	48 442	48 442	48 442	48 442	48 442	48 442
Population (thousands of inhabitants)								
Costa Rica	3 925,3	4 008,3	4 089,6	4 169,7	4 248,5	4 325,8	4 401,8	4 476,6
El Salvador	6 276,0	6 396,9	6 517,8	6 638,1	6 757,4	6 874,9	6 990,7	7 105,0
Guatemala	11 225,4	11 503,7	11 791,1	12 087,0	12 390,5	12 700,6	13 018,8	13 344,8
Honduras	6 485,5	6 655,9	6 828,0	7 001,1	7 174,2	7 346,5	7 518,3	7 690,0
Nicaragua	5 098,0	5 173,9	5 244,7	5 312,7	5 380,5	5 450,4	5 522,6	5 595,5
Panama	2 948,0	3 004,0	3 060,1	3 116,3	3 172,4	3 228,2	3 284,0	3 339,8
Dominican Republic	8 262,7	8 411,3	8 562,5	8 716,5	8 873,3	9 032,9	9 195,4	9 360,7
Population growth rates (percentages)								
Costa Rica	2,3	2,1	2,0	2,0	1,9	1,8	1,8	1,7
El Salvador	2,0	1,9	1,9	1,8	1,8	1,7	1,7	1,6
Guatemala	2,4	2,5	2,5	2,5	2,5	2,5	2,5	2,5
Honduras	2,7	2,6	2,6	2,5	2,5	2,4	2,3	2,3
Nicaragua	1,6	1,5	1,4	1,3	1,3	1,3	1,3	1,3
Panama	1,9	1,9	1,9	1,8	1,8	1,8	1,7	1,7
Dominican Republic	1,8	1,8	1,8	1,8	1,8	1,8	1,8	1,8
Economically active population (thousands of inhabitants)								
Costa Rica	...	2 964,5	3 060,8	3 167,2	3 250,5	3 349,7	3 349,7	4 443,1
El Salvador	4 778,0	4 947,2	5 028,6	5 066,9	5 240,8	5 330,4	5 462,1	...
Guatemala	3 615,7	3 771,8	4 923,6	5 065,4	4 990,2	5 013,4	5 046,7	...
Honduras	-	2 381,7	2 444,8	2 556,5	2 592,2	2 651,3	2 811,8	2 921,4
Nicaragua	...	3 653,2	...	3 870,3	3 977,7	4 096,7	4 201,4	4 277,3
Panama	1 952,7	2 010,2	2 054,3	2 121,9	2 169,2	2 216,2	2 263,0	2 309,8
Dominican Republic	3 532,5	3 558,0	3 701,8	3 731,7	4 036,6	3 992,1	4 127,4	4 227,7
Net participation rate (percentage of EAP)								
Costa Rica	53,6	55,8	55,2	55,5	54,4	56,8	56,6	57,0
El Salvador	52,3	53,3	51,2	53,4	51,7	52,4	52,6	...
Guatemala	56,3	56,9	60,9	61,4	56,1	54,7	51,8	...
Honduras	...	51,8	50,9	51,3	50,6	49,2	50,7	51,1
Nicaragua	...	52,0	...	53,3	53,1	53,8	51,4	51,1
Panama	59,9	60,5	62,6	62,8	63,3	63,5	62,6	62,7
Dominican Republic	55,3	54,4	55,1	54,3	56,3	55,9	56,0	56,2

/Continued

Table A-1 (Concluded)

Country	2000	2001	2002	2003	2004	2005	2006	2007
Open unemployment (percentage of active workforce)								
Costa Rica	5,2	6,1	6,4	6,7	6,5	6,6	6,0	4,6
El Salvador	7,0	7,0	6,2	6,9	6,8	7,2	6,6	6,5
Guatemala	...	...	3,1	3,4	3,1	3,2	1,8	...
Honduras	-	3,9	3,8	5,1	5,9	4,1	3,1	2,9
Nicaragua	...	10,7	...	7,0	6,5	5,6	5,1	4,9
Panama	13,5	14,0	13,5	13,1	11,8	9,8	8,7	6,4
Dominican Republic	13,9	15,6	16,1	17,0	18,4	17,9	16,2	15,6
Gross domestic product (millions of current dollars)								
Costa Rica	15 949,5	16 406,8	16 849,2	17 522,4	18 600,0	19 912,0	22 524,8	26 236,3
El Salvador	13 134,1	13 812,7	14 306,7	15 046,7	15 798,3	17 070,2	18 653,6	20 372,6
Guatemala	19 307,9	18 724,6	20 805,4	21 952,2	23 998,7	27 247,8	30 210,1	33 474,0
Honduras	7 103,5	7 565,9	7 775,1	8 140,3	8 772,2	9 672,1	10 757,5	12 236,1
Nicaragua	3 938,1	4 102,4	4 026,0	4 101,5	4 464,7	4 872,0	5 293,5	5 726,4
Panama	11 620,5	11 807,6	12 272,4	12 933,2	14 179,3	15 464,7	17 133,8	19 739,8
Dominican Republic	23 996,7	24 895,0	26 352,7	21 041,5	21 679,7	33 682,6	35 729,7	41 125,5
Per capita GDP (current dollars)								
Costa Rica	4 063,2	4 093,2	4 120,0	4 202,3	4 378,0	4 603,0	5 117,1	5 860,7
El Salvador	2 092,8	2 159,3	2 195,0	2 266,7	2 337,9	2 483,0	2 668,4	2 867,4
Guatemala	1 720,0	1 627,7	1 764,5	1 816,2	1 936,9	2 145,4	2 320,5	2 508,4
Honduras	1 095,3	1 136,7	1 138,7	1 162,7	1 222,7	1 316,6	1 430,8	1 591,2
Nicaragua	772,5	792,9	767,6	772,0	829,8	893,9	958,5	1 023,4
Panama	3 941,8	3 930,7	4 010,5	4 150,2	4 469,6	4 790,5	5 217,4	5 910,5
Dominican Republic	2 904,2	2 959,7	3 077,7	2 414,0	2 443,2	3 728,9	3 885,6	4 393,4
Nominal exchange rate a/								
Costa Rica	308,1	328,8	359,7	398,6	437,8	477,7	511,2	516,6
El Salvador	8,8	8,8	8,8	8,8	8,8	8,8	8,8	8,8
Guatemala	7,8	7,8	7,8	7,9	7,9	7,6	7,6	7,7
Honduras	15,0	15,7	16,6	17,5	18,4	19,0	19,0	19,0
Nicaragua	12,7	13,4	14,3	15,1	15,9	16,7	17,6	18,4
Panama	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0
Dominican Republic	16,2	16,7	17,6	29,4	41,9	30,3	33,3	33,2
Human development index b/								
Costa Rica	0,829	0,832	0,834	0,838	0,841	0,846	...	...
El Salvador	0,713	0,719	0,720	0,722	0,729	0,735	...	...
Guatemala	0,642	0,652	0,649	0,663	0,673	0,689	...	...
Honduras	...	0,667	0,672	0,667	0,683	0,700	...	...
Nicaragua	0,643	0,643	0,667	0,690	0,698	0,710	...	...
Panama	0,791	0,788	0,791	0,804	0,809	0,812	...	...
Dominican Republic	0,727	0,737	0,738	0,749	0,751	0,779	...	...

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

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

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

Table 1

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

	2000	2001	2002	2003	2004	2005	2006	2007 a/
	Growth rates							
Economic activity and prices								
Gross National Product b/	3,7	1,7	3,6	2,8	3,6	6,0	7,6	7,2
Per capita GDP b/	1,5	-0,4	1,5	0,7	1,5	3,9	5,5	5,1
Gross fixed capital formation CPI (December-December)	-0,8	-4,2	2,8	-1,7	2,5	5,8	15,2	13,4
	6,6	5,6	6,1	10,8	10,9	7,9	6,0	9,3
	Percentages							
Fiscal deficit/GDP (weighted) c/	2,1	2,4	2,1	2,8	1,8	1,4	0,7	0,8
	Millions of dollars							
External sector								
Current account balance	-5 219,2	-4 261,2	-4 442,7	-3 361,1	-3 885,6	-5 026,9	-6 287,4	-10 348,6
Income balance	-3 732,9	-3 295,2	-2 969,7	-4 276,7	-4 799,6	-4 895,8	-4 980,5	-6 172,3
Net current transfers	5 785,8	7 118,4	8 189,8	9 028,4	10 656,4	12 577,9	14 902,1	16 483,3
Financial and capital account d/	5 224,3	5 396,0	3 858,0	3 320,3	4 545,5	7 103,2	8 380,9	13 202,0
Net foreign direct investment	3 036,7	2 888,6	2 829,3	3 014,6	4 177,8	4 806,1	7 179,7	8 749,6
Overall balance	5,1	1 134,8	-584,7	-40,8	660,0	2 076,3	2 093,5	2 853,5
Net resource transfer	1 803,4	2 407,6	1 305,7	-391,9	533,9	2 686,3	3 637,9	7 187,1
External public debt	27 976,9	29 121,4	30 682,8	33 535,9	34 439,0	34 223,2	33 620,5	32 394,0
	Indices (2000 = 100)							
Terms of trade of goods	100,0	99,6	98,7	95,1	93,5	91,3	90,0	90,0

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Based on figures with dollars at constant 2000 prices.

c/ Weighted average.

d/ Includes errors and omissions.

Table 2

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

(Growth rates)

	2000	2001	2002	2003	2004	2005	2006	2007 a/
Gross domestic product b/								
Total	3,7	1,7	3,6	2,8	3,6	6,0	7,6	7,2
Central American Isthmus	3,0	1,7	2,9	3,9	4,3	4,9	6,5	6,7
Central America	3,1	1,9	3,0	3,8	3,7	4,4	6,1	5,8
Costa Rica	1,8	1,1	2,9	6,4	4,3	5,9	8,8	6,8
El Salvador	2,2	1,7	2,3	2,3	1,9	3,1	4,2	4,7
Guatemala	3,6	2,3	3,9	2,5	3,2	3,3	5,2	5,7
Honduras	5,7	2,7	3,8	4,5	6,2	6,1	6,3	6,3
Nicaragua	4,1	3,0	0,8	2,5	5,3	4,3	3,9	3,8
Panama	2,7	0,6	2,2	4,2	7,5	7,2	8,7	11,2
Dominican Republic	5,7	1,8	5,8	-0,3	1,3	9,3	10,7	8,5
Per capita GDP								
Total	1,5	-0,4	1,5	0,7	1,5	3,9	5,5	5,1
Central American Isthmus	0,8	-0,5	0,7	1,7	2,2	2,8	4,4	4,6
Central America	0,8	-0,3	0,8	1,6	1,6	2,3	3,9	3,7
Costa Rica	-0,5	-1,0	0,9	4,4	2,3	4,0	6,9	5,0
El Salvador	0,2	-0,2	0,4	0,4	0,1	1,3	2,5	3,0
Guatemala	1,2	-0,1	1,3	0,0	0,6	0,7	2,7	3,2
Honduras	3,0	0,1	1,1	2,0	3,7	3,6	3,8	3,9
Nicaragua	2,4	1,5	-0,6	1,2	4,0	2,9	2,5	2,4
Panama	0,8	-1,3	0,4	2,3	5,6	5,3	6,8	9,3
Dominican Republic	3,8	0,0	3,9	-2,0	-0,5	7,3	8,7	6,6
Gross fixed capital formation								
Total	-0,8	-4,2	2,8	-1,7	2,5	5,8	15,2	13,4
Central American Isthmus	-5,0	-4,2	2,0	5,0	3,7	3,9	13,5	13,7
Central America	-4,5	0,4	3,3	2,4	2,7	3,4	12,8	10,0
Costa Rica	-0,9	2,6	6,6	7,2	-0,5	4,3	11,1	15,0
El Salvador	5,2	1,5	3,3	2,5	-5,0	2,0	11,2	6,4
Guatemala	-8,8	1,8	9,3	-3,1	-0,5	4,3	16,7	8,9
Honduras	-7,6	-3,0	-7,3	6,2	23,4	-1,2	16,3	9,9
Nicaragua	-11,1	-5,4	-6,3	0,6	6,7	9,9	3,1	6,0
Panama	-7,3	-25,7	-5,6	23,3	9,4	6,4	16,6	32,2
Dominican Republic	13,5	-4,0	5,0	-20,2	-1,8	13,3	21,3	12,5

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Based on figures with dollars at constant 2000 prices.

Table 3

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

	2000	2001	2002	2003	2004	2005	2006	2007 a/
Millions of dollars								
Exports of goods, fob								
Total	28 537,1	27 512,0	27 652,4	29 194,6	32 730,9	36 443,7	40 224,8	44 770,9
Central American Isthmus	22 800,4	22 235,7	22 487,4	23 723,8	26 795,0	30 299,0	33 614,6	37 533,7
Central America	16 961,9	16 243,3	17 172,7	18 651,9	20 716,7	22 707,8	25 139,0	28 222,1
Costa Rica	5 813,4	4 923,2	5 269,9	6 163,0	6 369,7	7 099,6	8 068,5	9 267,8
El Salvador	2 963,2	2 891,6	3 019,8	3 152,6	3 339,1	3 446,6	3 759,5	4 034,9
Guatemala	3 961,3	4 110,6	4 223,7	4 526,3	5 105,1	5 459,5	6 082,1	7 011,9
Honduras	3 343,4	3 422,7	3 744,9	3 754,0	4 533,9	5 048,0	5 195,0	5 594,3
Nicaragua	880,6	895,3	914,4	1 056,0	1 369,0	1 654,1	2 033,9	2 313,2
Panama	5 838,5	5 992,4	5 314,7	5 071,9	6 078,3	7 591,2	8 475,6	9 311,6
Dominican Republic	5 736,7	5 276,3	5 165,0	5 470,8	5 935,9	6 144,7	6 610,2	7 237,2
Imports of goods, fob								
Total	-38 535,9	-38 314,5	-39 915,6	-40 880,2	-46 316,7	-53 564,5	-62 212,5	-71 922,1
Central American Isthmus	-29 057,4	-29 535,2	-31 077,9	-33 253,4	-38 428,7	-43 695,1	-50 038,6	-58 105,0
Central America	-22 076,0	-22 846,6	-24 728,1	-26 979,2	-30 812,1	-34 787,9	-39 837,4	-45 480,1
Costa Rica	-6 023,8	-5 743,3	-6 547,7	-7 252,3	-7 791,0	-9 252,3	-10 835,9	-12 255,4
El Salvador	-4 702,8	-4 824,1	-4 884,7	-5 439,3	-5 999,5	-6 384,8	-7 299,5	-8 108,2
Guatemala	-5 560,1	-6 322,2	-7 061,1	-7 486,4	-8 737,0	-9 650,1	-10 934,4	-12 482,1
Honduras	-3 987,8	-4 151,9	-4 381,6	-4 774,1	-5 827,2	-6 544,6	-7 317,1	-8 556,3
Nicaragua	-1 801,5	-1 805,1	-1 853,0	-2 027,0	-2 457,4	-2 956,1	-3 450,5	-4 078,0
Panama	-6 981,4	-6 688,6	-6 349,8	-6 274,2	-7 616,6	-8 907,2	-10 201,2	-12 624,9
Dominican Republic	-9 478,5	-8 779,3	-8 837,7	-7 626,8	-7 888,0	-9 869,4	-12 173,9	-13 817,1
Growth rates								
Exports of goods, fob								
Total	15,0	-3,6	0,5	5,6	12,1	11,3	10,4	11,3
Central American Isthmus	15,8	-2,5	1,1	5,5	12,9	13,1	10,9	11,7
Central America	17,8	-4,2	5,7	8,6	11,1	9,6	10,7	12,3
Costa Rica	-11,6	-15,3	7,0	16,9	3,4	11,5	13,6	14,9
El Salvador	16,9	-2,4	4,4	4,4	5,9	3,2	9,1	7,3
Guatemala	42,4	3,8	2,8	7,2	12,8	6,9	11,4	15,3
Honduras	90,4	2,4	9,4	0,2	20,8	11,3	2,9	7,7
Nicaragua	17,6	1,7	2,1	15,5	29,6	20,8	23,0	13,7
Panama	10,4	2,6	-11,3	-4,6	19,8	24,9	11,7	9,9
Dominican Republic	11,7	-8,0	-2,1	5,9	8,5	3,5	7,6	9,5
Imports of goods, fob								
Total	16,5	-0,6	4,2	2,4	13,3	15,6	16,1	15,6
Central American Isthmus	16,1	1,6	5,2	7,0	15,6	13,7	14,5	16,1
Central America	20,0	3,5	8,2	9,1	14,2	12,9	14,5	14,2
Costa Rica	0,5	-4,7	14,0	10,8	7,4	18,8	17,1	13,1
El Salvador	20,9	2,6	1,3	11,4	10,3	6,4	14,3	11,1
Guatemala	33,0	13,7	11,7	6,0	16,7	10,5	13,3	14,2
Honduras	58,9	4,1	5,5	9,0	22,1	12,3	11,8	16,9
Nicaragua	-1,0	0,2	2,7	9,4	21,2	20,3	16,7	18,2
Panama	5,3	-4,2	-5,1	-1,2	21,4	16,9	14,5	23,8
Dominican Republic	17,9	-7,4	0,7	-13,7	3,4	25,1	23,3	13,5

/Continued

Table 3 (Concluded)

	2000	2001	2002	2003	2004	2005	2006	2007 a/
	Indices (2000 = 100)							
Terms of trade of goods, fob/fob								
Total	100,0	99,6	98,7	95,1	93,5	91,3	90,0	90,0
Central American Isthmus	100,0	98,5	96,7	93,5	91,6	90,0	87,5	86,5
Central America	100,0	96,9	95,1	92,5	90,5	88,9	86,5	85,3
Costa Rica	100,0	98,4	96,9	95,5	91,9	88,3	85,8	84,9
El Salvador	100,0	102,4	101,6	97,7	96,8	96,7	95,5	95,5
Guatemala	100,0	96,7	95,8	93,0	92,1	91,3	89,6	88,8
Honduras	100,0	94,8	92,0	88,0	87,2	87,2	83,2	80,8
Nicaragua	100,0	88,4	87,0	84,1	82,5	81,4	79,4	79,1
Panama	100,0	102,7	101,6	97,2	95,3	93,5	90,8	90,4
Dominican Republic	100,0	105,1	109,2	103,0	103,2	98,1	105,2	115,1

Source: ECLAC, based on official figures.

a/ Preliminary figures.

Table 4

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

	2000	2001	2002	2003	2004	2005	2006	2007 a/
Millions of dollars								
Balance of the current account								
Total	-5 219,2	-4 261,2	-4 442,7	-3 361,1	-3 885,6	-5 026,9	-6 287,4	-10 348,6
Central American Isthmus	-4 192,9	-3 520,4	-3 644,8	-4 397,3	-4 927,1	-4 553,9	-5 025,6	-8 117,8
Central America	-3 520,4	-3 350,1	-3 549,3	-3 817,8	-3 915,2	-3 794,6	-4 473,6	-6 541,1
Costa Rica	-690,7	-602,9	-856,9	-880,0	-795,8	-984,9	-1 060,9	-1 499,2
El Salvador	-430,5	-150,3	-405,1	-702,3	-627,7	-568,8	-675,0	-1 118,7
Guatemala	-1 049,0	-1 313,2	-1 261,6	-1 019,7	-1 164,6	-1 240,7	-1 512,2	-1 697,0
Honduras	-508,3	-478,7	-281,6	-552,8	-678,4	-290,3	-508,6	-1 225,0
Nicaragua	-841,9	-805,0	-744,1	-663,0	-648,7	-709,9	-716,9	-1 001,2
Panama	-672,5	-170,3	-95,5	-579,5	-1 011,9	-759,3	-552,0	-1 576,7
Dominican Republic	-1 026,3	-740,8	-797,9	1 036,2	1 041,5	-473,0	-1 261,8	-2 230,8
Trade balance of goods and services								
Total	-7 272,1	-8 084,3	-9 662,8	-8 112,8	-9 742,3	-12 709,0	-16 209,0	-20 659,7
Central American Isthmus	-5 384,6	-6 407,7	-7 747,4	-8 206,2	-10 080,9	-11 441,1	-13 630,3	-17 047,4
Central America	-5 095,3	-6 601,4	-7 680,4	-8 201,6	-9 873,7	-11 561,4	-14 118,1	-16 566,5
Costa Rica	468,4	-74,5	-592,6	-313,0	-563,9	-1 036,8	-1 407,3	-1 267,1
El Salvador	-1 974,5	-2 182,9	-2 104,6	-2 393,5	-2 724,9	-3 024,7	-3 619,1	-4 314,9
Guatemala	-1 707,9	-2 357,8	-3 088,0	-3 222,8	-3 875,9	-4 332,4	-5 118,2	-5 790,1
Honduras	-830,9	-935,9	-826,7	-1 182,2	-1 497,4	-1 725,8	-2 420,2	-3 249,3
Nicaragua	-1 050,3	-1 050,4	-1 068,5	-1 090,2	-1 211,6	-1 441,7	-1 553,3	-1 945,1
Panama	-289,3	193,7	-67,0	-4,6	-207,2	120,3	487,8	-480,9
Dominican Republic	-1 887,5	-1 676,6	-1 915,4	93,4	338,6	-1 267,9	-2 578,7	-3 612,3
Net current transfer balance								
Total	5 785,8	7 118,4	8 189,8	9 028,4	10 656,4	12 577,9	14 902,1	16 483,3
Central American Isthmus	3 883,5	5 090,9	5 920,5	6 692,5	8 128,9	9 880,8	11 758,0	13 073,7
Central America	3 706,5	4 864,8	5 676,7	6 446,1	7 909,3	9 635,5	11 500,1	12 815,0
Costa Rica	93,4	150,9	175,5	208,8	212,4	270,4	349,2	480,4
El Salvador	1 797,1	2 298,3	2 022,9	2 114,3	2 555,0	3 034,7	3 471,8	3 775,6
Guatemala	868,2	1 214,9	2 101,8	2 506,4	3 121,5	3 576,5	4 268,2	4 862,6
Honduras	537,6	715,0	846,3	991,2	1 265,3	1 895,1	2 450,3	2 621,8
Nicaragua	410,2	485,7	530,3	625,4	755,0	858,7	960,6	1 074,6
Panama	177,0	226,1	243,8	246,4	219,6	245,3	257,9	258,7
Dominican Republic	1 902,3	2 027,5	2 269,3	2 335,9	2 527,5	2 697,1	3 144,1	3 409,6
Financial and capital account b/								
Total	5 224,3	5 396,0	3 858,0	3 320,3	4 545,5	7 103,2	8 380,9	13 202,0
Central American Isthmus	4 246,2	4 140,3	3 614,9	4 903,0	5 407,8	5 925,4	6 929,0	10 314,2
Central America	3 650,9	3 337,4	3 373,4	4 590,6	4 791,3	4 491,3	6 201,4	8 115,9
Costa Rica	538,5	616,1	1 019,9	1 218,9	876,1	1 378,4	2 091,7	2 646,9
El Salvador	385,0	-27,4	281,6	1 018,5	575,3	509,9	746,7	1 398,9
Guatemala	1 703,3	1 787,8	1 268,6	1 554,2	1 769,0	1 479,4	1 764,5	1 913,1
Honduras	380,2	418,7	272,0	358,4	1 040,1	477,2	819,7	1 063,4
Nicaragua	643,8	542,2	531,2	440,6	530,8	646,4	778,8	1 093,6
Panama	595,3	802,9	241,5	312,4	616,5	1 434,1	727,6	2 198,3
Dominican Republic	978,1	1 255,8	243,1	-1 582,7	-862,2	1 177,9	1 451,9	2 887,8

/Continued

Table 4 (Concluded)

	2000	2001	2002	2003	2004	2005	2006	2007 a/
Overall balance								
Total	5,1	1 134,8	- 584,7	- 40,8	660,0	2 076,3	2 093,5	2 853,5
Central American Isthmus	53,3	619,9	-29,9	505,7	480,7	1 371,5	1 903,4	2 196,5
Central America	130,5	-12,7	-175,9	772,8	876,1	696,7	1 727,8	1 574,9
Costa Rica	-152,2	13,1	163,0	338,9	80,3	393,5	1 030,8	1 147,7
El Salvador	-45,5	-177,7	-123,5	316,2	-52,5	-58,9	71,6	280,2
Guatemala	654,4	474,6	7,0	534,5	604,4	238,7	252,3	216,1
Honduras	-128,0	-60,0	-9,5	-194,4	361,8	186,9	311,2	-161,6
Nicaragua	-198,1	-262,8	-212,9	-222,4	-117,9	-63,5	61,9	92,4
Panama	-77,2	632,6	146,0	-267,1	-395,4	674,8	175,6	621,6
Dominican Republic	-48	515	-555	-546	179	705	190	657

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Includes errors and omissions.

Table 5

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

	2000	2001	2002	2003	2004	2005	2006	2007 b/
Millions of dollars								
Stock of external public debt								
Total	27 976,9	29 121,4	30 682,8	33 535,9	34 439,0	34 223,2	33 620,5	32 394,0
Central American Isthmus	24 990,5	26 182,1	27 553,4	29 820,2	30 315,8	29 616,4	28 603,9	27 008,5
Central America	19 386,5	19 919,3	21 204,3	23 316,6	23 096,6	22 036,7	20 815,6	18 732,9
Costa Rica	3 150,6	3 242,5	3 337,7	3 753,0	3 883,7	3 625,8	3 607,4	3 634,1
El Salvador	2 831,3	3 147,7	3 987,1	4 717,2	4 777,9	4 976,1	5 692,6	5 444,3
Guatemala	2 643,7	2 925,0	3 119,1	3 467,2	3 843,8	3 723,2	3 958,3	4 226,0
Honduras	4 101,0	4 229,6	4 397,8	4 783,4	5 200,6	4 364,1	3 030,6	2 043,9
Nicaragua	6 659,9	6 374,5	6 362,6	6 595,8	5 390,6	5 347,5	4 526,7	3 384,6
Panama	5 604,1	6 262,8	6 349,1	6 503,6	7 219,2	7 579,7	7 788,3	8 275,6
Dominican Republic	2 986,4	2 939,3	3 129,4	3 715,7	4 123,2	4 606,8	5 016,6	5 385,4
Percentages of GDP								
Stock of external public debt								
Total	29,4	29,9	30,0	33,3	32,0	26,8	24,0	20,4
Central American Isthmus	35,2	36,2	36,2	37,4	35,3	31,4	27,4	22,9
Central America	32,6	32,9	33,3	34,9	32,2	28,0	23,8	19,1
Costa Rica	19,8	19,8	19,8	21,4	20,9	18,2	16,0	13,9
El Salvador	21,6	22,8	27,9	31,4	30,2	29,2	30,5	26,7
Guatemala	13,7	15,6	15,0	15,8	16,0	13,7	13,1	12,6
Honduras	57,7	55,9	56,6	58,8	59,3	45,1	28,2	16,7
Nicaragua	169,1	155,4	158,0	160,8	120,7	109,8	85,5	59,1
Panama	48,2	53,0	51,7	50,3	50,9	49,0	45,5	41,9
Dominican Republic	12,4	11,8	11,9	17,7	19,0	13,7	14,0	13,1
Millions of dollars								
Stock of internal public debt								
Total	9 948,9	12 433,5	12 475,7	12 836,8	14 478,1	15 014,0	15 861,1	16 369,5
Central American Isthmus	9 486,1	11 832,6	11 965,4	12 240,1	13 480,0	14 039,2	14 748,1	15 366,9
Central America	7 358,1	9 694,6	9 793,2	10 082,1	10 722,4	11 387,6	12 083,7	13 171,9
Costa Rica	4 090,4	4 378,2	4 579,9	4 497,5	4 896,4	4 838,9	5 107,8	5 272,9
El Salvador	1 965,8	2 345,2	2 379,7	2 386,0	2 504,7	2 727,6	2 666,6	3 194,4
Guatemala	1 118,1	1 164,5	1 050,6	1 375,4	1 659,7	2 161,8	2 654,7	3 180,6
Honduras	183,8	196,0	206,4	397,6	322,8	322,4	421,1	398,3
Nicaragua	...	1 610,6	1 576,7	1 425,6	1 338,9	1 337,0	1 233,5	1 125,7
Panama	2 128,0	2 138,0	2 172,1	2 158,0	2 757,6	2 651,6	2 664,3	2 195,0
Dominican Republic	462,8	600,9	510,3	596,7	998,1	974,9	1 113,1	1 002,6
Percentages of GDP								
Stock of internal public debt								
Total	10,5	12,8	12,2	12,7	13,5	11,7	11,3	10,3
Central American Isthmus	13,4	16,3	15,7	15,4	15,7	14,9	14,1	13,0
Central America	12,4	16,0	15,4	15,1	15,0	14,5	13,8	13,4
Costa Rica	25,6	26,7	27,2	25,7	26,3	24,3	22,7	20,1
El Salvador	15,0	17,0	16,6	15,9	15,9	16,0	14,3	15,7
Guatemala	5,8	6,2	5,0	6,3	6,9	7,9	8,8	9,5
Honduras	2,6	2,6	2,7	4,9	3,7	3,3	3,9	3,3
Nicaragua	...	...	...	34,8	30,0	27,4	23,3	19,7
Panama	18,3	18,1	17,7	16,7	19,4	17,1	15,6	11,1
Dominican Republic	1,9	2,4	1,9	2,8	4,6	2,9	3,1	2,4

Source: ECLAC, based on official figures.

a/ Preliminary figures.

Table 6

CENTRAL AMERICAN ISTHMUS AND DOMINICAN REPUBLIC:
INTRA-REGIONAL EXPORTS, 2000-2007

(Millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007 a/
Value of exports to the rest of the Central American Isthmus								
Total	2 899,8	3 201,4	3 125,8	3 576,4	3 826,3	4 442,9	4 901,4	...
Central American Isthmus	2 899,8	3 176,8	3 090,9	3 355,6	3 798,0	4 410,3	4 849,6	5 681,1
Central America	2 790,3	3 053,7	2 976,8	3 261,3	3 705,4	4 304,1	4 726,5	5 566,1
Costa Rica	663,2	675,9	633,5	696,5	797,7	903,8	1 041,1	1 203,4
El Salvador	776,1	771,6	785,4	792,5	867,5	1 215,9	1 251,3	1 433,6
Guatemala	870,0	1 103,0	1 076,2	1 181,0	1 355,7	1 477,2	1 650,7	1 957,5
Honduras	314,3	320,0	281,0	363,5	431,4	412,3	419,3	529,6
Nicaragua	166,6	183,2	200,6	227,8	253,2	294,9	364,0	442,1
Panama	109,5	123,1	114,2	94,3	92,6	106,2	123,1	115,0
Dominican Republic	0,0	24,6	34,9	220,7	28,3	32,5	51,8	...
Growth rates								
Total	8,1	10,4	-2,4	14,4	7,0	16,1	10,3	...
Central American Isthmus	8,1	9,6	-2,7	8,6	13,2	16,1	10,0	17,1
Central America	8,1	9,4	-2,5	9,6	13,6	16,2	9,8	17,8
Costa Rica	4,0	1,9	-6,3	9,9	14,5	13,3	15,2	15,6
El Salvador	15,1	-0,6	1,8	0,9	9,5	40,2	2,9	14,6
Guatemala	1,8	26,8	-2,4	9,7	14,8	9,0	11,7	18,6
Honduras	20,7	1,8	-12,2	29,4	18,7	-4,4	1,7	26,3
Nicaragua	8,3	10,0	9,5	13,6	11,1	16,5	23,4	21,4
Panama	7,5	12,5	-7,3	-17,4	-1,8	14,7	15,9	-6,6
Dominican Republic			42,0	532,9	-87,2	14,9	59,1	...

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

a/ Preliminary figures.

Table 7

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

	2000	2001	2002	2003	2004	2005	2006	2007 a/
Millions of dollars								
Total	4 601,3	3 859,9	4 057,1	4 906,9	5 101,2	5 142,6	5 315,4	6 698,4
Central American Isthmus	2 893,1	2 204,7	2 340,2	3 031,1	2 935,8	2 896,0	3 251,9	4 663,8
Central America	2 884,3	2 203,1	2 339,6	3 030,3	2 935,8	2 895,8	3 251,7	4 663,6
Costa Rica	1 241,6	450,6	521,2	1 178,0	917,3	663,7	823,2	1 915,9
El Salvador	456,3	489,7	474,9	493,8	465,0	616,4	620,5	564,0
Guatemala	373,8	396,2	345,8	428,1	439,2	319,4	450,5	652,1
Honduras	730,2	758,1	886,2	797,6	947,3	1 074,1	1 087,1	1 227,1
Nicaragua	82,4	108,5	111,5	132,8	167,0	222,2	270,4	304,5
Panama	8,8	1,6	0,6	0,8	0,0	0,2	0,2	0,2
Dominican Republic	1 708,1	1 655,2	1 716,9	1 875,9	2 165,3	2 246,6	2 063,5	2 034,6
Growth rates								
Total	0,4	-16,1	5,1	20,9	4,0	0,8	3,4	26,0
Central American Isthmus	-6,2	-23,8	6,1	29,5	-3,1	-1,4	12,3	43,4
Central America	-6,5	-23,6	6,2	29,5	-3,1	-1,4	12,3	43,4
Costa Rica	-31,2	-63,7	15,7	126,0	-22,1	-27,6	24,0	132,7
El Salvador	20,5	7,3	-3,0	4,0	-5,8	32,6	0,7	-9,1
Guatemala	29,9	6,0	-12,7	23,8	2,6	-27,3	41,0	44,8
Honduras	35,6	3,8	16,9	-10,0	18,8	13,4	1,2	12,9
Nicaragua	10,5	31,7	2,8	19,1	25,8	33,1	21,7	12,6
Panama	1 660,0	-81,8	-62,5	33,3	-	-	0,0	0,0
Dominican Republic	14,1	-3,1	3,7	9,3	15,4	3,8	-8,1	-1,4

Source: ECLAC, based on official figures.

a/ Preliminary figures.

Table 8

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

(Millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007 a/
Total								
Income	5 708,0	5 565,2	5 623,8	6 451,1	6 949,1	7 972,6	9 038,8	9 897,0
Expenditure	-1 527,8	-1 489,3	-1 512,9	-1 644,2	-1 965,0	-2 212,9	-2 520,9	-2 876,4
Balance	4 180,3	4 075,9	4 110,9	4 806,9	4 984,1	5 759,7	6 517,9	7 020,5
Costa Rica								
Income	1 302,4	1 173,3	1 160,7	1 293,1	1 458,5	1 670,8	1 731,5	1 973,7
Expenditure	-485,4	-364,4	-344,9	-353,2	-405,7	-469,5	-485,3	-586,1
Balance	817,1	808,9	815,7	939,9	1 052,9	1 201,3	1 246,3	1 387,6
El Salvador								
Income	216,9	201,1	245,2	383,1	452,5	542,9	792,9	846,6
Expenditure	-165,2	-195,3	-191,1	-229,6	-291,9	-346,7	-523,1	-604,9
Balance	51,7	5,8	54,1	153,5	160,6	196,2	269,8	241,7
Guatemala								
Income	482,3	523,8	539,0	537,9	629,9	791,0	918,6	1 054,6
Expenditure	-181,8	-261,7	-284,2	-289,6	-385,2	-420,4	-528,3	-597,0
Balance	300,5	262,1	254,8	248,3	244,7	370,6	390,3	457,6
Honduras								
Income	259,8	256,3	301,0	364,4	413,5	463,5	488,3	556,7
Expenditure	-119,6	-127,6	-149,2	-217,5	-244,2	-262,1	-283,2	-305,9
Balance	140,2	128,7	151,8	146,9	169,3	201,3	205,1	250,9
Nicaragua								
Income	128,6	135,3	134,6	160,2	192,0	206,3	230,6	255,1
Expenditure	-78,4	-76,0	-69,4	-75,0	-89,3	-90,8	-97,0	-120,6
Balance	50,2	59,3	65,2	85,2	102,7	115,5	133,6	134,5
Panama								
Income	457,8	477,1	513,0	584,6	651,0	779,8	960,0	1 184,8
Expenditure	-188,4	-173,5	-178,8	-207,7	-238,9	-271,1	-271,2	-307,0
Balance	269,4	303,6	334,2	376,9	412,1	508,7	688,8	877,8
Dominican Republic								
Income	2 860,2	2 798,3	2 730,4	3 127,8	3 151,6	3 518,3	3 916,8	4 025,5
Expenditure	-309,0	-290,8	-295,3	-271,6	-309,8	-352,2	-332,8	-355,1
Balance	2 551,2	2 507,5	2 435,1	2 856,2	2 841,8	3 166,1	3 584,0	3 670,4

Source: ECLAC, based on official figures.

a/ Preliminary figures.

Table 9

CENTRAL AMERICAN ISTHMUS AND DOMINICAN REPUBLIC: GARMENT EXPORT
TO THE UNITED STATES, 2000-2007 ^{a/}

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

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

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

Table 10

CENTRAL AMERICAN ISTHMUS AND DOMINICAN REPUBLIC: FOREIGN TRADE
OF FOB GOODS WITH MEXICO, 2003-2007

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

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

a/ Preliminary figures.

Table 11

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

(Percentages)

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

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Simple average.

Table 12

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

(Real growth rates)

	2000	2001	2002	2003	2004	2005	2006	2007 b/
Internal credit								
Costa Rica	15,5	4,1	9,0	3,9	18,4	-8,3	7,0	11,4
El Salvador	4,5	0,9	-5,6	-2,5	-1,8	0,7	5,9	10,6
Guatemala	10,3	-1,3	6,9	1,7	-3,1	13,7	17,0	7,4
Honduras	12,4	34,3	-4,4	12,6	-4,4	4,6	25,2	25,6
Nicaragua	5,4	13,2	0,6	5,9	-1,1	-3,7	-15,2	-4,1
Panama	3,5	3,6	-5,7	0,9	9,3	8,4	10,7	9,1
Dominican Republic	8,5	6,3	17,4	15,1	-25,2	-12,2	-3,0	3,0
Private sector loans								
Costa Rica	17,8	11,0	10,7	9,1	3,9	13,0	16,7	25,1
El Salvador	0,6	-4,1	5,0	4,3	0,2	3,3	5,7	2,2
Guatemala	9,3	4,7	1,0	2,9	2,7	11,8	20,4	17,1
Honduras	3,1	9,7	-0,9	8,1	5,8	7,9	22,1	21,1
Nicaragua	20,4	-47,3	10,9	21,1	16,7	20,4	20,1	12,6
Panama	5,5	3,9	-4,6	1,7	7,1	9,6	11,6	10,0
Dominican Republic	12,6	18,9	8,9	-5,4	-23,5	1,8	9,5	16,0

Source: ECLAC and Central American Monetary Council.

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

b/ Preliminary figures.

Table 13
CENTRAL AMERICAN ISTHMUS AND DOMINICAN REPUBLIC NOMINAL:
INTEREST RATES, 2006-2008

(Percentages)

	Costa Rica a/		El Salvador b/		Guatemala c/		Honduras d/		Nicaragua e/		Panama f/		Dominican Republic g/	
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
2006														
January	21,99	15,25	7,79	4,08	12,72	4,62	18,39	8,06	12,73	4,51	8,21	2,73	19,83	12,25
February	22,02	15,25	7,53	3,97	12,74	4,65	18,42	8,05	12,44	5,14	8,20	2,74	20,66	12,14
March	22,11	15,25	7,43	4,12	12,76	4,65	18,22	8,01	12,52	4,85	8,24	2,68	21,18	11,83
April	22,04	15,25	7,35	4,02	12,74	4,69	18,01	7,61	8,20	5,36	8,11	2,97	20,10	11,65
May	21,53	13,75	7,63	4,13	12,72	4,70	17,65	7,35	8,50	5,37	8,08	3,02	18,68	11,12
June	20,72	13,50	7,15	4,39	12,72	4,70	17,60	6,82	11,47	5,30	8,01	3,33	18,68	11,08
July	20,89	13,75	7,38	4,53	12,69	4,69	17,25	6,64	12,31	4,98	8,04	3,52	18,06	9,85
August	20,75	13,75	7,50	4,59	12,69	4,70	17,07	6,31	11,97	5,55	8,02	3,54	18,03	7,94
September	20,56	13,50	7,61	4,58	12,70	4,72	16,92	6,18	12,59	5,98	8,01	3,73	14,99	7,45
October	20,29	13,25	7,63	4,63	12,91	4,81	16,72	5,94	12,35	5,20	8,11	3,74	16,23	7,21
November	18,09	11,25	7,69	4,74	12,88	4,84	16,39	5,80	12,20	5,54	8,07	4,00	17,14	7,60
December	15,85	11,25	7,61	4,86	12,88	4,84	16,60	5,75	11,64	5,62	8,05	4,14	16,89	7,83
2007														
January	15,82	10,75	7,89	4,78	12,96	4,85	17,16	5,75	12,45	5,56	8,11	4,10	16,02	7,84
February	15,70	9,75	7,81	4,88	12,98	4,92	17,00	5,71	12,77	6,70	8,61	4,10	15,03	7,76
March	14,50	8,00	7,78	5,07	12,89	4,92	16,94	5,66	12,86	6,02	8,10	4,04	16,99	7,47
April	13,65	7,50	7,80	4,99	12,81	4,91	16,74	5,54	12,68	6,06	8,28	4,09	17,64	7,44
May	12,70	7,25	7,73	4,86	12,76	4,91	16,70	5,54	13,42	6,15	8,27	4,10	14,04	7,12
June	12,65	7,25	7,77	5,00	12,77	4,92	16,60	5,48	13,55	6,42	8,28	4,10	14,99	6,94
July	12,65	7,25	7,78	4,80	12,77	4,90	16,42	5,49	13,43	6,27	8,28	4,14	15,35	6,81
August	12,59	7,25	7,57	4,51	12,63	4,91	16,24	5,56	13,23	6,77	8,28	4,16	13,01	6,20
September	12,60	7,25	8,02	4,52	12,80	4,92	16,27	5,62	13,08	6,97	8,39	4,10	14,91	6,04
October	12,60	7,00	8,27	4,46	12,84	4,91	16,28	5,68	13,08	6,72	8,33	4,17	12,81	6,51
November	12,56	7,00	7,69	4,31	12,89	4,94	16,35	5,61	13,03	6,38	8,31	4,18	14,47	6,76
December	12,76	7,00	7,65	4,37	12,89	4,91	16,46	5,64	12,91	7,06	8,33	4,18	13,31	6,65
2008														
January	12,87	7,25	7,61	4,12	12,74	4,94	16,40	5,78	14,96	6,89	8,18	3,59	12,25	6,65
February	12,97	5,50	7,69	3,72	12,78	4,94	16,67	5,69	13,00	7,10	8,19	3,60	13,50	6,53
March	11,79	5,25	7,55	3,59	13,09	4,97	16,75	5,79	12,74	6,80	8,13	3,50	14,68	6,87
April	11,59	4,25	7,30	3,71	13,23	4,99	16,94	5,98	12,72	6,90	8,22	3,16	16,24	7,20
May	11,80	5,00	7,43	3,74	13,33	5,05	17,04	5,95	12,57	6,61	8,25	3,10	14,87	8,57
June	12,77	5,50	7,20	3,87	13,40	5,13	17,30	5,91	12,52	7,31	8,28	2,97	18,04	9,87
July	13,90	7,00	7,35	4,07	13,48	5,22	17,63	6,10	12,88	7,11	8,18	3,14	17,42	11,85
August	14,95	8,50	7,49	4,12	13,57	5,28			13,70	6,58			23,31	12,92
September	18,18	9,25											20,00	12,66
October														
November														
December														

Source: ECLAC, based on official figures.

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

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

c/ Adjusted average of the banking system.

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

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

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

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

Table 14

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

(Growth rates)

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

Source: ECLAC, based on official figures.

a/ Preliminary figures.

Table 15

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

(National monetary unit with respect to dollar) a/

	2000	2001	2002	2003	2004	2005	2006	2007 b/
Nominal exchange rate								
Costa Rica	308,13	328,81	359,72	398,55	437,82	477,68	511,23	516,62
El Salvador	8,75	8,75	8,75	8,75	8,75	8,75	8,75	8,75
Guatemala	7,76	7,85	7,81	7,93	7,94	7,62	7,59	7,66
Honduras	15,01	15,65	16,61	17,54	18,41	19,00	19,03	19,03
Nicaragua	12,68	13,44	14,25	15,11	15,94	16,73	17,57	18,45
Panama	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Dominican Republic	16,18	16,69	17,59	29,37	41,93	30,28	33,30	33,17
Real exchange rate, 1995 constant prices								
Costa Rica	308,13	303,89	309,37	320,30	321,66	318,86	316,01	300,35
El Salvador	8,75	8,67	8,65	8,66	8,51	8,41	8,34	8,20
Guatemala	7,76	7,52	7,03	6,91	6,60	6,01	5,80	5,64
Honduras	15,01	14,68	14,69	14,74	14,69	14,40	14,10	13,56
Nicaragua	12,68	13,04	13,54	13,94	13,92	13,79	13,69	13,31
Panama	1,00	1,03	1,03	1,04	1,06	1,07	1,08	1,06
Dominican Republic	16,18	15,76	16,04	21,49	20,80	14,90	15,73	15,18

Source: ECLAC, based on official figures.

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

b/ Preliminary figures.

Table 16

CENTRAL AMERICAN ISTHMUS: SOVEREIGN RISK RATINGS

(Long term)

	S&P				Moody's				Fitch			
	Date	Bonds in foreign currency	Trend	Bonds in local currency	Date	Bonds in foreign currency	Trend	Bonds in local currency	Date	Bonds in foreign currency	Trend	Bonds in local currency
Costa Rica	Aug-08	BB	positive	BB+	Aug-08	Ba1	positive	Ba1	Aug-08	BB	stable	BB+
	Dec-07	BB	stable	BB+	Dec-07	Ba1	stable	Ba1	Dec-07	BB	stable	BB+
	Jun-07	BB	stable	BB+	Jun-07	Ba1	stable	Ba1	Jun-07	BB	stable	BB+
	Dec-06	BB	stable	BB+	Dec-06	Ba1	stable	Ba1	Dec-06	BB	stable	BB+
	Jun-06	BB	stable	BB+	Jun-06	Ba1	negative	Ba1	Jun-06	BB	negative	BB+
	Dec-05	BB	stable	BB+	Dec-05	Ba1	negative	Ba1	Dec-05	BB	negative	BB+
	Jun-05	BB	stable	BB+	Jun-05	Ba1	negative	Ba1	Jun-05	BB	negative	BB+
El Salvador	Aug-08	BB+	stable	BB+	Aug-08	Baa3	stable	Baa2	Aug-08	BB+	stable	BB+
	Dec-07	BB+	stable	BB+	Dec-07	Baa3	stable	Baa2	Dec-07	BB+	stable	BB+
	Jun-07	BB+	stable	BB+	Jun-07	Baa3	stable	Baa2	Jun-07	BB+	stable	BB+
	Dec-06	BB+	stable	BB+	Dec-06	Baa3	stable	Baa2	Dec-06	BB+	stable	BB+
	Jun-06	BB+	stable	BB+	Jun-06	Baa3	stable	Baa2	Jun-06	BB+	stable	BB+
	Dec-05	BB+	stable	BB+	Dec-05	Baa3	stable	Baa2	Dec-05	BB+	stable	BB+
	Jun-05	BB+	stable	BB+	Jun-05	Baa3	stable	Baa2	Jun-05	BB+	stable	BB+
Guatemala	Aug-08	BB	positive	BB+	Aug-08	Ba2	stable	Ba1	Aug-08	BB+	stable	BB+
	Dec-07	BB	positive	BB+	Dec-07	Ba2	positive	Ba1	Dec-07	BB+	stable	BB+
	Jun-07	BB	positive	BB+	Jun-07	Ba2	positive	Ba1	Jun-07	BB+	stable	BB+
	Dec-06	BB	stable	BB	Dec-06	Ba2	positive	Ba1	Dec-06	BB+	stable	BB+
	Jun-06	BB-	stable	BB	Jun-06	Ba2	stable	Ba1	Jun-06	BB+	stable	BB+
	Dec-05	BB-	stable	BB	Dec-05	Ba2	stable	Ba1				
	Jun-05	BB-	stable	BB	Jun-05	Ba2	stable	Ba1				
Honduras	N/A	N/A	N/A	N/A	Aug-08	B2	stable	B2	N/A	N/A	N/A	N/A
					Dec-07	B2	stable	B2				
					Jun-07	B2	stable	B2				
					Dec-06	B2	stable	B2				
					Jun-06	B2	stable	B2				
					Dec-05	B2	stable	B2				
					Jun-05	B2	stable	B2				
Nicaragua	N/A	N/A	N/A	N/A	Aug-08	Caa1	stable	B3	N/A	N/A	N/A	N/A
					Dec-07	Caa1	stable	B3				
					Jun-07	Caa1	stable	B3				
					Dec-06	Caa1	stable	B3				
					Jun-06	Caa1	stable	B3				
					Dec-05	Caa1	stable	B3				
					Jun-05	Caa1	stable	B3				

/Continued

Table 16 (Concluded)

	S&P				Moody's				Fitch			
	Date	Bonds in foreign currency	Trend	Bonds in local currency	Date	Bonds in foreign currency	Trend	Bonds in local currency	Date	Bonds in foreign currency	Trend	Bonds in local currency
	Panama	Aug-08	BB+	stable	BB+	Aug-08	Ba1	stable	N/A	Aug-08	BB+	positive	BB+
	Dec-07	BB	positive	BB	Dec-07	Ba1	stable	N/A	Dec-07	BB+	positive	BB+
	Jun-07	BB	positive	BB	Jun-07	Ba1	stable	N/A	Jun-07	BB+	stable	BB+
	Dec-06	BB	stable	BB	Dec-06	Ba1	stable	N/A	Dec-06	BB+	stable	BB+
	Jun-06	BB	stable	BB	Jun-06	Ba1	stable	N/A	Jun-06	BB+	stable	BB+
	Dec-05	BB	stable	BB	Dec-05	Ba1	stable	N/A	Dec-05	BB+	stable	BB+
	Jun-05	BB	stable	BB	Jun-05	Ba1	stable	N/A	Jun-05	BB+	stable	BB+
Dominican Republic	Aug-08	B+	negative	B+	Aug-08	B2	stable	B2	Aug-08	B	positive	B
	Feb-08	B+	Under revision	B+	Dec-07	B2	stable	B2	Dec-07	B	positive	B
	Jun-07	B	positive	B	Jun-07	B2	stable	B2	Jun-07	B	positive	B
	Jun-06	B	stable	B	Dec-06	B3	Under revision	B3	Dec-06	B	positive	B
	Jun-05	B	stable	B	Jun-06	B3	stable	B3	Jun-06	B	stable	B
					Dec-05	B3	stable	B3	Dec-05	B-	stable	B-
					Jun-05	B3	stable	B3	Jun-05	DDD	stable	CCC+

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

N/A: Not available.