CABEI
Central American Bank for Economic Integration

MONTHLY ECONOMIC
SITUATION REPORT

OFFICE OF THE CHIEF ECONOMIST

OCTOBER 2022

The monthly economic situation report for October 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 November 16, 2022. The preparation of the document was led by Armando E. Navarrete, Chief Economist. The research and writing were carried out by Miguel Ángel Medina Fonseca (Economist), Leily Mendoza (Economist), Fanny Vargas (Country Economist), Rodrigo Méndez (Country Economist) and Clara Rivera (Junior Economist).

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OPINION

The international context continues to be marked by mixed growth signals and by the predominance of high inflation in most countries. Although crude oil and food prices have trended downward in recent months, inflation is still above 2021 levels. In the short term, a recession is expected in the Euro Zone but not yet in the US, although these projections carry a higher degree of uncertainty than in previous years.

Central American economies are not immune to international economic trends, exhibiting stable economic growth rates as well as a high inflation rates and more restrictive monetary policies. The relatively good performance of the US will continue to boost economic activity in Central America in the following months, although growth is expected to moderate in 2023.

However, the elevated level of uncertainty worldwide influenced by geopolitical tensions, high fuel prices, the persistence of inflationary pressures and the restrictive position of the monetary policy of the large central banks, requires prudent management of the economic policy of the countries of the region, which are highly exposed to external shocks. There is a need for adequate evaluation of economic and physical vulnerabilities and the adoption of mitigation measures and the strengthening of resilience in the face of shocks of various origins (economic, environmental, etc).

Armando E. Navarrete
Chief Economist

MONTHLY ECONOMIC SITUATION REPORT

I. Mixed results realized in world economic indicators

1. US reported economic indicators with a heterogeneous reading of economic activity performance. Most recent quarterly GDP estimates reported a pick-up in activity at the start of last quarter of the year, while unemployment and jobless claims rose. For its part, the restrictive monetary policy of recent months, coupled with the slowdown in international commodity prices, have combined to record a slowdown in inflation.

i. Weekly economic index[1] continued to soften, growing 2.1% as of November 5, while the 13-week moving average rose 2.4%.[2]

ii. GDPNow model estimated an increase in real GDP of 4.0% for the fourth quarter of 2022 (as of November 9), higher than the initial estimate of 3.1% (October 28), this being the highest result of the year. The higher growth was due to the updating of the employment and wholesale trade statistics, among others.[3,4]

iii. Total non-agricultural employment rose by 261,000 people in October 2022 (315,000 in September), the lowest value in the last 22 months. On the other hand, total and Latino unemployment increased to 3.7% and 4.2%, respectively.[5]

iv. Initial claims for unemployment benefits reached 225,000 in the week ending November 5, up 7,000 from the previous week.[6] For its part, the moving monthly average increased by 7,750 requests compared to the previous month.

2. Inflation slowed in US for fourth consecutive month. This behavior reflected the lower growth in fuel and food prices in October.

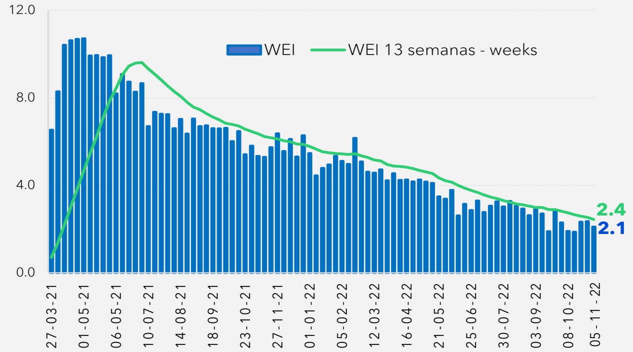
i. Year-over-year inflation was 7.7% in October 2022 (8.2% in September), the lowest rate since January 2022. The groups that registered the highest year-over-year increases were fuels (19.3%), energy services -electricity, piped gas - (15.6%), food (10.9%) and sale of new vehicles (8.4%); while the total index minus food and energy grew 6.3% (6.6% in September).[7]

ii. FED increased the monetary policy rate range to 3.75% - 4.00% in November, an increase of 75bp as in the three previous meetings, and expects to continue increasing the target range in the future. Likewise, it will continue to reduce the holding of securities acquired during the pandemic (quantitative tightening).[8]

[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). November 10, 2022.
[3]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).
[4]Federal Reserve Bank of Atlanta. GDP Now. Estimate for 2022: Q3. November 9, 2022.
[5]United States Bureau of Labor Statistics. Employment situation summary. November 4, 2022.
[6]*United States Department of Labor. Unemployment insurance weekly claims, Seasonally Adjusted Data. November 10, 2022.*
[7]US Bureau of Labor Statistics. Economic news release: Consumer Price Index Summary. November 10, 2022.
[8]*Board of Governors of the Federal Reserve System. Federal Reserve issues FOMC statement.*November 2, 2022.

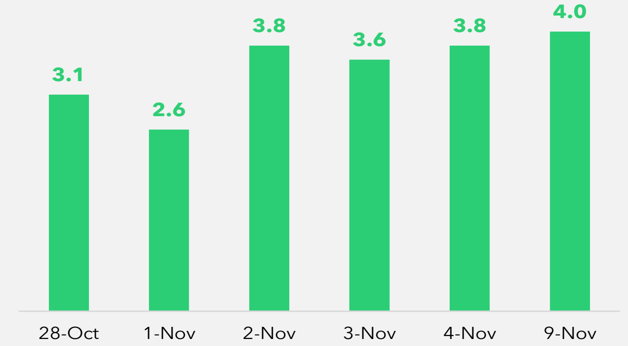
Panel 1. Selected macroeconomic indicators for US

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



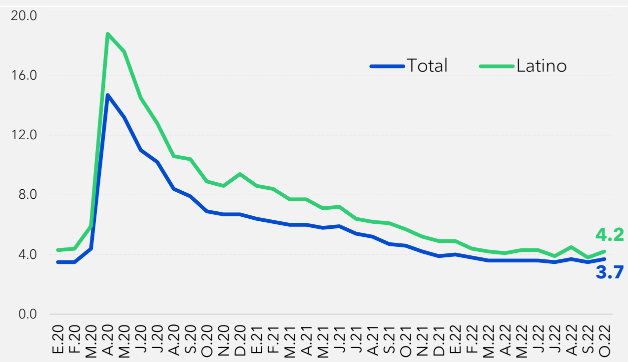
Weekly indicator shows slowdown

Graph 2. GPDNOW – fourth quarter real GDP estimate
(seasonally adjusted annualized rate, percent)



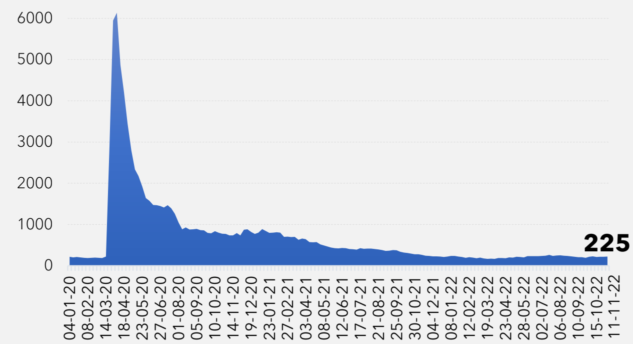
Nowcasting with the highest GDP growth in the year

Graph 3. Unemployment rate *(percent)*



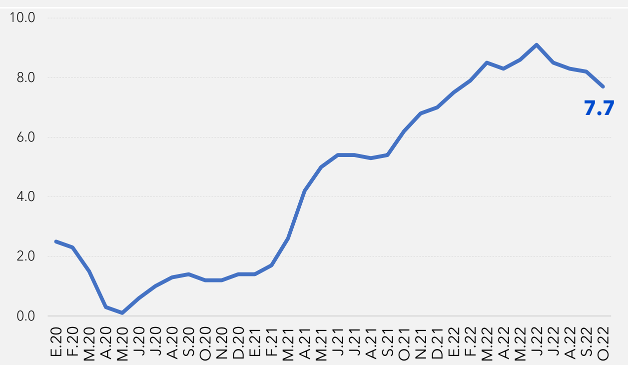
Labor market with less dynamism while total and Latino unemployment increased

Graph 4. Initial subsidy claims *(thousands)*



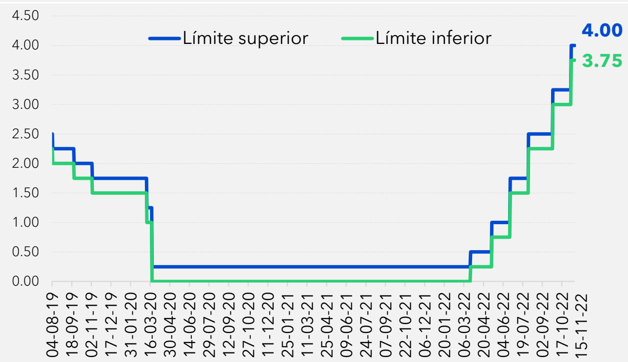
Requests increased in the last moving month

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



Slowdown in prices of energy and food products reduced inflation

Graph 6. Federal funds interest *(percent)*



FED raised its rate by 75 bp to curb inflationary pressures and anchor expectations

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.

3. Quarterly GDP grew slightly, and unemployment fell marginally in Euro Zone. Preliminary data reflects that production increased 0.2% compared to the previous quarter and 2.1% in relation to the same period of 2021.[9] For its part, the unemployment rate was 6.6% in September 2022, lower than reported in August (6.7%) and in the same month of the previous year (7.3%).[10] Despite the positive results, the Euro Zone and most of the states members are expected to enter a process of technical recession in the last quarter of the year due to high uncertainty, strong pressures on energy prices, erosion of household purchasing power, a weaker external environment and tighter financial conditions. Contraction of economic activity is expected to continue until the first quarter of 2023.[11]

4. Prices continue to rise in the Euro Zone, while the ECB raised monetary policy rates for the third time this year. Euro Zone year-over-year inflation is expected to be around 10.7% in October 2022 (9.9% in September). Energy would have the highest interannual rate 41.9% (40.7% in September), followed by food, alcohol and tobacco with 13.1% (11.8% in September), non-energy industrial goods with 6.0% (5.5% in September) and services with 4.4% (4.3% in September).[12] For its part, the Governing Council of the European Central Bank (ECB) raised the three official interest rates by 75 bp and expects further increases in future meetings to return to the inflation target of 2.0% in the medium term. With this decision, the interest rate of the main financing operations and the interest rates of the marginal credit facility and the deposit facility increased to 2.00%, 2.25% and 1.50%, respectively.[13]

5. Inflation registered increases in half of CABEI's non-regional countries. The other half of the countries experienced drops in their level of inflation, Spain standing out with a reduction of 1.6 percentage points in October (up to 7.3%). In addition to the monetary policy rate increase applied by the European Central Bank, which directly affected Spain, the monetary authorities of Colombia and Mexico raised the rate to deal with inflationary pressures and short-term expectations. In this regard, the Board of Directors of the Banco de la República de Colombia increased the interest rate by 100 bp[14] up to 11.0% and the Central Bank of Mexico at 75 bp[15] up to 10.0%. Finally, the industrial production index decreased in most of the countries during the last month, while unemployment showed no significant changes.

6. Fitch reduced the credit rating of the Republic of Argentina from CCC to CCC-. According to the rating agency, the downgrade reflects the country's macroeconomic imbalances and its highly constrained external liquidity position, so that its ability to pay is expected to weaken further as foreign currency debt service increases in the coming years.[16]

7. Most of the main commodities prices in Central American region fell compared to the previous month. The products that registered month-over-month price falls were Arabica coffee (-10.2%), beef (-3.4%), bananas (-3.0%), palm oil (-2.2%), sugar (-1.1%), gold (-1.0%) and shrimp (-0.4%); except for bananas (36.5%), the rest of the products also decreased their prices compared to October of the previous year, highlighting the reduction of palm oil (-32.2%) and shrimp (-20.8%). For its part, the average price of WTI oil was USD 87.3 a barrel in October,

[9]Eurostat. Preliminary flash estimate for the third quarter of 2022 GDP up by 0.2% in both the euro area and the EU. October 31, 2022
[10]*Eurostat. September 2022. Euro area unemployment at 6.6%. november3, 2022.*
[11]European Commission. Autumn 2022 Economic Forecast: The EU economy at a turning point. November 11, 2022.
[12]*Eurostat. Flash estimate - October 2022. Euro area annual inflation up to 10.7%.October 31, 2022.*
[13]European Central Bank. Monetary policy decisions. October 27, 2022.
[14]Bank of the Republic of Colombia. Board of Directors of the Bank of the Republic. October 31, 2022.
[15]Central Bank of Mexico. November 11, 2022.
[16]Fitch Rating. Fitch Downgrades Argentina to 'CCC-'; Removes From UCO. October 26, 2022.

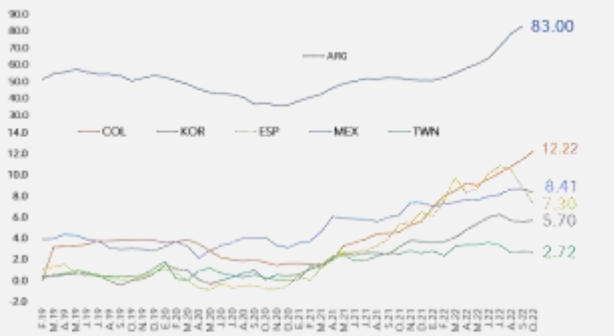
which represented an increase of 4.0% compared to September and 7.3% compared to the same month of the previous year.[17]

8. The food price index presented a slight monthly reduction in October, maintaining the downward trend for the seventh consecutive month. The price index fell by -14.9% from its all-time high in March of this year. The monthly variation was -0.1% and the interannual variation was 2.0%. Most of the groups that make up the index presented monthly decreases ranging from -0.6% in the price of sugar to -1.7% in dairy products, offsetting the 3.0% increase in cereal prices. Among the factors that contributed to the increase in the latter were the following: world wheat prices increased 3.2% mainly reflecting the uncertainty related to the Black Sea Grain Initiative; the shortage of supplies in the United States, after a downward revision of the production, also affected the markets; international coarse grains prices increased 3.5% month-on-month, driven by a 4.3% increase of corn world prices, due to lower production prospects in the United States and the European Union, together with deteriorating planting conditions in Argentina and uncertainty about the continuation of exports from Ukraine.[18]

[17] *The World Bank. Commodities Price data. November 2022.*
[18] Food and Agriculture Organization of the United Nations. FAO Food Price Index. November 14, 2022.

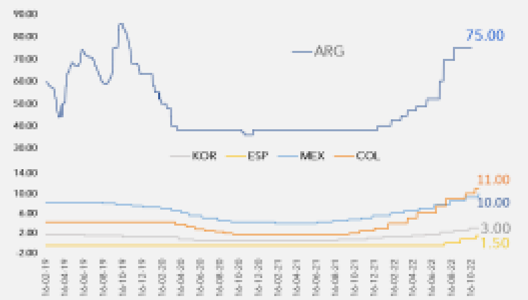
Panel 2. Selected macroeconomic indicators non-regional CABEI member countries and commodity prices

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



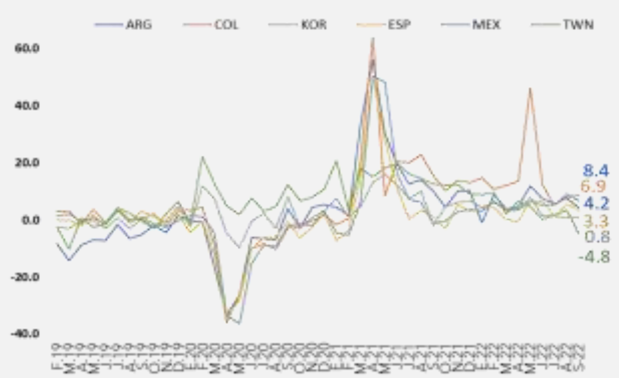
Inflation continued to rise in half of the non-regional countries

Graph 8. Monetary Policy Rate *(percent)*



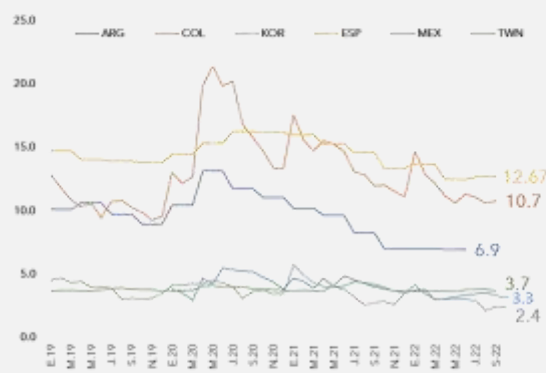
Increases in the monetary policy rate continue to curb inflation and contain expectations

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



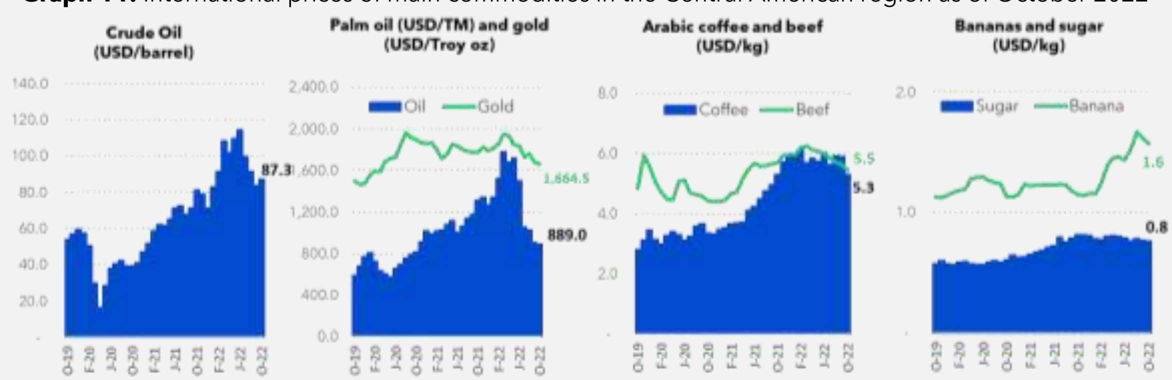
Industrial economic activity with a slight downward trend

Graph 10. Unemployment rate *(percent)*



Labor market without significant changes

Graph 11. International prices of main commodities in the Central American region as of October 2022



Most commodity prices fell from the previous month

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

Box 1. Indicators preview point to the start of a economic slowdown in 2022

The perception of the situation and the expectations of economic agents collect relevant information on the possible evolution of the economic cycle. In this regard, some indicators have been identified that have preceded or anticipated both economic recessions and the subsequent period of recovery. Among this set of indicators we can mention the manufacturing managers' purchase index, the Composite Leading Indicators (CLIs), consumer confidence, the yield curve of US treasury bonds, among others. The recent results for these variables are presented below:

– **The Global Manufacturing Purchasing Managers Index (PMI)[1] was 49.4 in October, marking the second consecutive month below 50.0 and reaching a 28-month low.** These results are consistent with a sustained reduction in production amid deteriorating demand and a worsening outlook (S&P Global Market Intelligence).

– **The CLIs continue to indicate a slowdown in growth in the United States, the United Kingdom, Canada and the Euro Zone in October**. These were weighed down by high inflation, rising interest rates and falling share prices (OECD)[2].

– **The US consumer confidence index fell in October, after two consecutive rises in the previous months (The Conference Board).** This indicator is made up of two sub-indices, the current situation and the expectations; the former fell sharply, suggesting that economic growth slowed at the start of the fourth quarter, while the latter shows that near-term prospects for consumers remain grim, suggesting that recession risks may be increasing.

– **The US Home Buying Sentiment Index declined for the eighth consecutive month in October, recording the lowest reading since its compilation began in 2011.**This result reflects the expectations that the housing market will continue to cool down in the coming months. Persistently high home prices and unfavorable mortgage interest rates continue to fuel consumer concerns about housing affordability (Fannie Mae).

– **The US treasury yield curve has inverted since July**. This is seen when short-term bonds pay a higher rate than long-term, which is considered a sign of pessimism and has often preceded an economic recession in this country.

Notes: 1. It shows the direction of current and future economic trends in the industry. An index above 50 indicates expansion from the previous month, below 50 contraction and a value of 50 would mean no change. 2. This indicator anticipates between 6 and 9 months the turning points of the economic cycle. **Sources:** S&P Global Market Intelligence. Global manufacturing PMI slips further into contraction territory as new orders decline solidly. November 3,2022; OECD. Composite Leading Indicators (CLI). November 9,2022. The Conference Board. US Consumer Confidence. October 25,2022. Fannie Mae. National Housing Survey. Consumer Confidence in Housing Hits New All-Time Low. November 7,2022.

Box 2. Crisis in cryptocurrencies market

The intermediation of cryptocurrencies presents certain vulnerabilities. The one experts cite the most is that it is not subject to regulation, so the billions of dollars that are traded in this market are made outside of a supervisory framework. The FTX bankruptcy declaration, the second largest cryptocurrency exchange in the world until a few weeks ago, exposed the weaknesses present in this market. Its fall was generated by a combination of factors, among which weak governance measures, insufficient internal controls, high liquidity risk in fund management and, according to preliminary investigations results, its financial information was unreliable.

FTX was considered an exemplary and successful company in cryptocurrency market. It was run by Sam Bankman-Fried, offered the service of buying and selling digital currencies, and had its own token[1] called FTT. In 2021, its income grew more than 1,000.0% compared to the previous year to USD 1,020.0 million, and it was valued at USD 32.0 billion at the end of that year. Despite this fast growth, FTX announced that it would file for bankruptcy on November 11, causing a crisis in the digital asset market.

What caused the fall of FTX?

FTX provided billions of dollars funding Alameda Research. Alameda Research is a cryptocurrency trading company, also operated by the FTX CEO. In recent years, Alameda began to borrow money for various purposes, including making risky investments; even, in the attempt to bail out some bankrupt crypto companies, it provided hundreds of millions of dollars in financing. In the midst of this situation, some of Alameda's lenders requested their money back, so to meet these obligations, FTX took from its clients' deposits to inject resources into Alameda. The Wall Street Journal reported that FTX had lent about $10.0 billion to Alameda Research.

A leaked document showed that Alameda Research had billions of dollars in FTT. This cast doubt on FTX's ability to hold its own token and raised investor fears about their funds safety (Nov 2, 2022). Binance, the world's largest cryptocurrency exchange house, announced its intention to sell its FTT tokens, worth approximately $500.0 million, due to "recent revelations" (November 6); this caused a collapse in this currency value and the withdrawal of investors, which generated liquidity problems when trying to process withdrawal requests that reached close to USD 6,000.0 million in three days.

Binance announced the intention to buy FTX to rescue it. However, a day later (November 9), reported that decided not to buy the company, "after completing the due dilligence process", generating further nervousness in the market.

Present vulnerabilities in cryptocurrency trading were exposed after FTX's bankruptcy declaration. Serious doubts have been raised about the accuracy and soundness of its financial statements, which are not subject to supervision. Its CEO secretly transferred about USD 10,000.0 million dollars to his other commercial firm using artifice to avoid triggering accounting red flags. In addition, concerns have been raised about the millions of dollars spent on top executive benefits. After the collapse, some of the company's cryptocurrency assets were apparently stolen by hackers. At the moment, more than a million investors who had cryptocurrencies stored in FTX are waiting to recover their money.

Results of the crisis

Since the start of the FTX crisis, cryptocurrencies have suffered significant losses. FTT was trading near $25.0 on Nov. 2, plunging more than 90.0% in the last two weeks (to less than $2.0); For its part, the price of Bitcoin has fallen from USD 20.0 thousand to USD 17.0 thousand during the same period, registering its lowest values since 2020. The total capitalization of the cryptocurrency market fell 15.0% between November 2 and 15 , from approximately USD 1,000.0 billion to USD 850.0 billion.[2]

The situation has unleashed a wave of contagion in the digital asset market. The effect has not only reached companies with direct exposure to FTX, but the entire market due to the loss of confidence and the consequent increase in investor withdrawals. The bankruptcy proceeding announced by FTX covers that company, Alameda Research and approximately 130 affiliated companies. News outlets also reported that BlockFi (with customer deposits between $14.0 billion and $20.0 billion in 2021) had "significant exposure" to FTX and is preparing for possible bankruptcy. Additionally, Voyager, which was to be rescued by Bankman-Fried in a $1.4 billion deal, is trying to find a replacement buyer for its assets. The rest of the crypto companies are struggling to avoid potential liquidity problems, provide confidence to their investors and demonstrate that they have the financial strength to stay afloat.

Notes:1. Digital asset. 2. Data according to CoinMarketCap.

Sources:
The New York Times, ¿Qué pasó con FTX? Esto es lo que tienes que saber, *14 noviembre 2022*.
BBC, FTX: una de las mayores empresas de criptomonedas del mundo se declara en bancarrota y su fundador presenta su renuncia, *11 noviembre 2022*.
CNBC, *FTX in talks to raise up to $1 billion at valuation of about $32 billion, in-line with prior round, Sep 21, 2022*.
The Guardian, *What happened to FTX and could the crisis spill over to the rest of crypto?, Nov 10, 2022*.
CNBC, *From $32 billion to criminal investigations: How Sam Bankman-Fried's crypto empire vanished overnight, Nov 15, 2022*.
The Wall Street Journal, *BlockFi Prepares for Potential Bankruptcy as Crypto Contagion Spreads, Nov 15, 2022*.
Bloomberg, *FTX Contagion Hits Winklevoss Twins as Crypto Lenders Come Under Fire, Nov 16, 2022*.
CNBS, *Collapsed crypto exchange FTX has about $1.24 billion of cash in total – but still owes at least $3.1 billion, Nov 22, 2022*.
CNN, FTX: Court says Sam Bankman-Fried ran FTX as a 'personal fiefdom'. Nov 22, 2022.
BBC. FTX: Tougher crypto rules needed after collapse, says Bank of England. Nov 21, 2022.

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

9. Monthly economic activity reported stable growth. Most countries registered a positive variation when comparing the latest data available with the previous month, registering an average acceleration of 0.4 percentage points for the region. Monthly production was driven by an increase in more than half of the activities, highlighting transportation, construction, commerce, and accommodation and food service activities.

10. Labor market continues to expand robustly. Formal employment level increased in all countries with available information.[19] Guatemala reported the largest year-over-year increase with 6.7% in August, followed by the Dominican Republic with 5.7% in September. For its part, Guatemala reported 11.1% growth rate compared to February 2020, the highest recorded, followed by El Salvador with 7.5%.

11. Inflation begins to decrease in some countries. The combined effects of a more restrictive monetary policy and the slowdown in international commodity prices have impacted price levels. In this regard, inflation seems to have reached a turning point in Costa Rica, Panama and the Dominican Republic, registering lower year-over-year inflation rates in October. On the other hand, Nicaragua (12.16%), Honduras (10.18%), Guatemala (9.70%) and El Salvador (7.47%) exhibit still growing inflation.

12. Monetary authorities have adjusted their Monetary Policy Rate (MPR) to counteract high inflation levels. The Central Bank of Costa Rica increased the policy rate to 9.0%, considering the analysis of the current macroeconomic environment and the expected evolution of inflation. Meanwhile, Dominican Republic's Central Bank decided to increase its rate in October and November by 25 bp each time, going from 8.00% to 8.50%, because price dynamics continued to be affected by external factors that were more persistent than expected. Finally, Nicaragua's authorities increased its reference rate from 6.00% to 6.50% in November, while there were no changes in Guatemala and Honduras.

13. Central government's cumulative financial balance improved in most countries. Robust economic activity benefited public revenues recovery this year, accumulating growth in the range of 11.4% to 20.3%; while expenditures grew at a slower pace in most countries (between 1.3% and 22.7%), allowing for an improvement in the fiscal position in relation to the previous month and year, except in the Dominican Republic and Guatemala, where the largest increase of spending prompted an increase in the deficit.

14. Foreign trade continued to grow, but at a slower pace. Cumulative export growth exceeded double digits (from 14.7% in Costa Rica in March to 25.2% in Honduras in August), however, despite observing growth rates moderation, these are still above the average registered before 2020.[20] Likewise, imports grew in the range of 21.0% to 51.0%. Given the lower exports growth compared to imports, the trade deficit deteriorated in all countries compared to the same period of the previous year.

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

15. Cumulative remittances slowed down in most countries. This behavior could be influenced by the effect of high inflation migrants real wages. However, remittances accumulated growth remained in double digits, except in El Salvador with 3.7% and the Dominican Republic where they contracted -7.3% in August. Accumulated remittances up to September amounted to USD 13,321.2 in Guatemala, USD 7,309.4 million in the Dominican Republic, USD 6,483.5 million in Honduras and USD 5,689.3 million in El Salvador, while in Nicaragua they totaled USD 1,970.3 million in August.

16. Exchange rate rose above the previous year's level in most of the countries. In the Dominican Republic and Costa Rica, their currencies appreciated year-over-year -4.62% and -0.71%, respectively. Inter-monthly variation shows a depreciation in most currencies, except for Costa Rica where it appreciated -2.62%. Recent movements in this variable are partly explained by a higher interest rate differential due to the increases in the monetary policy rate in the United States. The effect on Costa Rica and the Dominican Republic exchange rate has been moderate since both countries have made large increases in their policy rates, compared to the rest of the countries. Also, movements in international prices of agricultural products may favor the region's currencies and offsetting the effects of shocks in oil prices.

17. Net international reserves (NIR) continued to accumulate. The dynamism of remittances cushioned the effect on the current account of the higher trade deficit, generated by an increase in imports greater than that of exports; which, together with the higher net flows of foreign direct and portfolio investment, determined the increase in NIRs in recent months in all countries except El Salvador (-11.5% in September), Honduras (-3.0% in July) and Panama (-11.2% in July) that registered contractions. Most of the countries have enough reserves to cover at least three months of their imports, except El Salvador with 2.2 months. The rise in the Fed's monetary policy rate is expected to increase the probability of capital outflows or reduce inflows to the countries of the region. This situation is already generating exchange rate pressures around the world,

18. The IMF Executive Board concluded the third review of the economic reform program within the framework of the Extended Facility of the IMF (SAF) for Costa Rica.[21] This enables the disbursement of USD 270 million, bringing the total disbursements under the agreement to approximately USD 810 million. Additionally, the Board of Directors approved Costa Rica's request for an agreement within the framework of the Resilience and Sustainability Service (RSS) for USD 725 million, aimed at climate change adaptation and preparation for future pandemics. The Board noted the efforts of the Costa Rican authorities to strengthen their economic reform program in a less favorable external context, noting the need for monetary policy to respond proactively to shocks, and to advance the fiscal consolidation, promoting social protection and a more equitable economy.

19. The IMF also concluded the 2022 Article IV mission in Nicaragua[22]. In the view of IMF staff, economic activity is recovering well, supported by appropriate macroeconomic and financial policies and substantial buffers of government deposits and international reserves purchased prior to the crisis. They consider that the economic outlook is favourable, forecasting GDP growth of 3.0% in 2023 and 3.5% in the medium term, but with downside risks due to the unfavorable global context. The IMF recommends continuing with prudent

[21] IMF. Press Release No. 22/382. November 14, 2022.
[22] IMF. Nicaragua: Staff Concluding Statement of the 2022 Article IV Mission. November 16, 2022

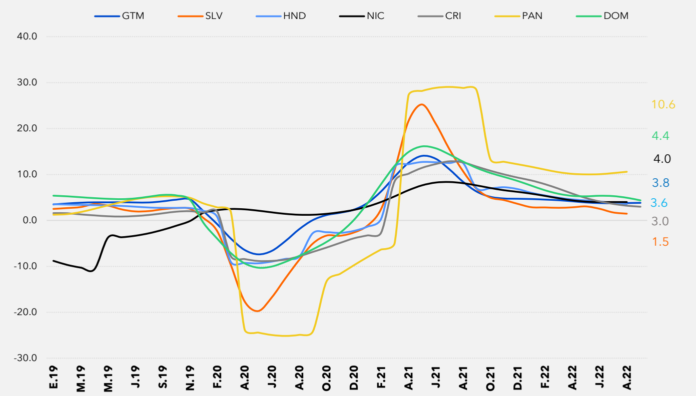
monetary, fiscal, and financial policies in order to build resilience and achieve sustained growth in the medium term.

20. Panama[23] and Nicaragua's[24] sovereign risk perceptions changed. Moody's reaffirmed Panama's long-term foreign currency debt rating at Baa2 but changed the outlook from stable to negative, due to the increase in fiscal pressures arising from the rigidity of current public spending and interest payments, as well as the deterioration of the financial position of the pension system and the little progress achieved in fiscal reforms. Standard & Poor's upgraded Nicaragua's long-term debt rating from B- to B with a stable outlook, highlighting the country's economic recovery and macroeconomic stability fostered by monetary and fiscal policy.

[23] Moody's Investors Service. Rating Action: Moody's changes Panama's outlook to negative from stable; affirms Baa2 ratings. October 25, 2022.
[24] S&P Ratings. Nicaragua Long-Term Ratings Raised To 'B' On Economic and Fiscal Recovery; Outlook is Stable. October 25, 2022.

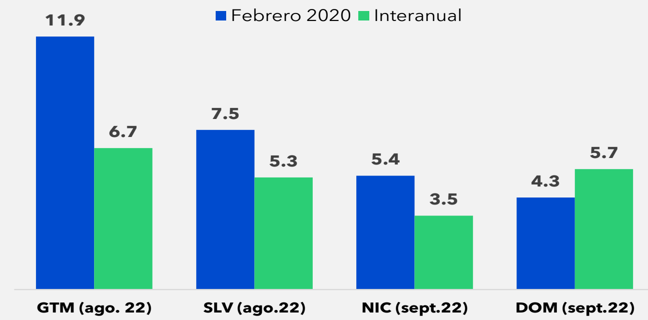
Panel 3. Selected Central American macroeconomic indicators

Graph 12. IMAE *(interannual percent change)*



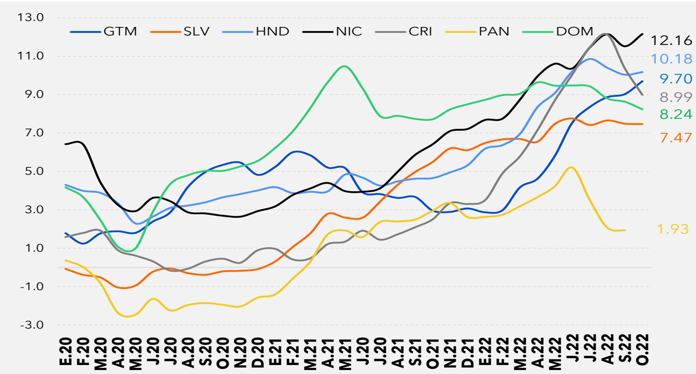
Economic activitymonthly converges to the rates shown prior to the pandemic

Graph 13. Formal employment *(percent change)*



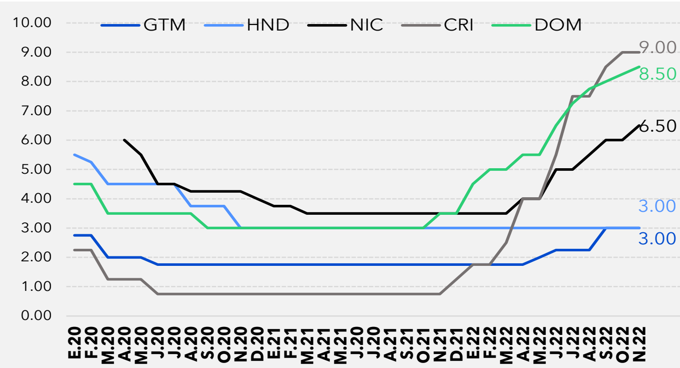
Formal employment shows robust growth

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



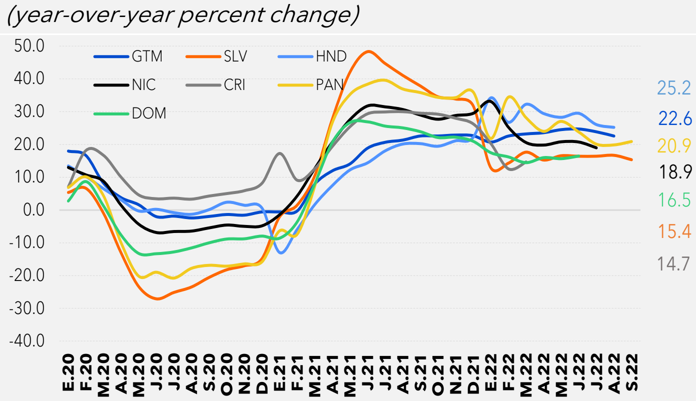
Inflation remains high due to external pressures, but is beginning to decline in some of the countries

Graph 15. Monetary Policy Rate *(percent)*



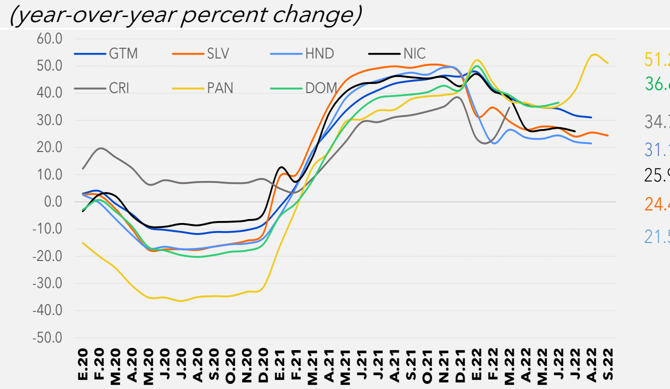
Restrictive monetary policy with rate increases interest rate to offset inflation

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



Exports maintain robust growth rates despite global slowdown

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

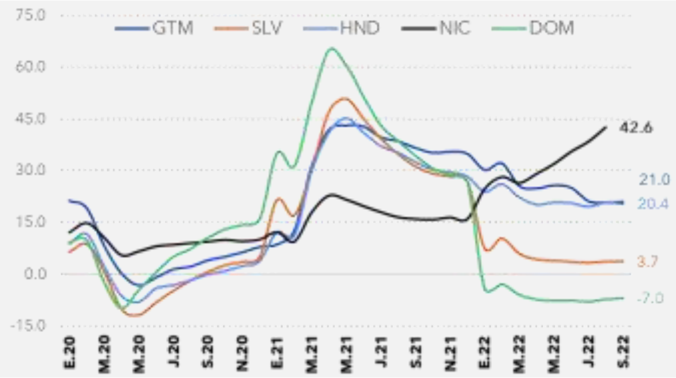


Imports slowdown although they maintain higher growth rates than exports

Source: Office of the Chief Economist with information from the SECMCA as of November 15.

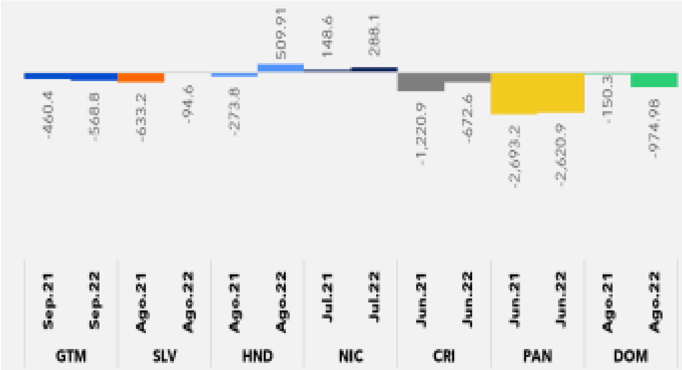
Panel 3. Selected Central American macroeconomic indicators

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



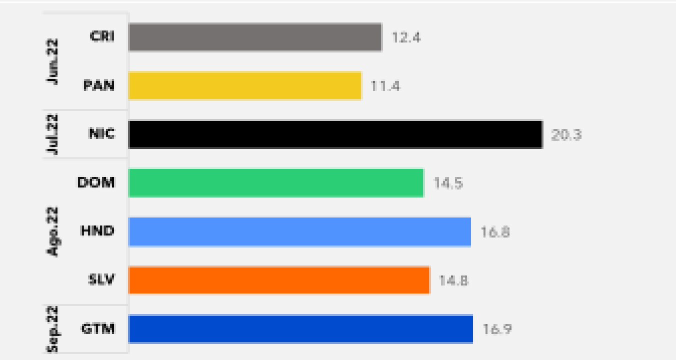
Slowing in most countries, in line with US slowdown and compared to higher base

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

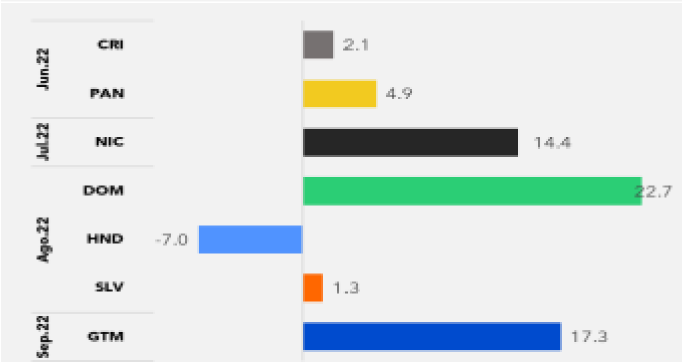


Most of the countries - except DOM and GTM show improvements in the fiscal balance

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

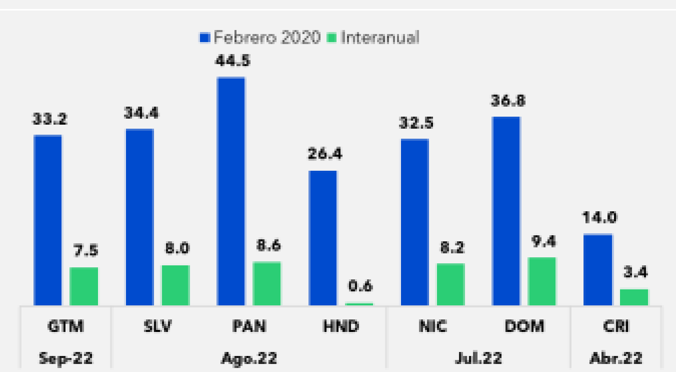


Graph 21. Central government: total accumulated expenditures *(year-over-year percent change)*



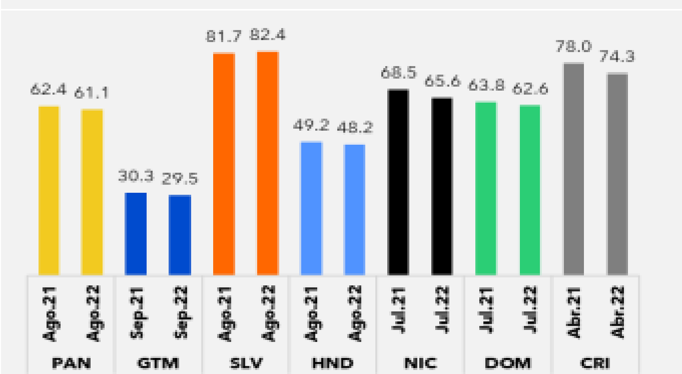
Revenues grow more than public expenses for most of the countries, favoring an improvement in the financial balance

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



Debt growth slowed in 2022

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



Public debt decreased due to lower financing needs and GDP growth

Source: Office of the Chief Economist with information from the SECMCA as of November 15.

Box 3. New opportunities for Latin American migrants in the United States

Mexico faces a complicated humanitarian situation on its border with the United States. Millions of people gather and risk their lives trying to cross into that country. Annually, more than two million people cross into the United States[1], so the following events represent good news for Latin American migrants:

1. New entry visas to the United States

The United States will grant 65,000 new visas annually for temporary non-agricultural workers. Of these, 20,000 are for Central Americans and Haitians. The new non-agricultural visas arose in response to the request made by the Mexican government and are added to the nearly 300,000, of all kinds, that the United States approves annually.

The two governments will implement a new application system for access to the United States that prioritizes entry by air. Following the experience of Ukraine[2], a quota of 24,000 Venezuelans will be able to request a humanitarian entry, provided they have a regularized backup person in the United States, but without going through Mexico. All of this, with the aim of achieving more orderly, safe, regular and humane migratory flows, discouraging undocumented transit across the border with Mexico.

2.Extension of Temporary Protected Status

Temporary Protected Status (TPS) is a temporary immigration benefit that provides beneficiaries with work permits and protects them from being deported. TPS was established by the United States government for people of certain nationalities who are already in the United States and who are unable to return to their home countries safely, due to ongoing armed conflict, natural disaster, and other extraordinary conditions of a temporary nature. The countries currently favored with TPS are: El Salvador, Honduras, Nicaragua, Venezuela, Haiti, Afghanistan, Burma (Myanmar), Cameroon, Nepal, Somalia, Syria, Sudan (English), South Sudan (English), Ukraine and Yemen .

The Department of Homeland Security (DHS) announced the automatic extension of TPS until June 30, 2024. This extension applies to beneficiaries from El Salvador, Honduras, Nicaragua, Haiti, Nepal and Sudan, provided they meet the corresponding requirements. The extension will benefit some 392,000 people, of which some 242,000 are Salvadorans.

Notes: 1 It is not necessarily about different people, since a person can try to cross one or more times. 2 The "United for Ukraine" program facilitated the passage of Ukrainians –who were fleeing the Russian invasion– to the United States.
Sources: El País: Mexico and the United States open a new time to regulate and humanize migration at their border,12 October 2022. Ministry of Foreign Affairs of the Government of Mexico: Mexico coordinates with the US a new approach for orderly, safe, regular and humane migration in the region,12 October 2022. US Citizenship and Immigration Services (USCIS): DHS Continues Temporary Protected Status and Documentation for Certain TPS Beneficiaries,November 10, 2022. CNN: US extends TPS until 2024 for three Central American countries,November 11, 2022.

Box 4. Relocation, global value chains and Mexico as a strategic ally of Central America

Globalization is facing challenges in recent years. This phenomenon evolved rapidly between 1990-2008, with a high expansion of value chains. However, after the 2008 crisis, international trade slowed down, with stagnant growth rates. This trend was exacerbated by the US-China trade conflict in 2018-2019 and more recently COVID-19 exposed vulnerabilities in some value chains.

Networks structure between countries that make up global value chains has changed little. Variations in its composition have been gradual, even after the 2008 crisis it did not have significant changes. In traditional trade networks there are three main regional supply hubs, the United States, Germany and China. Of these, the first has the most important links with Canada and Mexico. This relationship has remained stable between the period 2000-2017, which highlights the importance of the integration of the Mexican economy with the United States.

Mexico could be one of the countries that will benefit most from the relocation of global value chains. A recent ECLAC study points out that the main factor is proximity to the US, since it implies less geographical dispersion between the headquarters and the factories, as well as a shorter supply chain. What is being pointed out is not a recent relationship, but it is more than 30 years old and has been strengthened by treaties such as NAFTA and the recently negotiated USMCA. In this context, US imports from Mexico represent 14.5% of the total, reaching USD 329.0 billion, making it the second most important country after China with 20.2%.

Mexico's position within global value chains makes it attractive for relocation. Some relevant factors are manufactures development in the country, which began with companies that operated mainly in the electronics and textile industries. Likewise, human resource characteristics and its evolution are highlighted, which initially attracted investments less specialized manufacturing activities and over time has evolved to attend more complex ones; local supply and logistics built to support the chains, its important since it constitutes the operational heart of production and includes infrastructure of roads, ports, railways, industrial parks, among others. Finally, the national and international institutions that support the integration of Mexico into global value chains,

Mexico has opportunities to take advantage of the relocation phenomenon. One of the main opportunities arises from the dispute over the rules of origin in the automotive industry, which opens the door for factories to develop more advanced processes within this chain. Low tariff requirements to export to the United States from Mexico make it attractive, when compared to China. Other advantages have been the country's investment strategy, as well as industrial real estate activity at internationally competitive costs. In addition, it has host company services that support investors in the process of setting up a new company in the country's manufacturing sector.

Central American countries have an opportunity to integrate into global value chains, taking advantage of their proximity to Mexico. Proximity would represent one of the main advantages to guarantee a stable supply chain, which could be attractive to investors. Also, to the extent that more sophisticated activities are installed in Mexico, the region could receive those links in the chain that are less complex.

There are threats that can reduce the opportunity represented by the relocation of value chains. The impact of digital technologies is one of the main threats, since it can encourage companies to return to their country of origin, shortening the chains length. Likewise, automation focused on the simplest tasks can end up limiting the opportunities for developing countries to join the chains.

Relocation, as well as taking advantage of its proximity to Mexico, requires countries to take actions at the local and regional level. This in order to guarantee a stable supply chain, with improvements in customs procedures, reliable infrastructure and logistics, as well as regulatory frameworks that facilitate cross-border trade between Mexico and the region. Likewise, it is important to promote support services for chains (insurance, laboratories, among others), financing for the modernization of companies and human capital training in key areas for the sectors that are installed.

Other actions also involves strengthening the local business fabric. Countries must support local capacity to achieve industrial upgrading and move further up global value chains. Likewise, it is important to chain medium-sized companies with training programs, creation of new capacities, standardization, among others. Finally, it is vital that there is predictability in the labor market, tax and environmental regulatory frameworks, to offer certainty to investors.

Sources:
Garrido, Celso. (2022). Mexico in North America factory and nearshoring. Mexico City, Mexico: ECLAC.
Maul, H. & Mendez, R. (2021). Developing the potential of value chains in Central America. Tegucigalpa, Honduras: Central American Bank for Economic Integration.
World Bank. 2020. World Development Report 2020: Trading for Development in the Age of Global Value Chains. Washington, DC; World Bank.
wto. (2019). Global Value Chain Development Report 2019: Technological Innovation, Supply Chain Trade, and Workers in a Globalized World. Geneva, Switzerland: World Trade Organization.
wto. (2021). Global Value Chain Development Report 2021: Beyond Production. Geneva, Switzerland: World Trade Organization.

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

Moody's Rating Agency

Countries	Rating as of March 2020		Prior rating		Rating as of Noviembre 16, 2022	
	Rating	Perspective	Rating	Perspective	Rating	Perspective
Belize	Caa2	Stable	Caa1	Negative	Caa3	Stable
Guatemala	Ba1	Stable	Ba1	Stable	Ba1	Stable
El Salvador	B3	Stable	Caa3	Negative	Caa3	Negative
Honduras	B1	Stable	---	---	---	---
Nicaragua	B3	Stable	---	---	---	---
Costa Rica	B2	Stable	B2	Negative	B2	Stable
Panama	Baa1	Stable	Baa2	Stable	Baa2	Negative
Dominican Republic	Ba3	Stable	---	---	---	---
Colombia	Baa2	Stable	Baa2	Negative	Baa2	Stable
Republic of China (Taiwan)	Aa3	Stable	Aa3	Positive	Aa3	Stable
Argentina	Caa2	In review	Ca	Negative	Ca	Stable
Mexico	A3	Negative	Baa1	Negative	Baa2	Stable

Standard & Poor's Rating Agency

Countries	Rating as of March 2020		Prior rating		Rating as of Noviembre 16, 2022	
	Rating	Perspective	Rating	Perspective	Rating	Perspective
Belize	B-	Stable	SD	n.a.	B-	Stable
Guatemala	BB-	Stable	BB-	Stable	BB-	Positive
El Salvador	B-	Stable	B-	Negative	CCC+	Negative
Honduras	BB-	Stable	---	---	BB-	Negative
Nicaragua	B-	Stable	B	Negative	B	Stable
Costa Rica	B+	Negative	B+	Negative	B	Stable
Panama	BBB+	Stable	BBB	Stable	BBB	Negative
Dominican Republic	BB-	Stable	BB-	Negative	BB-	Stable
Colombia	BBB-	Stable	BBB-	Negative	BB+	Stable
Republic of China (Taiwan)	AA-	Stable	AAu	Positive	AA+u	Stable
Argentina	CCC-	Negative	SD	n.a.	CCC+	Stable
Mexico	BBB+	Negative	BBB	Negative	BBB	Stable

Fitch Ratings Agency

Countries	Rating as of March 2020		Prior rating		Rating as of Noviembre 16, 2022	
	Rating	Perspective	Rating	Perspective	Rating	Perspective
Belize	---	---	---	---	---	---
Guatemala	BB	Negative	BB-	Stable	BB-	Positive
El Salvador	B-	Stable	B-	Negative	CC	---
Honduras	---	---	---	---	---	---
Nicaragua	B-	Stable	B-	Negative	B-	Stable
Costa Rica	B+	Negative	B+	Negative	B	Stable
Panama	BBB	Negative	BBB	Negative	BBB-	Stable
Dominican Republic	BB-	Stable	BB-	Negative	BB-	Stable
Colombia	BBB	Negative	BBB-	Negative	BB+	Stable
Republic of China (Taiwan)	AA-	Stable	AA-	Stable	Aau	Stable
Argentina	CC	n.a.	CCC	n.a.	CCC-	n.a.
Mexico	BBB	Stable	BBB	Stable	BBB-	Stable

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

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