MARCH
2023

MONTHLY ECONOMIC
SITUATION REPORT

Office of the Chief Economist

The monthly economic situation report for March 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 April 20, 2023. The preparation of the document was led by Armando E. Navarrete, Chief Economist. The review was conducted by Pablo Flores, Principal 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

Recent forecasts show a slowdown in global output growth amidst economic uncertainty. This, in a context where inflationary pressures persist, although with a downward trend. However, to the extent that these continue to be above monetary authorities' objectives, further increases in interest rates would be expected. The magnitude of the adjustment will depend on the evolution of variables such as the unemployment rate, variation in wages, economic performance, and the banking sector, to name a few.

Financial conditions increase external resources cost. In turn, it withdraws liquidity from global financial markets due to investors taking advantage of higher returns in developed economies. Coupled with the international context, policy rates adjustment by local authorities will also increase the cost of domestic credit, constraining the market. In this context, Central American governments could face restricted fiscal space as the bill for debt service increases. Additionally, restrictive monetary policy measures imply a possible weakening of internal and external demand. This could affect the performance of exports and imports, thus, impacting economic growth prospects.

In this context, it is necessary for governments to take measures to safeguard macroeconomic stability, as well as protect vulnerable groups. The reaction of the monetary authorities to control inflation has been adequate, sending signals of commitment to price stability to economic agents. Likewise, it is appropriate that fiscal policies consistent public finances sustainability be implemented. Finally, given the turbulent international context, governments will have to increase their efforts to attract more foreign direct investment, as well as pursue policies focused on reducing negative consequences of the various economic shocks on the population.

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Chief Economist

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MONTHLY ECONOMIC SITUATION REPORT

I. US economy grows faster and global inflation continues to slowdown.

1. The US reported positive economic indicators. The most recent quarterly GDP estimates reported higher growth, while the unemployment rate fell. Furthermore, the restrictive monetary policy of the FED, coupled with lower inflationary pressures related to the evolution of international commodity prices, have combined to reaffirm the downward change in the inflationary trend.

i. The weekly economic index[1] slowed in the last two weeks following consecutives increases in the previous four observations. It grew 1.0% in the week ending April 15 (1.5% as of December 31, 2022) and the 13-week moving average rose 1.1%.[2]

ii. The GDPNow model estimated an increase in real GDP of 2.5% for the first quarter of 2023 (April 18), which shows an upward trend compared to the first week of April estimates. Likewise, this result is below the 2.6% growth of the fourth quarter of 2022.[3] The acceleration was due to the release of statistics on retail trade, industrial production, import and export prices and housing starts.[4,5]

iii. The total unemployment rate decreased slightly 0.1 pp in March 2023, closing at 3.5%.[6,7] Additionally, unemployment among Latinos fell to 4.6% (5.3% in February). Moreover, total non-agricultural employment generated 236,000 jobs (472,000 in February); while the average wage per hour increased 0.3% compared to the previous month and 4.2% in the last 12 months.

iv. Initial claims for unemployment benefits reached 245,000 in the week ending April 15, higher by 5,000 from the previous week.[8] Meanwhile, average claims from for the last month increased by 1.7% compared to the previous month and 20.2% with respect to January 2023.

2. Inflation slowed in the US for nineth consecutive month. This behavior was influenced by the fell in fuel prices and the slower growth of food and transportation services prices.

i. Year-over-year inflation was 5.0% in March 2023 (6.0% in February), the lowest rate since March 2021. The groups that registered the highest year-over-year increases were transportation services (13.9%), energy services -electricity, piped gas- (9.2%), food (8.5%)

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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.
[2] Federal Reserve Bank of New York. Weekly Economic Index (WEI). April 20, 2023.
[3] Bureau of Economic Analysis. Gross Domestic Product, Fourth Quarter and Year 2022 (Third Estimate), GDP by Industry, and Corporate Profits. March 30, 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. April 18, 2023.
[6] United States Bureau of Labor Statistics. Employment situation summary. April 7, 2023.
[7] It has remained in a tight range between 3.4%-3.7% since March 2022.
[8] United States Department of Labor. Unemployment insurance weekly claims, Seasonally Adjusted Data. April 20, 2023.

and housing (8.2%); while the total index less food and energy grew 5.6% (5.5% in the previous month).[9]

ii. Fed increased the range of the monetary policy rate to 4.75%-5.00% in March, 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 a still elevated inflation, although with a downward trend. Likewise, they reported being attentive to recent events related to the financial system, which could tighten credit conditions for households and companies, and affect economic activity, hiring, and inflation; although they reaffirmed that the country's banking system is solid and resilient. In addition, he anticipated the need for a more restrictive monetary policy, with the objective that inflation is situated at 2.0%, as well as reductions in the holding of securities acquired during the pandemic (quantitative tightening).[10]

3. Unemployment remained stable in the Euro Zone. The unemployment rate was 6.6% in February, the same value as in January and lower than that of February 2022 (6.8%).[11] The ratio of vacancies[12] stood at 3.1% in the fourth quarter of 2022,[13] same as the previous quarter.

4. Consumer prices in the Euro Zone slowed for the fifth consecutive month. Annual inflation for March was 6.9%, the lowest since February 2022 (5.9%). The variation of the total price index that excludes energy, food, alcohol, and tobacco reached a new all-time high for March of 5.7% (5.6% in February). Food, alcohol, and tobacco prices presented the highest interannual rate in March with 15.5% (15.0% in February), non-energy industrial goods increased 6.6% (6.8% in February) and services 5.1% (4.8% in February). It is important to highlight the drop in energy prices of -0.9% in March, reversing its marked double-digit growth trend of recent months (42.0% in June and 25.5% in December 2022).[14] Meanwhile, industrial producer prices fell -0.5% in February compared to the previous month, presenting an increase of 13.2% compared to February 2022.[15]

5. The Council of the European Central Bank maintained its restrictive monetary policy. It increased the interest rate on the main refinancing operations, the marginal lending facility and the deposit facility by 50 bps to 3.50%, 3.75% and 3.00%, respectively, effective from March 22.[16]

6. Most of CABEI's non-regional member countries present a decrease in their inflation levels. Spain, Mexico, Republic of Korea and Republic of China (Taiwan) reduced their annual inflation in March by -2.70 pp, -0.77 pp, -0.60 pp and -0.08 pp, reaching rates of 3.30%, 6.85%, 4.20% and 2.35%, respectively. On the contrary, Argentina presented an increase of 1.8 pp in inflation in March, reaching 104.30%. It should be mentioned that the Central Banks of Argentina, Colombia, and Mexico increased their monetary policy rate by 600.0 bp (March 16 and April

[9] US Bureau of Labor Statistics. Economic news release: Consumer Price Index Summary. April 12, 2023.
[10] Board of Governors of the Federal Reserve System. Federal Reserve issues FOMC statement. March 22, 2023.
[11] Eurostat. Euro area unemployment at 6.6%. 31 March 2023.
[12] Vacancy ratio = (number of vacant jobs) / (number of filled jobs + number of vacant jobs).
[13] Eurostat. Euro area job vacancy rate at 3.1%. March 20, 2023.
[14] Eurostat. Annual inflation down to 6.9% in the euro area. 19 April 2023.
[15] Eurostat. Industrial producer prices down by 0.5% in the euro area and by 0.6% in the EU. April 4, 2023.
[16] European Central Bank. Press Release Monetary Policy Decisions. March 16, 2023.

20, 300 bp each time), 25.0 bp (March 30) and 25.0 bp (March 31), registering rates as of April 21 of 81.00%, 13.00% and 11.25%, respectively.

7. Falling production indices in most of CABEI's non-regional partner countries, while unemployment falls slightly. The industrial production index declined in most countries in February, with the Republic of China (Taiwan) registering the most significant decline at -9.2%. On the other hand, the greatest variation in unemployment was registered by Colombia with a monthly decrease of -2.4 pp to reach 11.4% in February.

8. S&P Global Ratings[17] and Fitch Ratings[18] downgraded Argentina's rating to CCC- and C, respectively. Argentina decreed that certain non-financial public sector entities must exchange or sell their holdings of dollar-denominated bonds, under the local and international law, for peso-denominated debt under local law. S&P reduced the country's rating considering that this proposal suggests greater risks and vulnerabilities regarding the payment of commercial debt in foreign currency; in addition, it maintained the negative perspective due to the risks related to economic imbalances and the uncertainty of the 2023 elections. For its part, Fitch downgraded Argentina's rating considering that this transaction implies a unilateral exchange and a forced currency conversion, which constitutes an event of default under its criteria, advising that the rating would be downgraded to 'Restricted Default' (RD) upon execution of the exchange.

9. The FAO Food Price Index fell for the 12th consecutive month in March, after peaking a year ago. Since March 2022, the index has fallen by 20.5%, reflecting the decline in the price indices for vegetable oils (-47.7%), cereals (-18.6%), dairy products (-10.7%) and meat (-5.3%), which offset the increase in the sugar price index (7.7%). For vegetable oils, the index reflected the reduction in the prices of soybean, rapeseed, and sunflower oils due to the abundant world supply, which offset the rise in world prices of palm oil. In the case of cereals, prices were favored by the abundant world supply, the intense competition between exporters and the extension of the Initiative on the Exportation of Cereals through the Black Sea. Dairy products showed the fall in the prices of cheese and powdered milk, because of the increase in exportable supplies and a lower world demand for imports. The meat index reflects the reduction in poultry meat prices for the ninth consecutive month, due to lower world demand for imports. Finally, the sugar index experienced the second consecutive monthly increase, reaching the highest level since October 2016, due to concerns about the decrease in global sugar availability in the 2022/23 harvest.[19]

10. Most of the prices of the main commodities in the Central American region registered a year-on-year reduction. The products that showed falls in March compared to the same month of the previous year were palm oil (-45.3%), WTI oil (-32.4%), shrimp (-26.5%), Arabica coffee (-14.0%), beef (-10.6%) and gold (-1.8%). On the contrary, bananas (15.3%) and sugar (4.3%) reported increases. Likewise, beef (10.0%) and sugar (2.7%) registered the largest increases compared to the previous month, while WTI oil (-4.5%) and bananas (-3.5%) the most significant

[17] S&P Global Ratings. S&P Global Ratings downgraded Argentina's long-term foreign currency sovereign rating to 'CCC-' due to increased vulnerability; the outlook is negative. March 29, 2023.
[18] Fitch Ratings. Fitch Downgrades Argentina's Foreign Currency Rating to 'C'. March 24, 2023.
[19] Food and Agriculture Organization of the United Nations. FAO Food Price Index. April 7, 2023.

month-on-month falls.[20] OPEC+[21]announced a reduction in its crude oil production of 1.66 million barrels per day (MMbd) from May until the end of 2023, due to voluntary adjustments by some of its members;[22] these will be added to previously decided production downward adjustments of 2.0 MMbd.[23] This decision could generate a negative repercussion in the fight against global inflation.

[20] *The World Bank. Commodity Price Data. Updated on April 04, 2023.*

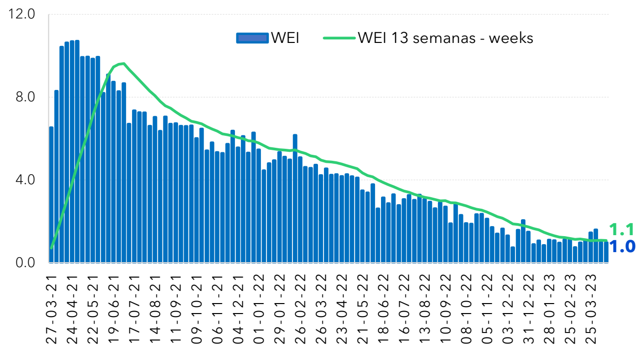
[21]OPEC is made up of 13 member countries. Another 10 oil-producing countries joined to form the OPEC+ alliance. OPEC produces about 40.0% of crude oil, exports represent about 60.0% and has 80.0% of the proven reserves in the world. World Economic Forum. Explainer: What is OPEC? November 11, 2022.

[22]*Organization of the Petroleum Exporting Countries.48th Meeting of the Joint Ministerial Monitoring Committee. April 3, 2023.*

[23]*Organization of the Petroleum Exporting Countries. 33rd OPEC and non-OPEC Ministerial Meeting. October 5, 2022.*

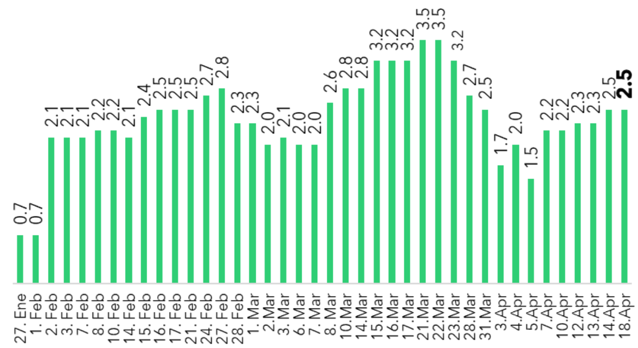
Panel 1 Selected US macroeconomic indicators

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



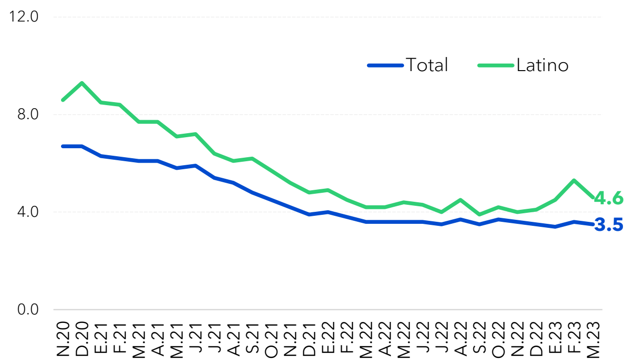
Slowdown in last two weeks

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



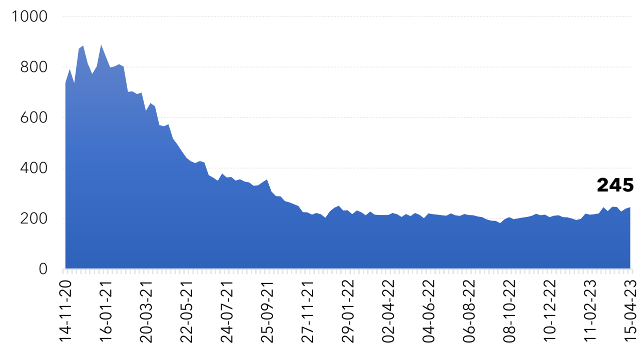
GDPNOW model estimated higher GDP growth

Graph 3. Unemployment rate (percent)



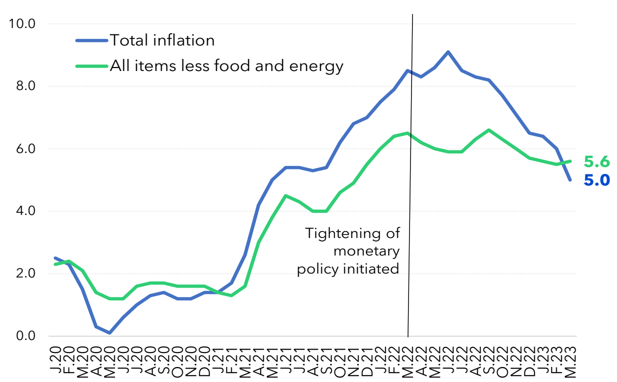
Total and Latino unemployment decreased

Graph 4. Weekly initial claims (thousands)



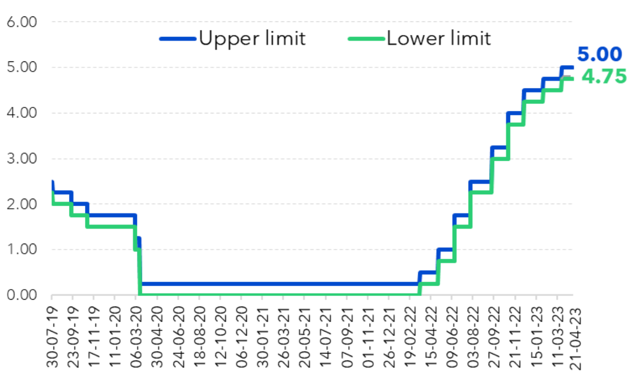
Applications increased in the last month

Graph 5. Inflation (year-on-year change, percent)



Decrease for the ninth consecutive month

Graph 6. Federal funds interest (percent)

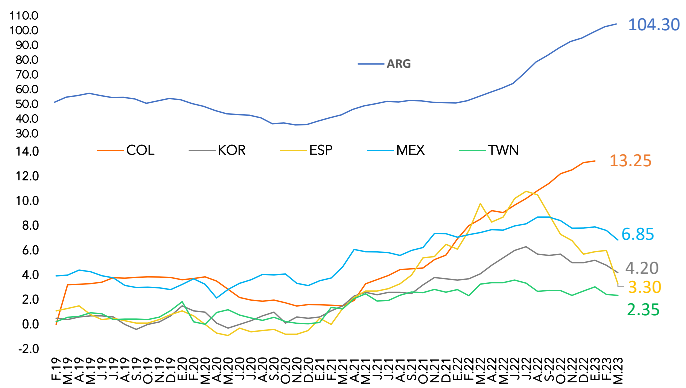


FED raised rate by 25 bp in March 2023

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.

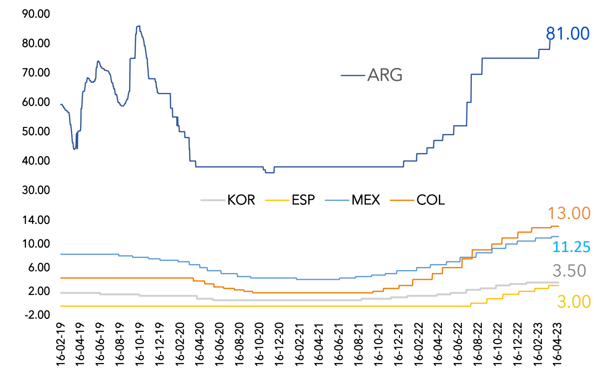
Panel 2 Selected macroeconomic indicators of non-regional CABEI member countries and commodity prices

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



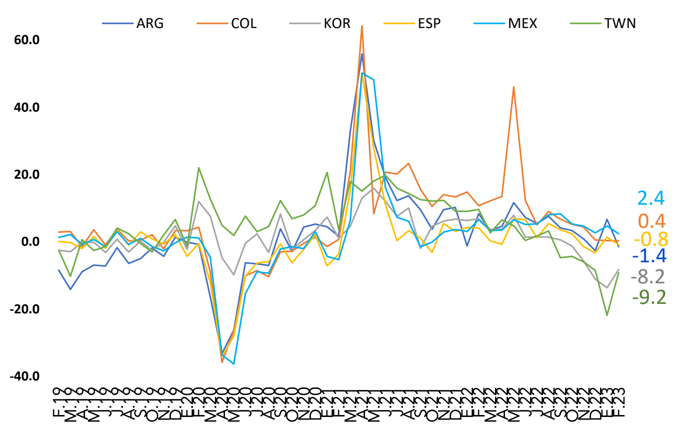
Inflationary pressures recede in most countries

Graph 8. Monetary Policy Rate (percent)



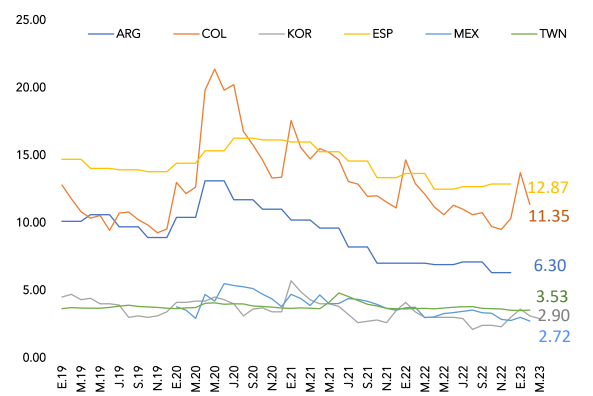
Tighter monetary policy efforts continue

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



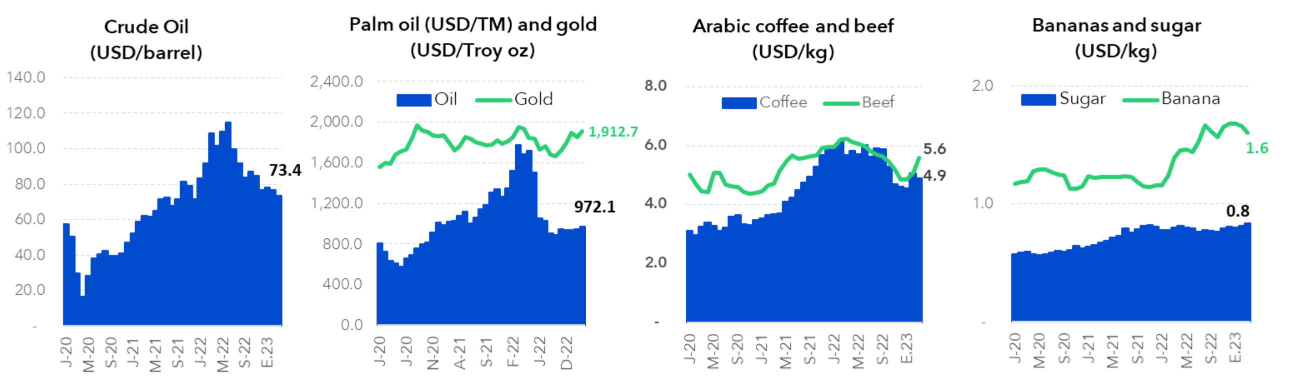
Industrial production fell in most countries

Graph 10. Unemployment rate (percent)



Decreased unemployment in most countries

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



Year-on-year price reduction in most commodities.

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

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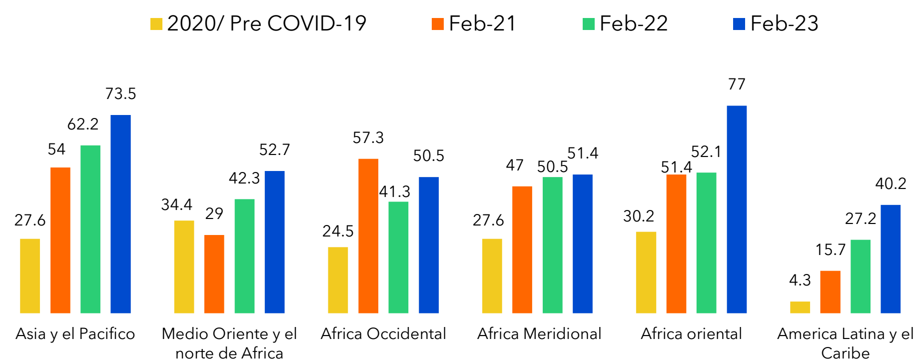
Box 1. Food insecurity and rise in international commodity prices

The global food crisis is on the rise. Hunger and malnutrition have increased in the last 4 years, with expectations that 345.2 million people will suffer from food insecurity* in 2023, which means that 1 in 23 people in the world need emergency assistance to survive, more than double that in 2020.[1,2]

In Latin America and the Caribbean, people in acute food insecurity have multiplied more than nine times between 2020-2023.** Recent estimates indicate that about 40.2 million people suffer from this situation, of which 10.9 million suffer from it severely[+] (See Graph A). This situation, together with the economic crisis, has caused an increase in regional migration.

Graph A. Acutely food insecure people (millions of people)



Source: Office of the Chief Economist with data from WFP Global Operational Response Plan 2023

The global economic context and the environmental impact are among the main triggers for the increase in the Central American region. Deterioration on macroeconomic conditions, reflected in high debt levels, elevated domestic inflation and high interest rates, reduce the access of food on many vulnerable households. Additionally, hurricane concurrency has limited the food production in the last years. Thereby, about 8.9 million people would be experiencing acute food insecurity, which represents 17.0% of the 2021 population. Among these, Honduras is the most affected with 2.6 million people, about 25.8% of the population (see Table A).

Uncertainty and volatility in the world economy present challenges that could exacerbate food crisis. Geopolitical tensions could keep international food and commodity prices high in 2023. This would further deteriorate the nutritional situation of the poorest. On average, a 5.0% increase in the real price of food increases the risk of acute malnutrition++ by around 9.0% globally[2]. Likewise, it has been estimated that a 1.0% increase in the international price of food is associated with an increase of 0.3% in the domestic price of food one-year later[3].

Table A. Food insecurity in the Central American region 2022-2023

Country	Food Insecurity[1] *(millions of people)*	% of population compared to 2021[2]	% affected regarding LAC
Central America	8.9	17.0	22.2
Guatemala	3.2	17.5	8.0
El Salvador	0.9	13.9	23
Honduras	2.6	25.8	6.5
Nicaragua	0.7	10.4	1.7
Dominican Republic	1.5	13.6	3.7

Causes: *Increase in inflation[3], increase in the price of the basic food basket, uncertainty in global markets, weather emergencies.*	**Answers:** Price controls, subsidies, monetary and in-kind support to the agricultural sector to stimulate local production, tax cuts, cash and/or in-kind transfers to households, trade opening measures.

Notes*:* *1.* Food insecurity is measured with the CPI/C 3+ for low-middle and low-income countries. 2. The population was taken from the CABEI 2021 statistical yearbook. 3. Many of these factors were derived or intensified by the conflict in Ukraine.
Source: Office of the Chief Economist with data from WFP Global Operational Response Plan 2023.

The macroeconomic policy stance should remain contractive in most economies. Monetary policy should continue to be focused on reducing inflation levels. For its part, fiscal policy should replace broad-based (non-selective) programs and focus on supporting vulnerable households, this will help preserve the price signal and guarantee fiscal sustainability[3].

Notes: * A person is food insecure when they lack regular access to safe and nutritious food for normal growth, development, and an active and healthy life. ** Acute food insecurity is defined in a specific area and threatens human lives or livelihoods. + Severe food insecurity is when people have probably run out of food, suffer from hunger, in the extreme case go without food, putting their health and well-being at serious risk[4]. ++ Results from weight loss associated with recent periods of famine or disease that develops very quickly and is limited in time[5].

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2. World Food Programme.Global Operational Response Plan 2023. February 2023.
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4. University of Conception.Glossary: Food insecurity and other terms to understand.August, 2020.
5.FAO. Food and nutrition security.2023.

Box 2: Banking system disturbance

Silicon Valley Bank (SVB) had the second largest bank failure in US history and the largest since the 2008 financial crisis. This was the 16th largest bank in the country, with more than USD 210 billion in assets as of December 2022. Its clients withdrew USD 42 billion on March 9 and its share price fell by more than 60.0%. Given this scenario, the Federal Deposit Insurance Corporation took control of the entity on March 10.

High concentration of loan portfolio and liquidity problems were the triggers. The economic situation of technology companies (SVB's main clients) became complicated, so many chose to withdraw their deposits. Faced with the need for more liquidity, SVB was forced to sell fixed-income bonds that it held in its assets. The foregoing implied assuming significant financial losses, due to the decrease in the price of bonds because of the significant increase in interest rates worldwide.

SVB's situation originated a contagion effect to other banking entities. Signature Bank it was intervened on March 12, after its depositors withdrew billions in deposits; this is the 29th largest bank and was also linked to the technology and cryptocurrency sector. On the other hand, shares of First Republic Bank, the 14th largest bank in the US, fell more than 70.0% between March 8 and 13.

The contagion also spread to Europe. Credit Suisse, the second largest bank in Switzerland with more than USD 570 billion in assets, had previously experienced a series of events that increased its risks and was perceived as a vulnerable entity. Credit Suisse shares fell more than 50.0% between March 17 and 20. Union of Swiss Banks (UBS), the largest Swiss bank, decided to carry out an emergency bailout by paying 3 billion Swiss francs (USD 3,200.0 million) for Credit Suisse Group. On the other hand, Deutsche Bank, the largest bank in Germany, lost up to 14.0% in the price of its shares during March 24, although at the end of the day it moderated its fall to 8.5%.

The Federal Reserve (Fed) introduced stabilization measures to calm the market, while private banks supported their peers. The Fed created the Bank Term Funding Program making additional funding available to depository institutions; likewise, it increased in a historical manner the credits granted through the discount window. In total, the Fed pumped $300 billion into the banking market during the week ending March 15. On the other hand, eleven private banks announced on March 16 that to support First Republic Bank they would deposit USD 30,000.0 million.

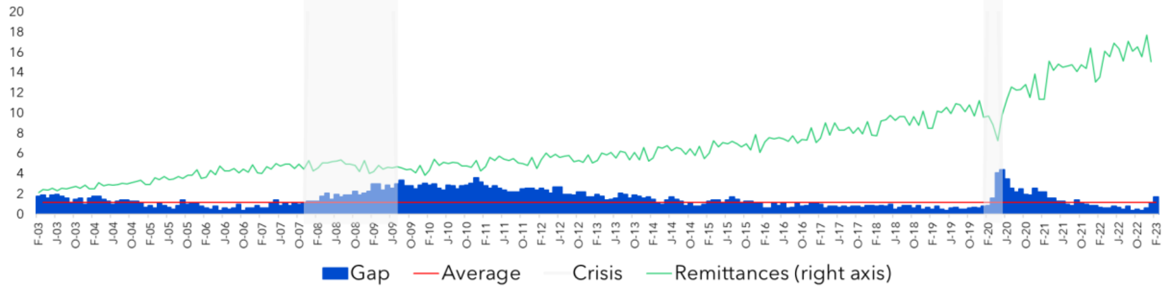
In this scenario, the monetary and financial authorities have the challenge of recovering and strengthening market confidence. The tightening of monetary policy has drained liquidity from the markets, imposing significant challenges on banking entities by exacerbating the risks to which they are exposed. The most vulnerable institutions, such as those with excessive exposure to leverage or too much reliance on short-term funding, could run into trouble. Therefore, the management of monetary policy should not only observe the high levels of inflation, but also the impacts that may arise in the financial system.

Sources: Office of the Chief Economist with information from El Economista, Cinco días, El País, Bankrate, Securities and Exchange Commission (SEC) and Federal Reserve Statistical Release.

Box 3: Latin unemployment in the United States

The labor market in the United States continues to recover, however, the situation is not the same for everyone, especially for Latinos. Total unemployment rate was 3.6% in February 2023, while Latin unemployment stood at 5.3%, a difference of 1.7 percentage points (pp). Historically, latinos have had a higher unemployment rate than the total, and this gap often widens during times of crisis. For example, it reached an average of 3.6 pp between July 2009 and December 2010, as a result of the 2008 financial crisis, and 4.4 pp in May 2020, during the COVID-19 pandemic.

Graph A: Gap between total and latin unemployment



Note: The gap is the difference between total unemployment and Latino unemployment. The gray stripes mark the crisis periods. Remittances in millions of USD. Red line shows the average level (1.19) of the gap in a period from 2013 to 2022.
Source: Office of the Chief Economist with information from SECMCA; US Bureau of Labor Statistic and National Bureau of Economic Research.

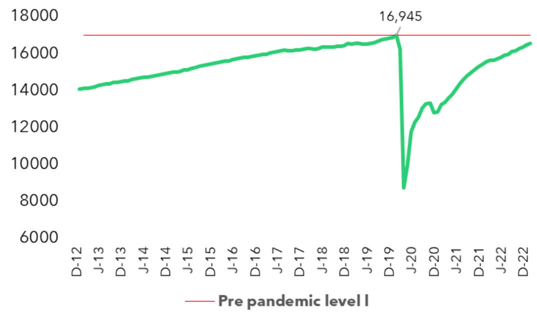
Latino unemployment increases and remittances tend to decrease as a result of declining income. During the 2008 crisis, it was much harder for Latinos to regain their pre-crisis level of employment, so remittances did not recover until after about 4 years. The same behavior is observed during the COVID-19 pandemic for a shorter period of time, with remittances benefiting from the aid packages provided by the United States government.

Latin workforce has driven employment growth in the U.S. and reached 29.0 million people in 2020, with projected growth of up to 35.9 million by 2030. Latinos represent 18.0% of the total workforce, of which 11.0% are Central Americans. Among the main activities where they are employed, agriculture, fishing, and forestry stand out (43.0% of the workforce in that sector), as well as cleaning and maintenance of buildings and grounds (37.9%), construction (35.7%), and transportation and material moving (23.9%).

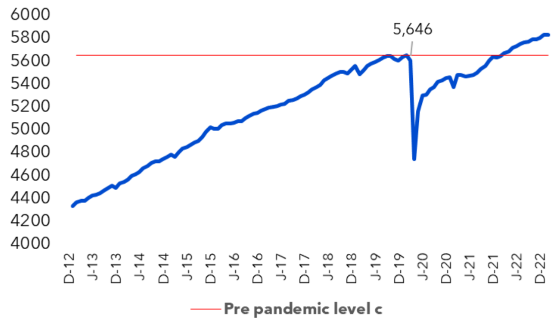
Social and geographic factors combine to explain the gap between total and Latin employment. Among them, the low educational level of the Latinos who migrate, the geographical areas where they manage to access housing, which are usually far from productive areas, access to transportation in those areas, and the fact that women cannot work because they have to stay at home to take care of their children stand out. On the other hand, the low bargaining power of Latinos and, in some cases, discrimination by establishments at the time of hiring, are elements that make this gap increase in times of crisis.

The educational level is usually associated with a better opportunity to obtain a job. 24.0% of Latinos who are incorporated into the US labor force have a college degree, but the remainder only have completed high school or less. These values provide a guide to why Latinos entering the labor market seek basic service activities, such as agriculture, cleaning, hotels, construction, drinks, and restaurants.

Graph B: Leisure employment level



Graph C: Construction employment level



Fuente: Oficina del Economista Jefe con información del *U.S. Bureau of Labor Statistics*

During the pandemic, many Latinos lost their jobs, as the hospitality industry is one of the sectors most affected by the restrictions caused by COVID-19. The level of employment in the hotel industry has not yet recovered its pre-crisis level (see graph B), it is expected that it will take around 4 years to recover its pre-crisis levels. Likewise, in other sectors, many jobs were automated, which is why some jobs were lost and could not be recovered. On the contrary, in the construction sector, as it is labour-intensive, it has already managed to reach and exceed the level it had before the crisis caused by the COVID 19 pandemic arrived (see graph C).

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1. National Bureau of Economic Research. Business Cycle Dating Committee Announcements. 2023.
2. U.S. Bureau of Labor Statistics. 2021
3. U.S. Bureau of Labor Statistics. Industries at a Glance. February 2023.

II. The Central American region maintains growth above that prior to the pandemic

11. Economic activity maintains stable growth rates. The Monthly Index of Economic Activity sustained positive variations throughout the region at the end of December 2022. Regional average growth reached 3.9%, accelerating by 0.3 pp compared to November, higher than 2019 average rate (2.3%). Likewise, in February 2023 a positive trend was upheld in Costa Rica (5.2%), Guatemala (3.7%) and the Dominican Republic (1.7%). 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 has contracted for eleven consecutive months in Costa Rica and nine months in Nicaragua; this may be due to the influence of high raw material costs, higher financing cost and less public investment, among other factors. Likewise, output in agricultural activity has dropped in El Salvador, Costa Rica and Honduras.

12. Labor market continues to expand robustly. Formal employment increased in all countries for which information is available.[24] The Dominican Republic reported growth rate of 6.3% on March, meanwhile during February it increased in Guatemala and Nicaragua by 5.2% and 0.8%, lastly El Salvador reported a 3.3% expansion. It should be noted that both Guatemala and the Dominican Republic grew the most compared to their level in February 2020 with 15.7% and 13.4%, respectively.

13. Inflation on a downward trend. The combined effects of a more restrictive monetary policy, slowdown in commodity prices and less inflationary pressures contributed inflation slowdown across the region.

14. The region upholds a restrictive monetary policy. Banco de Guatemala increased its policy rate by 25 basis points to 4.75%, continuing with its gradual strategy so that inflation converges without significantly affecting economic growth prospects. Meanwhile, Dominican Republic and Nicaragua stood still at 8.50% and 7.00%, respectively, as well as in Honduras where there hasn't been any change since November 2020. The Central Bank of Costa Rica lowered its rate by 50 basis points to 8.50%.

15. The cumulative financial balance of the central government improved in most countries. All the countries closed the year 2022 with positive growth in public revenue, a trend that seems to continue in 2023: Costa Rica accumulates a growth of 10.6% in January and Guatemala of 10.4% in February; On the other hand, El Salvador presents a contraction in income of -0.9% in January. In general, spending shows moderate growth in most countries, between 3.5% in Costa Rica and 5.5% in Nicaragua, and contracted in Honduras (-0.8%), allowing an improvement in the fiscal position in relation to the previous month and year. The exceptions were the Dominican Republic, El Salvador and Guatemala, where the higher increase in spending, compared to income, led to an increase in the deficit.

16. Foreign trade slows down compared to the previous year. The year-on-year variation of accumulated growth ranged from -13.4% in Honduras to 20.9% in Panama.[25] Likewise, there is

[24] Measured by the number of contributors to social security.

[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.

a variation in imports from -8.2% in Honduras to 51.2% in Panama. Given the lower growth (or greater drop) of exports compared to imports, the trade deficit deteriorated in all countries compared to the same period of the previous year.

17. Accumulated family remittances rebounded. All countries exhibit positive interannual variations in cumulative balances; Nicaragua stands out with a growth of 62.8% in January. During the same month, remittance income amounted to USD 802.0 million in the Dominican Republic, USD 682.5 million in Honduras, and USD 317 million in Nicaragua, while in February in Guatemala they totaled USD 2,767.6 million and in El Salvador USD 1,188.4 million.

18. The exchange rate registered a superior level in most of the countries. The interannual variation showed an appreciation for Costa Rica (-15.8%) in March and the Dominican Republic (-1.0%) in February. The inter-monthly variation registered a slight appreciation in most of the currencies, except for Nicaragua, which showed a depreciation of 0.2%. The interest rate differential resulting from increases in the US monetary policy rate may explain part of the dynamics of this variable. The effect on Costa Rica and the Dominican Republic has been less since both countries have made large increases in their policy rates, compared to the rest of the countries. Additionally, the flow of remittances can be a factor that decreases the variability in the exchange rate in countries like Guatemala and Honduras.

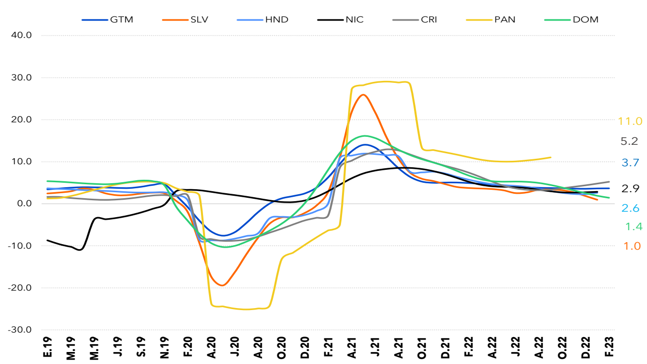
19. Net international reserves (RIN) presented contractions. The greater trade deficit, generated by an increase in imports greater than that of exports, coupled with the slowdown in remittances, determined the year-on-year contraction of the NIR in most countries except Costa Rica (30.4% in February), Nicaragua (12.0% in January) and the Dominican Republic (5.0% in February). Likewise, the rise in the Fed's 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.[26]

20. S&P upgrades Guatemala's rating to 'BB' with a stable outlook[27]. The upgrade is based on the resilient economy and long-dated macroeconomic stability. Guatemala's solid external position, moderate government debt ratio, and sound monetary policy constitute favorable conditions to handle the unfavorable external economic environment. However, additional measures are still required to promote long-term growth and address important social needs. Cautious macroeconomic management is expected to prevail in the medium term.

[26] Panama and El Salvador are excepted from this limit with 2.3 and 2.1 months, respectively.
[27] S&P Global Ratings (April 13, 2023). S&P Global Ratings upgraded Guatemala's long-term foreign currency sovereign rating to 'BB' for economic resilience; perspective is stable

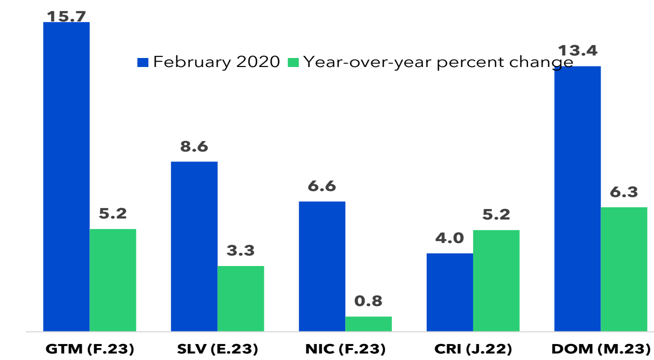
Panel 3 Selected Central American Macroeconomic Indicators

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



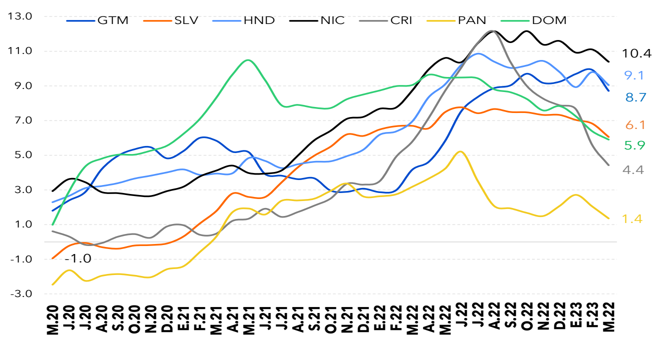
Economic activity converges to pre-pandemic rates

Graph 13. Formal employment (variation, percentage)



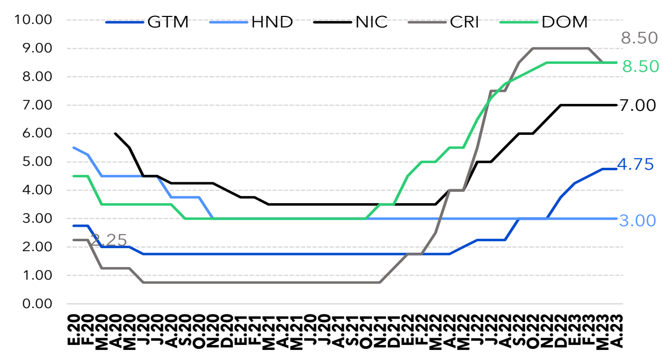
Dynamics have led to robust employment growth

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



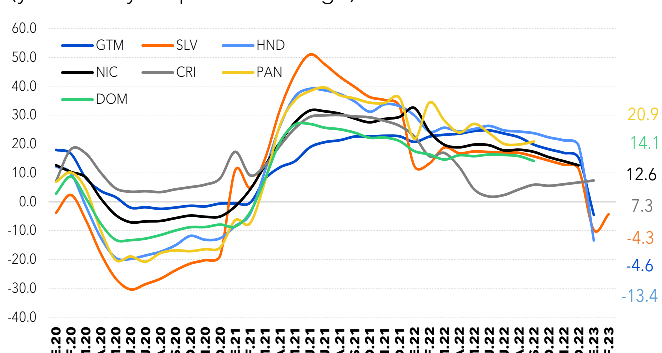
External pressures continue to affect inflation, but it is beginning to decline in some countries

Graph 15. Monetary Policy Rate (percent)



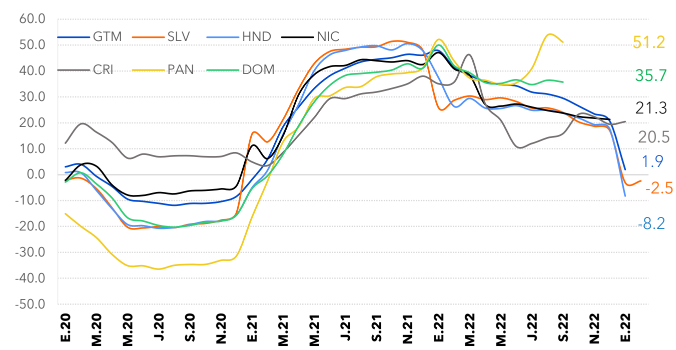
Restrictive policy stance with rate increases to offset inflation

Graph 16. Accumulated exports (year-over-year percent change)



Exports show signs of slowdown and in some cases a contraction compared to the previous year

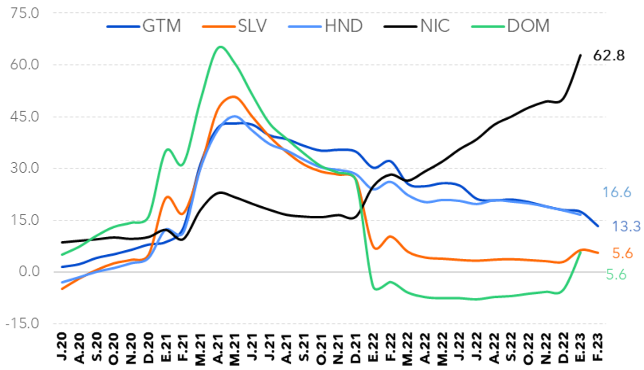
Graph 17. Accumulated imports (year-over-year percent change)



Imports also show a downward trend, although to a lesser extent than exports

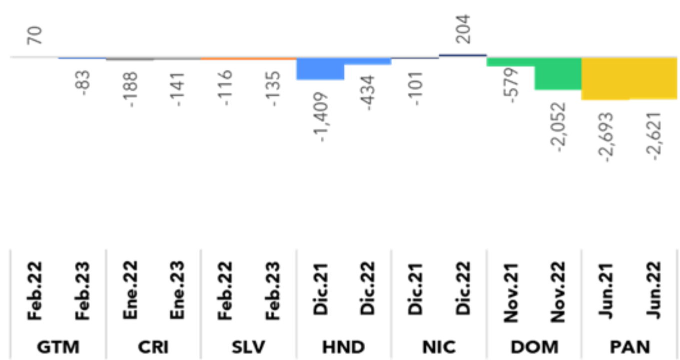
Source: Office of the Chief Economist with information from the SECMCA as of April 20.

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



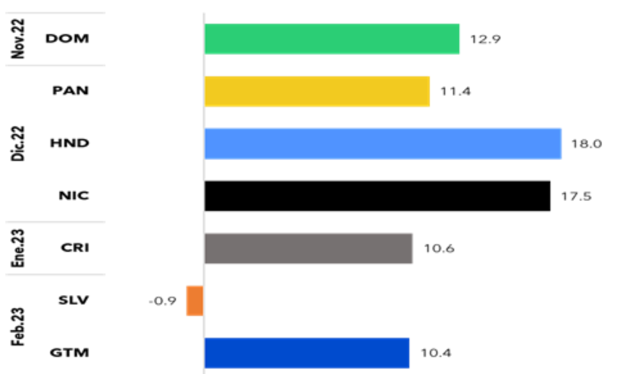
Accumulated family remittances rebounded in January

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

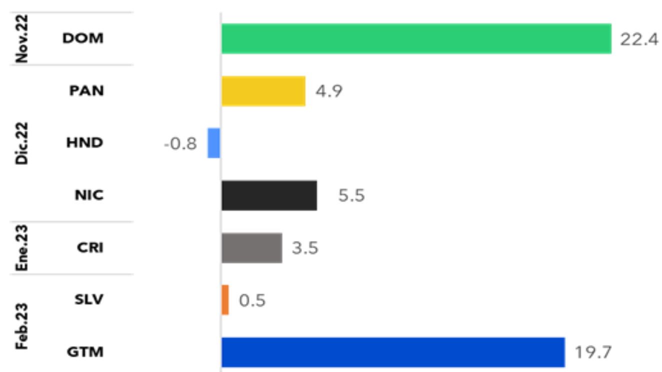


Majority of countries with improvements in the fiscal balance

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

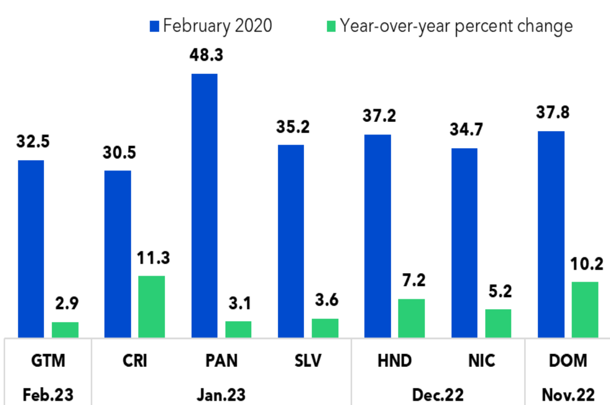


Graph 21. Central government: total accumulated expenditures (year-over-year percent change)

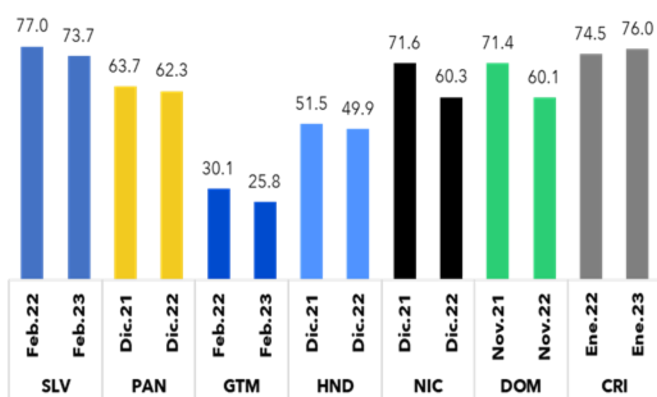


Revenues grow more than public expenses for the majority of countries, favoring an improvement in the financial balance

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



Graph 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 April 20.

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

Moody's Countries	Rating as of March 2020		Previous rating		Rating as of April 20, 2023	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
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	Rating as of March 2020		Previous rating		Rating as of April 20, 2023	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
Belize	B-	Stable	SD	n.a.	B-	Stable
Guatemala	BB-	Stable	BB-	Positive	BB	Stable
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	Rating as of March 2020		Previous rating		Rating as of April 20, 2023	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
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.	C	n.a.
Mexico	BBB	Stable	BBB	Stable	BBB-	Stable

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

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