

## DELEGATION OF THE EUROPEAN UNION TO COSTA RICA

### TRADE AND ECONOMIC SECTION

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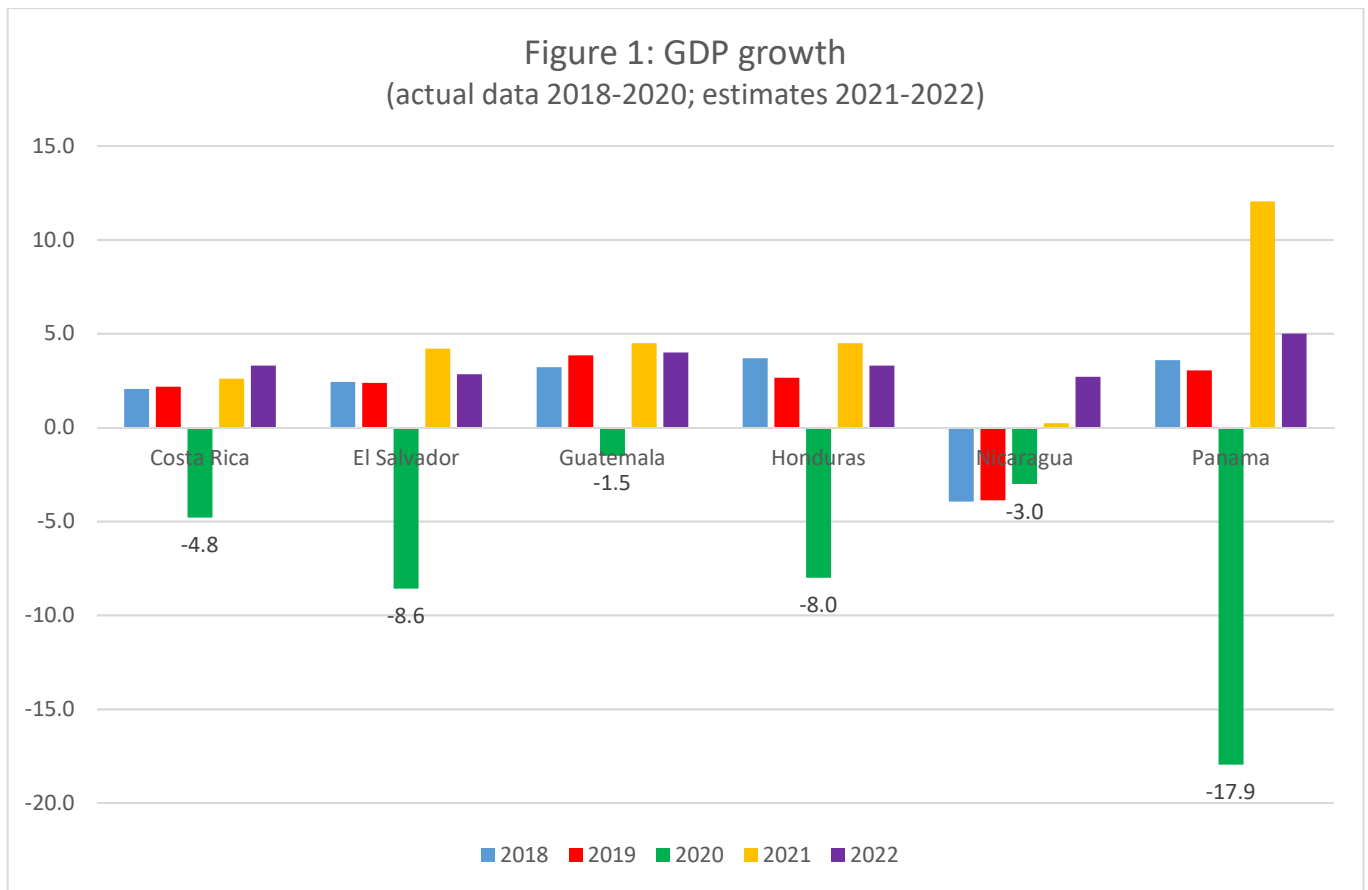
### CENTRAL AMERICA: Economic Report – Macroeconomic Outlook and Trade Analysis September 2021

#### A. Summary

- 1. In Central America the outlook for the next two years, according to information from CEPAL of July 2021, is an expected recovery of 6.2% of Gross Domestic Product (GDP) growth in 2021, with a further 4.6% growth forecasted for 2022. This would place the area towards a recovery path, where GDP in 2023 would match and surpass the pre-pandemic levels of 2019.*
- 2. One of the main forces behind this economic recovery is the resilience of the export sector during the year of the pandemic, and the sustained growth foreign trade has experienced during the first semester of 2021. Between the first half of 2020 and the first half of 2021 the EU has maintained its market share of trade with CA countries, whereas the U.S. has lost some ground to China, while still remaining the region's main trading partner.*
- 3. None withstanding, there are potential problematic issues that may arise that could risk that recovery, in particular the overall increase in public debt and a gradual return of inflation, which had been placed under check during 2020. Both of these situations would call for more restrictive fiscal and monetary policies, which could hamper economic recovery in the years to come.*

#### B. Macroeconomic outlook for Central American countries

4. Central American countries experienced a significant decrease in their GDPs during the pandemic. Figure 1 displays the actual data on GDP growth for all six Central American countries for 2018, 2019 and 2020, and forecasts for 2021 and 2022. These data stem from the IMF World Economic Outlook on July 2021.
5. Overall, the estimates suggest a substantial decrease in economic activity for all countries, in particular Panama where GDP fell by 17% in 2020; and Honduras and El Salvador where GDP losses came close to 8%-9% between 2019 and 2020. Recovery is expected to be sharp for Panama, slow for Nicaragua, and moderate for the remaining countries in 2021 and 2022.



6. Unemployment figures in Table 1 follow a similar pattern, although expected recovery will have to wait in many countries for several years.

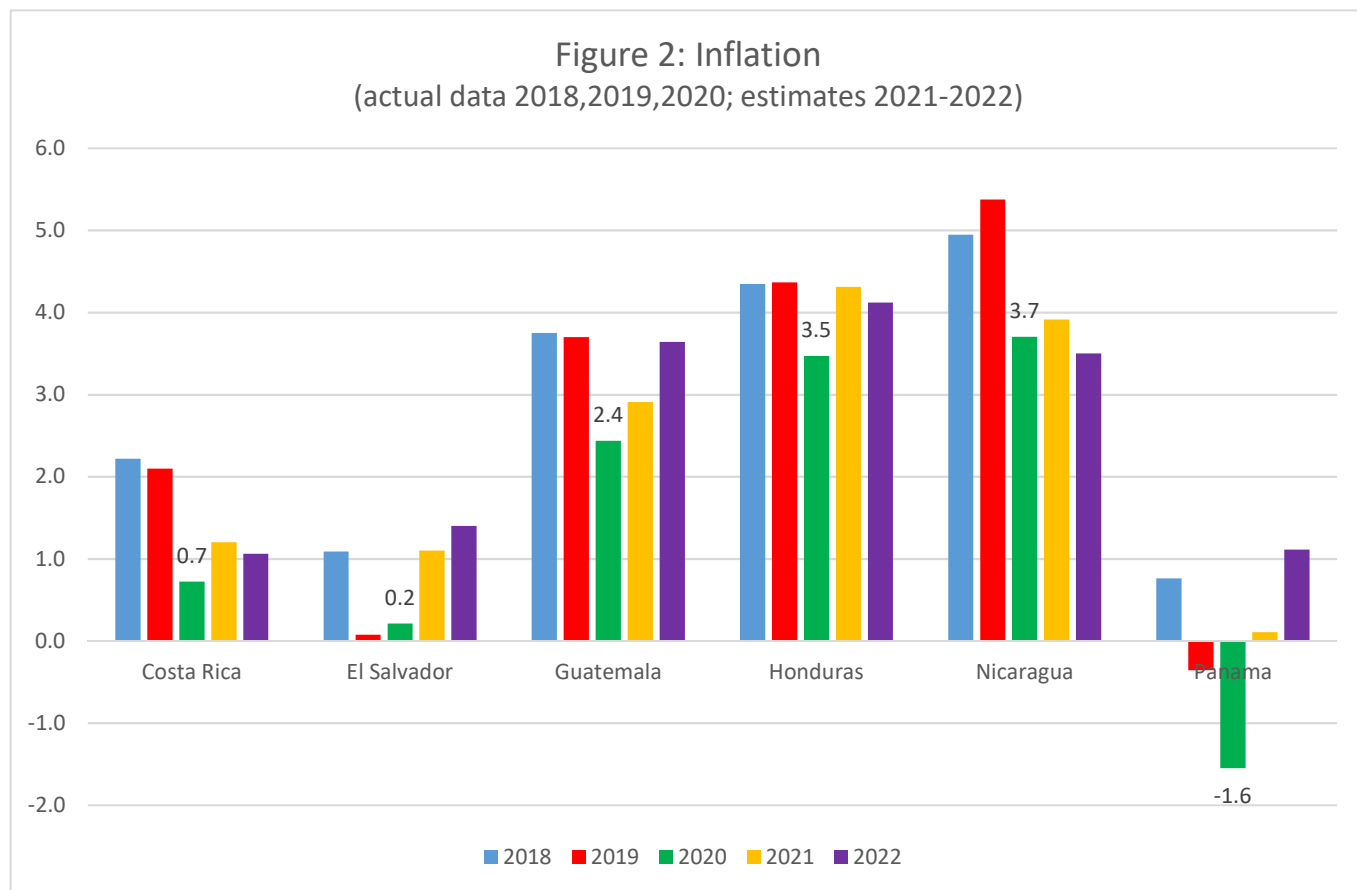
Table 1: Unemployment (2018, 2019, 2020 actual data; 2021, 2022 projections)

	2018	2019	2020	2021	2022
<b>Costa Rica</b>	12.0	12.4	20.0	16.0	14.0
<b>El Salvador</b>	6.3	6.7	9.0	9.5	8.2
<b>Honduras</b>	5.6	5.4	6.2	5.3	4.9
<b>Nicaragua</b>	5.5	6.1	8.1	11.1	7.5
<b>Panama</b>	6.0	7.1	18.5	10.1	9.1

7. The most visible case is Costa Rica, where in a matter of 12 months unemployment went from 12.4% to 20.0%. Nicaragua, Panama and El Salvador also registered important increases in their unemployment rates, and the projections for all countries is that the effect may be prevalent for more than two years: with the exception of Honduras, in none of the Central American countries is unemployment expected to reach its pre-COVID levels by 2022.

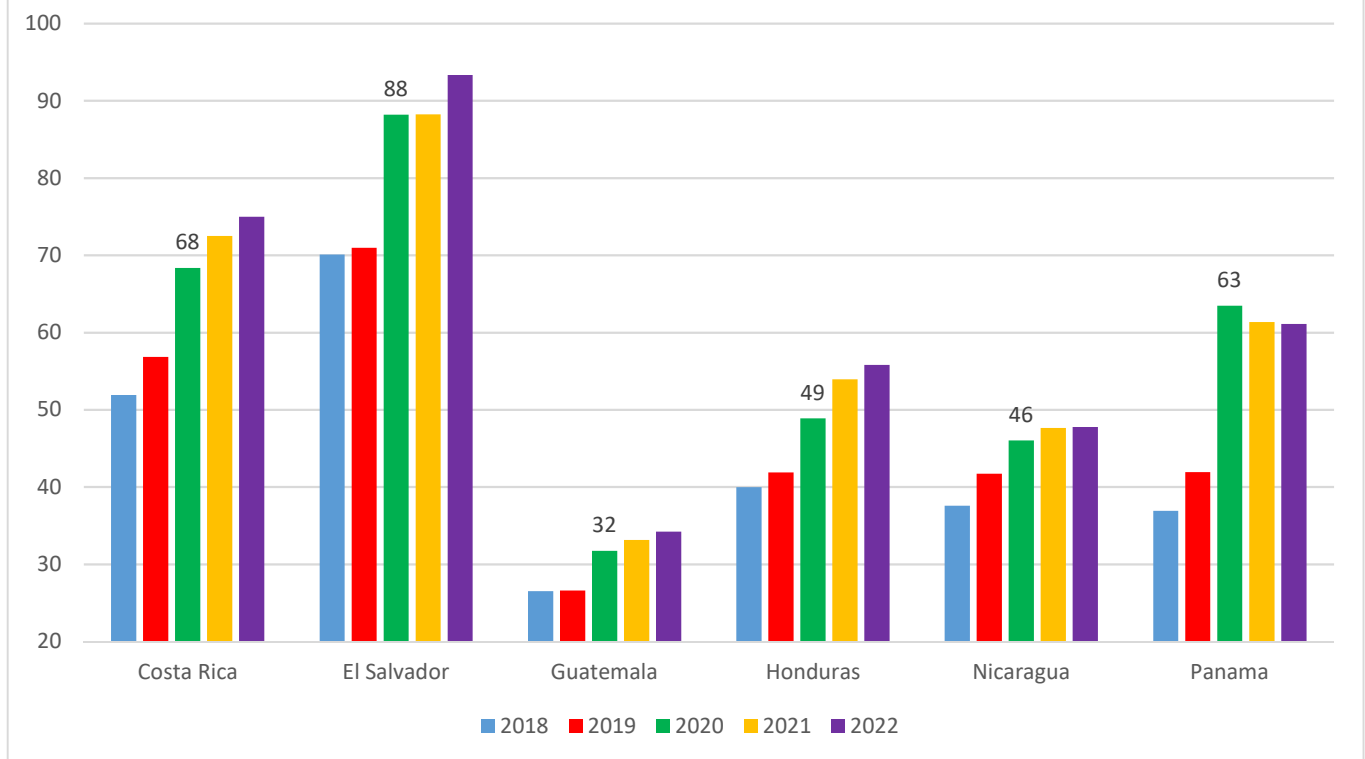
8. Figure 2 takes a look at the estimates and projections for inflation. In contrast to prior crises in the region, the COVID pandemic did not result in a noticeable increase in inflation rates. In fact, for Guatemala, Honduras and Nicaragua, the estimates of inflation for 2020 are lower than the figures

in 2019; whereas for Costa Rica, El Salvador and Panama inflation has maintained its low values of the previous year.



9. The projections for 2021 and beyond show a moderate rise in expected inflation – in some countries returning to its pre Covid-19 levels. This is a circumstance to watch out for, as it may result in the initiation of more contractive policies in 2022 and thereafter, which could hamper subsequent economic growth.
10. Fiscal policy, just as in most countries around the globe, has been quite expansive. As a result, public debt has grown in all Central American countries, as depicted by Figure 3, according to data from the IMF World Economic Outlook of July 2021.
11. For Costa Rica and El Salvador, the debt-to-GDP ratio has reached historically high levels, which leaves very little room for further fiscal stimuli. As a result, government bonds in those countries have suffered a significant downgrade by the ratings agencies, and there have been calls for the need for restructuring plans.
12. In general, the IMF forecasts suggest that only for Panama there will be a reversion of the trend of the public debt in 2021-2022. For Guatemala the levels are low, while for Nicaragua and Honduras they are still manageable. Still, El Salvador and Costa Rica will likely need to undertake important reforms in order to place back public debt at manageable levels after the adjustment period.

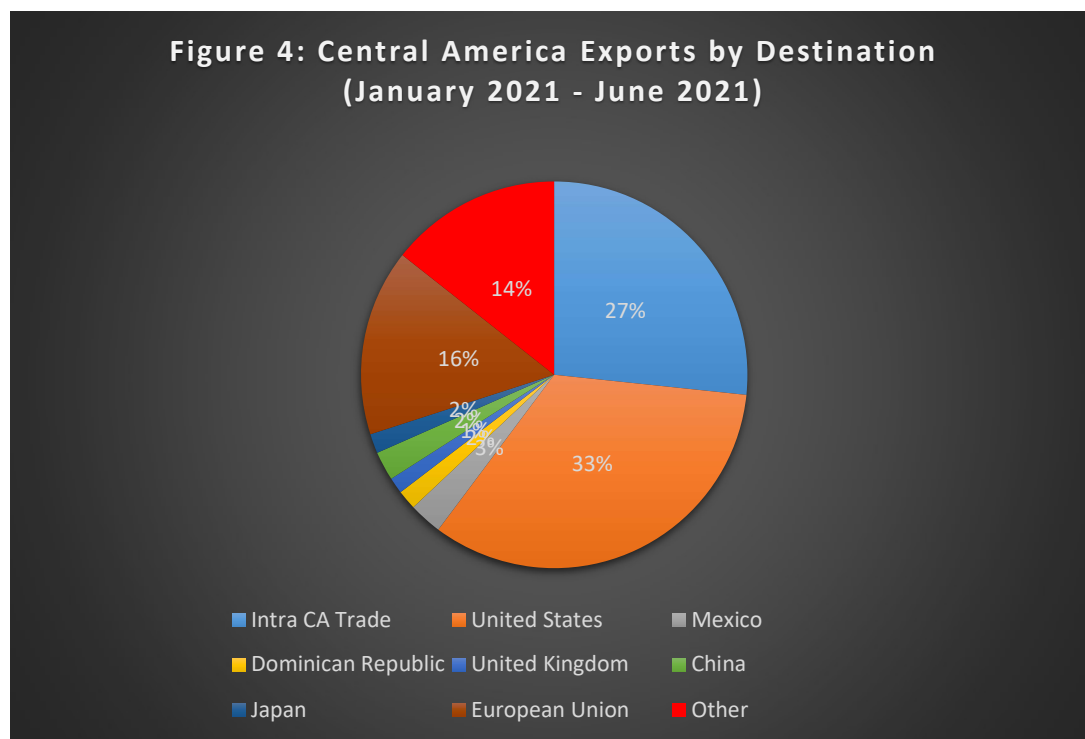
Figure 3: Debt-to-GDP ratio  
(actual data: 2018-2019; estimates 2020-2022)



### C. Trade analysis for Central America, 2020-2021

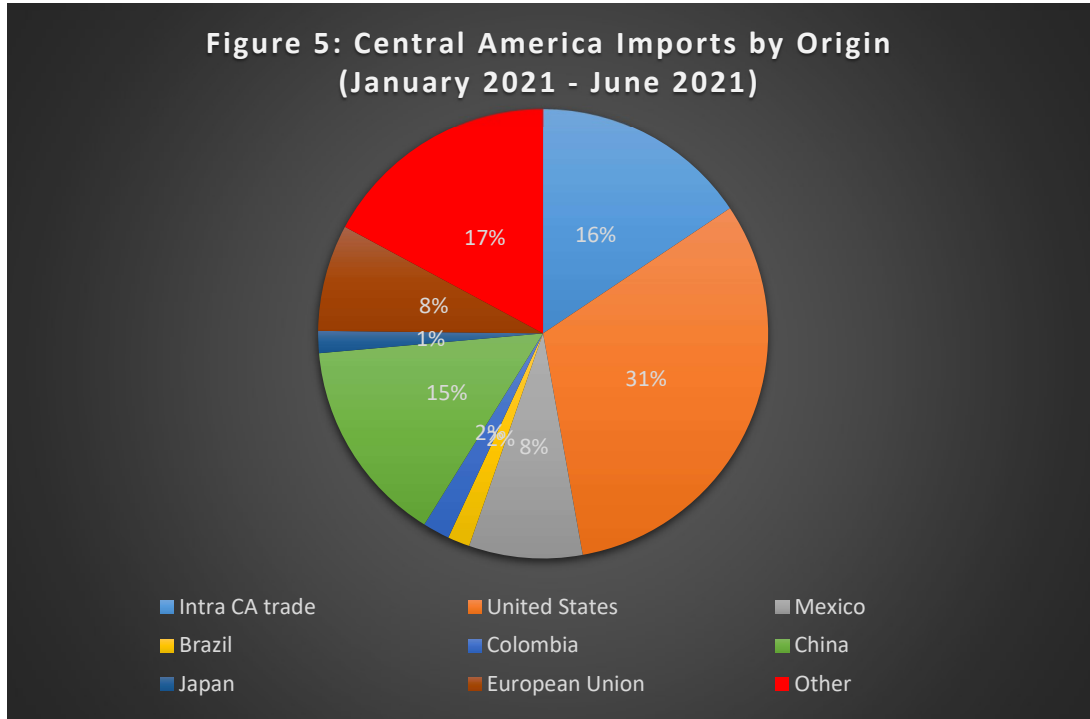
13. Central American exports to the world were quite resilient in spite of the Covid-19 in 2020, and already during the first semester of 2021 have shown signs of a strong recovery.
14. **Costa Rica's** goods exports during the first semester of 2021 totaled 7,106 million dollars, which represents an **increase of 28%** compared to the 5,564 million dollars registered in the same period of 2020. For comparison purposes, exports between January and June 2019 reached 5,705 million dollars.
15. Exports of goods from **El Salvador** totaled US \$ 3,252.8 million in the period from January to June 2021, registering an additional US \$ 1,056.6 million compared to the same period of the previous year and a **year-on-year growth rate of 48.1%** (2,431 million dollars in 2019).
16. In the first half of 2021, **Guatemalan** exports reached 6,690 million dollars for the country, compared to 4,362.1 million during the same period in 2020 (4,057 in 2019). That corresponds to a **year-on-year growth rate of 53%**.
17. In **Honduras**, between January and June of 2021, exports **grew by 14.3%** to 2,647.4 million dollars. These exports stood at 2,316 million dollars in 2020 and 2,312 million dollars in 2019.
18. **Nicaragua's** exports of goods went from 1,517 million between January and June 2020 to 1,860 million between January and June 2021, a growth of 23%. Between January and June 2019 they reached 1,375 million, so the upward trend has been shown since before the Covid-19.

19. Finally, the case of **Panama** is the one that has shown the greatest dynamism: during the first half of 2021, **exports increased 108.7%** in relation to the same period in 2020, mainly driven by mining and wood. Between January and June, the country exported goods and services worth 1,664.9 million dollars, compared to 797.9 million dollars in the same period of the previous year and compared to 373.3 million dollars in 2019.
20. In terms of the share of exports, during the 1<sup>st</sup> semester of 2021 the U.S. continued to position itself as the main destination for CA exports (33%) followed by the intra-CA trade (27%). The EU is still in good position as a destination for CA exports, constituting 16% of the total. The distribution of the main partners is displayed in Figure 4.



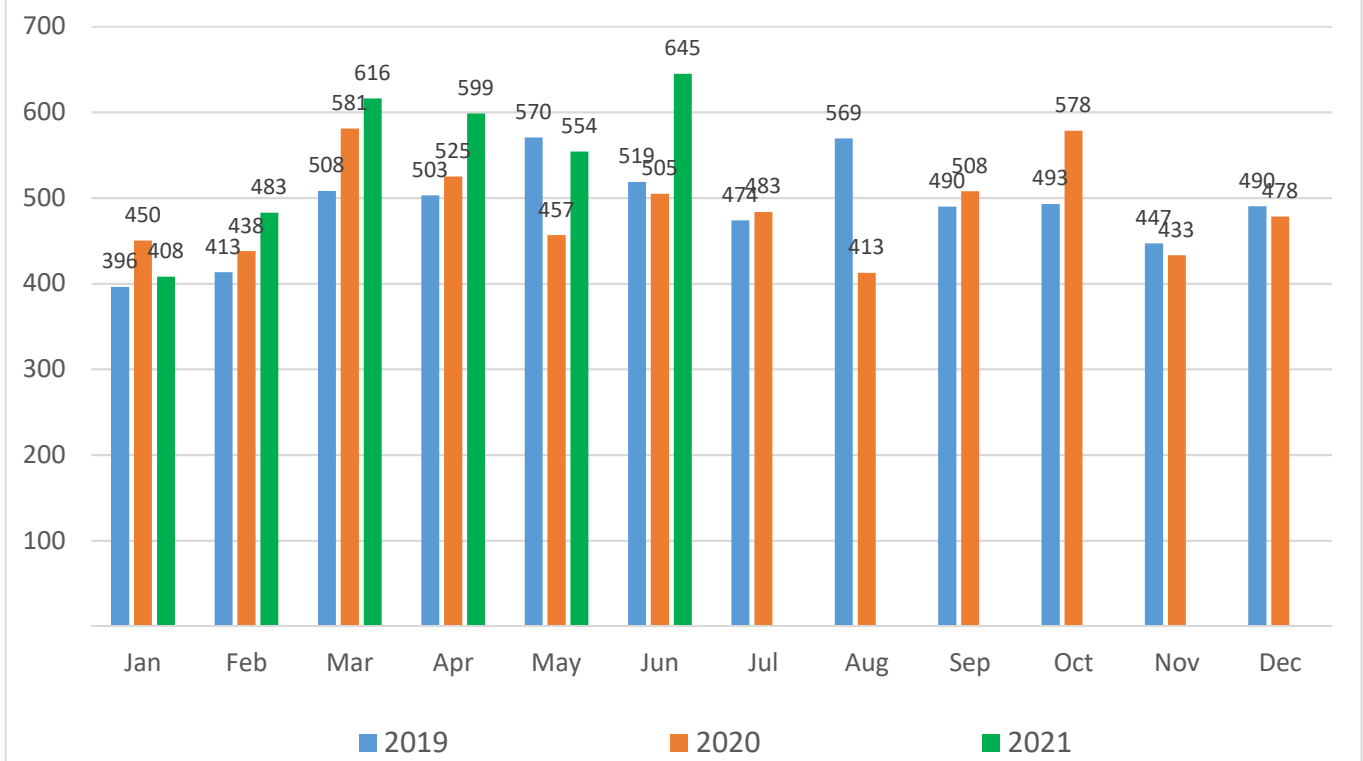
21. As displayed in Figure 5, in terms of share of imports, during the first half of 2021 the U.S., once again was the largest source of Central American imports with 33%, followed by intra-CA trade with 16%, China with 15% and the EU with 8%. It is worthwhile to note that the U.S. has been losing ground as source of imports (loss of 1.5% of market share), which has been partly acquired by China (gain of 1.0%). Meanwhile, the EU has remained relatively stable, with basically no changes in their market share between the first semester of 2020 and the first semester of 2021.

Figure 5: Central America Imports by Origin  
(January 2021 - June 2021)

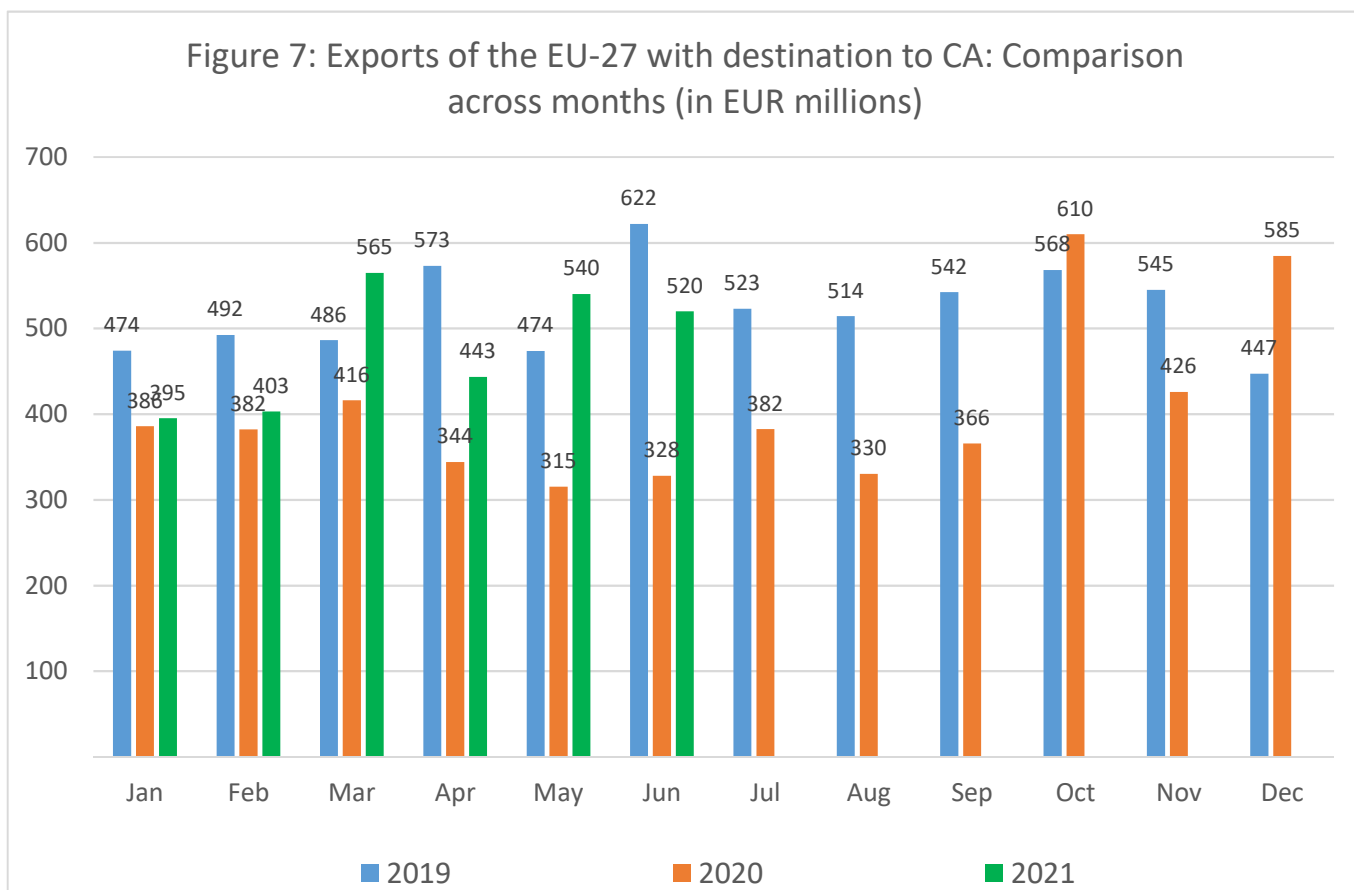


22. In regards to their trade with the EU, Central American countries have also experienced large gains in their exports to the EU-27. During the first semester of 2021, total CA exports to the EU amounted to EUR 3,305 million – a 12% increase with respect to the same period in 2020, and a 14% rise when compared to the first six months in 2019. Figure 6 displays the monthly data of EU imports originating in CA countries from January 2019 through June 2021.

Figure 6: Imports from the EU-27 originating in CA: Comparison across months (in EUR millions)



23. Exports from the EU to CA have recovered partially, although they still haven't reached the levels they had in the year prior to the Covid-19 surge. During the first semester of 2021, total EU exports to CA countries amounted to EUR 2,866 million – which was 32% larger than the comparable level during the first half of 2020, yet still 8% smaller than total exports between January and June 2019. Figure 7 displays the monthly data of EU exports to CA countries between January 2019 and June 2021.



24. The main products exported from CA countries to the EU during the first half of 2021, according to data from EUROSTAT are the following:

- i. Edible fruits and nuts (mainly bananas and watermelon): EUR 755 million (23%)
- ii. Optical, medical and surgical equipment: EUR 546 million (17%)
- iii. Coffee, tea and spices: EUR 450 million (14%)
- iv. Ores, slag and ash: EUR 333 million (10%)
- v. Animal or vegetable fats and oils: EUR 290 million (9%)

25. The main products exported from the EU to CA countries the first six months of 2021 are the following:

- i. Mechanical and electrical machinery: EUR 503 million (18%)
- ii. Pharmaceutical products: EUR 342 million (12%)
- iii. Aircraft, spacecraft, and parts thereof: EUR 258 million (9%)
- iv. Mineral fuels and oils: EUR 137 million (5%)
- v. Soaps and Perfumery: EUR 129 million (4%)

#### **D. Conclusions**

26. Overall, the prospects for CA countries in terms of economic recovery look cautiously optimistic, with levels of GDP returning to their pre Covid-levels in 2023. Part of the driver for this recovery is the external sector, with total exports showing solid growth rates in almost all CA countries. Still, unsustainably high public-debt concerns (in particular in the cases of El Salvador and Costa Rica),



and inflation concerns (mainly in Honduras and Guatemala) provide downside risks for a recovery beyond 2022, and thus need to be closely monitored.