FEBRUARY
2023

MONTHLY ECONOMIC
SITUATION REPORT

Office of the Chief Economist

The monthly economic situation report for February presents an ad hoc analysis of the macroeconomic performance of the world in general and of Central America in particular, with information available as of March 16, 2023. The preparation of the document was led by Armando E. Navarrete, Chief Economist. Pablo Flores (Principal Economist) conducted the review. Research and writing were carried out by Miguel Ángel Medina Fonseca (Economist), Leily Mendoza (Economist), Fanny Vargas (Country Economist), Rodrigo Méndez (Country Economist), Clara Rivera (Junior Economist) and Rubén Méndez Jr. (Intern Economist).

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OPINION

At global level, economic growth has been resilient. US growth estimates show positive movements, albeit at a slower pace than in 2022; the labor market remains robust, with low levels of unemployment both in the US and in the Euro Zone. The slowdown in inflation has continued, but at a slower pace than expected, which will continue to affect the restrictive stance of monetary policy for longer than initially estimated.

In this context, the Central American economies continue to experience good economic performance, driven by the dynamism of internal and external demand. Inflation continues to present high levels, exhibiting a slight uptick in most countries.

Despite the more restrictive external environment, the region is expected to converge to the average growth observed prior to 2020; however, these projections are subject to considerable uncertainty associated with shocks to commodity prices, US performance, and international financing conditions.

Armando E. Navarrete
Chief Economist

MONTHLY ECONOMIC SITUATION REPORT

I. World inflation continues to slow down

1. US reported short-term indicators with mixed results. Latest quarterly GDP estimates reported a pick-up in growth, while unemployment and initial jobless claims rose slightly in the past month. For its part, the restrictive FED monetary policy, coupled with lower inflationary pressures related to the evolution of international commodity prices, have combined to register a change in the inflationary trend.

i. Weekly economic index[1] showed relative stability, moving around 1.0% in the first two months of 2023. This grew 0.8% in the week ending March 4 (1.5% as of December 31, 2022) and the 13-week moving average increased by 1.1%.[2]

ii. The GDPNow model estimated a real GDP increase of 2.6% for the first quarter of 2023 (March 8), above the initial estimate of 0.7% (January 27), close to the 2.7% preliminary growth estimated for the fourth quarter of 2022.[3] The growth observed was due to the update of international trade statistics. [4,5]

iii. Total nonfarm employment rose by 311,000 people in February 2022 (504,000 in January). Total unemployment rose to 3.6% (3.4% in January) and for Latinos rose to 5.3% (4.5% in January). Total unemployment rate has remained in a narrow range between 3.4%-3.7% since March 2022.[6] Meanwhile, the average hourly wage increased 0.2% compared to the previous month and 4.6% in the last 12 months.

iv. Initial claims for unemployment benefits reached 211,000 in the week ending March 4, higher by 21,000 from the previous week.[7] For its part, the average number of requests for the last month increased by 4.2% compared to the previous month.

2. Inflation slowed in the US for the eight consecutive month. This behavior was influenced by the lower growth in fuel and food prices in February.

i. Year-over-year inflation was 6.0% in February 2023 (6.4% in January), the lowest rate since September 2021. The groups that registered the highest year-over-year increases were energy services -electricity, piped gas- (13.3%), transportation services (14.6%), food (9.5%) and housing (8.1%); while the total index excluding food and energy grew 5.5% (5.6% in the previous month), the lowest result since December 2021.[8]

ii. FED increased the range of the monetary policy rate to 4.50%-4.75% in February, an increase of 25 bp. This decision considered the recent evolution of the economy, which reflected modest growth in spending and production; solid increase in employment in

[1] The Weekly Economic Index (WEI) is constructed using data available on a daily or weekly basis for 10 indicators of real economic activity related to the consumer, labor market, and production.
[2] Federal Reserve Bank of New York. Weekly Economic Index (WEI). March 9, 2023.
[3] Bureau of Economic Analysis. Gross Domestic Product, Fourth Quarter and Year 2022 (Second Estimate). February 23, 2023.
[4] GDPNow is not an official Atlanta Fed forecast. It is an estimate of seasonally adjusted real GDP growth based on the economic data available for the current quarter (nowcast).
[5] Federal Reserve Bank of Atlanta. GDP Now. Estimate for 2022: Q4. March 8, 2023.
[6] United States Bureau of Labor Statistics. Employment situation summary. March 10, 2023.
[7] United States Department of Labor. Unemployment insurance weekly claims, Seasonally Adjusted Data. March 9, 2023.
[8] US Bureau of Labor Statistics. Economic news release: Consumer Price Index Summary. March 14, 2023.

recent months and low unemployment rate; as well as inflation that is still high, although with a downward trend. In addition, it anticipated future rate increases, with the objective of bringing inflation to 2.0%, and reductions in the holding of securities acquired during the pandemic (quantitative tightening).[9]

3. Production remained stable in the Euro Zone in the last quarter of 2022, as did unemployment and retail trade in the first month of 2023. Seasonally adjusted GDP remained stable in the fourth quarter of 2022 compared to the previous quarter and increased 1.9% from the same quarter of the previous year.[10] The unemployment rate in January maintained the same value of November and December 2022 of 6.7%, being lower than that of January 2022 (6.9%).[11] The volume of retail trade increased 0.3% in January from the previous month (2.3% reduction compared to January 2022)[12], while industrial producer prices fell -2.8% in the same period (15.0% increase compared to January 2022).[13]

4. Consumer prices in the Euro Zone slowed for the fourth consecutive month. Year-over-year inflation in January was 8.6% and February is expected to be around 8.5% (9.2% in December). The variation of the total price index excluding energy, food, alcohol, and tobacco was 5.3% in January, estimating a new all-time high for February of 5.6%. Food, alcohol, and tobacco prices are expected to present the highest year-over-year rate with 15.0% (14.1% in January), surpassing the 13.7% increase in energy prices, which have slowed significantly (41.5% in October and 25.5% in December). Additionally, non-energy industrial goods are expected to increase 6.8% in February (6.7% in January) and services 4.8% (4.4% in January).[14] Furthermore, on March 16 the Council of the European Central Bank increased in 50 bp the interest rate of the main financing operations, the marginal credit facility, and the deposit facility at 3.50%, 3.75% and 3.00%, respectively, with effect from 22 March.[15]

5. CABEI's non-regional member countries presented heterogeneous results in inflation. Argentina presented a monthly price increase of 6.6% in February, remaining as the country with the highest inflation (102.50%). Colombia (13.25% in January) and Spain (6.00% in February) experienced slight increases in their year-over-year inflation; while the Republic of China (Taiwan), the Republic of Korea and Mexico reduced their annual inflation in February by -0.62 pp, -0.40 pp and -0.29 pp to reach rates of 2.43%, 4.80% and 7.62%, respectively. In addition to the increase in the monetary policy rate applied by the European Central Bank which directly affected Spain, Mexico increased its monetary policy rate on February 10th, applying an increase of 50.0 bp to reach 11.00%. The industrial production index improved in most countries, with the Republic of China (Taiwan) presenting the most significant decrease with -21.4% in January. Finally, Colombia registered the greatest variation in unemployment with a monthly increase of 3.4 pp to reach 13.7% in January, being the country with the highest rate.

6. S&P Global Ratings reaffirmed Argentina's foreign currency rating at CCC+, with a negative outlook[16]. In the second week of March, the country carried out the fourth debt exchange since August 2022. The credit agency classified this event as a distressed exchange, given

[9] Board of Governors of the Federal Reserve System. Federal Reserve issues FOMC statement. February 1, 2023.
[10] Eurostat. GDP stable and employment up by 0.3% in the euro area. 8 March 2023.
[11] Eurostat. Euro area unemployment at 6.7%. 2 March 2023.
[12] Eurostat. Volume of retail trade up by 0.3% in both the euro area and the EU. March 6, 2023.
[13] Eurostat. Industrial producer prices down by 2.8% in the euro area and by 2.2% in the EU. March 3, 2023.
[14] Eurostat. Euro area annual inflation down to 8.5%. 2 March 2023.
[15] European Central Bank. Press Release Monetary Policy Decisions. 16 March 2023.
[16] S&P Global Ratings. Argentina Long-Term Local Currency Rating Raised To 'CCC-' As Default Is Cured; 'CCC+' Foreign Currency Rating Affirmed. March 14, 2023.

pronounced macroeconomic vulnerabilities and limited ability to extend maturities and place paper in the local market. The negative outlook reflects the risks of economic imbalances and the political uncertainty of the 2023 national elections.

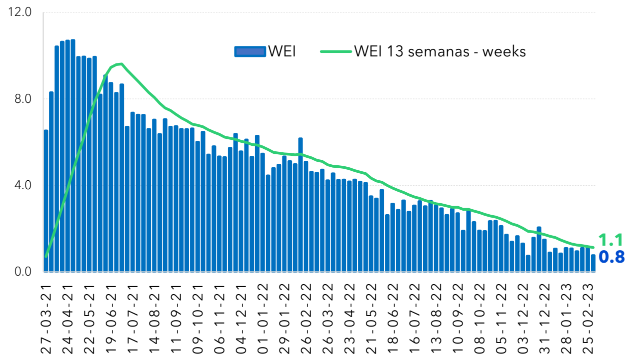
7. Most of the prices of the main commodities in the Central American region registered a year-over-year reduction. The products that showed falls in February compared to the same month of the previous year were palm oil (-37.6%), shrimp (-25.6%), beef (-18.2%), Arabica coffee (-17.9%), WTI oil (-16.2%) and gold (-0.1%). On the contrary, bananas (33.5%) and sugar (4.2%) reported increases. Likewise, Arabica coffee (11.1%) and beef (4.5%) registered the largest increases compared to the previous month, while shrimp (-3.4%) and gold (-2.3%) the most significant month-on-month falls.[17]

8. The FAO Food Price Index fell in February for the eleventh consecutive month. With the latest decline, the index has decreased 18.7% from the maximum level reached in March 2022, reflecting month-on-month falls in the price indices of vegetable oils (-3.2%), dairy products (-2.7%), cereals (- 0.1%) and meat (-0.1%), which offset the increase in the sugar price index (6.9%). For vegetable oils, the index reflected the reduction in world prices of palm, soybean, sunflower seed, and rapeseed oils, mainly due to lower demand; while dairy products show the fall in international prices of butter and skimmed milk powder due to lower world demand for imports and an increase in exportable supplies. In the case of cereals, the strong competition between exporters helped limit price increases; while the meat index declined slightly due to lower poultry meat prices reflecting abundant global supplies compared to weaker demand. Finally, the sugar index reached its highest level since February 2017 due to the downward revision of the forecast of sugar production in India for 2022-23.[18]

[17]The World Bank. Commodity Price Data. March 02, 2023.
[18]Food and Agriculture Organization of the United Nations. FAO Food Price Index. March 3, 2023.

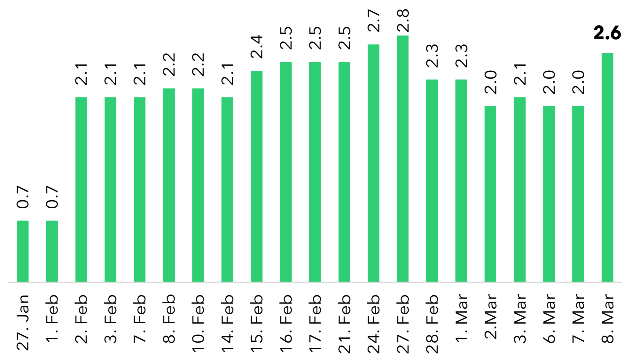
Panel 1 Selected US Macroeconomic Indicators

Figure 1. Weekly economic activity
(year-over-year percent change)



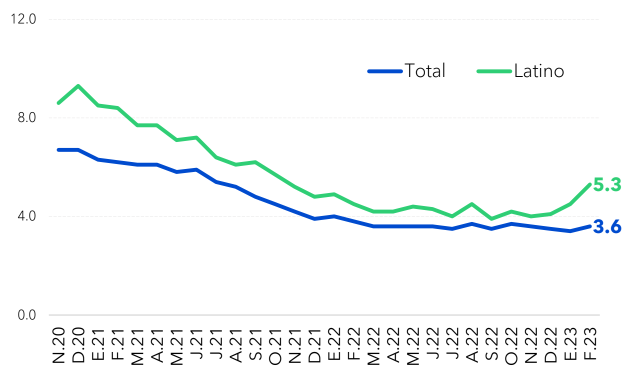
It shows growth of around 1.0% in recent weeks

Figure 2. First quarter 2023 real GDP estimate
(seasonally adjusted annualized rate, percent)



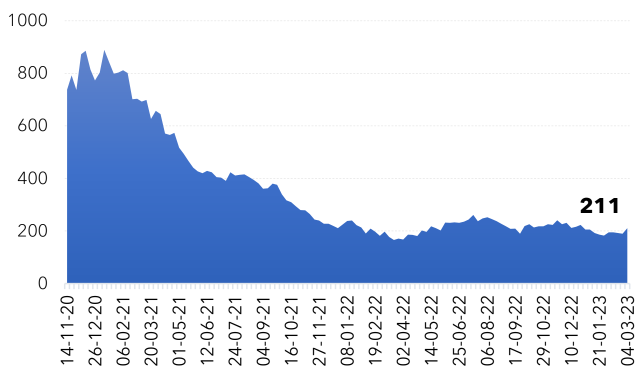
GDPNOW model estimated higher GDP growth

Figure 3. Unemployment rate *(percent)*



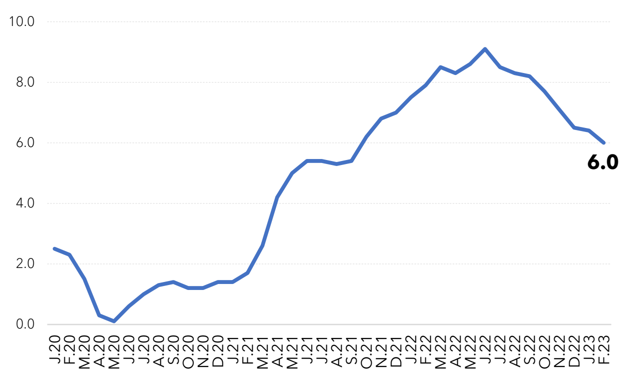
Divergent labor market, total unemploymentl and Latino unemployment rose

Figure 4. Initial subsidy claims *(thousands)*



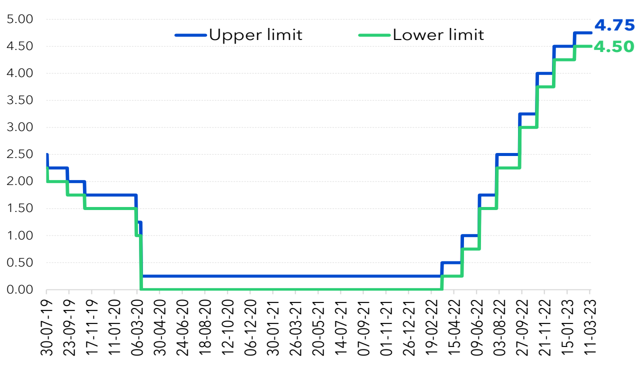
Requests increased in the last month

Figure 5. Inflation *(year-over-year percent change)*



Inflation fell for the eighth consecutive month

Figure 6. Federal funds interest *(percent)*

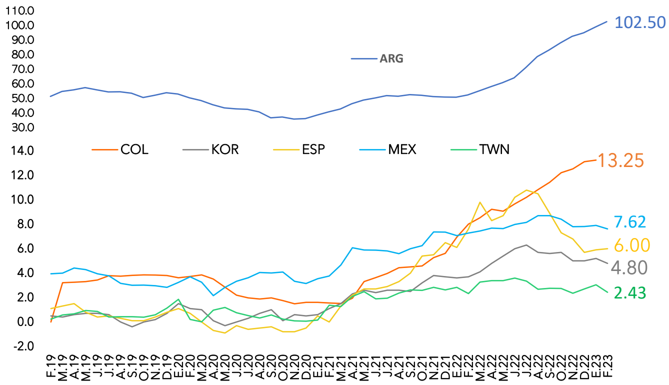


FED raised rate by 25 bp in February 2023

Source: Office of the Chief Economist with information from the Federal Reserve Bank of New York. Federal Reserve Bank of Atlanta. Federal Reserve Bank of St. Louis. Bureau of Labor Statistics. Board of Governors of the Federal Reserve System. United States Department of Labor.

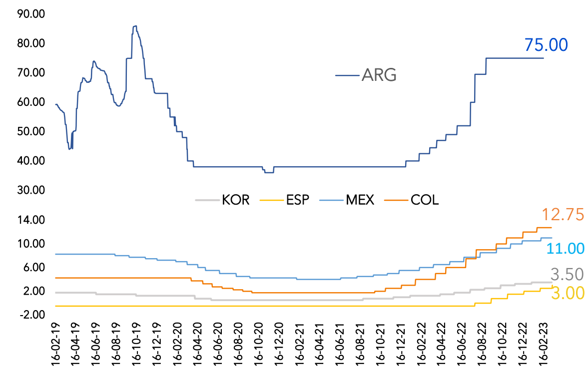
Panel 2 Selected macroeconomic indicators from CABEI non-regional member countries and commodity prices

Figure 7. Inflation *(year-over-year percent change)*



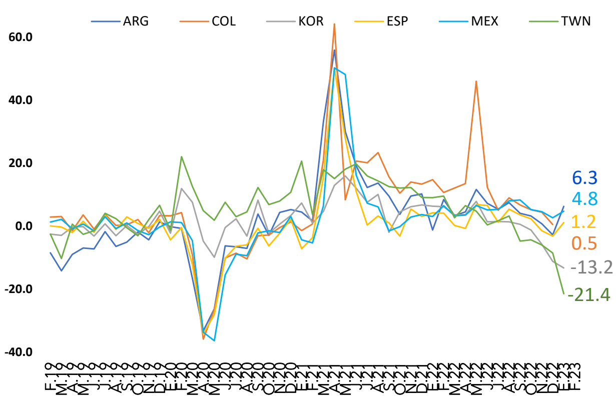
Argentina is the country with the highest rise in inflation

Figure 8. Monetary Policy Rate *(percent)*



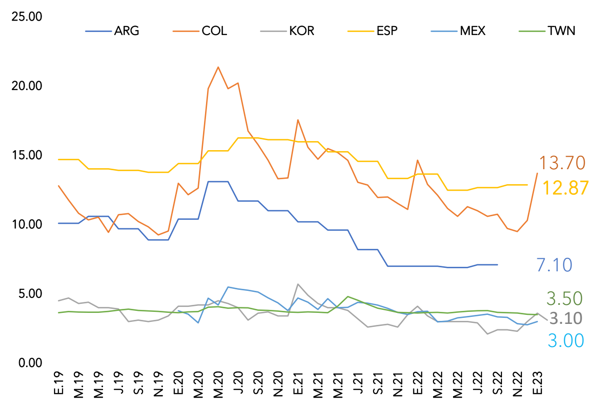
Mexico and the European Central Bank increased their policy rate by 50 bp

Figure 9. Industrial production index *(year-over-year percent change)*



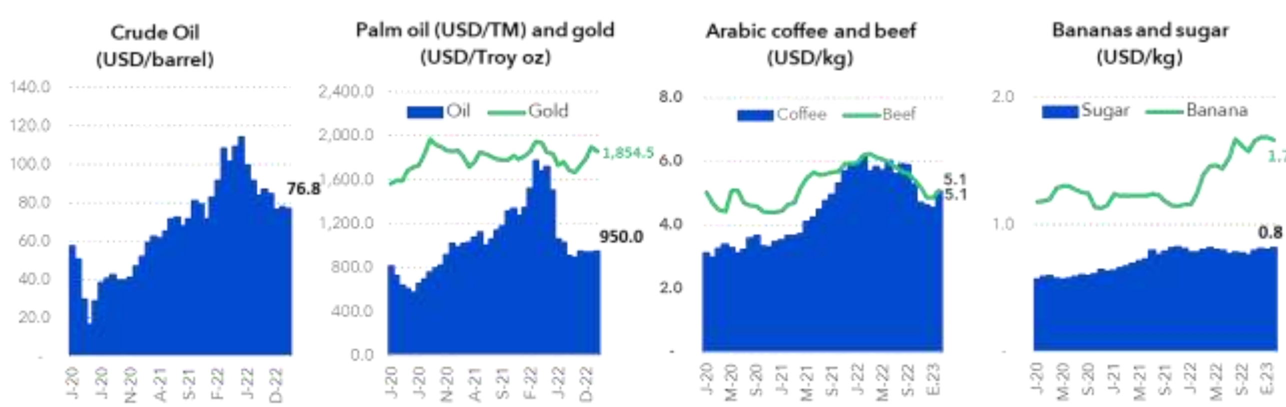
Industrial activity improved in most countries

Figure 10. Unemployment rate *(percent)*



Colombia presents the most significant increase

Figure 11. International prices of main commodities in the Central American region as of February 2023



Most commodities reduced their price in relation to the previous year.

Source: Office of the Chief Economist with information from the statistics institutes, central banks of the non-regional member countries and the World Bank.

Box 1. Main global risks for the coming years

The world is currently facing new risks and others that have returned. Among the last ones are high inflation, cost-of-living crises, trade disputes, capital outflows from emerging markets, social unrest, geopolitical confrontations, and the specter of nuclear war. These risks are being amplified with new elements, such as unsustainable levels of debt, low growth and investment, deglobalization, decline in human development after decades of progress, rapid and unconstrained development of dual-use (civilian and military) technologies, as well as growing concern about the impacts of climate change. The combination of all these risks would give way to a unique decade, characterized by uncertainty and turbulence.

The "cost of living crisis" is classified as the most serious risk in the short term. Economic fallout from COVID-19 and the Russia-Ukraine conflict generated skyrocketing inflation and prompted rapid monetary policy normalization, ushering in a period of low growth and investment around the world. Even if some economies experience a softer than expected economic landing, the end of the era of low interest rates will have significant effects for governments, companies, and individuals, with the knock-on effects being felt most strongly in the most vulnerable sectors, contributing to the increase of poverty, hunger, violence, protests, and political instability. The result could be a growing divergence between rich and poor countries, with major reversals in human development after decades.

Environmental risks predominate in the short and long term (see Figure A). The next decade will be characterized by environmental and social crises driven by geopolitical and economic conflicts. Given that current problems divert resources from risks that worsen in the medium and long term, the burden on ecosystems will grow as consequence of the undervaluation of their role in the world economy and in the well-being of the planet. In the absence of a strong policy on this issue, the impact of climate change, the loss of biodiversity and the consumption of natural resources will accelerate the collapse of ecosystems, threatening the food supply and the livelihoods of the most vulnerable economies.

The main risks are repeated in the short and long-term rankings (see Figure A). Nine of the ten risks identified are the same for both periods. The "loss of biodiversity and collapse of ecosystems" is the risk that enters the long-term ranking because it deteriorates rapidly in the next 10 years. In addition to environmental risks, risks that appear in the short- and long-term rankings are geoeconomic confrontations, the erosion of social cohesion and polarization, cybercrime and cyberinsecurity, and large-scale involuntary migration. Economic disputes are becoming the rule, with increasing confrontations between global powers and greater interventions in the markets, the loss of social capital and the fracture of the communities reduce social stability, individual and collective well-being, and economic productivity; the increase in cybercrime would be accompanied by technological interruptions in the supply of key resources and services such as water, agriculture, and the financial system; and finally, the catastrophic effects of rising costs of living and climate change will stimulate large-scale involuntary migration.

There is still room to better prepare for the future. The existing erosion of trust in multilateral agencies and initiatives must be addressed, aiming to improve the collective capacity to prevent and respond to cross-border emergencies. In addition, taking advantage of the interconnectivity between global risks, it is possible to amplify the impact of mitigation through the strengthening of resilience in an area that can have a multiplier effect on the management of other risks. Resources should be focused on solutions that address multiple risks, such as financing climate change adaptation measures that also have mitigation benefits or investing in areas that strengthen development and human capital.

Figure A. Ranking of main global risks according to their severity, in the short and long term

Short-term risks (2 years)	Long-term risks (10 years)
1. Cost of living crisis	1. Failure to mitigate climate change
2. Natural disasters and extreme weather events	2. Failure of climate change adaptation
3. Geo economic confrontation	3. Natural disasters and extreme weather events
4. Failure to mitigate climate change	4. Biodiversity loss and ecosystem collapse
5. Erosion of social cohesion and societal polarization	5. Large-scale involuntary migration
6. Large-scale environmental damage incidents	6. Natural resource crisis
7. Failure of climate change adaptation	7. Erosion of social cohesion and societal polarization
8. Widespread cybercrime and cyber insecurity	8. Widespread cybercrime and cyber insecurity
9. Natural resource crisis	9. Geo economic confrontation
10. Large-scale involuntary migration	10. Large-scale environmental damage incidents

Environment Societal Geopolitical Technological

Source: *The Global Risks Report 2023, World Economic Forum, January 2023*.

Bibliography and note:

1. The Global Risks Report 2023, World Economic Forum, January 2023.
2. The World Economic Forum (WEF) annually presents a Global Risk Report, based on the Global Risk Perception Survey. This survey includes the opinion of more than 1,200 risk experts around the world, including the Global Risks Advisory Board and the Chief Risk Officers Community, as well as experts from academia, business, government, the international community and civil society.

II. Central American region converges to the growth average of previous years

9. Economic activity upholds stable growth rates. Towards the end of December 2022 positive variations were observed in the Monthly Index of Economic Activity throughout the region; whose average growth reached 3.9%, accelerating by 0.2 percentage points compared to November. Production was driven by an increase in more than half of the activities, highlighting transportation, commerce, and accommodation and food service activities. On the other hand, construction activity has fallen for nine consecutive months in Costa Rica and Nicaragua; This may be due to the influence of the high costs of raw materials, the higher cost of financing and reductions in public investment, among other factors. Likewise, agricultural activity presents falls in El Salvador, Costa Rica, and Honduras.

10. Labor market continues expanding robustly. Formal employment increased in all countries for which there's available information.[19] The Dominican Republic reported the largest year-over-year increase with 7.6% in February, followed by Guatemala (5.5%) and El Salvador (4.6%) in December. Employment in Nicaragua grew 0.8% in January, showing a sharp slowdown compared to previous months. On the other hand, Guatemala and Dominican Republic show larger employment gains compared to February 2020 with 15.5% and 10.7% respectively.

11. Inflation continues at high levels. The combined effects of a more restrictive monetary policy and a slowdown in international prices contributed to inflation rate moderation in Costa Rica, the Dominican Republic and El Salvador, continuing with the downward trend observed in recent months. Meanwhile, inflations remains with a persistent upward trend Nicaragua (11.1%), Guatemala (9.92%), Honduras (9.80%) and Panama (2.71%).

12. Monetary policy continues at a restrictive stance. The Central Bank of Guatemala increased its policy rate by 25 basis points to 4.5% in February, continuing with its gradual strategy so inflation converges to target without significantly affecting economic growth prospects. After making substantial increases in 2022, the central banks of Costa Rica, the Dominican Republic, and Nicaragua kept their policy rates at 9.0%, 8.50%, and 7.00%, respectively. In contrast, the Honduran authorities have not made changes to the policy rate since November 2020.

13. The cumulative financial balance of the central government improved in most countries. Public revenues continued to grow from 10.2% in El Salvador to 18.0% in Honduras and Costa Rica during 2022, driven by positive economic activity. Expenditures also continued to grow, although at a slower rate in most countries, between 2.8% in Costa Rica and 5.5 % in Nicaragua, and contracted in El Salvador (-2.9%) and Honduras (-0.8%), allowing an improvement in the fiscal position in relation to the previous month and year. The exceptions were the Dominican Republic and Guatemala, where the higher increase in spending, compared to income, led to an increase in the deficit.

14. Foreign trade continued to grow, but at a slower pace. Exports cumulative growth exceeded double digits, ranging from 13.9% in Costa Rica in March to 20.9% in Panama in September; It should be noted that these rates are still above the average registered prior to 2020.[20] Likewise, imports grew in the range of 14.9% in Honduras in December to 51.2% in

[19] Measured by the number of contributors to social security.
[20] To monitor the situation of exports and imports, the variations of the nominal values are estimated, since the values at constant prices are only calculated to compile the Gross Domestic Product (GDP) in the national accounts.

Panama in September. For its part, during January 2023, El Salvador presented a year-over-year drop of -9.7% in exports and -3.1% in imports. Given the lower growth of exports compared to imports, the trade deficit deteriorated in all countries compared to the same period of the previous year.

15. Accumulated family remittances bounced back in January. All countries exhibit positive year-on-year variations of accumulated remittances in January, with Nicaragua recording 62.8% growth. Remittances amounted to USD 1,386.5 million in Guatemala, USD 802.0 in the Dominican Republic, USD 682.5 in Honduras, USD 588 in El Salvador and USD 317 million in Nicaragua.

16. The exchange rate remains at a level above the previous year in most countries. The year-on-year variation in February showed an appreciation for Costa Rica (-11.8%) and the Dominican Republic (-1.0%). The monthly variation registered a slight appreciation in most of the currencies, except for Nicaragua with a depreciation of 0.2%. The interest rate differential resulting from increases in the monetary policy rate in the United States may explain part of the dynamics of this variable. The effect on the exchange rate of Costa Rica and the Dominican Republic has been less pronounced since both countries have made large increases in their policy rates, compared to the rest of the countries. Additionally, remittance flows can be a factor that decreases exchange rate variability in countries like Guatemala and Honduras.

17. Net international reserves (RIN) contracted in most countries. The greater trade deficit, generated by an increase in imports greater than that of exports, coupled with the slowdown in remittances, determined the year-over-year contraction of the NIR in most countries except Costa Rica (30.4 % in February), Nicaragua (12.0% in January) and the Dominican Republic (5.0% in February). Likewise, the rise in the Fed's monetary policy rate increases the probability of capital outflows or a reduction in its flow to the region, which could be affecting its accumulation. Most of the countries have enough reserves to cover at least three months of their imports, in line with the minimum threshold defined by the IMF, except for Panama and El Salvador with 2.6 and 2.1 months, respectively.

18. Moody's reaffirmed El Salvador's Caa3 rating and changed the outlook from negative to stable while Fitch affirmed the rating in CC.[21,22] Moody's justifies the change in perspective due to the repayment of the bond that expired on January 24, 2023. They also highlighted a slight moderation in payments, partly due to the repurchase of 2025 bonds and an improvement in the fiscal deficit. For its part, Fitch based his decision on fiscal restrictions and external liquidity, as well as limited access to markets and high financial needs. In addition, the pension reform increases liabilities in the long term. Additionally, the issuance of new debt certifications permitted by said law could increase the possibility of default by the country.

19. Fitch upgrades Guatemala's rating from BB- to BB, with a stable outlook.[23] The update reflects Guatemala's strong fiscal and economic recovery, and improvements in external sector indicators. Growth recovery after the pandemic was swift, fiscal deficits and debt remain the lowest in the 'BB' category and have benefited from better tax collection. Current account surpluses have improved already strong external liquidity and solvency metrics. However, the

[21] Moody's investors Service. Rating action: Moody's affirms El Salvador's Caa3 ratings; outlook changed to stable. February 2, 2023.
[22] Rating Action Commentary. Fitch Affirms El Salvador at 'CC'. February 2, 2023.
[23] Fitch Upgrades Guatemala to 'BB'; Outlook Stable. February 16, 2023.

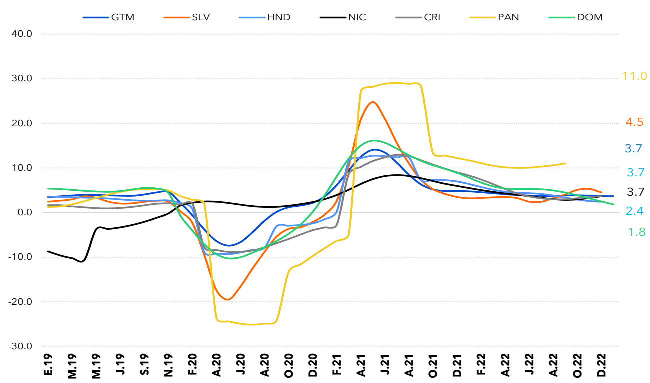
ratings remain constrained by exceptionally weak governance scores, which have deteriorated further in recent years, and low human development indicators.

20. Fitch and S&P upgraded Costa Rica's rating to BB- and B+, with a stable outlook.[24] The credit rating upgrade reflects the country's good economic performance, strong improvements in the fiscal position and the easing of restrictions for financing the government's deficit. The strict implementation of the fiscal rule and the good economic performance have made it possible to far exceed the fiscal targets agreed upon in the program with the IMF, which has resulted in a significant improvement in the trends of fiscal indicators. Fitch expects the debt to continue a declining trajectory in the medium term; however, financing needs and interest payments in the short term will continue at a relatively high level.

[24] Fitch Upgrades Costa Rica to 'BB-'; Outlook Stable. March 2, 2023. Forbes (February 27, 2023). S&P upgrades Costa Rica's rating to 'B+' with stable outlook.

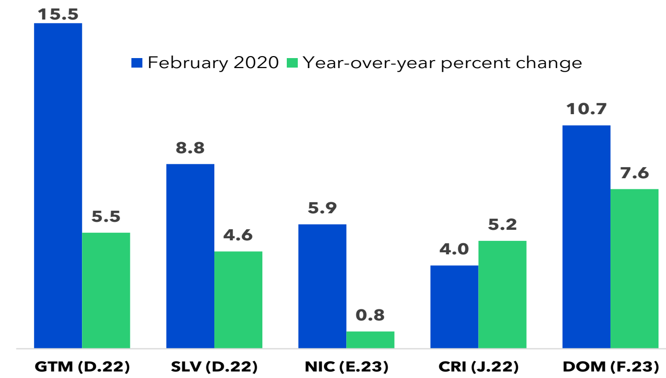
Panel 3 Selected Central American Macroeconomic Indicators

Figure 12. IMAE *(year-over-year percent change)*



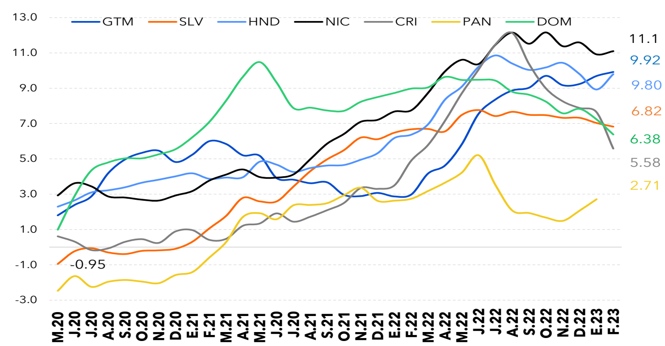
Economic activity monthly converges at pre-pandemic rates

Figure 13. Formal employment *(variation, percentage)*



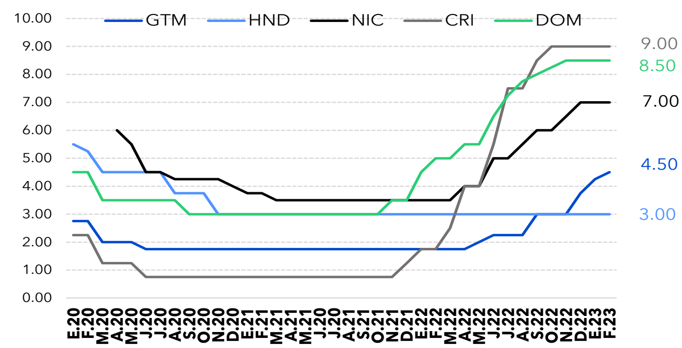
Formal employment shows robust growth

Figure 14. Inflation *(year-over-year percent change)*



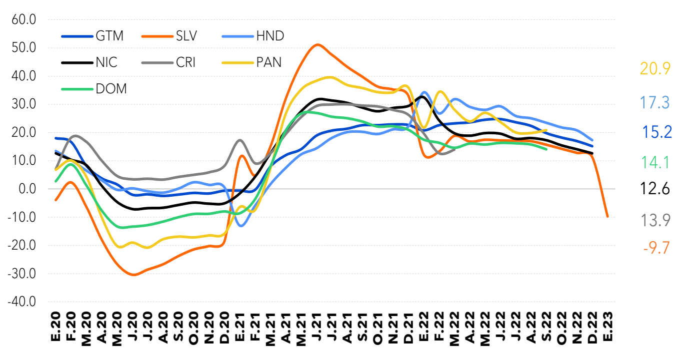
Inflation remains high due to external pressures, but is beginning to decline in some countries

Figure 15. Monetary Policy Rate *(percent)*



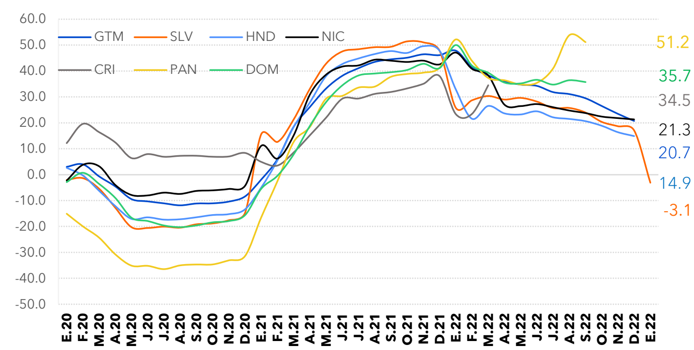
Restrictive monetary policy with rate increases of interest to offset inflation

Figure 16. Accumulated exports *(year-over-year percent change)*



Exports maintain robust growth rates despite global slowdown

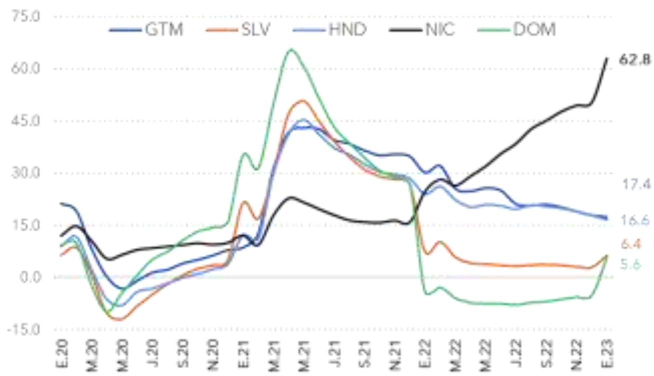
Figure 17. Accumulated imports *(year-over-year percent change)*



Imports slow down, although they maintain higher growth rates than exports

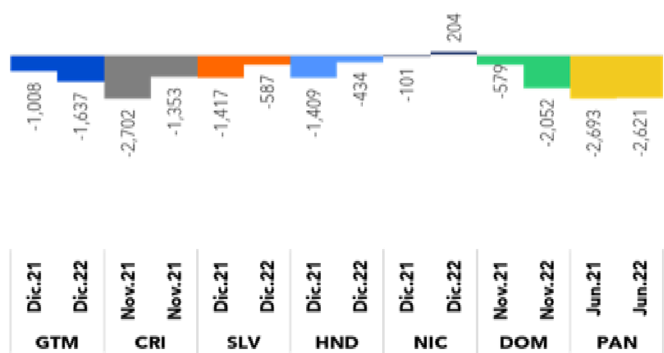
Source: Office of the Chief Economist with information from the SECMCA as of March 14.

Figure 18. Accumulated remittances received *(year-over-year percent change)*



Accumulated family remittances bounced back in January

Figure 19. Central government: Accumulated financial balance *(USD millions)*



Most countries with improvements in the fiscal balance, except DOM and GTM

Figure 20. Central government: total accumulated revenue *(year-over-year percent change)*

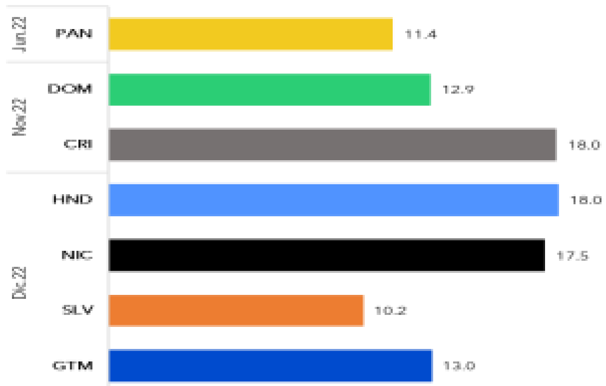
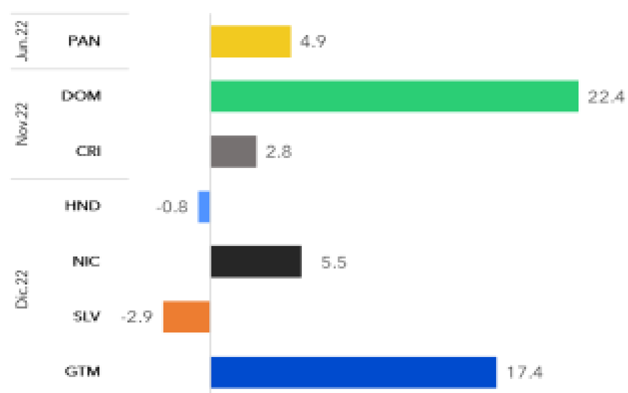


Figure 21. Central government: total accumulated expenditures *(year-over-year percent change)*



Revenues grow more than public expenses for the majority of countries, favoring an improvement in the financial balance

Figure 22. Central government: total debt *(variation, percentage)*

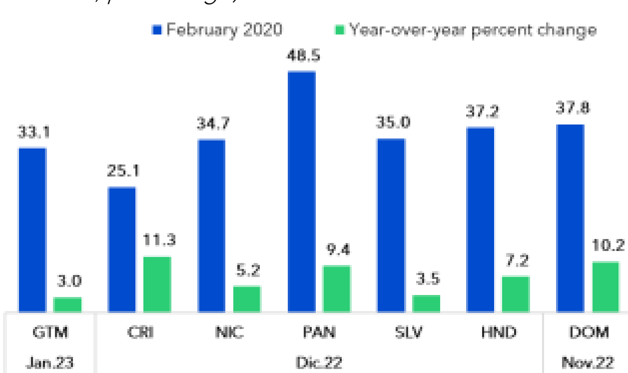
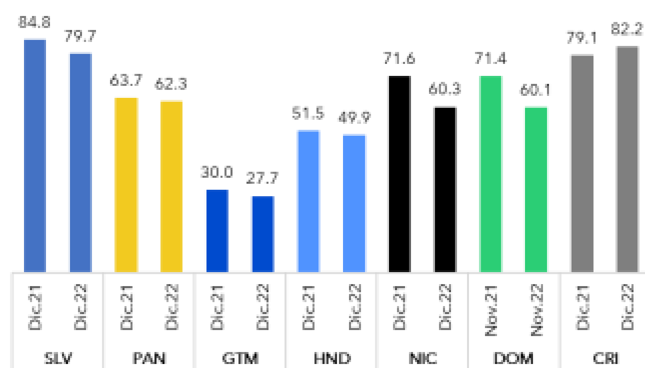


Figure 23. Total public debt *(as a percentage of GDP)*



Public debt growth slowed in 2022 *Decreased due to lower deficits and GDP growth*

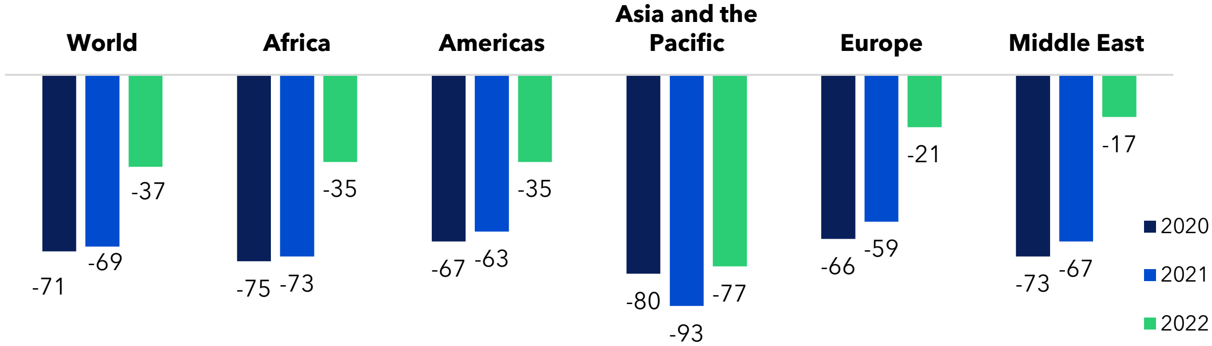
Source: Office of the Chief Economist with information from the SECMCA as of March 14.

Box 2. Evolution of tourism in the world and in the Central American region

International tourist arrivals increased in 2022, although they are still below pre-pandemic levels. The ease of the measures applied by governments to reduce the spread of COVID-19, coupled with the progress of vaccination, allowed visitors worldwide to reach 917.0 million in 2022, an increase of 102.0% with respect to the previous year. However, these represented a -37.0% drop in the flow of people reported in 2019 (see Figure A).

International tourist arrivals in the world might not reach pre-pandemic levels in 2023. These could be between 80.0% and 95.0% of pre-pandemic levels this year, depending on the magnitude of the economic slowdown, the restoration of travel in Asia and the Pacific, the evolution of geopolitical tensions between Russia and Ukraine, among others.

Figure A. International tourist arrivals 2020–2022 *(percentage change from 2019)*

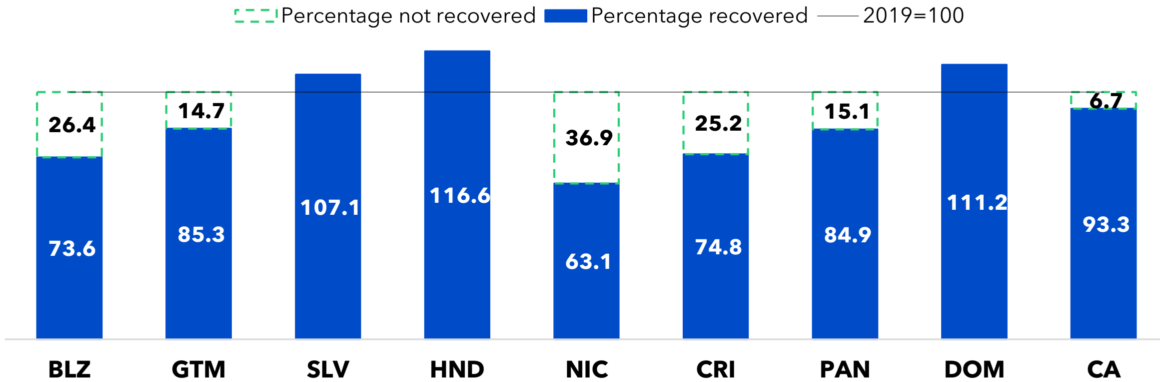


Source: Office of the Chief Economist with information from the World Tourism Organization. International Tourism and COVID-19. March 2022.

In the Central American region, the drop in international tourists was lower than the world average. The reduction in the number of tourists was -68.3% in 2020, -44.3% in 2021 and -6.7% in 2022, all compared to 2019. Meanwhile, tourists' arrivals in Honduras, the Dominican Republic and El Salvador exceeded the pre-crisis level by 16.6%, 11.2% and 7.1% in 2022. The rest of the countries were between -14.7% and -36.9% below this threshold (see Figure B).

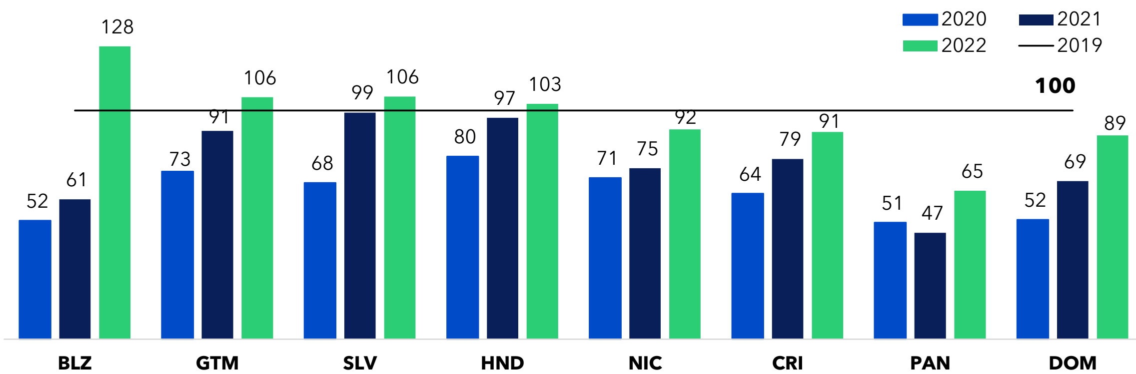
Production of accommodation and food services exceeded the pre-crisis level in half of the countries. The aggregated value in Belize, Guatemala, El Salvador and Honduras for the first three quarters of 2022 was above the result registered in the same period of 2019. Nicaragua, Costa Rica and the Dominican Republic were close to exceeding it. This, in addition to the boost given by the recovery of inbound tourism, is also an indicator of the strength of domestic tourism and could also be influenced by the upturn in home-delivered food services that proliferated during the pandemic (see Figure C).

Figure B. Central America region: international tourists' arrivals 2022 and gap, both compared to 2019 *(percentages)*



Notes: The information available for Nicaragua is as of October 2022. In some countries the data for 2022 is preliminary.
Sources: Office of the Chief Economist with information from statistical institutes, central banks and other official sources.

Figure C. Central America region: economic activity of accommodation and food services accumulated to the third quarter of each year *(index 2019=100)*



Notes: In Honduras, the activity of accommodation and food services is published together with that of commerce. In Costa Rica, the indices were calculated with information from the entire year.
Sources: Office of the Chief Economist with information from central banks or statistical institutes.

Bibliography and notes

1. World Tourism Organization. Tourism is on track to return to pre-pandemic levels in some regions by 2023. January 17, 2023.
2. International visitors are classified into tourists (overnight visitors) and same-day visitors (or excursionist).
3. United Nations. 2010. Tourism Satellite Account: Conceptual Framework Recommendations, 2008.

Annex 1. Long-term sovereign debt rating in foreign currency

Moody's Countries	Rating as of March 2020		Previous rating		Rating as of March 15, 2023	
	Rating	Perspective	Rating	Perspective	Rating	Perspective
Belize	Caa2	Stable	Caa3	Stable	Caa2	Stable
Guatemala	Ba1	Stable	Ba1	Stable	Ba1	Stable
El Salvador	B3	Stable	Caa3	Negative	Caa3	Stable
Honduras	B1	Stable	---	---	B1	Stable
Nicaragua	B3	Stable	---	---	B3	Stable
Costa Rica	B2	Stable	B2	Negative	B2	Stable
Panama	Baa1	Stable	Baa2	Stable	Baa2	Negative
Dominican Republic	Ba3	Stable	---	---	Ba3	Stable
Colombia	Baa2	Stable	Baa2	Negative	Baa2	Stable
Republic of China (Taiwan)	Aa3	Stable	Aa3	Positive	Aa3	Stable
Argentina	Caa2	In revision	Ca	Negative	Ca	Stable
Mexico	A3	Negative	Baa1	Negative	Baa2	Stable

Standard & Poor's Countries	Calificación a marzo 2020		Califación previa		Rating as of March 15, 2023	
	Rating	Perspectiva	Rating	Perspectiva	Rating	Perspectiva
Belize	B-	Stable	SD	n.a.	B-	Stable
Guatemala	BB-	Stable	BB-	Stable	BB-	Positive
El Salvador	B-	Stable	B-	Negative	CCC+	Negative
Honduras	BB-	Stable	---	---	BB-	Negative
Nicaragua	B-	Stable	B-	Stable	B	Stable
Costa Rica	B+	Negative	B	Stable	B+	Stable
Panama	BBB+	Stable	BBB	Stable	BBB	Negative
Dominican Republic	BB-	Stable	BB-	Stable	BB	Stable
Colombia	BBB-	Stable	BBB-	Negative	BB+	Stable
Republic of China (Taiwan)	AA-	Stable	AAu	Positive	AA+u	Stable
Argentina	CCC-	Negative	CCC+	Negative	CCC+	Negative
Mexico	BBB+	Negative	BBB	Negative	BBB	Stable

Fitch Ratings Countries	Calificación a marzo 2020		Califación previa		Rating as of March 15, 2023	
	Rating	Perspectiva	Rating	Perspectiva	Rating	Perspectiva
Belize	---	---	---	---	---	---
Guatemala	BB	Negative	BB-	Positive	BB	Stable
El Salvador	B-	Stable	CC	---	CC	---
Honduras	---	---	---	---	---	---
Nicaragua	B-	Stable	B-	Negative	B-	Stable
Costa Rica	B+	Negative	B	Stable	BB-	Stable
Panama	BBB	Negative	BBB-	Negative	BBB-	Stable
Dominican Republic	BB-	Stable	BB-	Stable	BB-	Stable
Colombia	BBB	Negative	BB+	Stable	BB+	Stable
Republic of China (Taiwan)	AA-	Stable	AA	Stable	AAu	Stable
Argentina	CC	n.a.	CCC	n.a.	CCC-	n.a.
Mexico	BBB	Stable	BBB	Stable	BBB-	Stable

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

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