

MONTHLY ECONOMIC SITUATION REPORT



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The monthly economic situation report presents an ad hoc analysis of the macroeconomic performance of the world in general and of Central America in particular. The preparation process was coordinated under the leadership of Dr. Florencia T. Castro-Leal, CABEL Chief Economist. The research and writing were in charge of Miguel Ángel Medina Fonseca (Economist), Fátima Velásquez (Junior Economist) and Rodrigo Méndez Maddaleno (Economist); while the review was carried out by Armando E. Navarrete (Principal Economist). The English translation was in charge of Carmen Elisa Méndez (Junior Economist).

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Table of contents

I. NEW COVID-19 CONTAGIONS GROWED IN JULY AND VACCINATION PLANS ARE ADVANCING THE WORLD	
.....	4
II. THE ECONOMY OF THE UNITED STATES AND CABEI'S EXTRA-REGIONAL PARTNERS MAINTAIN ITS PATH OF RECOVERY	
.....	7
III. IN CENTRAL AMERICA, ECONOMIC ACTIVITY IS RECOVERING AND IT IS EVIDENT IN THE RECOVERY OF EXPORTS, IMPORTS AND TAX INCOME.	
.....	12
BOX 1. WORLD'S LARGEST DEBT IN TIMES OF PANDEMIC	
.....	14
ANNEX 1. RATING OF LONG-TERM SOVEREIGN DEBT IN FOREIGN CURRENCY	
.....	20
REFERENCIAS	
.....	21

MONTHLY ECONOMIC SITUATION REPORT JULY 2021

I. NEW COVID-19 CONTAGIONS GROWED IN JULY AND VACCINATION PLANS ARE ADVANCING THE WORLD

1. The new daily cases of COVID-19 in the world show an increase during the last month. New daily cases worldwide have shown an increase of 44.9% during the last rolling month ending August 5, 2021¹. In particular, with the exception of India, the rest of the countries of the Asian continent reported an average increase of 117.7% during the last month, while in India there was a decrease in new daily cases of 35.8%. Asian countries, with the exception of India, have recently increased the global curve, reporting 221,727 daily cases on average during the last week, a third of the total recorded worldwide. In sum, the virus has infected around 2.6% of the world's population and has registered a mortality rate of 2.1% as of August 5.

2. The trend of new infections shows mixed results among the most affected countries². The United States, India, Iran, Spain, Turkey and Francia maintained an upward trend in new confirmed cases of infections in the week ending August 5. In contrast, Brazil, Indonesia, United Kingdom and Russia registered a downward trend. Meanwhile in Central America, Guatemala registered more than 2,500 daily cases on average during the last week to August 5. Likewise, Costa Rica and Honduras reported an average more than 1,000 cases of new infections daily on that same date. In the Dominican Republic, the curve for new daily infections has flattened significantly since June, registering in the last week less than 500 cases a day on average (see Graph 1).

3. The Delta variant is found in 117 countries, 9 of which are Latin American. The countries that register the highest number of reported cases in the world are the United Kingdom (209,266) and the United States with (47,596). In Latin America, the first cases of the Delta variant are already registered in Mexico (2,129), Brazil (129), Chile (28), Costa Rica (13), Paraguay (6), Argentina (4), Peru (2), Dominican Republic (1), and Colombia (1) to August 5³.

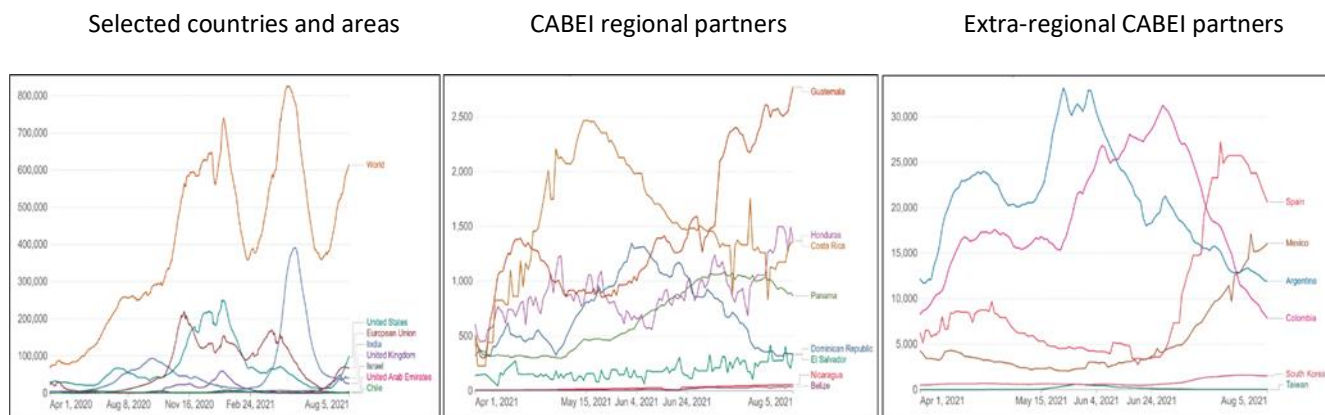
4. Vaccination plans are progressing at different speeds around the world. Among the countries that present the greatest advances worldwide in the application of the full dose of the vaccine are the United Arab Emirates with 71.5% of the population, followed by Chile with 64.5%, Israel (62.3%), United Kingdom (57.3%), European Union (50.7%), United States (49.5%) and the world (15.2%). Among CABI's partners stand out Spain (60.0%), the Dominican Republic (39.8%), El Salvador (25.1%), Colombia (25.0%), Mexico (20.6%), Argentina (17.5%), Costa Rica (16.7%) and Panama (16.5%), which are above the world average. For comparative purposes among all countries, Graph 2 shows the cumulative evolution of the application of a single dose per 100 people, given that the percentage of the total population that has received all the prescribed doses, according to the vaccination protocol, does not it is available for all countries.

¹ Oficina del Economista Jefe con información de Our World in Data. Coronavirus (COVID-19) Vaccinations al 09 de julio de 2021.

² Office of the Chief Economist with information from Johns Hopkins Coronavirus Resource Center y Woldometer al 10 de junio.

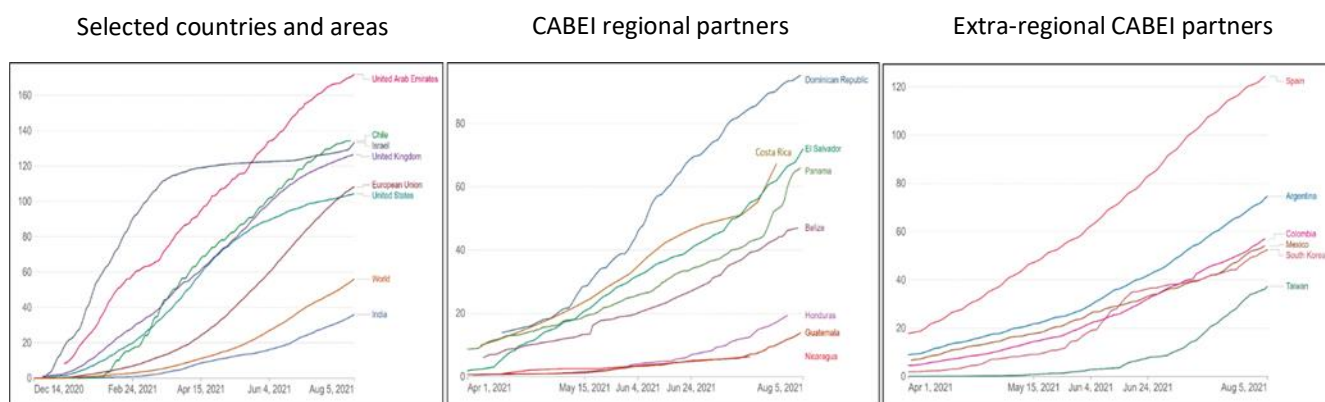
³ GISAID. hCoV-19 Tracking of Variants.

Graph 1. Evolution of new daily cases of COVID-19 (7-day moving average)



Source: Our World in Data. Coronavirus (COVID-19) Vaccinations, August 6, 2021.

Graph 2. Cumulative dose of COVID-19 vaccines administered per 100 people.



Source: Our World in Data. Coronavirus (COVID-19) Vaccinations, August 6, 2021.

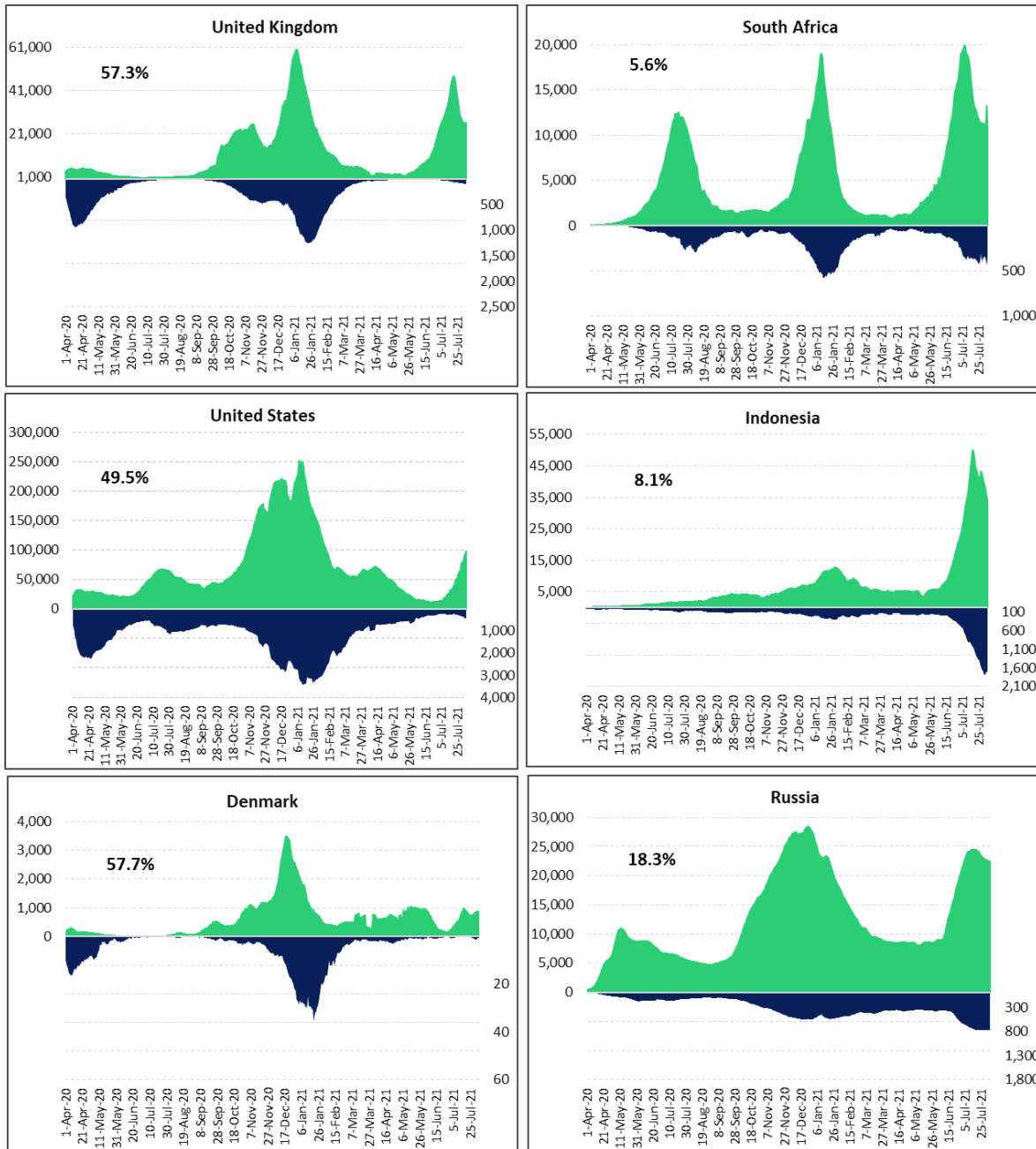
5. Pfizer and BioNTech develop a third dose of the vaccine to boost and protect against new variants of the virus. The pharmaceutical companies Pfizer and BioNTech are developing a third dose of their vaccine against COVID-19, in order to provide greater protection against the Delta variant. Clinical trials are expected to begin in August 2021⁴. The booster for this vaccine would be given six months after a person has received the second dose. However, the application of a reinforcement would be pending the approval of the health authorities of the countries.

6. The most advanced countries in their vaccination plan register a lower number of deaths due to the recent rebound of COVID-19. The relaxation of mobility restriction measures and the application of security protocols, together with the emergence of the Delta variant, could explain the increase in the number of daily infections observed in the last month ending August 5. However, this trend is not translating into a higher number of deaths

⁴ New York Times. Citing the Delta Variant Pfizer Will Pursue Booster Shots and a New Vaccine.

in countries that report a higher proportion of their population vaccinated such as the United Kingdom, United States and Denmark. While in other countries such as South Africa, Indonesia and Russia, where the level of vaccination is lower, a rebound is observed in the number of daily deaths (Graph 3).

Graph 3. Percentage of the population fully vaccinated, new cases and daily deaths from COVID-19 (average 7 days)



COVID-19 daily cases (primary axis) █ Daily deaths from COVID-19 (secondary axis) █

Source: Office of the Chief Economist with information from Our World in Data. Coronavirus (COVID-19) Vaccinations, August 6, 2021.

II. THE ECONOMY OF THE UNITED STATES AND CABEI'S EXTRA-REGIONAL PARTNERS MAINTAIN ITS PATH OF RECOVERY

7. Economic growth in the United States maintains its upward momentum. This year's real GDP is expected to post the highest growth in decades. Household spending is increasing at a rapid rate, driven by strong fiscal support, accommodative financial conditions, and the reopening of the economy. Demand for housing remains very strong as well as global business investment. However, supply-side constraints have slowed activity in some sectors, especially in the automotive industry, where the global shortage of semiconductors has drastically reduced production so far this year⁵. Below are some economic indicators of the US economy that show its recent evolution.

- Real gross domestic product (GDP) grew at an annualized rate of 6.5% in the second quarter of 2021 (6.3% in the first quarter of 2021). The main activities that contributed to the increase in real GDP were food and lodging services and non-durable goods (especially pharmaceuticals). The demand components that led this increase were: personal consumption expenses (11.8%) mainly in food services, lodging services and in non-durable goods such as pharmaceuticals; non-residential fixed private investment (8.0%) and exportations (6.0%), which were partially offset by residential fixed private investment (-9.8%) and consumption and government investment (-1.5%)⁶.
- The weekly economic index grew 8.4% in the week ending July 31, linking 20 consecutive weeks with positive variation. Likewise, the 13-week moving average reached 9.9%, linking the last 18 weeks with growth⁷.
- Nominal personal income increased 0.1% and personal consumption expenses at current prices grew 1.0% in June 2021 compared to May⁸. The increase in income mainly reflected an increase in compensation of employees in the private sector (wages and salaries); while government social benefits and unemployment insurance payments decreased this month. The increase in consumption was driven by higher general spending in all service categories, led by food services and accommodation; as well as the increase in non-durable goods that was partially offset by a decrease in durable goods. Within non-durable goods, the increase was mainly observed in "other" non-durable goods (pharmaceutical products), as well as gasoline and other energy goods; and the decline in durable goods was led by the category of motor vehicles and parts.
- Total non-farm employment in the US increased by 943,000 people in July 2021 (938,000 in June). This was reflected in a decrease in the total unemployment rates and that of Latinos to 5.4% and 6.6%, respectively (see Graph 5). The sector that generated the most jobs was accommodation and leisure with 380,000, followed by public and private education, which increased by 261,000⁹. In relation to the employed who

⁵ Board of Governors of the Federal Reserve System. Semiannual Monetary Policy Report to the Congress.

⁶ U.S. Bureau of Economic Analysis. Gross Domestic Product, Second Quarter 2021 (Advance Estimate) and Annual Update.

⁷ El Índice Económico Semanal (WEI, por sus siglas en inglés) es un índice de diez indicadores diarios y semanales de la actividad económica real, escalados para alinearse con la tasa de crecimiento del PIB de cuatro trimestres. Representa el componente común de una serie que abarca el comportamiento del consumidor, el mercado laboral y la producción.

⁸ Bureau of Economic Analysis. Personal Income and Outlays May 2021. Entre paréntesis, los artículos que más contribuyeron al aumento

⁹ U.S. Bureau of Labor Statistics. Economic news release: Employment situation summary.

teleworked in July due to the pandemic, a decrease was observed, going from 13.2% compared to 14.4% the previous month¹⁰. For its part, initial applications for unemployment benefits reached 385,000 in the week ending July 31, 2021, which meant a decrease of 14,000 compared to the previous week, in a situation where companies have difficulty finding people willing to work¹¹.

- The US Federal Reserve continued with its loose monetary policy in order to support the economy until the recovery is complete. To do this, it kept the interest rate unchanged, which was between 0.0% and 0.25%. It also reaffirmed its policy of purchasing treasury securities and mortgage-backed securities issued by agencies sponsored by the US government (Government-sponsored enterprises)¹².
- Year-on-year inflation in June was 5.4%, with fuel prices, the sale of used vehicles and transportation services registering the highest increases. Inflation is expected to remain high in the coming months before moderating. This has been temporarily driven by the sharp price falls of a year ago, and by strong demand in sectors where production bottlenecks, or other supply constraints, have restricted production. For their part, the prices of services that were seriously affected by the pandemic have also increased in recent months due to the reopening of the economy¹³. Most of the participants (13 out of 18) of the June Federal Open Market Committee (FOMC) assessed that adequate monetary policy would be in line with an increase in the federal funds interest rate in 2023, one year earlier than expected by the majority at the March meeting, considering that the new economic projections foresee faster growth and much higher inflation in 2021¹⁴. June inflation was the largest increase observed since August 2008 (5.4%)¹⁵.

8. The Governing Council of the European Central Bank expects official interest rates to continue at their current levels or lower until inflation reaches 2.0%. Additionally, they will evaluate the progress of core inflation so that it is compatible with a stabilization of inflation at 2.0% in the medium term¹⁶. This could imply a transitional period in which inflation is moderately above target. Furthermore, the Board continues to expect that the monthly net purchases under the Asset Purchase Program will continue for as long as necessary to reinforce the accommodative impact of their official rates and that they will end shortly before interest rates begin to rise ECB officers¹⁷.

¹⁰ These data refer to employees who telework or worked at home for remuneration at some point in the last 4 weeks specifically due to the pandemic.

¹¹ United States Department of Labor. Unemployment insurance weekly claims, Seasonally Adjusted Data.

¹² Board of Governors of the Federal Reserve System. Federal Reserve Press Release.

¹³ Board of Governors of the Federal Reserve System. Semiannual Monetary Policy Report to the Congress.

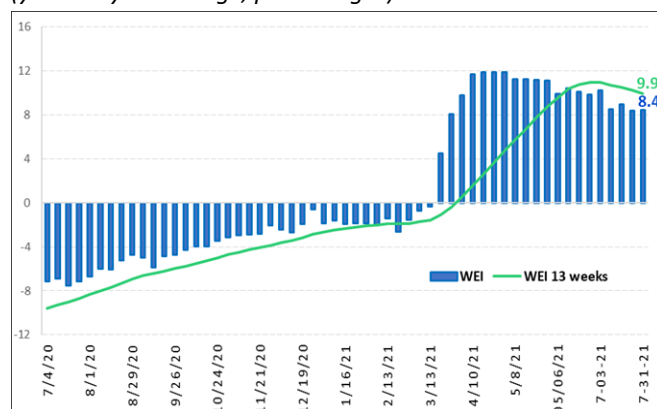
¹⁴ Board of Governors of the Federal Reserve System. Summary of Economic Projections.

¹⁵ U.S. Bureau of Labor Statistics. Economic news release: Consumer Price Index Summary.

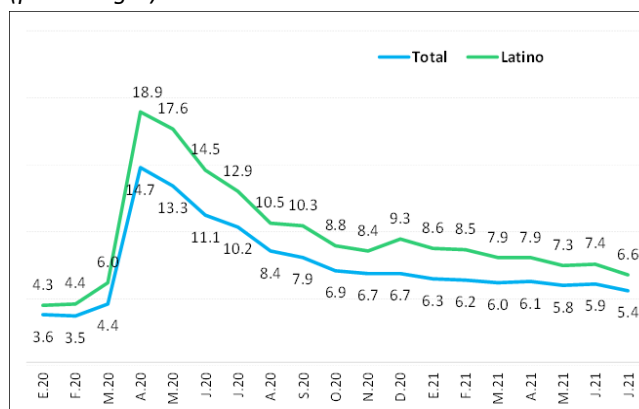
¹⁶ According to ECB's new monetary policy strategy adopted on July 8th on 2021, which has a symmetric inflation target of 2.0% in the medium term. The objective of the original strategy adopted in 1998 and revised in 2003, included a quantitative definition of price stability as an increase in the year on year Harmonized Consumer Price Index (HCPI) of less than 2.0%, and within this definition, the objective to maintain Eurozone inflation rate "below, but close, to 2.0%".

¹⁷ European Central Bank. Press release: Monetary policy decisions.

Graph 4. United States Weekly Economic Index
(year-on-year change, percentages)



Graph 5. United States: Total and Latino unemployment (percentages)



Source: Office of the Chief Economist with information from US Bureau of Labor Statistics, Federal Reserve Bank of St. Louis.

9. In most of CABEL's extra-regional partner countries, economic recovery is manifested in high growth rates in industrial production and lower unemployment rates. Inflation accelerated in most countries in June and July, while the monetary authorities kept policy rates unchanged. Industrial production indices grew at robust double-digit rates in most countries, albeit at decelerating rates, which could be associated with the normalization of growth in this sector, after the rebound of the previous months was associated with the fall from the previous year that was caused by lower international demand and by the containment measures of COVID-19. For its part, unemployment fell in most countries, which is another sign of economic recovery (see Table 1).

Table 1. Selected short-term indicators from extra-regional CABEL partner countries

Variables	Unit of measure	Argentina	Δ	Colombia	Δ	Korea	Δ	Spain	Δ	Mexico	Δ	Taiwan	Δ
Inflation	interannual variation, percentage	Jun.2021		Jun.2021		Jul.2021		Jul.2021		Jun.2021		Jul.2021	
		50.20	+	3.63	+	2.60	+	2.90	+	5.88	-	1.95	+
Monetary Policy Rate	percentage	Jul.2021		Jul.2021		Jul.2021		Jul.2021		Jul.2021		Jul.2021	
		38.00	=	1.75	=	0.50	=	-0.50	=	4.25	+	n.d.	
Industrial Production Index	interannual variation, percentage	Jun.2021		May.2021		Jun.2021		May.2021		May.2021		Jun.2021	
		19.10	-	6.40	-	11.90	-	28.20	-	36.38	-	18.37	+
Unemployment	percentage	I.T 2021		Jun.2021		Jun.2021		II.T 2021		Jun.2021		Jun.2021	
		10.20	-	14.40	-	3.80	-	15.26	-	4.02	-	4.80	+

Note: The MPR in Spain is the Euro Zone deposit facility rate and in the Republic of Korea it corresponds to the Base Rate. The symbol Δ is = if the variable remained unchanged, + if it increased and - if it decreased, all with respect to the value registered the previous month. n.d. it is for not available. **Source:** Prepared by the Office of the Chief Economist with information from the central banks and statistical institutes of each country.

10. The US Business Cycle Dating Committee determined that in April 2020 there was a minimum of monthly economic activity in the US economy. In this way, April 2020 was the last month of the recession¹⁸ and May 2020 became the first month of the subsequent expansion. For its part, the previous peak in economic activity occurred in February 2020. Given the above, it was concluded that the extension of the economic recession caused by COVID-19 was two months, which makes it the shortest than those registered in the United States¹⁹.

11. The world economy is expected to grow 6.0% in 2021 and 4.9% in 2022. The International Monetary Fund maintained its estimates of world economic growth in 2021 and revised upwards those of 2022 in its publication of July 2021 (compared to April 2021). However, there were compensatory revisions in the 2021 update, in which forecasts for advanced economies were raised and estimates for emerging market and developing economies (especially emerging Asian economies) lowered, thereby deepening the economic growth gap between advanced and developing economies. These reviews reflect the evolution of the pandemic and changes in supporting policies. The 0.5 percentage point increase in projected growth for 2022 is largely due to improved forecasts for advanced economies, particularly for the United States, reflecting anticipated legislation for additional fiscal support in the second half of 2021 and improving overall health metrics across the group²⁰.

12. The main stock indexes of the United States maintain an upward trend in the last weeks of July. Among the most important events and news that determined the volatility of these markets in July are: i) fears about the advance of the Delta variant of COVID-19, which could promote new measures to restrict mobility; ii) disclosure of the companies' second quarter financial results, which in most cases had exceeded market expectations²¹; and, iii) the upward report of requests for unemployment benefits in the week ending July 17.

13. The latest OPEC + decision could help stabilize the price of crude oil. The average price of WTI oil was USD 72.5 a barrel in July, 1.5% higher than the previous month and 77.8% compared to the same month last year. The price of the futures contract fell 3.7% in the week ended July 16, reporting two consecutive weeks with falls²², and then registering rises in the last two weeks of the month²³. The foregoing was determined by the expectation of a greater supply of crude oil in the coming months, by the evolution of new cases of contagion of the Delta variant of COVID-19 and the advance in vaccination, as well as by the variation in inventories of gasoline in the United States. For its part, the OPEC + alliance agreed to increase its global crude oil production by 0.4 mb/d²⁴ every month starting in August and to reach 5.8 mb/d. This decision took into account the observed increase in demand for oil, the fall in OECD stocks, and the continued economic recovery recorded in most of

¹⁸ This does not mean that the economy has returned to normal capacity. An expansion is a period of increased economic activity spread throughout the economy, usually visible in real GDP, real income, employment, industrial production, and wholesaling and retailing. Economic activity is usually below normal in the early stages of an expansion, and sometimes remains that way well into the expansion.

¹⁹ National Bureau of Economic Research. Business Cycle Dating Committee Announcement July 19, 2021.

²⁰ International Monetary Fund. Fault Lines Widen in the Global Recovery. World Economic Outlook Update, July 2021.

²¹ Investing.com. Wall Street sube por los sólidos reportes trimestrales de las empresas.

²² Gobierno de México. La Gaceta Económica, Blog. Descendieron los precios del petróleo por segunda semana consecutiva.

²³ Gobierno de México. La Gaceta Económica, Blog. Precios del petróleo hilaron dos semanas al alza.

²⁴ Millones de barriles diarios.

the world with the help of accelerating vaccination programs²⁵. This disposition decision is expected to help reduce the upward pressures observed in recent weeks.

14. International gold prices fell in July 2021, and most of Central America's main export goods increased. The average price of gold was USD 1,807.8 a troy ounce, -1.5% lower than that registered in June. On the other hand, the average prices of arabica coffee, palm oil, shrimp and sugar increased with respect to the previous month and the same month of 2020. Finally, the price of bananas rose with respect to the previous month but has not yet recovered the price of a year ago; and the price of beef fell with respect to June and increased year-on-year (see Table 2).

Table 2. International prices of main Central American goods

Product	Average Price July 2021	Unit of measure	Variation	
			Monthly	Interannual
Crude oil (WTI)	72.5	USD/barril	1.5	77.8
Gold	1,807.8	USD/onzas troy	-1.5	-2.1
Arabic coffee	4.5	USD/kg	5.9	38.8
Banana	1.2	USD/kg	0.7	-2.8
Beef	5.6	USD/kg	-1.6	18.9
Palm oil	1,057.4	USD/Tm ¹	4.7	52.3
Shrimp	15.9	USD/kg	18.4	26.7
Sugar	0.8	USD/kg	9.3	35.8

Note: 1/ Tm is metric ton. **Source:** Office of the Chief Economist with information from the World Bank.

²⁵ Organization of the Petroleum Exporting Countries. 19th OPEC and non-OPEC Ministerial Meeting concludes.

III. IN CENTRAL AMERICA, ECONOMIC ACTIVITY IS RECOVERING AND IT IS EVIDENT IN THE RECOVERY OF EXPORTS, IMPORTS AND TAX INCOME.

15. Economic activity grew in all the Central American countries. At the aggregate level, the interannual variation of the Monthly Index of Economic Activity (IMAE) reported growth in the Dominican Republic (16.9%) and Guatemala (11.3%) in June, while El Salvador (27.4%), Panama (19.0%) Honduras (9.6%), Costa Rica (7.9%) and Nicaragua (5.4%) also registered increases in May 2021 (see Graph 6). At the level of the productive activities that make up the IMAE, greater dynamism was evidenced in transport services, accommodation and food service, construction, commerce, manufacturing industry, electricity and water supply, and other services. In Nicaragua, positive interannual variations were observed in accommodation and food service activities for the third consecutive month, and in Costa Rica and Honduras for the second month. In El Salvador, all IMAE groups grew as in the previous month. In Nicaragua, agricultural activities do not register growth while financial activities still report contraction in the last month. Finally, in Honduras, agricultural, livestock, forestry and fishing activities report minor drops since November 2020.

16. The greater economic dynamism is manifested in an improvement in the formal labor market. The interannual variation in the number of contributors to social security in the Dominican Republic was 26.7% in June 2021 (23.5% in May 2021)²⁶, while in Costa Rica it increased 4.0% (2.2% in April 2021)²⁷, Guatemala 11.0% (9.6% in April 2021)²⁸ and El Salvador 6.0% (2.2% in April 2021) in May 2021²⁹. The latter country registers the second positive rate since March 2020. In Costa Rica, the general unemployment rate was 17.7% in the moving quarter that ended in May 2021 (17.3% in the previous moving quarter), with higher unemployment prevailing among women (24.2%) in relation to men (13.3 %)³⁰.

17. Inflation slowed in most countries in June. The year-on-year variation of the consumer price index was positive in all countries simultaneously for the fourth consecutive month in June 2021. Inflation grew at a lower rate in most countries compared to the previous month. The highest rates were recorded in descending order in the Dominican Republic (9.32%), Honduras (4.67%), Nicaragua (3.94%), Guatemala (3.91%), El Salvador (2.59%), Costa Rica (1.91%) and Panama (1.58%) in June (see Graph 7). For their part, all the central banks in the region kept their monetary policy rates unchanged during July 2021 (see Graph 8).

²⁶ Superintendencia de Pensiones de la República Dominicana.

²⁷ Caja Costarricense de Seguro Social

²⁸ Ministerio de Economía de Guatemala.

²⁹ Instituto Salvadoreño de Seguridad Social (ISSS).

³⁰ Instituto Nacional de Estadísticas y Censos de Costa Rica. Continuous Employment Survey, moving quarter March to May 2021.

18. Cumulative exports grow in all countries³¹. The greater dynamism of the international economy contributed to maintaining the positive momentum in accumulated exports (see Chart 9). In this sense, El Salvador reported the highest growth as of June 2021 (48.1%) followed by Costa Rica (28.5%) in that same month, while Panama (35.2%), Nicaragua (27.5%), Guatemala (16.7%) and Honduras (12.1%) increased at a higher rate in May. For its part, the Dominican Republic (7.5%) did so in March (see graph 9). It is important to note that the Dominican Republic showed its first accumulated growth in exports since the beginning of the recession. The accumulated exports of national merchandise (goods that are manufactured or produced in the country) are the ones that are driving total exports (see Graph 10) in Guatemala, El Salvador, Nicaragua and Panama, while in Costa Rica it is the exports of companies with special regimes (mainly medical and dental instruments and devices).

19. Cumulative imports grow in all countries. El Salvador (47.7%) registered the highest year-on-year growth of accumulated imports as of June 2021, followed by Costa Rica (31.3%) in that same month, while Honduras (37.8%), Nicaragua (36.9%), Guatemala (33.2%)) and Panama (29.4%) continued their dynamism in May 2021. For its part, the Dominican Republic (9.9%) did so in March (see Graph 11). The recovery of the region's economy in recent months has driven an increase in demand for imports (see Graph 12), which is reflected in higher trade deficits compared to the same period of the previous year in all countries (see Graph 13).

20. Family remittances are growing at historic rates. The rebound in remittances in 2021 has been driven by the recovery of the US economy, and its growth is magnified by the decline recorded a year ago when the pandemic began. Accumulated remittances are growing in all countries (see Graph 14), even when a slight slowdown is observed, and monthly remittances are growing at double-digit interannual rates, which contributes to reducing the impact of the trade balance deficit on the current account.

21. The public revenue of the central government consolidates its upward trend in all countries. The rebound in economic activity in the region in recent months is reflected in the increase in public revenues. In particular, the central government of Costa Rica (36.3%) and Guatemala (25.1%) increased their total accumulated income as of June 2021, compared to the same period of the previous year; the same was observed in the Dominican Republic (44.5%), El Salvador (29.0%) and Honduras (31.9%) in May, and in Nicaragua (24.2%) in April 2021 (see Graph 16). Costa Rica, Guatemala, and Nicaragua observed the sixth consecutive month with positive variations, Honduras the fifth, and El Salvador and the Dominican Republic the fourth. Regarding public expenditures, Costa Rica, Honduras y Nicaragua showed the highest growth, while in the Dominican Republic they decreased, compared to the same period of the previous year (see Graph 17). On the other hand, the contracting of new debt has increased by double digits in all the countries of the region, between 14.5% and 33.4% since December 2019 (see Graph 18), and the external debt is the one with the highest proportion in most of the cases, with the exception of Guatemala and Costa Rica (see Graph 19).

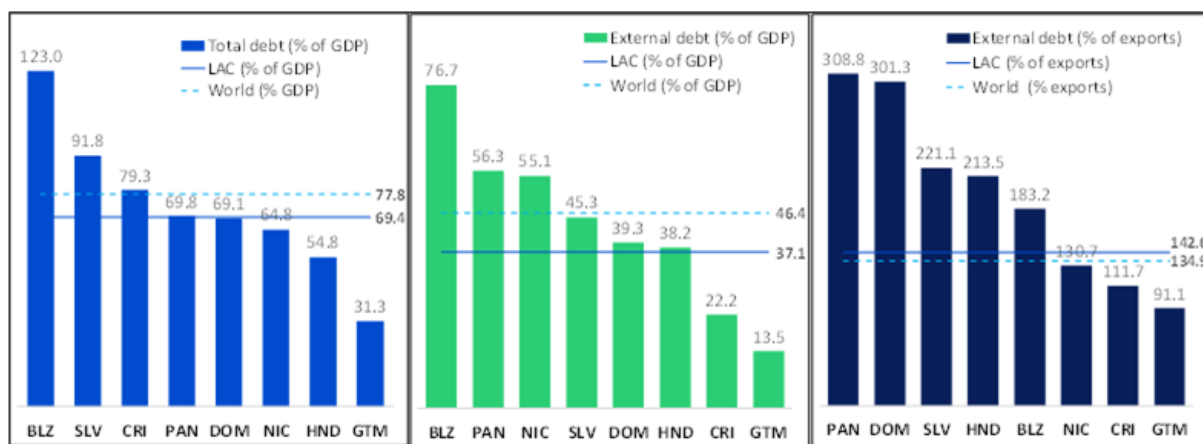
³¹ To monitor the export and import situation, the variations in nominal values are estimated, since the values at constant prices are only calculated to compile the Gross Domestic Product (GDP) in the national accounts. The publication of the quarterly GDP in the Central American countries takes place around 90 days after the end of the reference quarter.

BOX 1. WORLD'S LARGEST DEBT IN TIMES OF PANDEMIC

The total public debt to GDP in the world increased from 66.6% in 2019 to 77.8% in 2020. In Latin America and the Caribbean (LAC), the observed rise in this indicator was greater, going from 53.9% in 2019 to 69.4% in 2020. Barbados (144.8%), Belize (123.0%) and Argentina (103.6%) were the economies that registered the highest ratios in LAC. For its part, the level of debt in Central America increased 14.8 percentage points (p.p.) to reach 72.9% with respect to GDP. The countries with the highest debt to GDP after Belize were El Salvador (91.8%) and Costa Rica (79.3%). Therefore, the result of Central America (14.8 p.p.) was higher than the world increase (11.3 p.p.) but lower than that of LAC (15.5 p.p.).

The external debt to GDP in the world rose from 39.7% in 2019 to 46.4% in 2020. In LAC, this ratio reached 37.1% in 2020 (33.3% in 2019), while in Central America it represented an average of 43.3% of GDP in 2020, an increase of 8.6 p.p. compared to its 2019 level; Belize (76.7%), Panama (56.3%) and Nicaragua (55.1%) were those that reported the highest indebtedness with external creditors. For its part, the increase in the ratio of external debt to world exports rose in a greater proportion than that of external debt to GDP, going from 101.8% in 2019 to 134.9% in 2020, while for LAC this same ratio reached 142.6% in 2020; being Panama (308.8%), the Dominican Republic (301.3%) and Jamaica (276.6%) those that reported the highest levels in this same year. In Central America, the foreign debt to exports ratio rose from 148.8% in 2019 to 195.1% in 2020; being Panama (308.8%), the Dominican Republic (301.3%), El Salvador (221.1%), Honduras (213.5%) and Belize (183.2%) those that observed the highest values.

Graph 1. Total debt to GDP, external debt to GDP and external debt to exports of the countries of Central America, Latin America and the Caribbean, and the world.



Note: The LAC average excludes Venezuela. Total debt refers to the sum of the government's internal and external debt (Non-Financial Public Sector). External debt is defined as the public debt contracted with foreign borrowers; includes general government, monetary authorities, and public corporations.

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

22. Net international reserves showed mixed behavior in Central America. In El Salvador a reduction was registered (-19.6%) and in Guatemala a increased (10.2%) as of July 2021, while in the Dominican Republic (76.5%), Nicaragua (35.8%) and Honduras (17.0%) a year-on-year growth in international reserves was evidenced as of June 2021, as well as in Panama (144.8%)) to March; while Costa Rica reported a fall in June of 16.7% (see Graph 20). For their part, Guatemala and Honduras have the greatest capacity to cover their imports with their net international reserves, specifically 9.6 and 8.7 months, respectively (see Graph 21), while El Salvador is the country with the least coverage, slightly more than two months of imports.

23. The Legislative Assembly of Costa Rica approved the financing program with the International Monetary Fund (IMF). The financing agreement with the agency amounts to a total of approximately USD 1,778.0 million and was approved on July 19. Costa Rica, with this approval, has at its disposal around USD 296.5 million in 2021, an amount that represents a fifth of total financing. The total amount will be disbursed in three years and in six tranches, for which the government must meet a series of fiscal goals and reforms each year until 2023. Among the goals is primarily to achieve a primary surplus of 1.0% of GDP in 2023. It is essential to recognize that the agreement with the Fund emits a signal of confidence for the national and international markets³².

24. The Ministry of Finance of El Salvador placed close to half of the amount auctioned in July 2021. In this month, the institution held five auctions of LETES and CETES³³ in which it allocated an amount close to USD 161.3 million (almost USD 101.5 million in June 2021), with interest rates in the range of 7.20% to 7.50% (6.98% to 7.11% the previous month)³⁴. The amount awarded represented 48.0% of the global indicative amount of the public auctions in July (103.0% in June 2021). El Salvador continues to negotiate with the IMF for a USD 1.3 billion financing program, which, if completed, will help stabilize the country's public finances³⁵.

25. Moody's Investors Service downgraded El Salvador's long-term credit rating, as well as the ratings of Bandedal and Banco Agrícola. The agency downgraded El Salvador's rating from B3 to Caa1, maintaining the negative outlook, on July 30, 2021. The key reasons for the downgrade were: i) the likelihood that market access for the sovereign will remain limited in the face of a demanding debt amortization schedule starting in 2023; and ii) the delay in formulating quality policy measures for fiscal adjustment plans by the authorities which has intensified implementation risks and increased uncertainty about financing prospects. The negative outlook reflects Moody's view that the fiscal position remains vulnerable and susceptible to financing shocks that could jeopardize the sovereign's ability to repay, aging in the face of the demanding schedule for repayment of its debt in the external market starting in January 2023³⁶. Likewise, the agency lowered all the ratings and long-term evaluations of Banco de Desarrollo (Bandedal) and Banco Agrícola, S.A. (Agrícola) of El Salvador. Bandedal's issuer rating was lowered to Caa1 (from B3) and Agrícola's deposit rating was also lowered to B2 from B1. The outlook

³² El Financiero. Costa Rica aprueba programa de financiamiento con FMI y recibirá primer desembolso por \$296 millones.

³³ Treasury Bills (LETES) and Treasury Certificates (CETES).

³⁴ Bolsa de Valores de El Salvador. Resultados de Subastas Públicas de LETES y CETES.

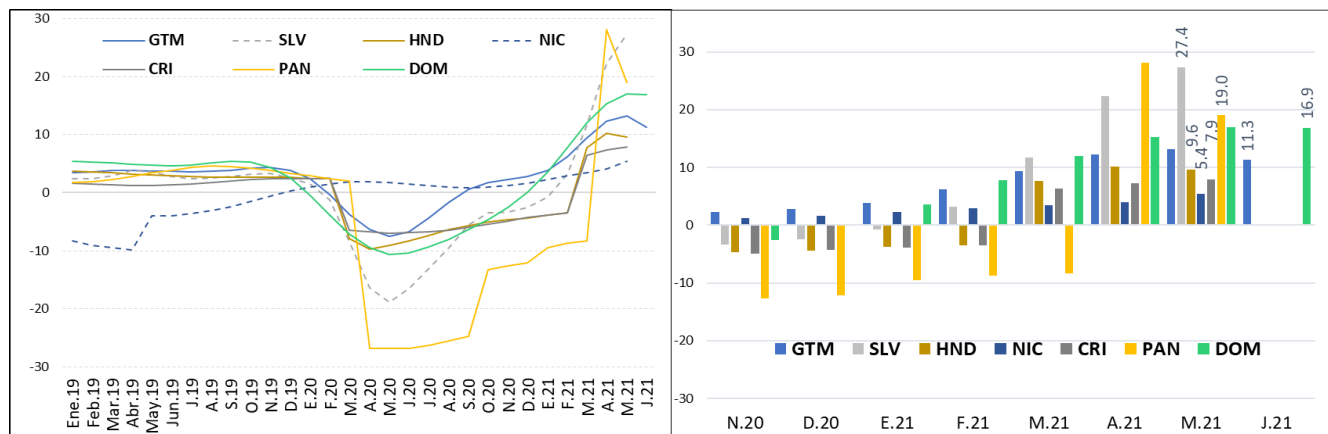
³⁵ Pláticas con el FMI no incluyen aumento de impuestos: Ministro Alejandro Zelaya.

³⁶ Moody's Investors Service. Rating Action: Moody's downgrades El Salvador's rating to Caa1, maintains negative outlook.

for bank ratings remains negative. The downgrade of Bandedal and Banco Agrícola's ratings and evaluations stem from the previously detailed downgrade of El Salvador's sovereign bonds³⁷.

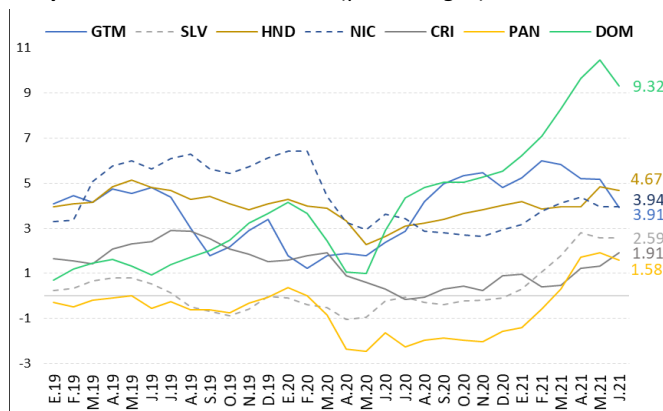
26. S&P Global Ratings reviewed Panama's sovereign debt outlook. The agency affirmed the long-term sovereign debt rating at BBB and updated the outlook from stable to negative. The change in outlook reflects the negative risks related to the fiscal and economic indicators expected by the agency in the next 6 to 24 months³⁸.

Graph 6. IMAE's interannual variation of Central American countries (*trend cycle, percentages*)

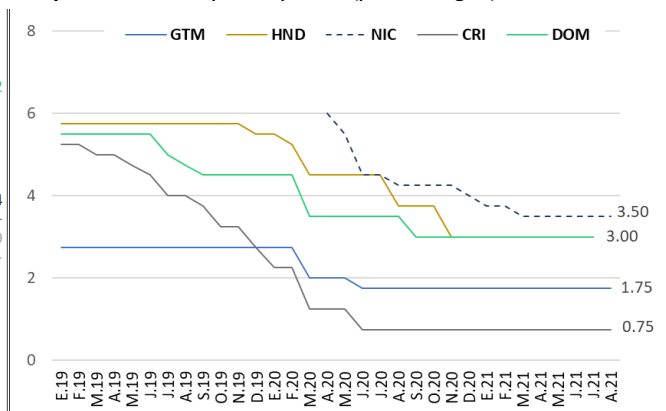


Source: Office of the Chief Economist with information from the SECMCA as of July 22, 2021.

Graph 7. Interannual Inflation (*percentages*)



Graph 8. Monetary Policy Rate (*percentages*)

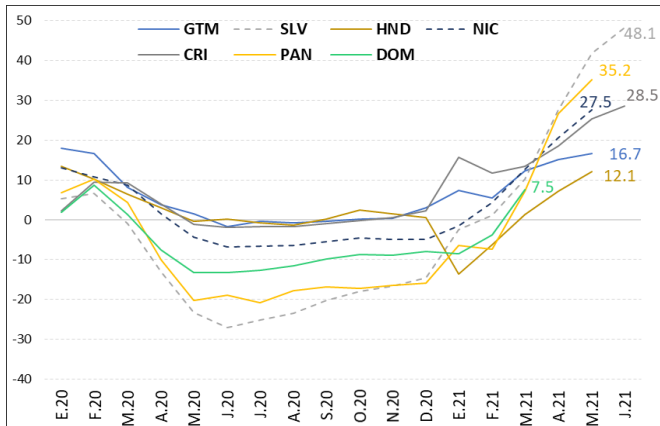


Source: Office of the Chief Economist with information from the SECMCA as of July 22, 2021.

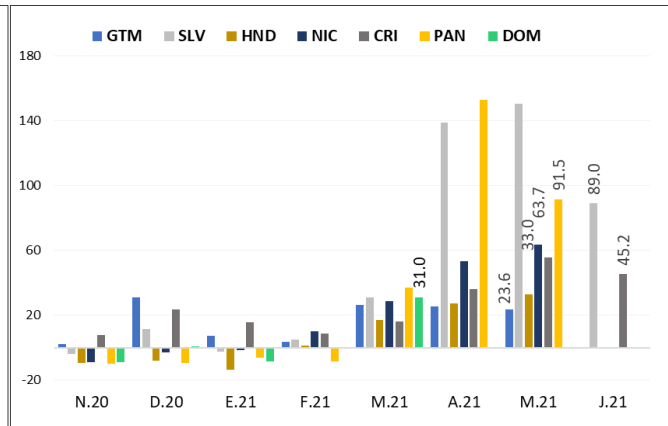
³⁷ Moody's Investor Service. Rating Action: Moody's baja las calificaciones de Bandedal y Banco Agrícola; perspectiva negativa.

³⁸ S&P Global Ratings revisó perspectiva a negativa de Panamá por riesgo de desempeño fiscal y económico más débil; confirmó calificaciones de BBB/A-2.

Graph 9. Accumulated exports
(interannual variation, percentages)

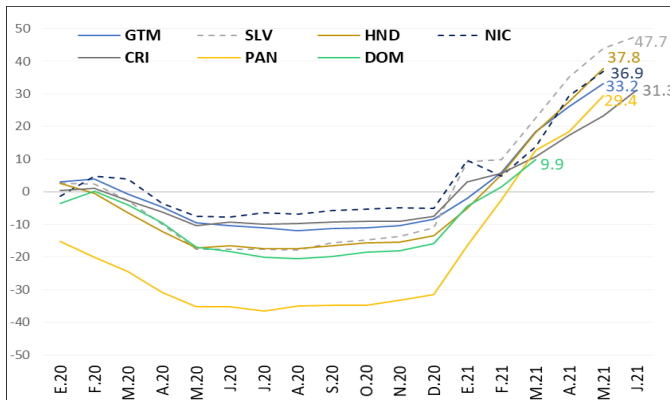


Graph 10. Monthly exports
(interannual variation, percentages)

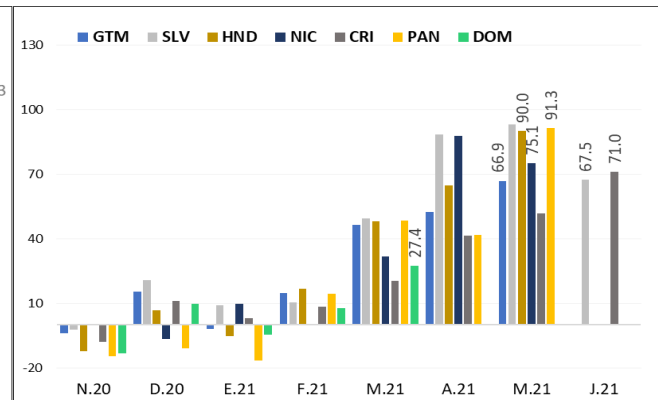


Source: Office of the Chief Economist with information from the SECMCA as of August 5, 2021.

Graph 11. Accumulated imports
(interannual variation, percentages)

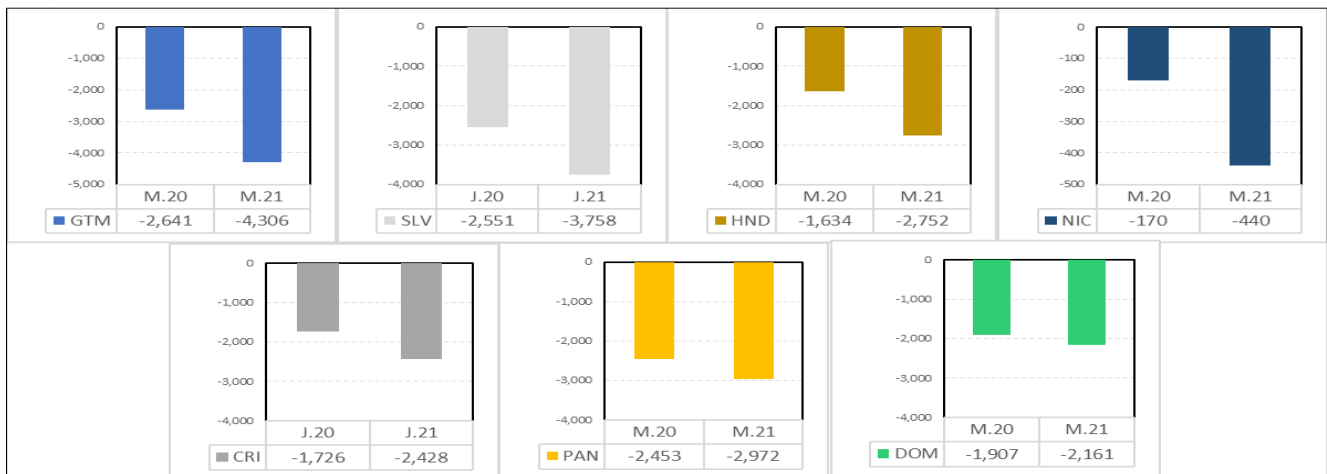


Graph 12. Monthly imports
(interannual variation, percentages)



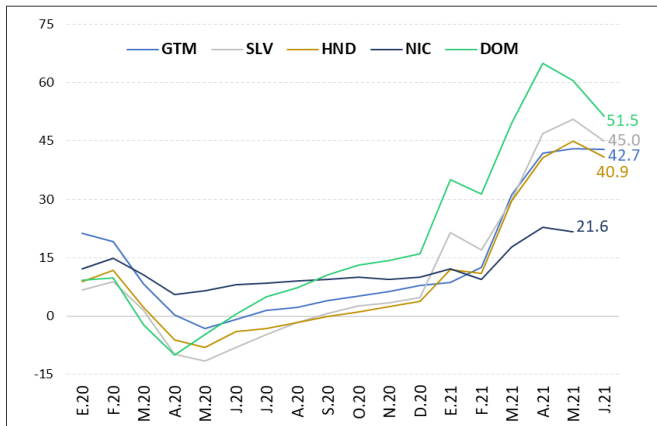
Source: Office of the Chief Economist with information from the SECMCA as of August 5, 2021.

Graph 13. Accumulated trade balance (millions of dollars)



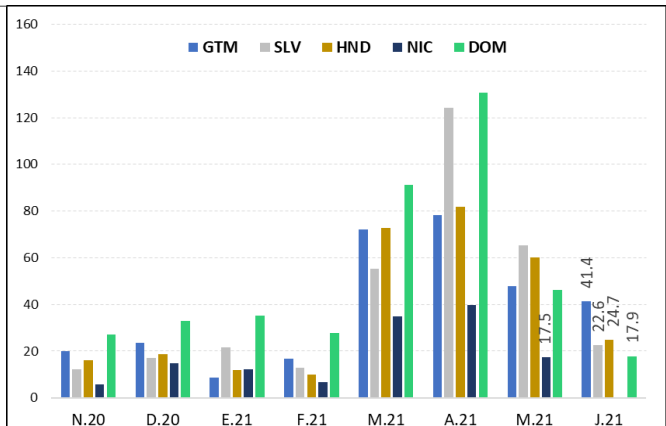
Source: Office of the Chief Economist with information from the SECMCA as of August 5, 2021.

Graph 14. Accumulated remittances
(interannual variation, percentages)

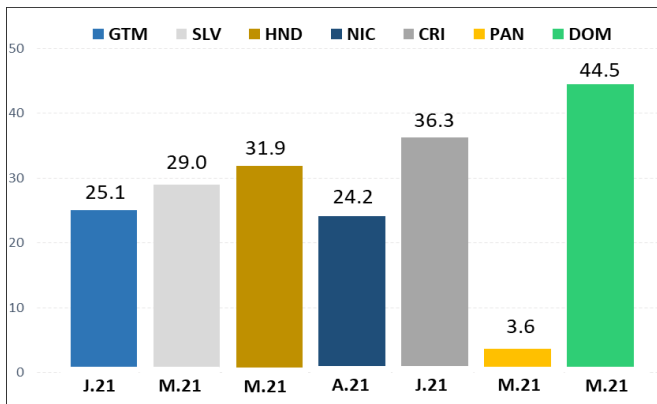


Source: Office of the Chief Economist with information from the SECMCA as of August 5, 2021.

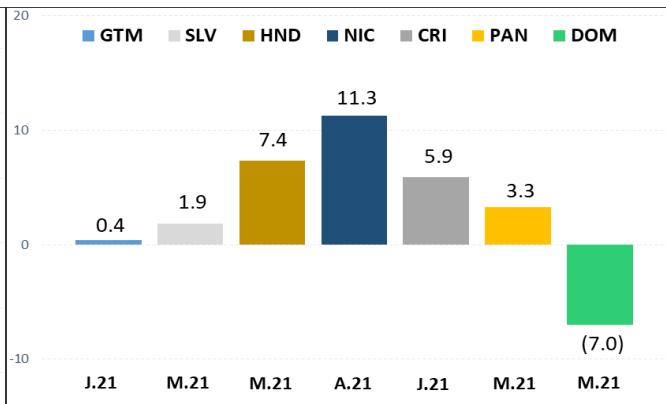
Graph 15. Monthly remittances
(interannual variation, percentages)



Graph 16. Central government: total accumulated revenue
(interannual variation, percentages)

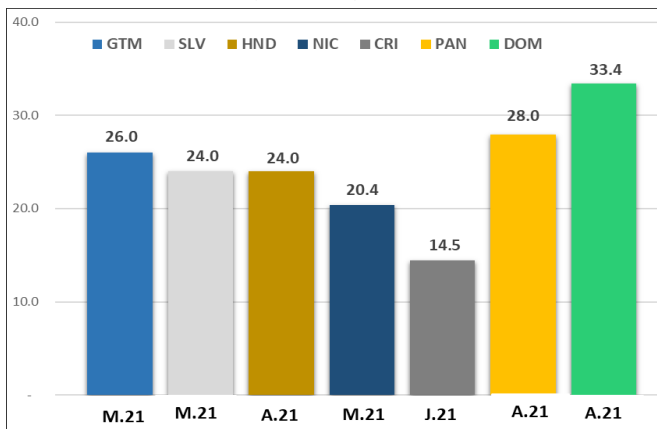


Graph 17. Central government: total accumulated expenses
(interannual variation, percentages)

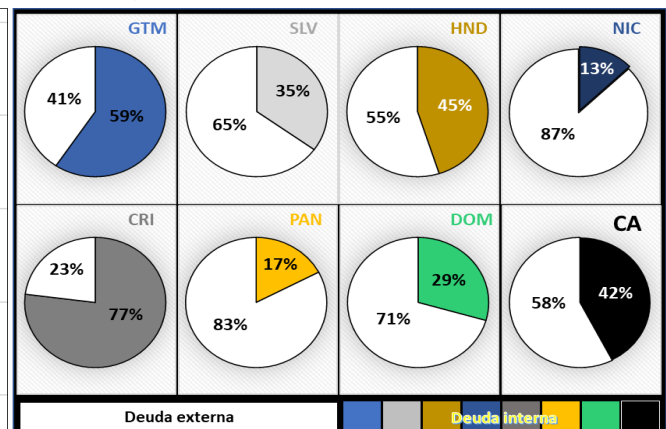


Source: Office of the Chief Economist with information from the SECMCA as of August 5, 2021.

Graph 18. Central government: total debt
(interannual variation, percentages)



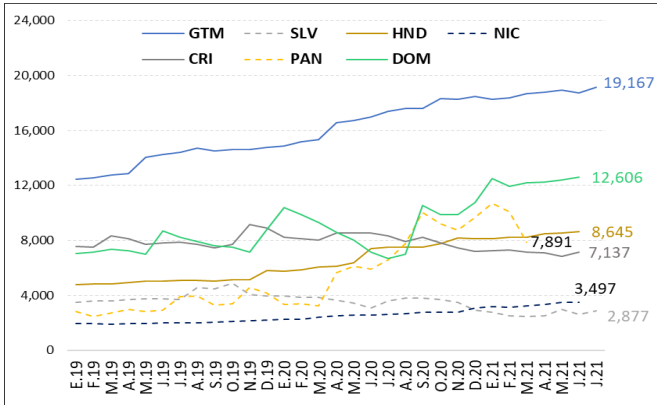
Graph 19. Central government: structure of total debt
(percentages)



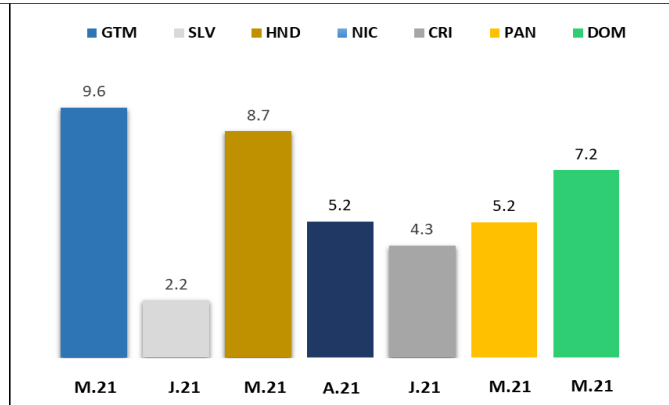
Note: The debt structure in graph 18 refers to the last available month detailed in graph 17.

Source: Office of the Chief Economist with information from the SECMCA as of August 5, 2021.

Graph 20. Net international reserves (NIR)
(millions of dollars)



Graph 21. NIR coverage of imports
(number of months of import)



Source: Office of the Chief Economist with information from the SECMCA as of August 5, 2021.

ANNEX 1. RATING OF LONG-TERM SOVEREIGN DEBT IN FOREIGN CURRENCY

Moody's Rating Agency

Countries	Qualification prior to March 2020		Last pre-qualification		Qualification as of August 5, 2021	
	Rating	Perspective	Rating	Perspective	Rating	Perspective
Belize	Caa2	Stable	Caa1	Negative	Caa3	Stable
Guatemala	Ba1	Stable	Ba1	Stable	Ba1	Negative
El Salvador	B3	Stable	B3	Negative	Caa1	Negative
Honduras	B1	Stable	---	---	---	---
Nicaragua	B3	Stable	---	---	---	---
Costa Rica	B2	Stable	B2	Stable	B2	Negative
Panama	Baa1	Stable	Baa1	Negative	Baa2	Stable
Dominican Republic	Ba3	Stable	---	---	---	---
Colombia	Baa2	Stable	Baa2	Stable	Baa2	Negative
Republic of China (Taiwan)	Aa3	Stable	Aa3	Stable	Aa3	Positive
México	A3	Negative	Baa1	Negative	Baa1	Negative

Standard & Poor's Rating Agency

Countries	Qualification prior to March 2020		Last pre-qualification		Qualification as of August 5, 2021	
	Rating	Perspective	Rating	Perspective	Rating	Perspective
Belice	B-	Stable	CC	Negative	SD	n.a.
Guatemala	BB-	Stable	BB-	Negative Watch	BB-	Stable
El Salvador	B-	Stable	---	---	B-	Stable
Honduras	BB-	Stable	---	---	---	---
Nicaragua	B-	Stable	---	---	---	---
Costa Rica	B+	Negative	B+	Negative	B	Negative
Panama	BBB+	Stable	BBB	Stable	BBB	Negative
Dominican Republic	BB-	Stable	BB-	Stable	BB-	Negative
Colombia	BBB-	Stable	BBB-	Negative	BB+	Stable
Republic of China (Taiwan)	AA-	Stable	AA-	Stable	AA	Positive
México	BBB+	Negative	BBB+	Negative	BBB	Negative

Fitch Ratings Agency

Countries	Qualification prior to March 2020		Last pre-qualification		Qualification as of August 5, 2021	
	Rating	Perspective	Rating	Perspective	Rating	Perspective
Belice	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Guatemala	BB	Negative	BB-	Negative Watch	BB-	Stable
El Salvador	B-	Stable	B-	Negative	B-	Negative
Honduras	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nicaragua	B-	Stable	B-	Stable	B-	Negative
Costa Rica	B+	Negative	B+	Negative	B	Negative
Panama	BBB	Negative	BBB	Negative	BBB-	Negative
Dominican Republic	BB-	Stable	BB-	Negative	BB-	Negative
Colombia	BBB	Negative	BBB	Negative	BBB-	Negative
Republic of China (Taiwan)	AA-	Stable	---	---	AA-	Stable
México	BBB	Stable	BBB	Stable	BBB-	Stable

Note: The update of El Salvador's and Panama's rating was after the closing of CABEL's Monthly Execution Report of the Operational Plan for June 2021. **Source:** Trading Economics, Moody's Investor Service and S&P Global Rating.

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