The monthly economic situation report for January 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 February 14, 2023. The preparation of the document was led by Armando E. Navarrete, Chief Economist. The review was carried out by Pablo Flores (Senior Economist). 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

Some countries reported higher-than-expected growth in the last quarter of 2022, and there is greater optimism about prospects reflected in a lower possibility of a global economic recession in 2023. Likewise, labor market has remained robust over the past year, both in the Euro Zone and US, registering unemployment rates at historically low levels. For its part, inflation eased and continue decelerate in most countries, raising the expectation that monetary policy could be less restrictive during the year. However, there is a broad consensus that global economic activity will slow down and that inflationary pressures will decrease in 2023, in an environment dominated by uncertainty with downside risks,

Central American economies also maintained the positive economic stimulus, growth rates are converging to average observed prior 2020. Inflation continues to be high; however, it has stabilized or begun to decelerate in most countries because of a more restrictive monetary policy and the lower international commodity prices. While the commitment of governments to return to a path of sustainability is reflected in a lower fiscal deficit in most countries.

An increase in uncertainty and volatility in international markets, with tight financial conditions, more costly borrowing, a greater than estimated slowdown in the main trading partners, and a rebound in international commodity prices, could have a negative impact on the performance of the Central American economies in 2023. Therefore, the countries are required to continue with a prudent economic policy, leading to the strengthening of fiscal accounts, restoration of low inflation rates and fostering a solid financial system.

Armando E. Navarrete
Chief Economist
MONTHLY ECONOMIC SITUATION REPORT

I. Global economy shows stable labor markets and decelerating inflation

1. **US reported short-term indicators with mixed results.** The most recent estimates of quarterly GDP reported a slowdown in growth, while unemployment was stable and jobless claims fell. Meanwhile, the restrictive monetary policy of recent months, coupled with lower inflationary pressures related to the evolution of international commodity prices, have combined to register a change in the inflationary trend.

i. The weekly economic index\(^1\) slowed down in the first weeks of 2023. It grew 1.0% in the week ending February 4 (1.5% as of December 31, 2022) and the 13-week moving average rose 1.3%\(^2\).

ii. The GDPNow model estimated a real GDP increase of 2.2% for the first quarter of 2023 (February 8), higher than the initial estimate (January 27), but less than the 2.9% advance growth estimate for the fourth quarter of 2022\(^3\). The observed growth was due to the update of the employment, international trade and wholesale trade statistics, among others\(^4,5\).

iii. Total nonfarm employment rose by 517,000 people in January 2023 (260,000 in December). For its part, total unemployment fell to 3.4% (3.5% in December) and that of Latinos rose to 4.5% (4.1% in December). The total unemployment rate has remained in a narrow range between 3.4%-3.7% since March 2022\(^6\). For its part, the average hourly wage increased 0.3% compared to the previous month and 4.4% in the last 12 months.

iv. Initial claims for unemployment benefits reached 196,000 in the week ending February 4, higher by 13,000 from the previous week\(^7\). For its part, the average number of requests decreased by -11.0% compared to the previous month.

2. **Inflation slowed in the US for the seven consecutive month.** This behavior was influenced by higher fuel, transportation services, food and shelter prices in January.

i. Year-over-year inflation was 6.4% in January 2023 (6.5% in December), the lowest rate since October 2021. The groups that registered the highest year-over-year increases were energy services -electricity, piped gas- (15.6%), transportation services (14.6%), food (10.1%) and shelter (7.9%)\(^8\); while the total index less food and energy grew 5.6% (5.7% in the previous month), the lowest figure since December 2021\(^9\).

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\(^1\) 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.


\(^4\) 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).


\(^7\) United States Department of Labor. Unemployment insurance weekly claims, Seasonally Adjusted Data. February 9, 2023.

\(^8\) The index for shelter was by far the largest contributor to the monthly all items increase, accounting for nearly half of the monthly all items increase.

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 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, aiming for inflation to reach 2.0%, and reductions in the holding of securities acquired during the pandemic (quantitative tightening).

3. Economic activity and unemployment remained stable during the last quarter in the Euro Zone. Seasonally adjusted GDP increased 0.1% in the fourth quarter of 2022 compared to the third quarter, and 1.9% year-over-year. A first projection of the GDP indicated an increase of 3.5% for 2022 (3.1% estimated in September 2022) and 0.8% in 2023. The result for the last quarter of 2022 contrasts with what was expected by the European Commission in November and the European Central Bank in December, when they predicted that the Euro Zone and most of the member states would register a drop in GDP in the last quarter of 2022 and the first quarter of 2023 (technical recession). The unemployment rate in December was 6.6%, the same as the two previous months, and the lowest in the history of the economic bloc, being lower than that of December 2021 (7.0%). Meanwhile, retail trade volume was down -2.7% in December from the prior month, while industrial producer prices increased 1.1% in the same period.

4. Consumer prices in the Euro Zone slowed for the third consecutive month, although inflation remains high. Annual inflation is expected to be around 8.5% in January 2023 (9.2% in December), while the variation in the total price index that excludes energy, food, alcohol and tobacco is 5.2%, maintaining the same all-time high for December. Energy prices slowed down their growth, but maintained the highest interannual rate with 17.2% (25.5% in December), followed by the prices of food, alcohol and tobacco with 14.1% (13.8% in December), industrial goods not energy with 6.9% (6.4% in December) and services with 4.2% (4.4% in December). For its part, the Council of the European Central Bank decided again to increase the three key interest rates by 50 basis points. Consequently, the interest rate of the main financing operations, the marginal credit facility and the deposit facility will increase to 3.00%, 3.25% and 2.50%, respectively, effective as of February 8.

5. Most of CABEI’s non-regional partner countries presented slight increases in inflation. Argentina continues to be the country with the highest inflation (94.80%), also registering the highest monthly price increase of 2.40 percentage points (pp). The Republic of China (Taiwan), the Republic of Korea, Colombia, Spain and Mexico, experienced slight increases of 0.36 pp, 0.20 pp, 0.13 pp, 0.10 pp and 0.02 pp, respectively. In addition to the increase in the monetary policy rate applied by the European Central Bank, which directly affected Spain, Colombia and the Republic of Korea also increased their monetary policy rates in the last month (75.0 bp and

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11 Eurostat. GDP up by 0.1% in the euro area and stable in the EU. 31 January 2023.
15 The ECB expects the eurozone to enter a recession in the first quarter of 2023. December 15, 2022.
16 Eurostat. Euro area unemployment at 6.6%. February 1, 2023.
17 Eurostat. Volume of retail trade down by 2.7% in the euro area and by 2.6% in the EU. February 6, 2023.
18 Eurostat. Industrial producer prices up by 1.1% in the euro area and by 1.2% in the EU. February 3, 2023.
19 Eurostat. Euro area annual inflation down to 8.5%. February 1, 2023.
25.0 bp, respectively), reaching 12.75% and 3.50%, respectively. On the other hand, the industrial production index fell in all countries, from -4.7% in December for the Republic of Korea to -0.7% in November for Colombia. Finally, Colombia registered the greatest variation in unemployment with an increase of 0.8 pp to 10.3%, while Spain maintained the highest unemployment rate (12.9%).

6. **Fitch Ratings confirmed Colombia’s long-term foreign currency sovereign rating at BB+, with a stable outlook.** The rating reflects the country’s record of macroeconomic and financial stability, backed by an independent central bank with inflation targeting and a freely floating currency. The ratings are constrained by high fiscal deficits, which cause significant increases in debt and related interest, as well as high commodity dependency and weaker external accounts compared to ‘BB’ peers\(^\text{21}\).

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 January compared to the same month of the previous year were palm oil (-30.0%), Arabica coffee (-23.7%), shrimp (-22.5%), beef (-18.6%) and WTI oil (-6.0%). On the contrary, bananas (45.1%), gold (4.5%) and sugar (2.3%) reported increases. On the other hand, gold (5.6%), WTI oil (2.1%) and palm oil (0.2%) increased in January compared to the previous month, while the rest of the commodities registered month-on-month falls, standing out Arabic coffee (-1.5%), sugar (-0.6%) and beef (-0.2%)\(^\text{22}\).

8. **FAO Food Price Index fell in January for the tenth consecutive month.** The month-on-month declines in the indices for vegetable oils (-2.9%), dairy products (-1.4%), sugar (-1.1%), and meats (-0.1%), exceeded the increase observed in cereals (0.1%). For vegetable oils, the decline reflected low global prices for palm, soybean, sunflower and rapeseed oils; dairy products show the drop in international prices for butter and powdered milk. For sugar, the progress of the harvest in Thailand contributed to the decrease in its price, while the price of meat fell slightly due to a large supply of pigs ready for slaughter in Brazil and the United States. Finally, it is important to highlight that the food price index was -0.8% below that observed in December 2022, and -3.2% lower than that registered in January 2022\(^\text{23}\).

Panel 1. Selected macroeconomic indicators for the United States

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

**Graph 2.** First Quarter 2023 Real GDP Estimate (Seasonally Adjusted Annualized Rate, percent)

- **Graph 1:** Shows slowdown in the first weeks of the year
- **Graph 2:** GDPNOW model estimated lower GDP growth

**Graph 3.** Unemployment rate (percent)

- **Graph 3:** Divergent labor market, total unemployment fell and Latino unemployment rose

**Graph 4.** Initial subsidy claims (thousands)

- **Graph 4:** Applications decreased in the last month

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

- **Graph 5:** Inflation fell for the seventh consecutive month

**Graph 6.** Federal funds interest (percent)

- **Graph 6:** FED raised rate by 25 bp in February 2023

Panel 2. Selected macroeconomic indicators of non-regional CBEI member countries and commodity prices

Graph 7. Inflation (year-over-year percent change)

Non-regional partners reported a slight rise in inflation in January 2023

Graph 8. Monetary Policy Rate (percent)

Colombia and the Republic of Korea raised their policy rates, as did the European Central Bank.

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

Industrial economic activity decreased in all countries

Graph 10. Unemployment rate (percent)

Majority of countries without significant changes

Graph 11. International prices of main commodities in the Central American region as of January 2023

Most of the commodities reduced their prices in relation to the previous month and year.

Source: Office of the Chief Economist with information from the statistics institutes, central banks of the non-regional partner countries and the World Bank.
Box 1. Low growth in a context of high inflation

It is estimated that global growth was 3.4% in 2022, lower than the previous year (6.2%), mainly affected by the measures adopted to counteract inflation, the conflict between Russia and Ukraine and the outbreak of COVID-19 in China. It is important to mention that China registered a growth of 3.0% in the fourth quarter of 2022, being below the world average for the first time in 40 years.

The global economy is expected to grow 2.9% in 2023, a higher rate than that estimated in October of the previous year (2.7%). The slowdown will encompass around 90.0% of advanced economies; however, falls in global GDP and GDP per capita are not expected. The economic slowdown is caused by the rise in interest rates that central banks have carried out to counter inflation, as well as geopolitical tensions between Russia and Ukraine.

In Latin America and the Caribbean, growth is expected to slow from 3.9% in 2022 to 1.8% in 2023 and pick up to 2.1% in 2024, determined by more restrictive financial conditions, lower prices of exported raw materials and less economic activity of trading partners.

On the other hand, world inflation is estimated to decrease from 8.8% in 2022 to 6.6% in 2023 and to 4.3% in 2024. This downward trend would be observed in 2023 for close to 84.0% of the countries, in line with the drop of the international prices of fuels and raw materials, as well as the tightening of monetary policy. However, 82.0% of the economies in 2024 would still experience average levels of inflation higher than those registered before the pandemic.

In advanced economies, annual inflation is projected to decline from 7.3% in 2022 to 4.6% in 2023 and 2.6% in 2024, above target levels in several countries. In the case of emerging market and developing economies, a drop in inflation is similarly projected from 9.9% in 2022 to 8.1% in 2023 and 5.1% in 2024, a result that is still above average before the pandemic.


Source: Office of the Chief Economist with information from the International Monetary Fund. World Economic Outlook Update, January 2023; World Economic Outlook, October 2022.
II. The Central American region converges to the average growth rates of previous years

9. Monthly economic activity slows down. The Monthly Index of Economic Activity maintained positive variations throughout the region during 2022, however, a gradual slowdown is observed in all countries; regional average growth reached 3.6% by November 2022. Production was driven by an increase in more than half of the activities, especially in transportation, construction, and accommodation and food service activities. On the other hand, construction activity has contracted for eight consecutive months in Costa Rica and Nicaragua; this may be due to the influence of the increased costs of raw materials and financing, and reductions in public investment, among other factors.

10. The labor market continues to expand robustly. The level of formal employment increased in all countries for which information is available. The Dominican Republic reported the largest year-over-year increase in employment with 8.3% in January 2023, followed by Guatemala with 5.1% and el El Salvador with 4.0% in November 2022. However, a slowdown of employment growth is observed in the last eight months in Nicaragua and El Salvador, and in the last six months in Guatemala and Costa Rica. When compared to February 2020, Guatemala reported the highest growth rate of 14.2%, followed by El Salvador with 9.0%.

11. Inflation remains high but shows signs of stabilizing. The combined effects of a more restrictive monetary policy and the slowdown in international commodity prices have impacted price levels. In this regard, that inflation seems to have reached an inflexion point and is tending to decrease in Costa Rica, the Dominican Republic, El Salvador, Honduras and Nicaragua, while Guatemala (9.69%) and Panama (2.07%, December 2022) exhibited a still growing rate.

12. Restrictive monetary policy continues in the region. The Central Bank of Guatemala increased its policy rate by 50 basis points to 4.25% in January, becoming the fourth country in the region that increased its interest rate the most to implement a restrictive monetary policy and thus contain inflation. Following 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. Meanwhile, the Honduran authorities have not made changes to the policy rate since November 2020.

13. Central government accumulated financial balance improved in most countries. Public revenues continued to grow from 11.4% in Panama and up to 18.5% in Nicaragua during 2022, driven by positive economic activity. Likewise, expenses increased, although at a slower rate in most countries, between 2.9% in Costa Rica and 11.1% in Nicaragua, and contracted in El Salvador (-2.1%) and Honduras (-4.6%). Thus, allowing an improvement in the fiscal position in relation to the previous month and year. Dominican Republic and Guatemala were the exception, where higher spending increase compared to income, led to larger deficits.

14. Foreign trade continued to grow, but at a slower pace. Cumulative export growth exceeded double digits, ranging from 11.3% in El Salvador in December to 23.6% in Honduras in August; it should be noted that these rates are still above the average registered prior to

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24 Measured by the number of contributors to social security.
2020\textsuperscript{25}. Likewise, imports grew in the range of 17.0\% in El Salvador to 51.2\% in Panama. 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.

\textbf{15. Accumulated remittances slowed down in most countries.} Partly from comparing to a higher base, whereas they contracted in the Dominican Republic -6.3\% in October. Remittances in Guatemala and El Salvador amounted to USD 18,040.3 million and USD 7,741.9 million respectively, as of December, while during October they reached USD 8,125.3 million in the Dominican Republic and USD 7,209.7 million in Honduras, while in Nicaragua they totaled USD 2,258.4 million in September. This behavior could be influenced by the effect of high inflation on the real wages of migrants.

\textbf{16. Exchange rate registered a level above the previous year for most countries.} On the contrary, the year on year variation in January showed an appreciation for Costa Rica (-9.8\%) and the Dominican Republic (-2.0\%). The month-on-month variation registered a slight depreciation in most currencies, except for Costa Rica and Honduras where it appreciated -2.8\% and -0.1\%, respectively. 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 smaller effect observed on Costa Rica and the Dominican Republic exchange rate may be described by the fact that both made large increases in their policy rates, compared to the rest of the countries. Additionally, the remittance flows can be a factor that decreases exchange rate variability in countries like Guatemala and Honduras.

\textbf{17. Net international reserves (RIN) presented contractions.} The greater trade deficit, generated by an increase in imports larger than exports, coupled with remittance flows slowdown, determined the year-over-year contraction of the RIN in most countries except the Dominican Republic (18.0\% in January), Costa Rica (24.0\% in December) and Nicaragua (10.2\% in December). Likewise, the rise in the Fed’s monetary policy rate increases the probability of capital outflows or smaller flows to the region, which could be affecting RIN accumulation. Most countries have enough reserves to cover at least three months of their imports, in line with the minimum threshold defined by the IMF\textsuperscript{26}.

\textbf{18. Moody’s affirmed El Salvador’s Caa3 rating and changed the outlook from negative to stable\textsuperscript{27} while Fitch affirmed its rating at CC\textsuperscript{28}.} The first justifies the change in perspective due to the bond repayment 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. On the other hand, Fitch based its decision on fiscal restrictions and external liquidity, as well as limited market access and high financial needs. In addition, the pension reform increases liabilities in the long term. Moreover, the issuance of new debt certifications permitted by said law could increase the country’s default probability.

\textsuperscript{25}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.

\textsuperscript{26}As mentioned in previous reports, the exceptions are Panama and El Salvador whose RIN cover 2.64 and 1.68 months of their imports, respectively.

\textsuperscript{27}Moody’s investors Service. Rating action: Moody’s affirms El Salvador’s Caa3 ratings; outlook changed to stable. February 2, 2023.

Panel 3. Selected Central American macroeconomic indicators

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

Economic activity monthly converges to pre-pandemic rates

**Graph 13.** Formal employment (percent change)

Formal employment shows robust growth

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

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

**Graph 15.** Monetary Policy Rate (percent)

Restrictive monetary policy is increasing interest rates to offset inflation

**Graph 16.** Cumulative exports (year-over-year percent change)

Exports maintain robust growth rates despite global slowdown

**Graph 17.** Cumulative 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 February 13.
Panel 3. Selected Central American macroeconomic indicators

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

Slowdown in most countries, in line with the US economy and compared to a higher base

Graph 19. Central government: accumulated financial balance (USD millions)

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

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

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

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

Graph 22. Central government: total debt (percent change)

Public debt growth slowed in 2022

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

Decreased due to lower deficits and GDP growth

Source: Office of the Chief Economist with information from the SECMCA as of February 6.
Box 2. Global and Central American debt dynamics

Global debt, public plus private non-financial, reached all-time high levels despite falling relative to GDP. It reached a record of USD 235.0 trillion in 2021, above the USD 226.0 trillion registered in 2020. The ratio of global debt to GDP fell to 247.0% in 2021 (257.0% in 2020), remaining above pre-pandemic level of 228.0% of GDP. The world is even more leveraged in 2021 than in years prior to the 2008 financial crisis, where global debt reached 195.0% of GDP in 2007.

Private debt explains most of the fall. This went from 160.0% of GDP in 2020 to 153.0% of GDP in 2021, mainly driven by lower non-financial corporate debt that fell by 4.2 percentage points of GDP, greater than the decrease of 1.5 percentage points of GDP in the debt of the homes. For its part, public debt fell from 100.0% of GDP in 2020 to 96.0% of GDP in 2021. Real GDP growth and high inflation are among the main factors that contributed to explaining global debt to GDP reduction.

Debt dynamics were heterogeneous across the different country groups. Developed economies had the largest decline reaching a global debt to GDP of 292.0% in 2021 (302.0% in 2020), driven by the fall in non-financial corporate debt by 4.0 percentage points. On the other hand, emerging countries global debt to GDP ratio contracted to 192.0% in 2021 (199.0% in 2020), where public debt remained stable at 64.0%. Meanwhile, low-income countries global debt to GDP ratio increased to 88.0%, with public debt close to 49.0% and private non-financial debt increasing to 40.0%.

Economic growth fluctuation, high inflation, and shocks to government, firm, and household budgets were the main factors that explained variations in the level of debt. GDP fell sharply in 2020, contributing to the increase in debt-to-GDP ratio, while the economic recovery in 2021 had the opposite effect, reducing it by as much as 4.5 percentage points in advanced economies. Inflation picked up during 2021, increasing nominal GDP and favoring the contraction of the debt-to-GDP ratio. Fiscal deficits in the world were lower than those of 2020, partly explaining the drop in the debt to GDP ratio, however, these continued to exceed those registered in 2019.

Private debt contracted the most in the Central American region. Global debt fell 5.0 percentage points of GDP to 104.8% in 2021. Private debt went from 50.6% of GDP in 2020 to 47.5% in 2021, returning to a leverage like that of 2019. Meanwhile, central government debt dropped by 2.0 percentage points of GDP to 52.2% in 2021. The latter was 8.7 percentage points higher than in 2019.
Central American countries debt dynamics were also influenced by the economic recovery and inflation. However, these effects are temporary and are not sustainable over time. Prospects indicate a global economic slowdown, as well as a financial environment with higher rates, which are downside risks that must be considered. It will impact the cost of new external debt, in addition, market access could be affected to the extent that rates in advanced countries offer higher and safer returns. This implies that countries should focus their efforts on prudent debt and fiscal policy management. Additionally, the IMF points out that in these conditions, governments must implement fiscal strategies that reduce inflationary pressures and reduce debt vulnerability in the medium term, in some cases reducing spending. The main challenge is not to leave those most affected unprotected and not to abandon development priorities.

*Note:* The subcomponents of global debt (for example, public and private debt) may not sum the total due to missing data.

**References**


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

## Moody's Rating Agency

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<th>Prior rating</th>
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## Standard & Poor’s Rating Agency

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## Fitch Ratings Agency

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