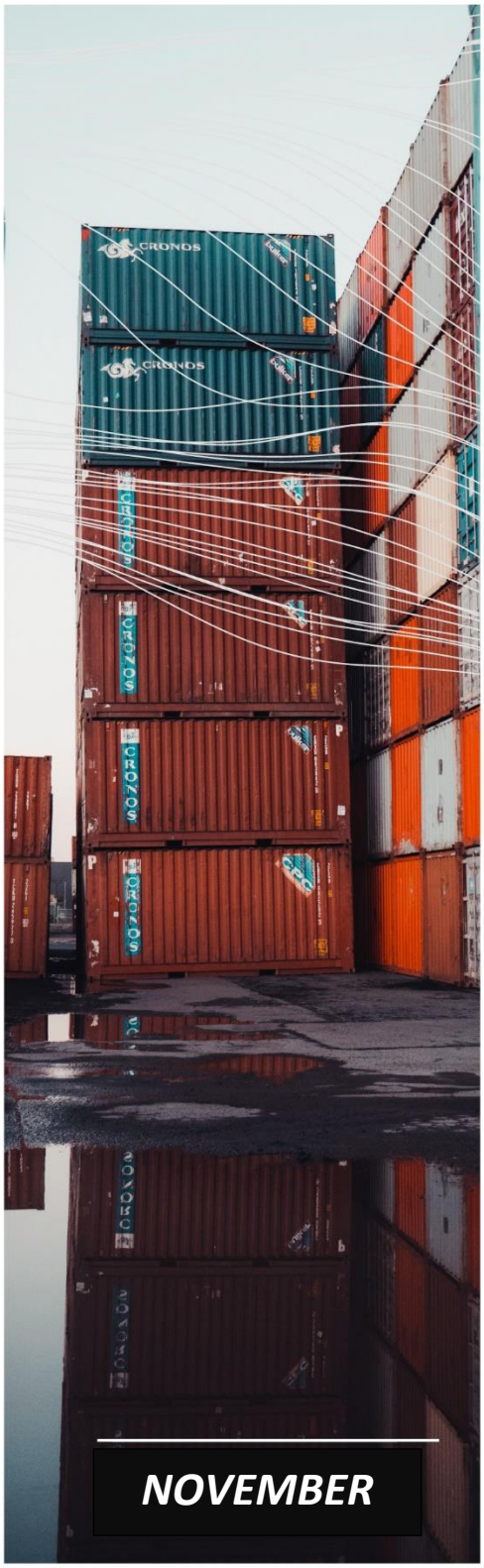
CENTRAL AMERICA AND THE PANDEMIC

ECONOMIC IMPACT OF COVID-19 IN 2020 AND PERSPECTIVES 2021-2023

CABEI
Central American Bank for Economic Integration



OFFICE OF THE CHIEF ECONOMIST

NOVEMBER

This report presents a summary of the economic and social impact of the recession caused by the COVID-19 pandemic world-wide and in Central America in 2020. The report also includes a section on the world and regional economic growth trends. The process to prepare this report was coordinated by PhD Florencia Castro Leal, Chief Economist of CABEI. Miguel Angel Medina Fonseca (Economist), Fátima Velasquez (Junior Economist) and Rodrigo Méndez Maddaleno (Economist) oversaw the research and drafting and the revision was carried out by Armando E. Navarrete (Chief Economist). The English translation was done with the collaboration of the Administrative Services and Institutional Procurement Department.

Contents

Executive Summary

The COVID-19 pandemic in addition to the measures implemented in most of the countries of the world in 2020 to reduce the spread of virus had a negative impact on production, employment, and poverty. International trade recorded a sharp drop of that year, partially reversed during the second half, while tourism recorded a historic decline and its recovery at the global pre-crisis level is expected to be after 2022. In addition, vaccination plans against this disease are progressing at different speeds around the world, while there is a new outbreak of new cases of infection driven by the Delta variant. Even though the outbreaks generate uncertainty in the estimates of economic growth in the short and medium term, the outlook for economic recovery in 2021 remains positive.

The World Health Organization declared the COVID-19 pandemic on March 11, 2021, to prevent contagion in the population, many governments around the world implemented containment measures, such as business closures, confinements, quarantines, border closures, among others. They focused their attention on the public health system, coordinating inter-institutional efforts to prevent the virus from spreading faster and thus prevent a greater number of deaths. At the same time, most of them, implemented counter-cyclical fiscal, monetary and financial policies to reduce the negative economic impact in business and employment, as well as protecting the most vulnerable groups of the population.

The afore mentioned containment measures had a strong impact on economic and social indicators. The COVID-19 pandemic turned into a severe economic crisis in 2020, causing a decrease of global GDP by 3.1%, making it the fourth deepest recession in the last 150 years. Advanced economies suffered a greater downturn in GDP (-4.7%) compared to developing economies and emerging countries (-2.2%).

Employment is estimated to have fallen by 255 million worldwide because of the drop in production. Among the most affected economic sectors worldwide were international trade of goods and services (-8.2%) and tourism (-74.0%).

The pandemic social effects were expressed in increased levels of poverty globally. It is estimated that extreme poverty rose by between 0.7 and 1.0 percentage points in 2020 (whose rate was 8.4% in 2019), which would translate into between 88 and 115 million people additional living in extreme poverty.

In Central America, the constant GDP fell around 7.4% in 2020, quite like the magnitude observed in Latina America and the Caribbean. The main channels of transmission of the recession from the rest of the world to the economies of the region were through a lower demand for exports and the fall in the flow of tourists.

The lower economic activity resulting from the COVID-19 containment measures and the decline in international demand led to a rise in the unemployment rate in the Central America region, while the labor force participation rate declined in most of them. Likewise, poverty levels increased because of the pandemic, according to the information available for three countries in the

Central American region, poverty and extreme poverty increased in El Salvador, Costa Rica, and the Dominican Republic between 2019 and 2020.

In Central American countries, the largest impact on quarterly GDP was recorded during the second quarter of 2020. In most countries, the shape of the recovery was more similar to a "V", and in the particular cases of Honduras, Nicaragua and Belize to a slight "W", due to the consequences left by the passage of hurricanes ETA and IOTA in November 2020 and the permanent impact of tourism in Belize.

The cumulative remittance inflow of Central America only declined during the second quarter of 2020, recovering in the following period, and closing with 7.9% growth in 2020.

The economic outlook for Central America, according to official country projections, forecasts economic growth of GDP average in the range of 8.0% to 8.6% in 2021. In this sense, economic indicators show signs of recovery, while vaccination plans are advancing in the region with heterogeneous results. Thus, the monthly economic activity index grew in all countries in the second half of 2021, accumulated exports registered growth rates since February in most of them, and accumulated imports, although slightly behind in growth, also showed positive variations. Likewise, cumulative fiscal revenues also grew in the second quarter of 2021 and remittances continued to be dynamic in the region higher than pre-crisis levels.

Like the global recovery, economic growth is expected in all Central American countries in 2021, achieving constant pre-crisis GDP levels in most of them between 2021 and 2022, according to the analysis made from the growth estimates made by the IMF in October 2021.

The main challenges facing the Central American region in the short term include: 1) surge in inflation driven by disruptions in the supply chains, delaying the recovery, accompanied by the rise in international food prices that erode the purchasing power of vulnerable groups; 2) increased public debt to GDP in Central America in 2020, which places most of the countries in the region within the limit range of debt sustainability, and the accompanying higher cost of debt above pre-crisis levels , which require fiscal consolidation with the consequent challenges in taxation and spending restructuring; 3) reduction of fiscal space to boost investment in productive infrastructure, already lagging in the pre-pandemic, and essential for recovery.

To face these challenges, some lines of action to consider in the post-COVID-19 stage to promote the development of the Central American countries are: 1) increase the coverage of the population vaccinated against COVID-19; 2) continue to support vulnerable groups while the health crisis is overcome; 3) support the full reactivation of the economy, promoting in particular the tourism and export sectors; 4) focus fiscal policy on restoring the path of sustainability of public debt, with tax modifications and containment of spending, prioritizing capital spending; 5) boost productive investment through Public-Private Partnerships initiatives; and, 6) make regulations more flexible and promote financing programs that allow for remittances as collateral for housing, enterprises or other types of investments.

I. The global economic recession caused by the pandemic was among the largest in a century

1. **The World Health Organization declared the COVID-19[1] pandemic on March 2021,** The World Health Organization (WHO) became aware of the virus causing this disease on December 31, 2019, when it was informed of a cluster of cases of viral pneumonia that had been reported in Wuhan, Hubei Province, in the People's Republic of China[2]. WHO characterized COVID-19 as a pandemic on March 11, 2020, after several weeks of analysis and monitoring of the evolution of the disease, which allowed to note the alarming levels of spread and severity of the disease[3]. The disease has infected a little more than 200 million people, about 2.6% of the world's population, with a mortality rate of 2.1% as of August 16, 2021[4].

2. **The actions taken by world leaders to confront the pandemic marked an unprecedented response.** Strict containment measures and mobility restrictions were adopted by most governments around the world to contain the spread of the virus, including international border closures, confinement, quarantines, curfews, business closures, social distancing, among others. They also activated inter-institutional coordination mechanisms for health systems to carry out mass testing of the population (especially in developed countries) and care for infected people. At the same time, they implemented counter-cyclical fiscal, monetary and financial policies to protect the most affected groups. In general, in those countries where these measures were more persistent or prolonged over time, they had a greater impact on economic and social indicators.

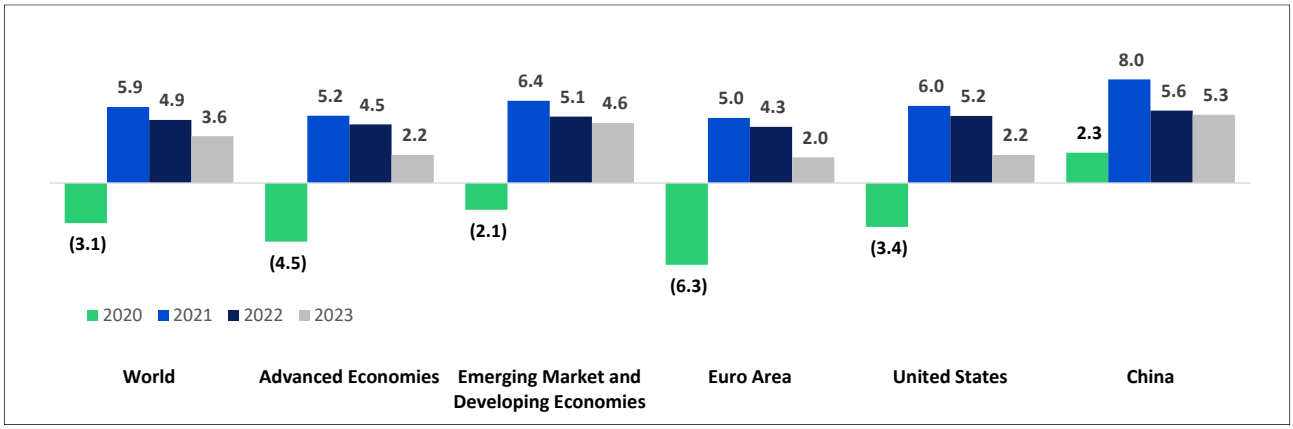
3. **The innovation and development of vaccines against COVID-19 marked a milestone in human history.** The rapid response of the research and development areas of pharmaceutical companies, with the support of the governments of several countries around the world, the WHO, philanthropic entities, among others, made it possible to develop vaccine candidates in record time, which were tested and approved in less than a year. The first vaccines authorized by WHO for emergency use were those of Pfizer/BioNTech (December 2020), AstraZeneca/Oxford (February 2021) [5], Janssen (Johnson & Johnson, March 2021) and Moderna (April 2021) [6].

4. **The pandemic had devastating effects on the world economy becoming one of the deepest recessions in over a hundred years.** It is estimated that global GDP growth fell by 3.1% (see Graph 1). This result was more severe in advanced economies (-4.5%) compared to developing economies and emerging markets

[1] Disease caused by the SARS-CoV-2 coronavirus.
[2] PAHO COVID-19: chronology of WHO action.
[3] Pan American Health Organization (11 March 2020). WHO characterizes COVID-19 as a pandemic.
[4] Our World in Data.
[5] Produced by AstraZeneca-SKBio (Republic of Korea) and the Serum Institute of India. World Health Organization. World Health Organization
[6] World Health Organization. WHO issues its first emergency use validation for a COVID-19 vaccine and emphasizes need for equitable global access. WHO lists two additional COVID-19 vaccines for emergency use and COVAX roll-out. WHO adds Janssen vaccine to list of safe and effective emergency tools against COVID-19. WHO lists Moderna vaccine for emergency use.

(-2.1%). The global economic slump of 2020 was the fourth deepest recession in the last 150 years, surpassed only by those caused by the World Wars and the Great Depression[7].

Graph 1. Estimated economic growth for the world, geographic areas, and selected countries 2020 *(percentages)*



Source: Office of the Chief Economist with information from the World Economic Outlook, October 2021.

5. **World trade and international tourism were among the most affected sectors.** The disruption of global value chains and the lower demand for goods in the world, together with the unprecedented decline in international tourism due to the generalized travel restrictions in place, were determining factors in the economic recession in 2020. In this regard, the International Monetary Fund (IMF) estimated a decrease in the volume of trade in goods and services of 8.2% worldwide[8], and the World Trade Organization estimated a drop in merchandise trade of 5.3%[9]. The World Tourism Organization estimates that international tourist arrivals decreased by 74.0%, reaching levels like those of 1990[10], and well above the range estimated at the beginning of the pandemic in March 2020 (-20% to -30%)[11]. Likewise, most experts foresee a return of tourism to pre-pandemic levels (2019) until 2023[12].

6. **Shorter working hours for employed people and fewer job seekers were the main factors behind the loss of working hours in 2020[13].** Globally, an estimated 8.8% of working hours were lost compared to the fourth quarter of 2019, which in terms of full-time equivalent employment corresponds to about 255 million jobs[14]. About half of the drop was due to a reduction in the working hours of employed persons and the other half to a reduction in employment. The decline in employment was around 114 million people, with women and young people being the most affected demographic groups. The lower employment was mainly determined by a larger number of people exiting the labor force in 2020 (81.0 million), rather than by an

[7] World Bank. Moderate recovery, with damage to repair.
[8] International Monetary Fund, World Economic Outlook Database, October 2021.
[9] Organización Mundial del Comercio. World trade poised for solid, if uneven, recovery after COVID-19 pandemic.
[10] World Tourism Organization. 2020 year in review.
[11] World Tourism Organization. International tourist arrivals could fall 20-30% in 2020; 2020: year in review.
[12] World Tourism Organization. 2020: worst year in tourism history, with 1 billion fewer international arrivals.
[13] International Labor Organization. ILO Observatory: Seventh edition Updated estimates and analysis. COVID-19 and the world of work. Seventh edition Updated estimates and analysis.
[14] A 48-hour workweek is used to estimate full-time equivalent employment.

increase in the number of unemployed people (33 million). People's decision to exit the labor market reduced the global labor force participation rate by 2.2 percentage points (58.7% in 2020). In turn, labor income is estimated to fall by 8.3% in 2020, approximately 4.4% of global GDP, both with respect to 2019 levels.

7. **Extreme poverty is estimated to increase by 0.7 to 1.0 percentage points in 2020, from 8.4% of the world's population recorded in 2019.** In the absence of the pandemic, the extreme poverty rate was projected to be close to 7.9% in 2020 and 7.5% in 2021. Nevertheless, because of the health, economic and social crisis caused by COVID-19, these indicators are projected to have increased to ranges of 9.1% to 9.4% in 2020 and 8.9% to 9.4% in 2021. The pandemic is estimated to have pushed between 88 and 115 million more people into extreme [15]poverty during 2020, after having declined steadily for nearly 25 years[16]. For its part, in Latin America and the Caribbean, it is expected that around 3 million people fell into extreme poverty in 2020 because of the pandemic[17].

8. **Latin America and the Caribbean are among the geographic regions most affected by the pandemic in 2020.** Most international institutions estimated a drop in GDP growth of around 7.0% for this region. In all cases, they estimated declines greater than the initial forecasts made in April 2020 (see Table 1). This reflects the fact of the high spread of the virus together with the prolongation of containment measures in most of these countries.

Table 1. Estimated economic growth for Latin America and the Caribbean in 2020

Institution	Date	2020
Economic Commission for Latin America (ECLAC)	October, 2021	**-6.8%** (-5.3%)
World Bank	June, 2021	**-6.5%** (-4.6%)
International Monetary Fund (IMF)	October, 2021	**-7.0%** (-5.2%)

Note: In parentheses the estimated value in April 2020 for each agency.
Source: Office of the Chief Economist with information from the Estudio Económico de América Latina y el Caribe: Dinámica laboral y políticas de empleo para una recuperación sostenible e inclusiva más allá de la crisis del COVID-19, CEPAL; Global Economic Prospects, June 2021, The World Bank; y World Economic Outlook, October 2021, International Monetary Fund.

9. **Vaccination plans continue at different speeds around the world.** Among the countries with the greatest progress worldwide in the application of the full dose of the vaccine are the United Arab Emirates with 84.3% of the population, followed by Chile with 74.0%, the United Kingdom (66.3%), Israel (64.7%), the European Union (63.8%) and the United States (55.8%).

[15] Defined as the situation of people living with less than USD 1.90 per day.
[16] World Bank. Poverty and Shared Prosperity 2020: A reversal of fortune.
[17] Castañeda et al. Updated estimates of the impact of COVID-19 on global poverty: Turning the corner on the pandemic in 2021?.

Table 2. Progress of vaccination plans in selected countries and geographic areas

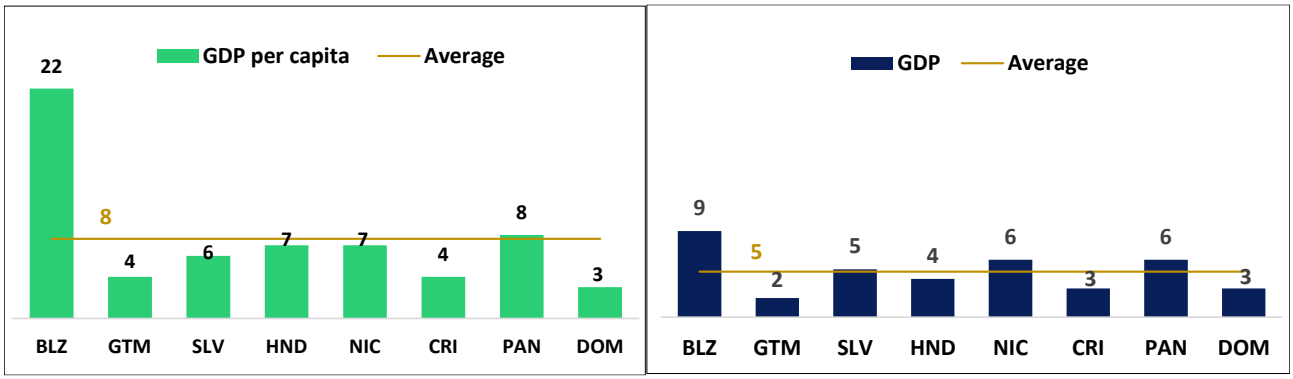
Countries or geographic areas	Dosis		Countries or geographic areas	Dosis	
	Complete (%)	per 100 inhabitants		Complete (%)	per 100 inhabitants
United Arab Emirates	84.3	205.0	Argentine	52.5	118.7
Chile	74.0	173.8	Brazil	46.5	116.5
United Kingdom	66.3	138.4	Mexico	37.5	82.9
Israel	64.7	178.2	Colombia	36.3	83.9
European Union	63.8	128.8	World	35.4	83.4
United States	55.8	120.0	India	19.6	69.0

Source: Office of the Chief Economist with information from Our World in Data, Coronavirus (COVID-19) Vaccinations, as of October 13, 2021.

II. In Central American countries, the largest economic impact of COVID-19 was during the second quarter of 2020[18].

10. **The COVID-19 pandemic additional to the measures taken by governments to contain the virus contagion had an impact on economic activity.** The relationship between the monthly index of economic activity (IMAE) and the closure index[19] is negatively correlated in most countries in the region, mainly in the first months of the pandemic, except in Nicaragua where, in general, fewer measures were implemented. That is, the stricter the "lockdown-style" policies implemented to reduce the contagion of the population, the greater the negative impact on economic activity (see Box 1). While actions to contain the spread of the virus was one of the factors that influenced the economic recession, the other was related to the pass-through of the global recession to domestic economies due to lower international demand, which is why this analysis should be considered in a complementary manner. The impact of the closure measures can be seen in the evolution of the mobility index in selected sites, which reported a higher stay at home during the most critical months of the pandemic, as opposed to a lower stay in workplaces, as well as a lower concentration of people in public places during the time of greater mobility restrictions (see Annex 2).

Graph 2. Decline in the levels of GDP per capita and GDP at constant prices *(number of years)*



Source: Economist Office with information from the World Economic Outlook October 2021, IMF.

11. **The economic impact of the pandemic in Central America has meant a setback of almost a decade in terms of GDP per capita.** On average, the region's decline is close to 8 years for GDP per capita, and 5 years for GDP[20] (see Graph 2). By country, when the loss in constant per capita GDP is evaluated, the Dominican Republic registered the smallest setback (3 years) and Belize the most affected (22 years). Regarding the loss of GDP by countries due to the 2020 economic crisis, measured through GDP at constant prices, Guatemala is the one with the least decline (2 years) and Belize the most affected (9 years).

[18] The data in this section are from Executive Secretariat of the Central American Monetary Council, if not otherwise indicated.
[19] Prepared by the Office of the Economist from information compiled by OxCGRT, this index captures measures related to the closure of economic activity and restrictions on the mobility of persons.
[20] With each country's estimate of constant 2020 GDP and GDP per capita, the gap was calculated with respect to the year in which similar values had been reported in the past.

12. **The lower demand for exports and the decrease in tourism were the main channels of transmission of the recession from the rest of the world to the economies of the region.** Cumulative merchandise exports from Central America fell the most between June and July 2020 and, from August onwards, declined at a slower rate in the following months, to around -5.2% at the end of the year. By country, the largest declines were observed in exports from Panama (-15.8%), El Salvador (-14.6%) and the Dominican Republic (-8.0%), while Guatemala (3.1%), Costa Rica (2.3%) and Honduras (0.6%) managed to close the year with positive variations. In all cases, the variation of exports of goods and services was more negative than merchandise exports, reflecting the greater impact of the crisis on services exports. Specifically, tourism revenues in Central America decreased 67.0% during the year, with the most affected countries being Guatemala (-75.7%), Panama (-75.3%), Costa Rica (-66.4%), Honduras (-65.8%), the Dominican Republic (-64.2%), Nicaragua (-61.5%) and El Salvador (-51.3%).

13. **The economic recession in the region had a greater magnitude than that observed in the world, in the group of advanced countries, and in developing economies and emerging markets.** Central America's constant GDP was down about 7.4% in 2020, very similar to the magnitude observed in Latin America and the Caribbean (see Table 1), with the most affected countries being Panama (-17.9%), Belize (-14.0%)[21], Honduras (-9.0%), El Salvador (-7.9%), the Dominican Republic (-6.7%), Costa Rica (-4.1%), Nicaragua (-2.0%) and Guatemala (-1.5%).

14. **The lowest point of GDP decline was observed in all countries during the second quarter of 2020 (see Graph 3).** The anticipated drops in international trade and world tourism, due to the measures implemented in most countries of the world to contain the pandemic from the outset, made it possible to estimate which economic sectors would be most affected[22]. One year later, although there was a generalized fall in most of the productive sectors of the economy, it was the activities of accommodation and food services, construction, commerce, transport and storage, and in some countries the manufacturing industry, which reported the greatest marginal contributions to the decline in GDP during the year. One of the topics of interest and analysis in the world, as the crisis deepened during the second quarter of the year, was the shape of the recovery, which would *a posteriori* define the duration and dating of the economic cycle (U, V, W, inverted L). In particular, in most countries of the region the shape was more similar to a "V", and in the particular cases of Honduras and Nicaragua to a slight "W", due to the consequences left in these countries by hurricanes ETA and IOTA in November 2020. In the case of Belize, the shape is like that of Honduras and Nicaragua, mainly explained by declines in tourism and trade activities in the fourth quarter of 2020.

[21] Statistical Institute of Belize. GDP release for: Fourth Quarter of 2020.
[22] For more details see the report "Economic Impact of COVID-19: Central America, Argentina, Colombia, and Mexico". Prepared by the Office of the Chief Economist of CABEI.

Graph 3. Economic growth of the quarterly GDP (*interannual variation - percentages)*

Source: Office of the Chief Economist with information from SECMCA and the Statistical Institute of Belize.

15. **Aggregate demand in Central American countries registered decreases in most of its components in 2020, except for Nicaragua (see Table 3).** Final consumption expenditure declined in all countries, but more sharply in Panama (-13.5%), El Salvador (-7.9%) and Honduras (-5.0%). In this regard, the measures implemented by governments to mitigate the social impact and income losses in the groups that were most affected by COVID-19 led to an increase in government spending this year, while household or private consumption expenditure decreased in all cases. Gross fixed capital formation fell by double digits in Panama (-49.5%) and Honduras (-23.8%); and only Nicaragua registered a positive variation (14.7%). Finally, exports of goods and services reported the sharpest drop of all aggregate demand components in the Dominican Republic (-30.3%), El Salvador (-21.2%), Costa Rica (-9.5%) and Nicaragua (-8.8%).

Table 3. GDP components by expenditure approach 2020 *(annual variation - percentages)*

Countries	Final consumption expenditure	Gross fixed capital formation	Exports of goods and services	Imports of goods and services	GDP
Guatemala	-0.7	-5.9	-4.4	-4.6	-1.5
El Salvador	-7.9	-7.9	-21.2	-10.2	-7.9
Honduras	-5.0	-23.8	-20.4	-18.5	-9.0
Nicaragua[1]	-0.1	14.7	-8.8	1.0	-2.0
Costa Rica	-3.7	0.7	-9.5	-7.9	-4.1
Panama[2]	-13.5	-49.5	-21.6	-34.2	-20.4
Dominican Republic	-2.4	-12.1	-30.3	-14.6	-6.7

Notes: 1. Gross fixed capital formation corresponds to gross capital formation. 2. The latest available data is from the III quarter of 2020. **Source:** Office of the Chief Economist with information from the countries' central banks and INEC of Panama.

16. **Remittances from abroad recovered in the second half of 2020.** The flow of accumulated remittance inflows from Central America fell during the second quarter of the year, recovering from the third quarter (4.0%) and closed with a growth of 7.9% in 2020. Among the main factors that explained this behavior were: i) the fiscal stimulus packages approved by the U.S. government, which benefited people who had social security or had filed their taxes in 2018 or 2019, and ii) the U.S. economic recovery that manifested itself in lower Latino unemployment rates since May 2020. Remittances helped cushion household income losses and the drop in final consumption.

17. **Foreign direct investment in Central American countries declined in 2020.** The decrease in cumulative income from investment flows was 48.1% in the year. Panama (-86.4%), El Salvador (-68.5%), Nicaragua (-63.8%) and Costa Rica (-37.3%) recorded the sharpest drops in 2020. Meanwhile, El Salvador (84.3%), Guatemala (23.1%), the Dominican Republic (15.7%) and Costa Rica (9.3%) recorded positive year-on-year growth in the first quarter of 2021.

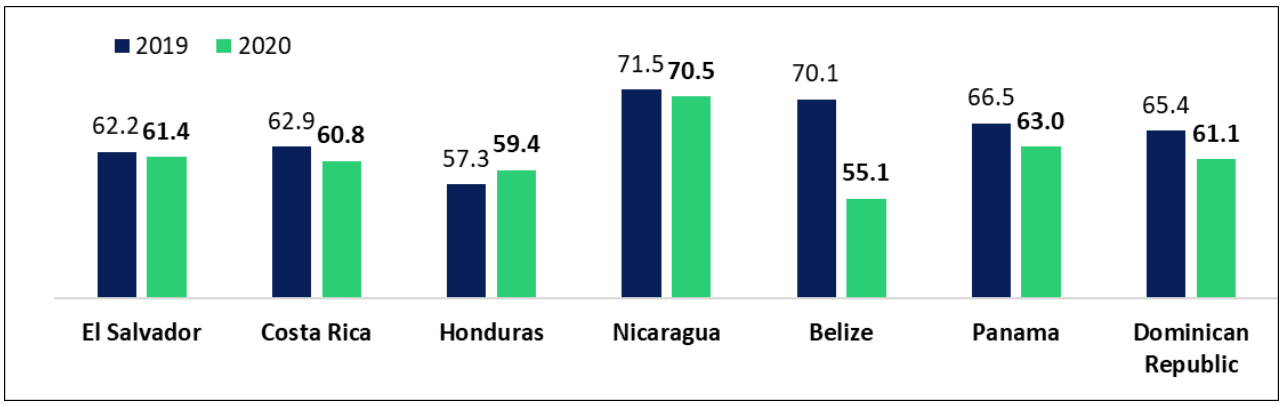
18. **Unemployment increased and the labor force participation rate declined in most countries.** The lesser economic activity caused by the COVID-19 containment measures and the fall in international demand reduced employment in Central America, with the exception of Nicaragua, with the most affected demographic groups being women and youth in the countries for which information is available (see Table 4). In most cases, reductions in the labor force participation rate were also observed (see Graph 4), which could be explained by the exit of people from the economically active population due, among other things, to the few opportunities to find employment during the crisis, the fear of contagion, and the need for greater care of children at home due to the temporary closure of education centers.

Table 4. Unemployment rates 2019 and 2020 *(percentages)*

Countries	Period	2019				2020			
		Total	Male	Female	Youths	Total	Male	Female	Youths
Belize	Anual	10.4	6.6	15.7	21.4	13.7	11.6	17.0	23.0
El Salvador	Anual	6.3	7.0	5.4	13.4	6.9	7.1	6.6	14.7
Honduras	Anual	5.7	4.2	8.1	11.3	10.9	8.7	13.7	17.7
Nicaragua	IV quarter	4.9	5.1	4.7	n.d.	4.8	4.8	4.9	n.d.
Costa Rica	IV quarter	12.4	9.6	16.7	34.1	20.0	16.4	25.2	43.5
Dominican Republic	IV quarter	5.9	3.8	8.7	n.d.	7.4	4.9	10.8	n.d.

Note: The 2020 data for Belize includes a methodological review in accordance with the most recent international definitions, for this reason it is not comparable with 2019. With the previous methodology the result was 29.6% in 2020.
Source: Office of the Chief Economist with information from the statistical institutes of each country.

Graph 4. Labor force participation rate *(percentages)*



Note: The 2020 Belize data includes a methodological review in accordance with the most recent international definitions, for this reason it is not comparable with 2019. With the previous methodology the result was 71.1% in 2020.
Source: Office of the Chief Economist with information from the statistical institutes of each country.

19. **Poverty levels increased because of the pandemic.** According to the information available for three countries in the Central American region, poverty and extreme poverty increased in El Salvador, Costa Rica, and the Dominican Republic between 2019 and 2020 (Table 5). Costa Rica was the country that reported the highest increase in the poverty rate (5.2 percentage points), standing at 26.2% of the population in 2020 compared to 21.0% in 2019, while El Salvador registered the highest increase in the extreme poverty rate (4.1 percentage points), registering a level of 8.6% of the population in 2020 compared to 4.5% in 2019. For the rest of the Central American countries there is no information available, but it is most likely that poverty indicators are observed in a similar way increasing.

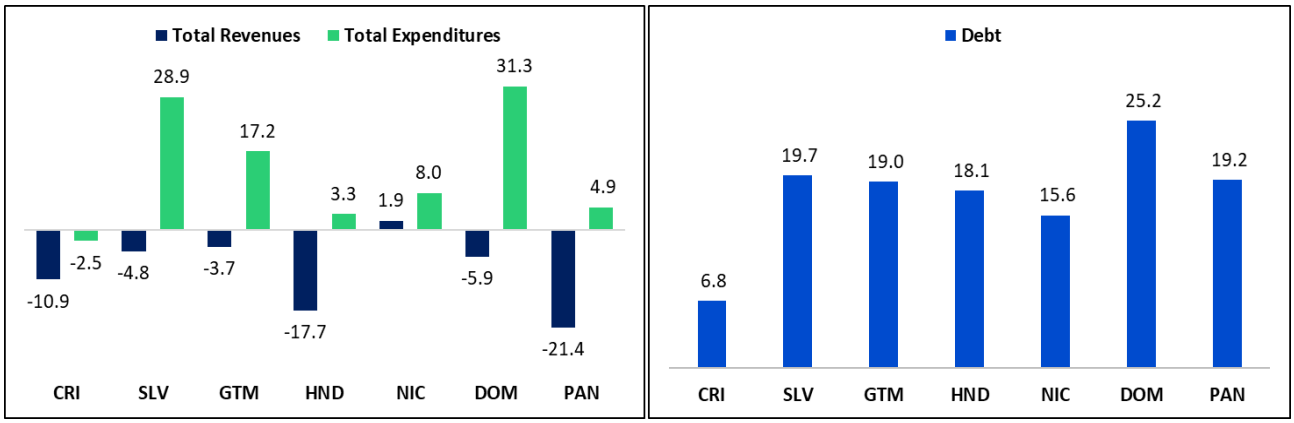
Table 5. People living in poverty and extreme poverty (percentages)

Countries	2019		2020	
	Poverty	Extreme Poverty	Poverty	Extreme Poverty
El Salvador	22.8	4.5	26.2	8.6
Costa Rica	21.0	5.8	26.2	7.0
Dominican Republic	21.0	2.7	23.4	3.5

Nota: Las mediciones de pobreza presentadas son con base a la línea de pobreza establecida por cada país.
Fuente: Oficina del Economista Jefe con información de los institutos de estadísticas de cada país.

20. **Fiscal accounts were negatively impacted by the pandemic.** The higher expenditure allocated to the health sector to address the pandemic, together with the economic support measures implemented, led to a negative balance in the central government accounts of Central American countries[23]. In this regard, there was an increase in public spending, except in Costa Rica, which combined with the reported drop in central government revenues due to lower economic activity and lower imports, led the countries to register a higher fiscal deficit in 2020, compared to 2019, which was mostly financed with debt (see Graphs 5 and 6).

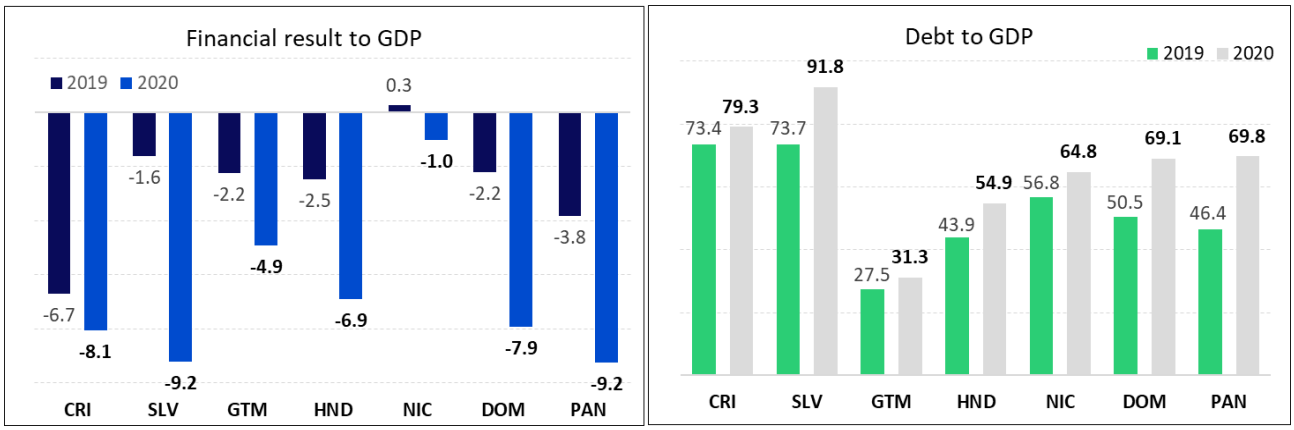
Graph 5. Central government: revenues, expenditures, and debt in 2020 *(interannual variation - percentages)*



Source: Office of the Chief Economist with information from SECMCA.

[23] A detail of the policy actions implemented by CABEI member countries in response to COVID-19 are presented in the report "Economic Impact of COVID-19 report: Central America, Argentina, Colombia, and Mexico". Office of the Chief Economist, CABEI April 2021

Graph 6. Central Government: Financial and debt result to GDP in 2020 *(percentages)*

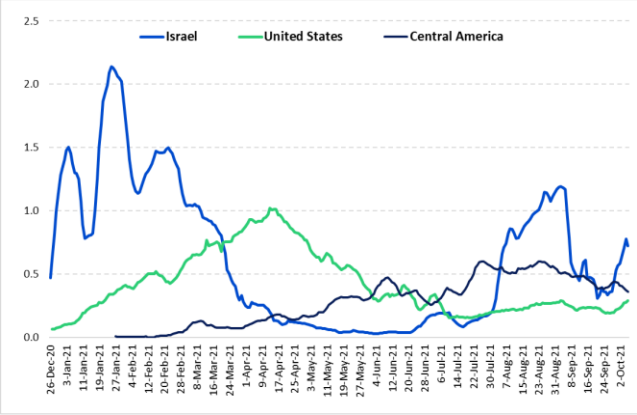


Source: Office of the Chief Economist with information from SECMCA.

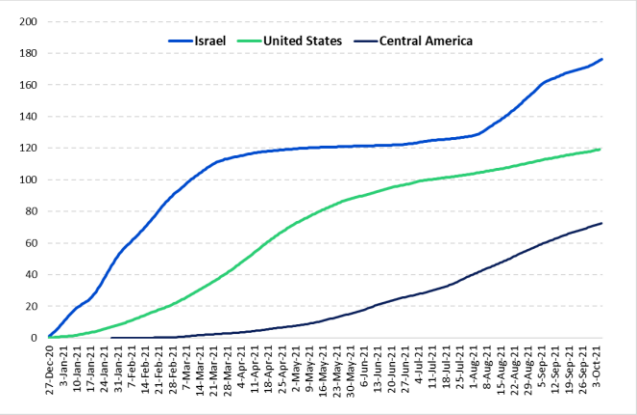
III. Economic Outlook for Central America 2021-2023

21. **Progress in vaccination plans around the world has been fundamental for recovery economic growth in 2021.** Vaccination is advancing at mixed speeds between advanced countries and developing economies (see Graph 7), with the former having the highest proportion of their population vaccinated. In this regard, Israel[24] and United States have already surpassed 100 vaccines per 100 people, while Central America has 72.6 vaccines administered per 100 people as of October 13, 2021 (see Graph 8).

Graph 7. New daily vaccinations (average 7 days) to total population *(percentages)*



Graph 8. New daily vaccinations (average 7 days) to total accumulated population *(percentages)*



Source: Office of the Chief Economist with information from Our World in Data, Coronavirus (COVID-19) Vaccinations, as of October 13, 2021.

22. **Vaccination plans in Central America are progressing at different speeds.** A greater opening of the economy is observed in the countries, with the relaxation of restrictions on the movement of people, while the fully vaccinated population reaches heterogeneous results in the region, ranging from 4.9% to 54.9% (see Table 6). The country with the highest percentage of its population fully vaccinated is El Salvador with 54.9%, Panama (52.9%) and Costa Rica (46.6%). The countries with the lowest vaccination levels are Guatemala (15.6%) and Nicaragua (4.9%).

[24] Israel began on August 1, 2021 to provide a third dose of the Pfizer vaccine to persons over 60 years of age and who are at least five months after having been injected with the second dose of the same vaccine. For more information see "Israel will give third Covid vaccine shots to those 60 and older", New York Times.

Table 6. Progress of vaccination plans in Central American countries

Countries	Dosis		Countries	Dosis	
	Complete (%)	per 100 inhabitants		Complete (%)	per 100 inhabitants
El Salvador	54.9	123.2	Belize	35.7	85.1
Panama	52.9	120.3	Honduras	24.7	57.8
Costa Rica	46.6	115.2	Guatemala	15.6	42.4
Dominican Republic	45.5	111.2	Nicaragua	4.9	14.9

Source: Office of the Chief Economist with information from Our World in Data, Coronavirus (COVID-19) Vaccinations, as of October 13, 2021.

23. **In the second half of the year, the economic outlook for 2021 was revised downward.** The IMF estimated world economic growth of 6.0% in July of 2021 (5.5% in January 2021), which it updated downwards to 5.9% in October of 2021[25]. This change highlights a lower outlook for advanced economies, from 5.6% to 5.2%, and a slight improvement in developing economies and emerging markets, which would benefit from the impulse of the first ones and increased from 6.3% to 6.4%. World economic growth projections have improved as the uncertainty associated with COVID-19 decreases due to the progress of the vaccination plan. Economic indicators show this recovery in the world during the first half of the year include lower unemployment rates, an increase in the international price of oil, the dynamism of international trade and the upward trend in the securities markets.

24. **In Central America, economic indicators show signs of economic recovery.** The IMAE is growing in all countries at the end of the first half of 2021, cumulative exports have been in the positive quadrant in all countries since March 2021, and cumulative imports, although lagging a little behind, show positive variations as of May and June. Cumulative tax revenues also grew in the second quarter of 2021 and remittances continue to be dynamic in the region[26].

25. **Economic growth is expected to rebound in all countries in 2021.** Expected growth for the region is in the range of 7.3% to 8.0%. The highest economic growth in descending order is estimated in Panama (12.0%), the Dominican Republic (10.7%), El Salvador (10.3), Honduras (8.0% to 9.0%), Belize (8.5%), Nicaragua (6.0% to 8.0%), Guatemala (4.0% to 6.0%) and Costa Rica (5.4%). In general terms, according to International Monetary Fund projections, Central American countries would register growth rates in 2022 and 2023 close to those observed prior to the COVID-19 crisis (see Table 7).

[25] International Monetary Fund. World Economic Outlook Update, January and July 2021. World Economic Outlook Update, October 2021.

[26] For further details, we recommend reviewing the Monthly Economic Situation Report for July 2021, published by the Office of the Chief Economist on CABEI's website.

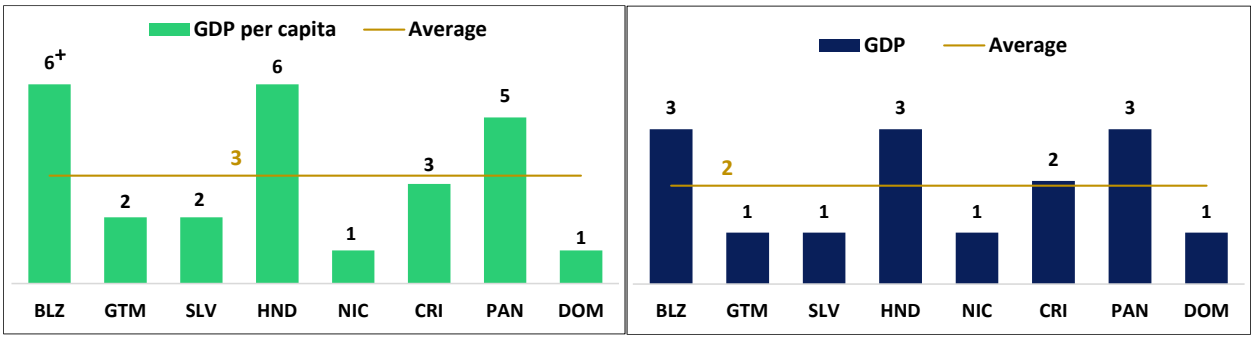
Table 7. Annual Real GDP Growth for Central American Countries *(percentages)*

Año	Belize	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Dominican Republic	Panama
2020	-14.1	-4.1	-7.9	-1.5	-9.0	-2.0	-6.7	-17.9
2021	8.5	5.4	10.3	4.0 - 6.0	8.0 - 9.0	6.0 - 8.0	10.7	12.0
2022	5.4	3.5	3.5	4.5	4.4	3.5	5.5	5.0
2023	2.8	3.1	2.3	3.8	3.5	2.2	5.0	5.0

Note: Data for 2020 and 2021 are from SECMCA, except for Belize which was obtained from the Annual Report published by the Central Bank for 2020; and Panama and Belize 2021 from the World Economic Outlook database, October 2021. Forecasts for 2022 and 2023 are from the World Economic Outlook database, October 2021.
Source: Office of the Chief Economist with information from World Economic Outlook database, October 2021; SECMCA as of October 31, 2021 and the Central Bank of Belize.

26. **Economic recovery to pre-crisis levels in most Central American countries would be achieved in 2021 and 2022.** Going forward, linked to the upward revision in the IMF's medium-term economic growth outlook (October 2021), recovery to the pre-crisis GDP level in Central America is expected to be achieved in the next 2 years in most countries (see Graph 9)[27]. The level of GDP at constant prices will reach pre-crisis values between 1 and 3 years, with Guatemala, El Salvador, Nicaragua, and Dominican Republic being the fastest (1 year) and Belize, Honduras, and Panamá the slowest (3 years). The recovery of GDP per capita at constant prices would be in the range of 1 to more than 6 years, with Nicaragua and the Dominican Republic recovering the fastest (1 year) and Belize the slowest (more than 6 years).

Graph 9. Recovery to pre-crisis levels of constant GDP per capita and GDP *(number of years)*



Note: In Belize the recovery of GDP per capita is after 2026 (latest projected year available).
Source: Chief Economist Office with information from the World Economic Outlook October 2021, IMF.

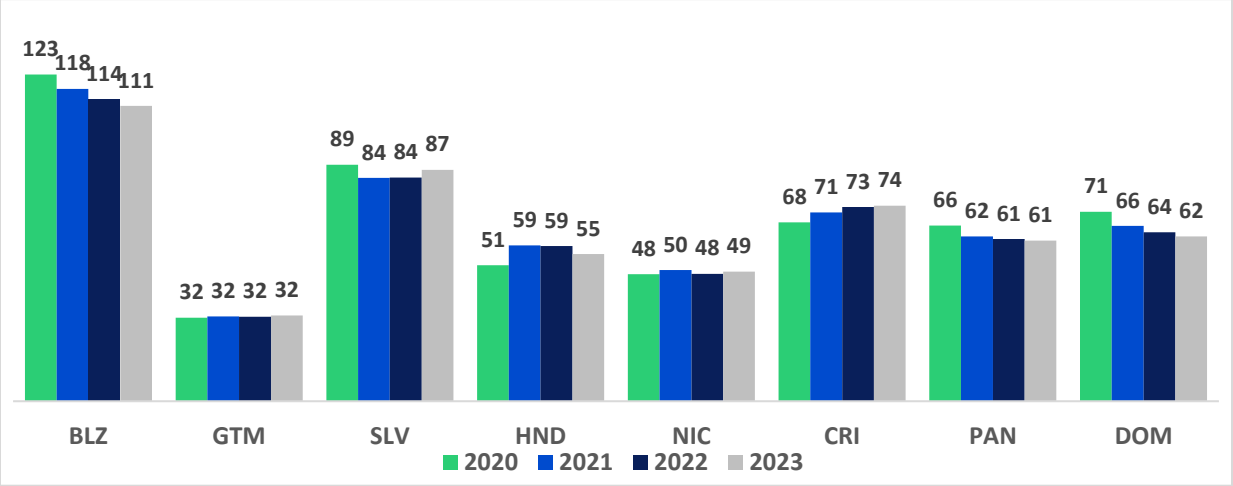
27. **The increase in inflation is one of the challenges facing the Central American region in 2021 and 2022.** All countries face inflationary pressures and most show an increasing trend in the interannual inflation rate as of September 2021. This behavior has been driven by the disruption of supply chains and

[27] With each country's estimate of constant 2019 GDP and GDP per capita, the number of years in the future in which they would reach similar values was calculated, starting in 2020.

the rise in international commodity prices[28]. Especially the increases in food prices aggravate the conditions of vulnerable groups in the region who see their low incomes lose purchasing power.

28. **Public debt to GDP increased 14.9 percentage points in Central America in 2020.** It averaged 68.6% of GDP in 2020 (versus 53.7% in 2019). The increase in debt places most of the Central American countries, except Guatemala, within the limit range of debt sustainability, between 49% and 78% of GDP, according to the IMF [29]. However, the better economic growth prospects for the region in the coming years are expected to support the trend towards debt reduction in Central America. Debt projections for 2021-2023 indicate that debt would be reduced in Belize, Panama, and the Dominican Republic, it would stabilize in Guatemala, El Salvador, Honduras and Nicaragua, and an increase is expected in Costa Rica (see Graph 10).

Graph 10. Debt to GDP 2020 and debt projections 2021-2023 *(percentages)*



Source: Chief Economist Office with information from the World Economic Outlook October 2021, IMF.

29. **The cost of debt remains above pre-crisis levels in Central American countries.** The *Emerging Market Bond Index (EMBI),* which is a measure of the countries' risk premium, shows that risk has decreased compared to 2020, but it remains 0.69 percentage points higher on average for the region in 2021 compared to 2019. El Salvador is the country that has reported the greatest increase, with a premium 2.87 percentage points higher than 2019, followed by Honduras and Costa Rica with increases of 0.44 and 0.32 percentage points, respectively.

[28] CABEI (2021). Monthly Economic Situation Report September 2021. Chief Economist Office.
[29] Cotarelli, C., & Moghadam, R. (2011). Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis. International Monetary Fund.

Table 8. EMBI 2019-2021 *(porcentajes)*

Año	BLZ	GTM	SLV	HND	NIC	CRI	PAN	DOM
2019	n.d	2.37	4.53	2.74	n.d	4.59	1.39	3.31
2020	n.d	3.16	7.62	3.93	n.d	6.78	1.95	4.89
2021	n.d	2.41	7.40	3.18	n.d	4.91	1.69	3.47

Source: Chief Economist Office with information from Bloomberg, October 2021.

30. **The capacity of some governments of Central American countries to promote investment in productive infrastructure has been limited.** This is due to the increase in debt levels, as well as the increase in the cost of acquiring new debt. In addition to this, it has already been observed that in the last ten years the share of capital spending within total government spending has deteriorated in several countries, falling in Guatemala (9.0 percentage points), in the Dominican Republic (6.0 percentage points), in Nicaragua (4.0 percentage points) and in El Salvador (2.0 percentage points). While in the rest of the Central American countries, the proportions have remained relatively constant or with falls of less than 1 percentage points.[30] Due to these trends, public investment in infrastructure for the region was low, and in decline, averaging only 2.2% of GDP between 2008-2020.

[30] BCIE (2020). Política Fiscal y endeudamiento en Centroamérica: Reglas fiscales y sostenibilidad. Oficina del Economista Jefe.

IV. Some elements to consider in the development agenda of Central America post COVID-19

31. **Expedite vaccination plans in countries with the lowest levels of people with the full vaccination scheme.** Nicaragua, Guatemala, and Honduras are the countries with the lowest levels of vaccination. It is crucial that negotiations with companies that produce COVID-19 vaccines be accelerated in these countries, and the search for bilateral support with other countries outside the region to achieve access to vaccine supplies for people at higher risk. The economic recovery worldwide and in Latin America will be highly linked to the advancement of vaccination in the countries.

32. **Continue supporting the most vulnerable groups in the COVID-19 crisis.** The economic crisis has generated higher unemployment in the region countries, it has also caused an increase in poverty levels, in this sense, it is extremely important to support the poorest sectors, since they are the most vulnerable to job losses and reduction of income. In addition, the growing trend of inflation worldwide and region countries makes more urgent the support for the poorest sectors. It is important to create targeted temporary income support programs and programs that aim to create jobs.

33. **Promote specific reactivation policies for the tourism and export sectors, which were among the most affected by the pandemic.** In the tourism sector, programs can be designed and implemented to support and strengthen MSMEs. Regarding the export sector, institutional processes and mechanisms must be improved to facilitate and expedite the procedures that companies carry out to export. Promoting credit and guarantee schemes for both sectors will be essential for their recovery, adaptation, and transformation to the new normal of business.

34. **Focus from the governments side a fiscal policy consistent with reestablishing the sustainability of the public debt.** Most of the countries in the region have fiscal rules and complying with their provisions will contribute to generating greater credibility among foreign and national investors, which will underpin the economic recovery. Furthermore, it is necessary to rethink the priorities of public spending, especially given that current spending in most Central American countries represents the largest proportion of the total and that in some cases they have displaced investment spending[31]. Likewise, for taxation it is necessary to evaluate strategies and mechanisms to avoid tax evasion and improve the mechanisms for collecting public taxes.

35. **Evaluate the expansion of direct taxation and elimination of exemptions as alternatives.** The tax collection of the countries of the region comes mainly from indirect taxes[32], then it is necessary to evaluate direct taxes that are considered more progressive in terms of income redistribution. This additional

[31] BCIE (2020). Política Fiscal y endeudamiento en Centroamérica: Reglas fiscales y sostenibilidad. Oficina del Economista Jefe.
[32] Idem.

collection may come from extensions to property taxes, taxes on luxury goods, and taxes on products harmful to health, to name a few, as well as the elimination of exemptions.

36. **Consider promoting investments with Public-Private Partnerships, given the low levels of foreign direct investment in Central America.** The countries of the region already have regulatory frameworks that establish the development and implementation of infrastructure and public services under this scheme. Additionally, there are pending tasks to support governments in the identification and structuring of projects under this modality, as well as the institutional strengthening of the institutions in charge of this.

37. **Make regulations more flexible and expand alliances with private commercial banks to design programs that allow remittances to be considered as collateral for financing housing, startups, or other types of investments.** Remittances provide another opportunity to increase financial inclusion, both for the migrant who sends them and for the recipients. Surveys related to the use of remittances indicate that the housing sector could benefit, which is an opportunity for this sector and at the same time helps to close gaps in this basic need. Therefore, efforts to support remittance recipients can focus on the design of specific programs for financing housing, as well as startups or other types of investments. For this reason, it is essential to increase the bankarization of migrants and remittance recipients, and it is also essential to support the flexibilization of banking regulations so that the flow of remittances can be considered as collateral for granting financing. On the other hand, the new financial technologies -FINTECH- can help reduce the cost and facilitate the sending of remittances[33].

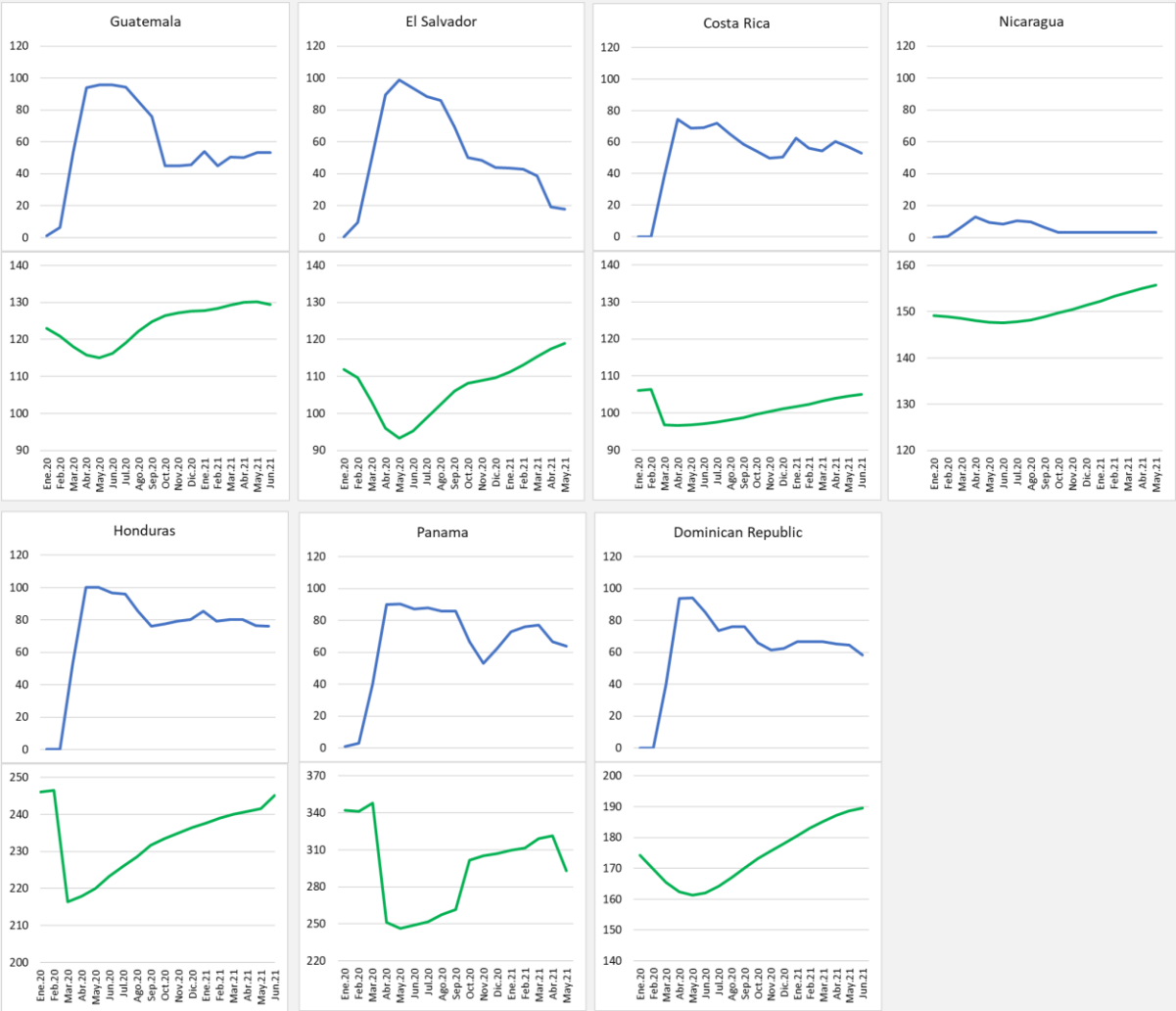
[33] CABEI. (2021). Remittances in Central America- The Role of CABEI. Chief Economist Office.

Box 1: Closure measures and economic activity in Central America

The relationship between the closure index, constructed using public information from the Oxford COVID-19 Government Response Tracker (OxCGRT) research initiative, and the Monthly Index of Economic Activity (IMAE) for each Central American country, reflects, in part, the impact of the closure measures taken by governments and the evolution of production since the beginning of the pandemic.

The closure index was calculated using the OxCGRT methodology and grouping the calculated values of indicators C1 to C8 (see Annex 1). The results are presented in the following graph:

Graph A. Closure index *(value 0 to 100)* and IMAE Trend-cycle *(percentages)*.



Source: Office of the Chief Economist with information from OxCGRT as of August 16, 2021; and SECMCA as of August 16, 2021.

Annex 1. Index of stringency of measures implemented by governments around the world to contain COVID-19The Oxford COVID-19

Government Response Tracker (OxCGRT) initiative has created four indices based on 16 indicators. The indicators were assessed each day from publicly available information on the responses that governments have implemented since the onset of the COVID-19 pandemic. The score for each index takes a value between 1 and 100, simply recording the number and stringency of government policies, and therefore should not be interpreted as a "score" of the adequacy or effectiveness of a country's response. A higher position in this index does not necessarily mean that a country's response is "better" than others lower in the index.

The indices developed by OxCGRT are:

- The **overall government response index** tracks how government response has varied on selected indicators in the database, becoming stronger or weaker over the course of the pandemic.
- The **containment and health index** combines "lockdown" restrictions and closures with measures such as testing policy and contact tracing, short-term investment in health care, as well as investments in vaccines.
- The **economic support index** tracks measures such as income support and debt relief.
- And the **stringency index,** tracks the stringency of "lockdown style" policies and the presence and form of public information on COVID-19, which primarily constrain and seek to influence population behavior.

Indicators 16 the following:

- Closure of schools (C1),
- Closure of workplaces (C2),
- Cancellation of public events (C3),
- Restrictions on the size of meetings (C4),
- Closure of public transportation service (C5),
- Requirement to stay at home (C6),
- Restrictions on movement within the country (C7),
- Restrictions on international travel (C8),
- Income support for citizens (E1),
- Debt relief/contract for households (E2),
- Public information campaign (H1),
- COVID-19 testing policy (H2),
- Contact follow-up (H3),
- Mask use policy (H6),
- Availability of vaccines for different population groups (H7),
- Policies that protect older adults (H8).

The formula used to compile each of the indexes is as follows

$indice = \frac{1}{k} \sum_{j=1}^{k} I_j$ where: I_j (I)represents the subscript score (I) for the given indicator

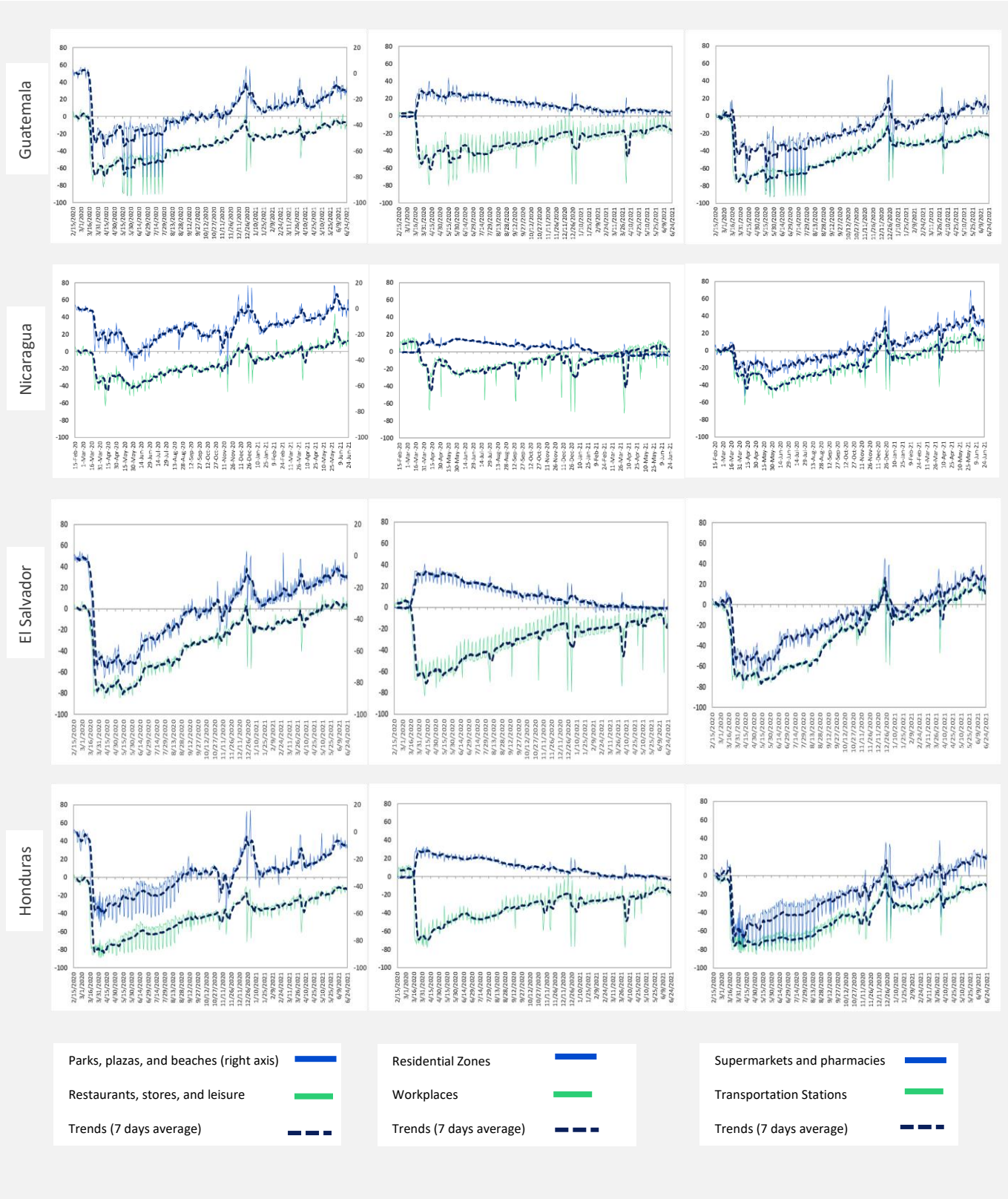
k the number of sub-indexes composing it.

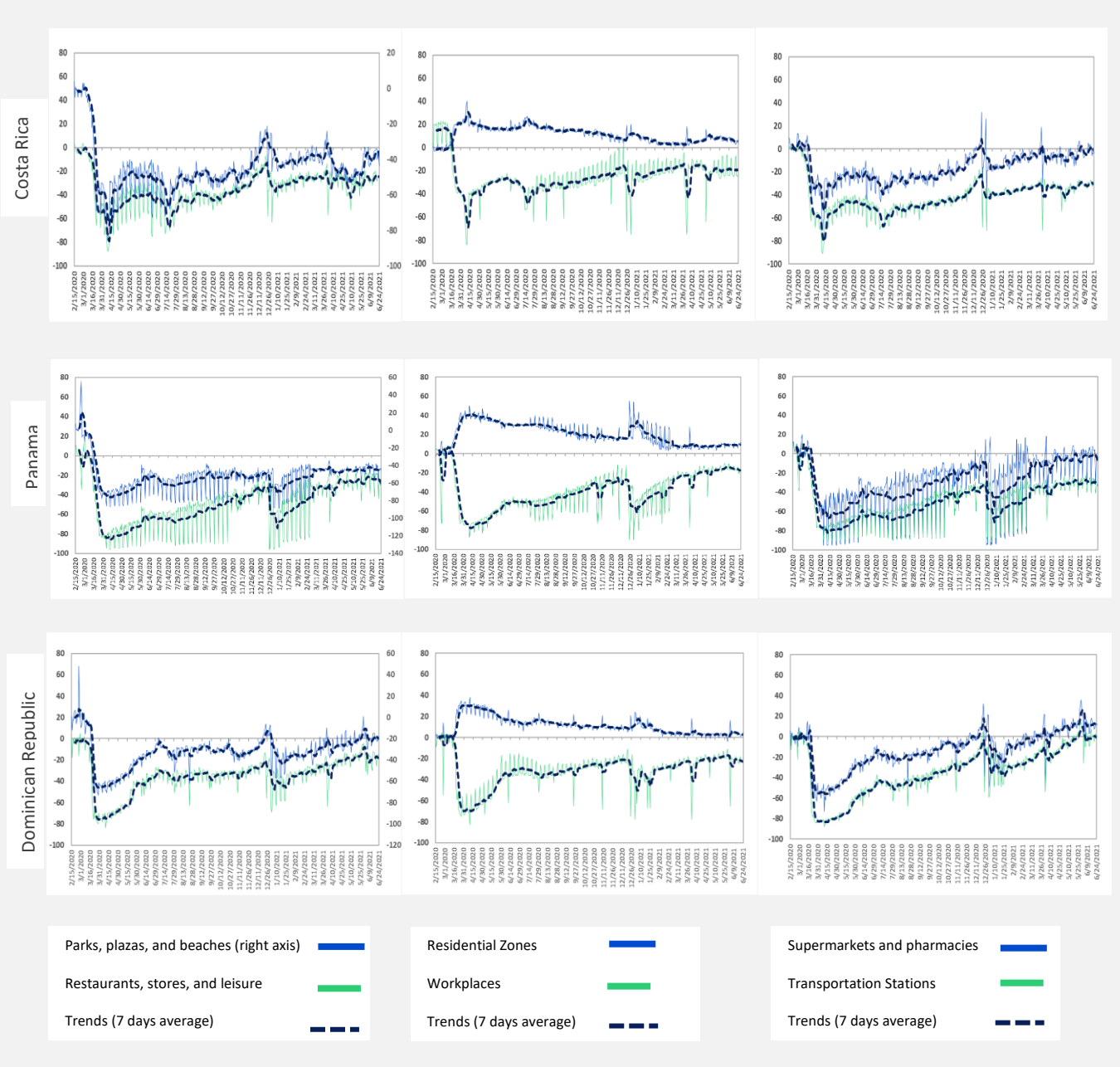
$$I_{j,t} = 100 \frac{v_{j,t} - 0.5\,(F_j - f_{j,t})}{N_j}$$

Where:

- The maximum value of the indicator (N_j).
- Whether the indicator has a regional measurement flag (F_j=1 if the measurement was at the national level, or 0 if the measurement was at the regional level).
- The recorded value of the measure on its ordinal scale ($v_{j,t}$).
- The binary variable recorded for that indicator ($f_{j,t}$).

Annex 2. Mobility data for selected locations





Note: mobility data corresponds to the percentage changes in visits to different locations on each day of a week, compared to the average for that same day in the period January 3 to February 6, 2020. January 3 to February 6, 2020. Nationwide data were taken from Google's mobility reports. Also, these statistics represent a sample of the population since they were calculated from data from users who have enabled location history on their Google account.

Source: Informes de movilidad local sobre el COVID-19. June 30, 2021.

References

- Banco Mundial. (5 de enero de 2021). Una recuperación moderada, con daños que reparar. Link.
- Banco Centroamericano de Integración Económica. (2020). Política Fiscal y endeudamiento en Centroamérica: Reglas fiscales y sostenibilidad. Oficina del Economista Jefe. Link.
- Banco Central de la República Dominicana. Principales Indicadores del Mercado Laboral por Sexo. Resumen de Indicadores. Link.
- Castaneda et al. (Junio 2021). Updated estimates of the impact of COVID-19 on global poverty: Turning the corner on the pandemic in 2021?. Banco Mundial. Link.
- Central American for Economic Integration. (2021). Remittances in Central America- The Role of CABEI. Chief Economist Office. Link.
- Central American for Economic Integration (2021). Monthly Economic Situation Report September 2021. Chief Economist Office. Link.
- Central Bank of Belize (August 2021). Annual Report and Statement of Accounts, 2020. Link.
- Comisión Económica para América Latina y el Caribe (CEPAL). (octubre de 2021). Estudio Económico de América Latina y el Caribe, 2021 (LC/PUB.2021/10-P/Rev.1), Santiago, 2021. Link.
- Cotarelli, C., & Moghadam, R. (2011). Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis. International Monetary Fund. Link.
- Grupo Banco Mundial. La pobreza y la prosperidad compartida 2020: Un cambio de suerte. Link.
- Dirección General de Estadísticas y Censos de El Salvador (2 septiembre de 2021). Encuesta de Hogares y propósitos Múltiples 2019. Link.
- Dirección General de Estadísticas y Censos de El Salvador (2 de septiembre de 2021). Encuesta de Hogares y propósitos Múltiples 2020. Link.
- Impacto Económico del COVID-19: Un análisis para Centroamérica, Argentina, Colombia y México. Elaborado por la Oficina del Economista Jefe del BCIE. Link.
- International Monetary Fund. (October 2021). World Economic Outlook Database, October 2021. Link.
- International Monetary Fund. (April 2021). World Economic Outlook Database, April 2021. Link.
- Instituto Nacional de Estadística de Honduras (8 de julio de 2021). Cuadros del Mercado Laboral. Link.
- Instituto Nacional de Información de Desarrollo de Nicaragua. Informe de Empleo Encuesta Continua de Hogares (ECH), IV trimestre 2019. Link.
- Instituto Nacional de Información de Desarrollo de Nicaragua. Informe de Empleo Encuesta Continua de Hogares (ECH), IV trimestre 2020. Link.
- Instituto Nacional de Estadística y Censos de Costa Rica. Encuesta Continua de Empleo. Link.
- Google. (30 de junio de 2021). Informes de movilidad local sobre el COVID-19. Link.
- Our World in Data. (October 13, 2021). Coronavirus COVID-19 cases. Link.
- Organización Internacional del Trabajo. (25 de enero de 2021). Observatorio de la OIT: La COVID-19 y el mundo del trabajo. Séptima edición Estimaciones actualizadas y análisis. Link.

- Organización Mundial del Comercio (31 de marzo de 2021). El comercio mundial listo para una recuperación sólida, aunque desigual, después de la pandemia de COVID-19. Link.
- Organización Mundial del Turismo. (27 de marzo de 2020). Las llegadas de turistas internacionales podrían caer un 20-30% en 2020. Link.
- Organización Mundial del Turismo. (28 de enero de 2021). 2020: el peor año de la historia del turismo, con mil millones menos de llegadas internacionales. Link.
- Organización Mundial del Turismo. 2020: análisis del año. Link.
- Organización Mundial de la Salud. (27 de abril de 2020). COVID-19: cronología de la actuación de la OMS. Link.
- Organización Panamericana de la Salud (11 marzo de 2020). La OMS caracteriza a COVID-19 como una pandemia. Link.
- New York Times (29 de julio 2021). Israel will give third Covid vaccine shots to those 60 and older. Link.
- The World Bank (June 2021). Global Economic Prospects, June 2021. Link.
- Secretaría Ejecutiva del Consejo Monetario Centroamericano. (31 de octubre de 2021). Base de datos SECMCADATOS. Link.
- Statistical Institute of Belize. (February 24, 2021). GDP release for: Fourth Quarter of 2020. Link.
- Statistical Institute of Belize. (June 29, 2021). Gross Domestic Product. Link.
- Statistical Institute of Belize. (July 8, 2021). Labor Force Survey Tables, September 2019. Link.
- Statistical Institute of Belize. (July 8, 2021). Labor Force Survey Tables, September 2020. Link.
- University of Oxford (16 de agosto de 2021). COVID-19 Government Response Tracker. Link.
- University of Oxford (6 de julio de 2021). Methodology for calculating indices. Link.
- World Health Organization. (December 31, 2020). WHO issues its first emergency use validation for a COVID-19 vaccine and emphasizes need for equitable global access. Link.
- World Health Organization. (February 15, 2021). WHO lists two additional COVID-19 vaccines for emergency use and COVAX roll-out. Link.
- World Health Organization. (March 12, 2021). WHO adds Janssen vaccine to list of safe and effective emergency tools against COVID-19. Link.
- World Health Organization. (April 30, 2021). WHO lists Moderna vaccine for emergency use. Link.
- World Health Organization. (April 30, 2021). WHO lists Moderna vaccine for emergency use. Link.