

State of the Region: Central American Economies in 2015¹

Although Central American economies have recovered from the 2008-2009 recession, they show relatively low levels of growth. GDP growth has translated into modest improvements in GDP per capita across the region, particularly for Costa Rica and Panama, the countries with the lowest levels of poverty.

In fact, persistent and long-standing issues such as poverty, inequality, general discontent and growing debt threaten to undermine economic and social development. For example, in Guatemala, Honduras, and Nicaragua, more than half the population lives on less than \$4 a day. Moreover, popular frustration and dissatisfaction are high. In Guatemala, Honduras, Panama and Costa Rica, a majority of the population feels that the economy is on the wrong track, suggesting that many people are excluded from the benefits of economic growth. High levels of emigration can also be seen as a sign of dissatisfaction with the current situation in their country. Though Central American migration is a product of a number of historical factors, for many migrants today, the decision to leave is economic.²

The region's decision-makers face an important challenge in designing public policies that translate economic growth into sustainable, equitable economic development. An analysis of national development plans suggests that policymakers are struggling to address underlying economic issues in light of very pressing and immediate security concerns. Moreover, they continue to prioritize agriculture over other areas that arguably offer greater potential for economic development. Though social spending on education and health reflects some degree of commitment to equitable development in the region, issues of inefficiency unfortunately decrease the impact of these expenditures.

In sum, one of the greatest challenges that the Central American region faces is ensuring that economic development is sustainable and equitable.

1. Economic Performance

GDP Growth

While GDP growth has recovered from the economic crisis of 2008-2009, it has remained relatively slow. After a rapid, efficient period of recovery, GDP growth rates have slowed to 2-4% for most countries in the region in what some analysts have characterized as a "solid, albeit slower growth trajectory."³

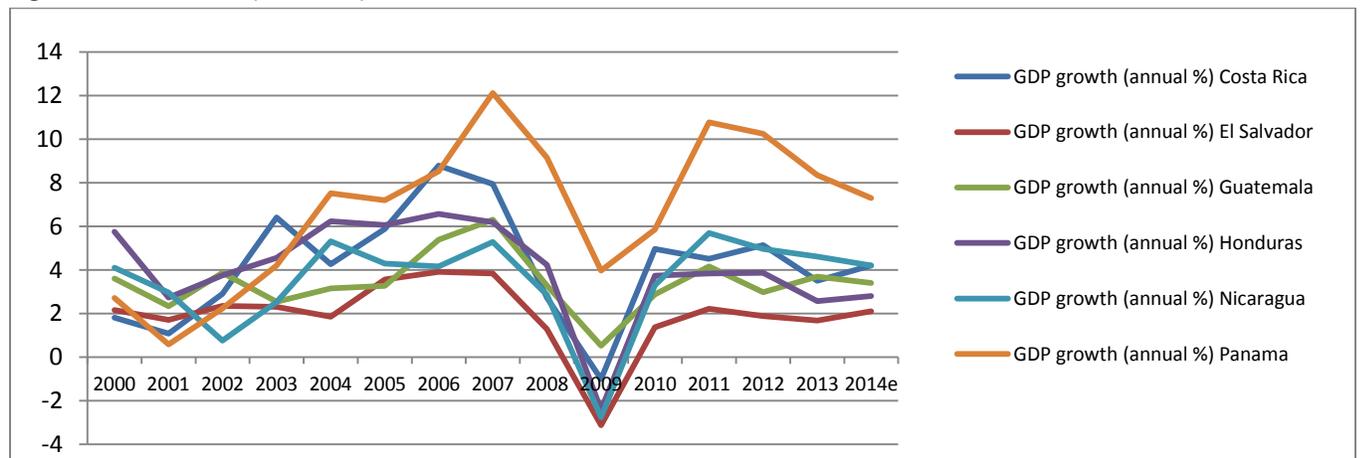
¹ Manuel Orozco and Julia Yansura, *Inter-American Dialogue*, June 2015.

² For example, a 2014 survey found that 25% of Salvadorans are considering emigrating, and the main reason they would emigrate is "lack of opportunities" (44% of responses).

³ "Economic Snapshot for Central America," Focus Economics, 20 May 2015. Available at <http://www.focus-economics.com/regions/central-america>

For countries like El Salvador and Honduras, growth has been particularly sluggish, as the graphic below shows. The fact that these are some of the most violent countries in the region may not be a coincidence. According to Humberto Lopez, director of the World Bank’s Central America department, “beyond the effect crime and violence have on human suffering is the effect they have on profitability (...) Companies need to hire security, and there are losses associated with robbery. In some countries, particularly in El Salvador, people don’t want to work when it’s dark. High levels of crime and violence have a negative impact on the investment climate. So the economic costs of violence in these countries are huge.”⁴

Figure 1: GDP Growth (Annual %) for Central American Economies



Source: World Bank Data.

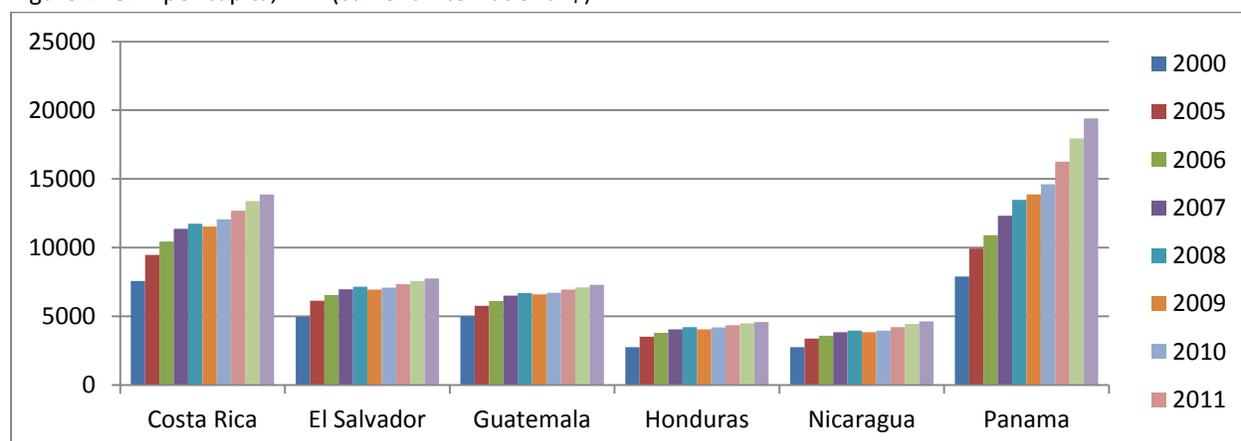
GDP Per Capita and its Limitations

This GDP growth has led to modest improvements in GDP per capita. As the graphic below suggests, Panama and Costa Rica, countries with the highest GDP per capita to begin with, have experienced the most solid growth. Unfortunately, countries with the lowest GDP per capita, such as Honduras and Nicaragua, have experienced very little growth. With regards to GDP per capita, “we have a long way to go,” admitted Nicaraguan Central Bank President Ovidio Reyes during a recent interview.⁵

⁴ Humberto Lopez quoted by Larry Luxner, “World Bank Offers Encouraging Prognosis for Central America in 2015,” Tico Times, 15 December 2014. Available at <http://www.ticotimes.net/2014/12/15/world-bank-offers-encouraging-prognosis-for-central-america-in-2015>

⁵ Wendy Alvarez Hidalgo, “Lejos del PIB per capita del istmo,” La Prensa, 4 June 2015. Available at <http://www.laprensa.com.ni/2015/06/04/economia/1844283-lejos-del-pib-per-capita-del-istmo-lejos-del-pib-per-capita-del-istmo>

Figure 2: GDP per capita, PPP (current international \$)



Source: World Bank Data.

It is also important to note that GDP per capita, which is a simple measure of GDP divided by the population, is not necessarily an accurate reflection of average income. In Honduras, for example, where the GDP per capita is \$4,392, nearly 60% of the population lives on less than \$4 a day, or approximately \$1,460 per year, as the table below shows. In Nicaragua, minimum wage is less than US\$200, and the basic food basket is US\$450 per month.

Table 1a: Poverty Headcount Ratio at \$4/day

	Total Poverty (\$4/day)	Extreme Poverty (\$2/day)
Costa Rica	12.2%	4.6%
El Salvador	31.8%	12.7%
Guatemala	62.4% ⁶	40.5% ⁷
Honduras	59.4%	39.6%
Nicaragua	52.2% ⁸	29.3% ⁹
Panama	20.4%	9.9%
Central America	43.7%	24.9%

Fuente: Working to End Poverty in Latin America and the Caribbean: Workers, Jobs and Wages: Banco Mundial, <https://openknowledge.worldbank.org/bitstream/handle/10986/22016/9781464806858.pdf?sequence=4>

Table 1b: Nicaragua's Basic Food basket and minimum wage

	Cordobas	US\$
Food	8302	303
Household exp (transpr., electr., water)	2657	97
Clothing	1373	50
Total	12332	450

Source: Trinchera de la Noticia, 8/19/15.

⁶ Valor 2011.

⁷ Valor 2011.

⁸ Valor 2009.

⁹ Valor 2009

Sectors Driving Growth and Employment

GDP growth in the region has been driven by certain economic sectors such as services and industry. For countries in the region, services have amounted to growing portion of the GDP, ranging from 52% in Nicaragua to 75% in Panama. The broadly-defined “services” category includes sectors such as tourism, a major source of income for countries in the region, ranging from 5-10% of GDP.¹⁰ International tourism amounts to 7.6% of the GDP in Costa Rica and 4.3% in El Salvador.¹¹

Agriculture, which amounts to only 5 – 15% of the GDP, has been shrinking as a percentage of GDP for all countries in the region. However, it continues to be an important source of employment, as the graphics below indicate. In Guatemala, Honduras and Nicaragua, nearly one out of every three workers is employed in the agricultural sector, suggesting an important disconnect between low-labor, high-value and high-labor, low-value economic sectors that countries in the region will be forced to address in coming years. According to a recent World Bank report, “agriculture provided the primary employment of 70 percent of household heads living in extreme poverty in 2013. As a result, eradicating extreme poverty (...) requires particular attention to the needs of agricultural workers.”¹²

¹⁰ According to 2010 figures, international tourism as a percentage of GDP ranged from 9.6% in Nicaragua to 7.6% in Costa Rica and 4.3% in El Salvador. See CEPAL STAT, “International Tourism as % GDP.”

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¹² <https://openknowledge.worldbank.org/bitstream/handle/10986/22016/9781464806858.pdf?sequence=4>

Graphic 3: Agriculture, Industry and Services: % GDP (left) and % Labor Force (right)



Source: World Bank Data. Agriculture is labeled in green, industry in gray and services in blue.

In part due to this agricultural orientation, the region’s labor force remains uneducated, unskilled, underpaid and informal. The International Labor Organization (ILO) notes that, after a period of improvements, “after 2009, with the advent of the worst part of the crisis, all indicators related to unemployment and underemployment suffered a general decline in the region.”¹³ Maquilas are the main employment option for women, 20.4% of female employment in Guatemala, 19.6% in Honduras, and 17.9% in El Salvador. In the case of Guatemala, 28% of the labor force is uneducated, 33% unskilled and at least 50% is underpaid and informally employed. In Honduras, one third of the labor force earns salaries under the minimum established by law, even though they work full time. The link between under-employment and education is clear. In El Salvador, for example, half of the men without education are under-employed, compared to 6.7% of those with higher education.¹⁴

¹³ http://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/---sro-san_jose/documents/publication/wcms_206030.pdf

¹⁴ OIT. *Evolucion de los principales indicadores del Mercado de trabajo en Centroamerica y Republica Dominicana, 2006-2010*. 2011.

Table 2: Labor Force Dynamics by Country

Indicator		Costa Rica (2010)	El Salvador (2009)	Guatemala (2006)	Honduras (2009)	Nicaragua (2008)	Panama (2010)
Labor force participation rate	Male	70.5	72.9	88.2	76.0	73.1	67.0
	Female	40.9	42.8	44.7	38.2	43.2	38.2
Unemployment rate	Male	6.0	8.9	1.5	2.6	5.6	3.7
	Female	9.5	4.9	2.4	4.2	6.8	6.5
Formality, by Sector	Formal	57.2	38.5	32.3	27.1	36.0	53.8
	Informal	41.9	61.5	65.7	72.9	63.8	46.0
Highest level of education attained, by % labor force	None	2.8	2.8	23.2	13.4	12.8	3.5
	Some primary	9.9	27.9	30.1	25.4	22.0	7.9
	Complete primary	19.2	22.8	11.1	20.0	22.7	22.7
	Some secondary	17.0	21.6	12.5	5.3	15.3	23.5
	Complete Secondary	28.4	12.0	16.3	28.3	14.8	17.9
	Higher Ed.	22.7	12.8	6.5	7.5	14.7	24.5

Source: ILO, Evolución de los principales indicadores del Mercado de trabajo en Centroamérica y República Dominicana, 2006-2010. 2011.

Informal workers and unskilled workers are vulnerable in a number of ways. A recent survey of 12,000 Central American workers found, for example, found that 74% of the workforce is not covered by social security. Informal and unskilled workers may also face difficult, dangerous, and even abusive labor conditions. The survey found that women and men report frequent exposure to high ambient temperatures (16% and 25%, respectively), breathing chemicals for more than half of a typical work shift (12%, 18%), and handling toxic substances (5%, 12%).¹⁵

Trade

Central American economies have traditionally been vulnerable in that they produce a relatively small number of products, and for a small number of trade partners. As the table below shows, agricultural products, textiles, and machinery and electrical parts are some of the region's main exports. For all Central American countries except Panama, the United States is the main trade partner. However, intra-regional trade has become increasingly important. The Central American Common Market represents the second largest trade partner for most countries in the region, accounting for 26.2% of total exports, despite logistical challenges related to overland transportation.¹⁶

¹⁵ Benavides, Wesseling, Delclos, Felknor, Pinilla and Rodrigo, "Working Conditions and Health in Central America: A survey of 12,024 workers in six countries," Journal of Occupational & Environmental Medicine, 20 March 2014. Available at <http://oem.bmj.com/content/71/7/459.long>

¹⁶ For a more detailed analysis, see <http://www.worldbank.org/en/news/feature/2013/02/07/diversificacion-en-centroamerica>

Table 3a: Trade in Central America, Select Indicators, 2013

	Top 10 Agr. Exp. As % of Merch. Exports	Merchandise Exports/GDP	Total exports/GDP	Top 10 Agr. Exp. As % of GDP	Remittances as % of GDP	Tourism as % of GDP	Agr. +R +T
Nicaragua	72	54	41	39	12	4	55
Honduras	55	41	48	23	16	4	43
Panama	73	24	81	18	2	11	31
Guatemala	65	22	27	14	10	3	27
Costa Rica	26	25	37	7	2	6	15
El Salvador	20	23	28	5	16	3	24
D. Rep.	27	15	25	4	8	8	22

Source: World Bank

Table 3b: Trade in Central America, Select Indicators, 2013

Country	Main Imports and % Total	Trade Balance 2013	Main Trade Partners & % Export Total
Costa Rica	Machinery/ Electrical (30%), Mineral prod. (13%)	\$25.6B USD exports - \$17.7B USD imports	United States (38%), Other Central America (16%)
El Salvador	Mineral Prod. (16%), Textiles (15%), Machinery/ Electrical (13%)	\$5.79B USD exports - \$10.5B USD imports	United States (44%), Other Central America (41%)
Guatemala	Mineral Prod. (18%), Machinery/ Electrical (18%), Chemicals (13%)	\$11.3B USD exports - \$17.2B USD imports	United States (40%), Other Central America (31%)
Honduras	Textiles (22%), Mineral Prod. (18%)	\$8B USD exports - \$9.44B USD imports	United States (58%), Other Central America (20%)
Nicaragua	Machinery/Electrical (18%), Chemicals (16%)	\$6.39B USD exports - \$4.86B USD imports	United States (53%), Other Central America (21%)
Panama	Transportation (29%), Mineral Prod. (22%), Chemicals (15%)	\$6.95B USD exports - \$33.5B USD imports	Ecuador (18%), Venezuela (13%), Other Central America (16%)

Source: Harvard University Atlas of Economic Complexity, 2013 Data. Available at <http://atlas.cid.harvard.edu/>

Though many Central American countries have negative trade balances, exports as a whole have grown more than 11% in the last decade, and recovery from the 2008 economic crisis was rapid.¹⁷

CAFTA-DR, which was signed by US President George W. Bush in 2005, has gradually been implemented by countries in the region. The agreement entails the gradual elimination of certain tariff and non-tariff trade barriers between the United States and Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and the Dominican Republic. According to the United States Trade Commission, “total two-way goods trade between the U.S. and our six CAFTA-DR partners has increased over 71 percent since entry into force, from \$35 billion in 2005 to \$60 billion in 2013. In 2013, U.S. exports to the CAFTA-DR countries totaled \$30 billion; imports totaled \$30 billion.”¹⁸ Despite this sanguine analysis, concerns have

¹⁷ <http://www.worldbank.org/en/news/feature/2013/02/07/diversificacion-en-centroamerica>

¹⁸ <https://ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta>

persisted over workers’ rights, trade balances, intellectual property rights and generic medicines, and US agricultural protectionism.¹⁹

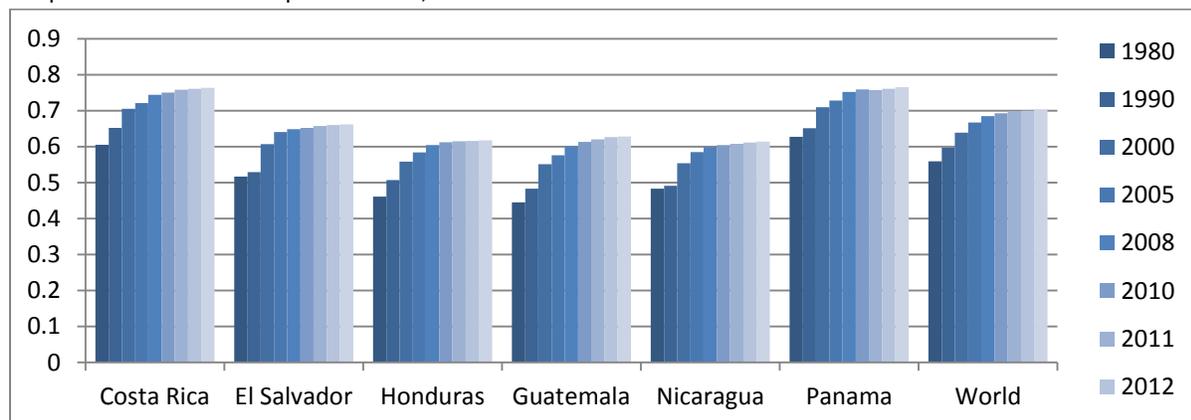
2. Limitations of Economic Growth

Economic growth should not be conflated with equitable, sustainable development. For countries in the region, persistent and long-standing issues such as poverty, inequality, popular dissatisfaction, and growing debt threaten to undermine growth, particularly in the absence of effective social and economic policies. Moreover, many policies prioritize agricultural development, neglecting other important sectors.

Human Development

Economic growth does not automatically translate into improvements in social indicators, as the graphic below suggests. The Human Development Index, which is a composite indicator of life expectancy, education, and per capita income, shows a leveling off for many countries in the region. While countries such as Costa Rica and Panama have achieved high levels of human development, Honduras and Nicaragua continue to rank among the lowest levels of human development in the world.²⁰

Graphic 4: Human Development Index, 1980-Present



Source: Human Development Reports Data, Accessed 6/2015.

Widespread Dissatisfaction

Moreover, there is widespread dissatisfaction with economic performance, according to public opinion surveys conducted in the region. While many Central Americans point to crime as the principal problem facing their country, the economy is a close second. In many cases, the sum of economic issues, employment issues, and poverty rival delinquency and crime. In the majority of countries, respondents say that the economy is doing worse than it was a year ago, as the table below shows.

Table 4: Public Opinion Surveys on Select Economic Issues, 2014 (Column %)

¹⁹ See, for example, http://www.cispes.org/documents/DR-CAFTA_Effects_and_Alternatives.pdf

²⁰ 129 and 132 out of a total of 187 countries.

	Honduras	El Salvador	Guatemala	Panama	Costa Rica	Nicaragua
The most important problem facing the country is....						
Economy, problems with or crisis of	11.7%	15.1%	14.3%	13.5%	16.9%	37.0%
Unemployment, lack of employment	20.2%	11.4%	13.0%	5.0%	20.2%	31.6%
Poverty	7.4%	3.8%	6.9%	1.3%	2.5%	9.3%
Delinquency, crime	46.2%	53.4%	37.3%	24.7%	18.7%	3.5%
Compared to last year, the country's economy is doing...						
Better	7.1%	12.7%	3.3%	19.9%	4.8%	23.9%
Same	36.6%	41.9%	27.0%	54.5%	36.1%	33.4%
Worse	56.4%	45.4%	69.2%	25.5%	59.1%	42.7%
Compared to last year, my personal economic situation is....						
Better	8.9%	14.5%	9.5%	20.7%	11.0%	29.5%
Same	44.0%	48.1%	40.1%	60.1%	52.6%	37.3%
Worse	47.0%	37.4%	50.3%	19.2%	36.4%	33.2%

Source: Latin American Public Opinion Project (LA POP), Vanderbilt University, 2014.

Emigration

High levels of emigration can also be seen as a sign of dissatisfaction with the current situation in their country. Today, nearly one in ten Central Americans are living abroad (see Table 5). Most of these migrants are a byproduct of migratory networks formed in the seventies, resulting from armed conflict, natural disasters, and family reunification. However, recent waves of insecurity and continued poor economic performance have contributed to subsequent and larger waves of emigration. For many Central American migrants today, the decision to leave is based on economic factors and family reunification.²¹ Faced with the prospect of low-paying, low-skilled, and informal jobs that offer few opportunities, many Central Americans find it necessary to leave.²²

Table 5: Central American Populations Abroad, 2010-2013

Migrant Populations (stocks)	2010	2011	2012	2013
Honduras	762,669	863,091	889,629	971,053
Nicaragua	361,317	393,858	379,346	407,088
Guatemala	1,011,218	1,082,881	1,171,888	1,250,926
El Salvador	1,015,479	1,047,034	1,121,904	1,149,006
Four countries	3,150,683	3,386,864	3,562,767	3,778,073

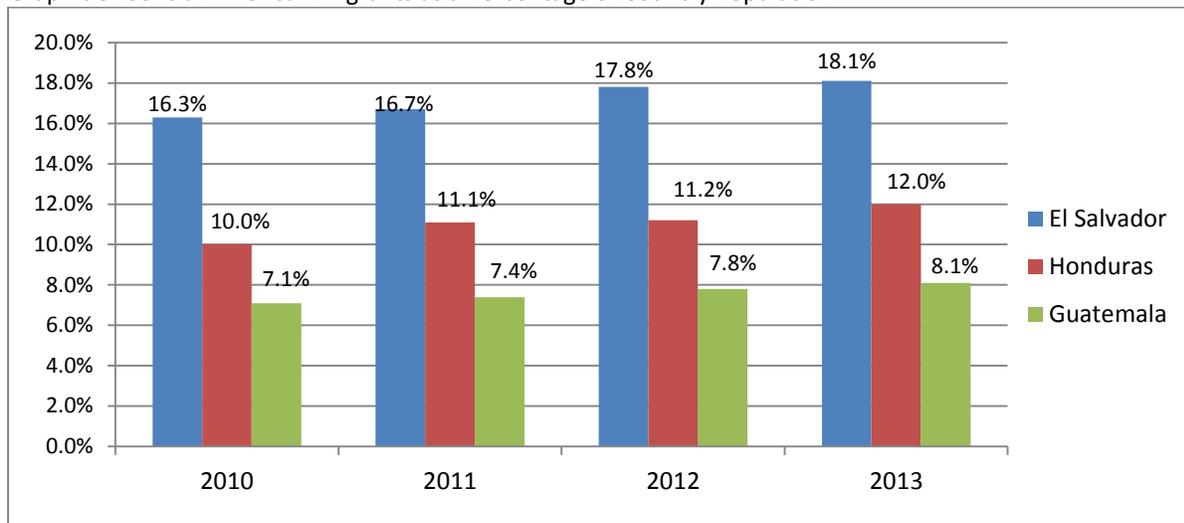
Source: Population Estimates, Manuel Orozco.²³

²¹ For example, a 2014 survey found that 25% of Salvadorans are considering emigrating, and the main reason they would emigrate is "lack of opportunities" (44% of responses).

²² http://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/---sro-san_jose/documents/publication/wcms_206030.pdf

²³ For a more detailed discussion, see Orozco and Yansura, "Central American Migration in Context: Understanding the Crisis of Central American Child Migrants," Inter-American Dialogue, August 2014.

Graphic 5: Central American Migrants as a Percentage of Country Population



Source: Authors' calculations using migrant population estimates and World Bank data for total populations.²⁴

Prosperity for Some

Inequality also presents a major challenge. According to recent analysis by the World Bank, after more than a decade of steady decline, inequality has remained constant since 2010. Moreover, gains in poverty reduction have been mainly driven by growth in income levels, rather than changes in income distribution. “Even when overall the decade’s gains were significant, one in five Latin Americans has not benefitted and has stayed in poverty over the last ten years. Taken in sum, these trends signal a need for policy action.”²⁵

In Central American countries, the top quintile earns between 51 – 62% of total income, as Table 6 shows. Income inequality is especially pronounced in Guatemala and Honduras. Honduras is one of the world’s most unequal societies,²⁶ with pockets of wealth surrounded by intense poverty. From 2009-2011, “Honduras had the most rapid rise in inequality in Latin America and now stands as the country with the most unequal distribution of income in the region,” according to the Center for Economic and Policy Research.²⁷

²⁴ For a more detailed discussion, see Orozco and Yansura, “Central American Migration in Context: Understanding the Crisis of Central American Child Migrants,” Inter-American Dialogue, August 2014.

²⁵ <https://openknowledge.worldbank.org/bitstream/handle/10986/22016/9781464806858.pdf?sequence=4>

²⁶ Washington Post, September 27, 2013: “Map: How the world’s countries compare on income inequality (the US ranks below Nigeria)”. Available at <http://www.washingtonpost.com/blogs/worldviews/wp/2013/09/27/map-how-the-worlds-countries-compare-on-income-inequality-the-u-s-ranks-below-nigeria/>

²⁷ Los Angeles Times, November 6, 2013: “In post-coup Honduras, rising poverty and inequality, report says”. Available at <http://www.latimes.com/world/worldnow/la-fg-wn-honduras-rising-poverty-and-inequality-report-20131106,0,2085121.story#axzz2k4wELq5y>

Table 6: Distribution of National Income by Quintile, 2013 or Most Recent Value

Country	Top Quintile, 2000	Top Quintile, 2005	Top Quintile, 2010	Top Quintile, 2013 or MRV
Costa Rica	52.0	52.0	54.4	56.0
El Salvador	57.0	-	50.6	51.0
Guatemala	-	62.6 ²⁸	-	62.6
Honduras	-	-	60.4	60.4
Nicaragua	61.6 ²⁹	57.6	52.6 ³⁰	52.6
Panama	58.6 ³¹	56.6	56.4	56.4

Source: CEPAL STAT, Accessed 6/2015.

Indebtedness

External debt remains another major topic of concern. Among Central American countries, external debt as a percentage of GDP ranges from 25 – 45%, well above the Latin American average. In some cases, external debt has been negotiated down as part of agreements with international institutions such as the IMF. Nicaragua and Honduras, which were classified as Heavily Indebted Poor Countries by the IMF, agreed to poverty reduction strategies in exchange for debt relief.³² These strategies were met with mixed results; despite some progress, poverty levels and debt levels remain persistent challenges.

Table 7: External Debt as % GDP

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008
Costa Rica	33.3	32.1	31.5	31.8	31.0	33.9	31.9	32.1	30.5
El Salvador	21.6	22.8	27.9	52.6	52.0	51.9	52.2	46.5	46.6
Guatemala	15.4	15.6	15.0	15.8	16.0	32.5	32.6	32.0	28.5
Honduras	65.5	62.2	63.9	64.9	67.9	52.6	36.0	25.8	25.0
Nicaragua	130.3	119.1	121.8	123.9	93.1	84.6	66.7	45.4	41.4
Panama	45.2	49.7	48.5	47.1	47.7	45.9	42.6	39.2	34.1
Latin America	33.8	35.0	39.0	39.0	33.6	24.3	20.8	19.4	17.2

Source: CEPAL STAT, Accessed 6/2015.

3. Economic Policies: Yielding Growth, But Not Development

In light of these underlying issues, it is important to consider whether economic policies are structured in such a way that they promote not only economic growth, but also economic development. This section considers policy priorities as well as monetary and fiscal policies throughout the region. Many countries are struggling to address underlying economic issues in light of very pressing and immediate security concerns. Moreover, they continue to prioritize agriculture over other areas that arguably offer

²⁸ 2006 value.

²⁹ 2001 value.

³⁰ 2009 value.

³¹ 2001 value.

³² <https://www.imf.org/external/np/exr/facts/hipc.htm>

greater potential. In sum, translating economic growth into sustainable, equitable economic development constitutes a major challenge for policymakers in the region.

Policy Priorities

A look at national development plans³³ provides insights as to the macroeconomic priorities in the region. A simple word frequency analysis suggests that reducing poverty, combatting insecurity, and strengthening health and education are top priorities, as evidenced by repeated references in national development plans. Moreover, an analysis of language related to method or means for achieving these development priorities suggests that countries in the region are focused on effectiveness, results, strength, and transparency – though not necessarily in that order, as the table below shows. In terms of word frequency analysis, agriculture appears to be the economic area of greatest interest in national development documents for all countries except for Costa Rica.

Table 8: Word Frequency Analysis of National Development Plans

Development Plan Prioritizes...		CR	SLV	GTM	HON	NIC	PAN
Ranking (1 is most important)	Reducing Poverty	3	6	1	2	1	7
	Combatting Insecurity	6	1	5	1	3	4
	Strengthening Education	2	2	3	6	2	1
	Improving Health & Healthcare	4	3	2	5	5	6
	Generating Employment	1	4	6	3	4	3
	Developing Innovation & Technology	5	8	8	4	7	2
	Providing Opportunities for Youth	7	7	7	8	6	9
	Addressing Migration & Remittances	10	9	9	10	10	10
	Including Women & Girls in Development	9	5	4	9	8	8
	Providing Decent Housing	8	10	10	7	9	5
A Development Plan Should be....		CR	SLV	GTM	HON	NIC	PAN
Ranking (1 is most important)	Transparent & Honest	5	5	5	3	5	5
	Effective & Results Oriented	1	3	1	1	2	1
	Equitable	4	4	4	5	4	4
	Respectful & Rights-Oriented	2	2	3	4	3	3
	Strong	3	1	2	2	1	2
Economic Priorities Include...		CR	SLV	GTM	HON	NIC	PAN
Ranking (1 is most important)	Agriculture	2	1	1	1	1	1
	Banking & Fin. Services	7	9	11	9	9	8
	Business	1	3	3	5	4	4
	Exports	5	7	5	3	5	5

³³ This includes 1) Costa Rica: *Plan Nacional de Desarrollo 2014-2018*, 2) El Salvador: *Plan Quinquenal de Desarrollo 2014-2019*, “El Salvador Productivo, Educado y Seguro,” 3) Guatemala: *K’atun 2013*, “Nuestra Guatemala,” 4) Honduras: *Plan Estratégico de Gobierno 2014-2018*, 5) Nicaragua: *Plan Nacional de Desarrollo Humano 2012-2016*, 6) Panamá: *Plan Estratégico de Gobierno 2015 – 2019*, “Un Solo País.”

Fishing	9	11	8	11	8	10
Imports	10	8	12	7	12	9
Industry	6	5	2	2	2	6
Mining	11	12	10	12	10	7
Remittances	12	6	9	10	11	12
Small & Medium Enterprises	8	4	7	6	6	11
Tourism	4	2	6	4	7	2
Trade	3	10	4	8	3	3

Source: Word frequency analysis of national development plans for select terms and concepts.

Monetary Policy

With regards to monetary policy, a primary consideration for countries in the region is attracting and maintaining foreign investment and protecting exports. For many years, monetary policy has kept currency devalued to protect these sectors. As countries move towards more market-driven rates, there is concern that export sectors may suffer.

Table 10: Monetary Overview

Country	Trends and News
Costa Rica	<ul style="list-style-type: none"> For nearly 30 years, the Costa Rican central bank has actively managed the foreign exchange market to protect export-related sectors.³⁴ In 2015, the country adopted a managed floating-rate regime and reduced the monetary policy rate and interest rates several times in light of the economic slowdown.³⁵ The Banco Central de Costa Rica (BCCR) continues to take measures to maintain inflation within the desired range.³⁶
El Salvador	<ul style="list-style-type: none"> El Salvador has a dollarized economy with limited options for independent monetary policy
Guatemala	<ul style="list-style-type: none"> One of the lowest rates of inflation in the world, according to 2015 statistics³⁷ Central Bank chief, along with many other officials, was arrested in a 2015 corruption scandal.
Honduras	<ul style="list-style-type: none"> Monetary Policy Rate (TPM) and interest rates were lowered in 2015 Discussion whether overvaluation of the <i>lempira</i> is hurting exports.³⁸
Nicaragua	<ul style="list-style-type: none"> Nicaragua is one of only 2 countries in world with crawling peg exchange rate, with a 5% annual drop against the dollar. The Sandinista government has argued that the <i>córdoba's</i> peg to the dollar is a key part of Nicaragua's ability to attract foreign investment. High degree of informal dollarization
Panama	<ul style="list-style-type: none"> Panama has a dollarized economy, with limited options for independent monetary policy

Source: Central Banks, local news.

³⁴ <http://news.co.cr/conclusion-imf-consultation-costa-rica/36923/>

³⁵ <http://www.focus-economics.com/news/costa-rica/monetary-policy/costa-rica-adopts-new-exchange-rate-regime-moves-free-floating>

³⁶ http://www.elfinancierocr.com/finanzas/ISI-PIC-inflacion-BCCR_0_225577479.html

³⁷ <http://www.laprensa.hn/economia/783694-410/honduras-con-la-segunda-inflaci%C3%B3n-m%C3%A1s-alta-de-centroam%C3%A9rica>

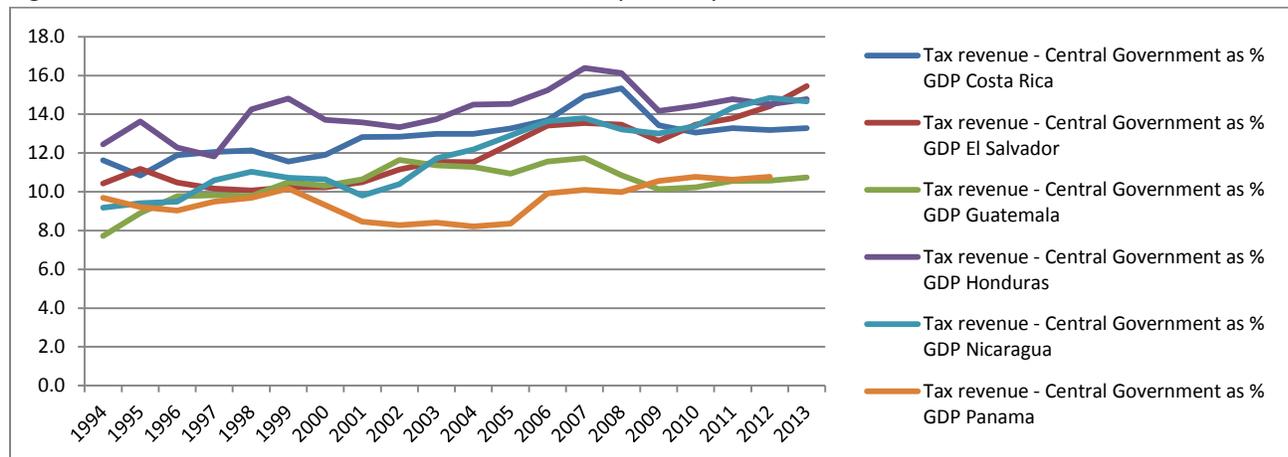
³⁸ <http://www.elheraldo.hn/economia/784850-214/pol%C3%ADtica-monetaria-obstaculiza-reactivaci%C3%B3n-econ%C3%B3mica-en-honduras>

Monetary policies regarding inflation control have begun to emerge in a few countries in the region. However, the results of these policies are not yet clear, and for many countries in the region, they are not yet a subject of discussion.

Fiscal Policy

Tax collection has long presented a challenge for Central American countries. They face a dilemma: without public support and confidence, they are in poor position to collect funds, but without government funds, they are in poor position to provide the type and quality of services that would bolster public support.

Figure 6: Tax Revenues as % Central Government GDP, by Country



Source: CEPAL STAT, 2015.

With limited funds, governments in the region must address competing needs and priorities, some of them very pressing. Spending patterns vary by country, and can be measured either in terms of expenditures as a % of total government expenditures or expenditures as a % of the GDP.

- In Costa Rica, public social spending represents 73.1% of general government spending, which “highlights the enormous importance (fiscal priority) the government assigns to social matters.”³⁹ In 2010, public social spending amounted to US\$ 1,787 per person (in current dollars), and, in total, such spending represented 20.3% of the GDP. Within social spending, the largest amounts went to education, health, and pensions.⁴⁰
- In El Salvador, public spending represented 22.3% of the GDP and public social spending represented 8.6% of the GDP in 2011. “That is to say, El Salvador has a small to medium sized government, when compared to other countries within and outside the region,” some analysts have concluded.⁴¹ Research by the Commitment to Equity Project has found, moreover, that El

³⁹ http://www.commitmenttoequity.org/publications_files/Costa%20Rica/CEQWPNo18%20PubSpendTaxRedistIncandPover%20Costa%20Rica.pdf

⁴⁰ http://www.commitmenttoequity.org/publications_files/Costa%20Rica/CEQWPNo18%20PubSpendTaxRedistIncandPover%20Costa%20Rica.pdf

⁴¹ http://www.commitmenttoequity.org/publications_files/ElSalvador/CEQWPNo26%20ImpactoImpuestosGastoSocialElSalvador%20Marzo%202015.pdf

Salvador’s fiscal policies have a small, null or even negative impact on poverty reduction, depending on the methodology used.⁴²

- In Guatemala, primary government spending was only 13.6% of the GDP in 2010, one of the lowest in Latin America. Social spending amounted to only 5.5% of GDP.⁴³ A recent fraud and corruption scandal involved tax evasion amounting to US\$350 million in annual income, or approximately 5% of the total government income,⁴⁴ which will likely further erode public confidence in fiscal policy.
- In Honduras, public spending in the 2015 budget focused on education (35.9% total), health (20.0% total) and defense and security (8.7% and 6.2% respectively).⁴⁵
- In 2015, expected incomes for Nicaragua will be c\$55,309.4 million, 92.6% of which comes from tributary incomes. Of total spending of 61,000, major spending areas included health (10,838), education (10,419) debt service (3,580), justice & courts (2,441), police (2,292) and defense (1,952).⁴⁶
- In Panama, the 2015 fiscal year budget amounts to 19.5 billion million dollars. It allocates funding to the development of new infrastructure, such as the Line 2 of the Metro of Panama, the urban renewal of Colon, and health and potable water programs. \$2,324 million will be allocated to social investment to “meet the needs of the most vulnerable sectors of society.”⁴⁷

The following table summarizes government spending according to three key areas: education, health, and defense.⁴⁸ It is important to note that health and military spending include only the amounts spent by the central government, so actual amounts may be higher due to state and local government spending.

Table 11: Government Spending (% Total and Central Government Expenditures)

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
Government Expenditures, as % Total Government Expenditures						
Education (% Total Government Expenditures)	23.4% (2009)	15.9% (2011)	20.6% (2013)	35.9% ⁴⁹ (2014)	22.8% (2010)	13.% (2011)
Health (% Total Central Government Expenditures)	26.9% (2013)	18.2% (2013)	17.0% (2013)	12.2% (2013)	20.9% (2013)	12.8% (2013)
Military (% Total Central Government Expenditures)	0%	5.6% (2012)	3.4% (2012)	4.3% (2012)	4.4% (2012)	NA

Source: Education, Health and Military, World Bank Data, Accessed 6/2015. Honduras Education: ICEFI, 2014.

⁴² http://www.commitmentoequity.org/publications_files/ElSalvador/CEQWPNo26%20ImpactoImpuestosGastoSocialElSalvador%20Marzo%202015.pdf

⁴³ http://www.commitmentoequity.org/publications_files/Guatemala/Cabrera_Lustig_Moran_Oct_17_2014.pdf

⁴⁴ <http://www.estrategiaynegocios.net/opinion/842797-345/guatemala-para-econom%C3%ADa-de-ca>

⁴⁵ <http://icofi.org/wp-content/uploads/2015/05/Honduras-Presentaci%C3%B3n-Diagn%C3%B3sticoFiscal-2014.pdf>

⁴⁶ <http://www.nuestropresupuesto.org/descargas/>

⁴⁷ <http://www.mef.gob.pa/es/noticias/Documents/National%20Assambly%20approves%20budget%202015.pdf>

⁴⁸ It is important to note that, while spending may reflect development priorities, it does not necessarily guarantee development results. In areas such as education and health, there are many inefficiencies that may weaken the impact of public spending.

⁴⁹ <http://icofi.org/wp-content/uploads/2015/05/Honduras-Presentaci%C3%B3n-Diagn%C3%B3sticoFiscal-2014.pdf>