PN-AAG-174

ISN=9569

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL OFFICE FOR CENTRAL AMERICAN PROGRAMS
GUATEMALA CITY, GUATEMALA, C. A.

ECONOMIC REPORT OF THE CACM REGION

AS OF

JULY 1978

Agency for International Development
Library
Rm. 1656 NS
Washington, D.C. 20523

Prepared by:

Gustavo A. Ruiz
Economist

September, 1978

TABLE OF CONTENTS

		Page
1.	Introduction	1
2.	Summary and Conclusions	2
3.	Gross Domestic Product Growth Trends Over FY 74/77 and Prospects for 1978	3
4.	The Balance of International Payments	9
5.	International Monetary Reserves	19
6.	Service Charges on External Public Debt	21
7.	Inflation	23
8.	Money Supply and Bank Credit	25

LIST OF TABLES

		Page
1.	Central America: Trends in Gross Domestic Product 1974-78	4
2.	Central America: Breakdown of Regional Gross Domestic Product by Sector of Origin and Final Expenditures 1975-1977	7
3.	Balance of Payments of C. A. Region. 1975-77 with Projections for 1978	10
4.	Prices of Key Export Products	11
5.	Central America: Capital Inflows	13
6.	Central America: Balance of Payments 1976 (By Country)	16
7.	Central America: Balance of Payments 1977 (By Country)	17
8.	Central America: Balance of Payments Projections 1978	18
9.	Gross International Reserves of the CACM Countries	20
10.	Foreign Public Debt Service Charges as Percent of Exports of Goods and Services	22
11.	Changes in Price Index	24
12.	Money Supply at End of Year in Central America	26
13.	Central America Public and Private Credit Extended by Consolidated Banking System	28
Annex A:	C.A. Breakdown of Regional Gross Domestic Product 1976	30
Annex B:	C.A. Breakdown of Regional Gross Domestic Product 1977	31

1. Introduction

The purpose of this macro-economic report of the Central American region is to provide a brief overview of recent economic trends and examine prospects for 1978 with respect to Gross Domestic Product, Balance of Payments, International Reserves, the Ratio of Foreign Debt Service Charges to Exports of Goods and Services and Price Index.

In particular cases, some discrepancies with earlier embassies' reports might arise. This is, however, due to the inclusion of latest developments as of July, 1978.

Sources consulted in the preparation of this report include published data of the CACM's Secretariat (SIECA), Central American Central Banks, IMF, U.S. Embassies, etc. Projections for 1978 are based on interviews with Central Bank and Ministry of Economy and Finance officials in each of the Central American countries as well as conversations with U.S. Embassy officials.

Note on Nicaragua. This report contains comments and projections based upon information received from the Central Bank and Embassy estimates as of July, 1978. Political events since that time indicate that a more deteriorated picture is expected at this time.

2. Summary and Conclusions

a. Central America enjoyed a good economic year in 1977 with a GDP growth of 7.2% in real terms, the highest since the petroleum price crisis. Good crop yields for traditional agricultural export products, excellent prices for coffee and a high level of investment by both the private and public sectors were major contributing factors. GDP prospects for 1978 are for a regional average real growth rate of around 5%. The GDP performance of El Salvador and especially Nicaragua will be considerably below the regional average. (In this regard, projections for Nicaragua were made well before the political turbulence and resultant economic crisis. Accordingly, these projections are now very suspect.)

b. Agriculture, which has traditionally been the main GDP component, is now second behind commerce as measured in constant 1960 prices.

c. The C.A. Region experienced a CA$266 million surplus in balance of payments during 1977. The total net increase in exports (led by coffee) amounted to CA$1 billion. Due to reduced coffee prices and a continued increase in imports, an overall deficit is forecast for 1978. The contract of compensatory capital might be necessary for some particular countries.

d. The regional level of international reserves increased by about 68% or by some CA$700 between June 1976/77. This high amount registered a slight reduction as of June 1978. However, El Salvador's and Nicaragua's reserve positions have deteriorated notably during the last 12 months, while the remaining countries improved their positions. Overall regional prospects for the remainder of the year are poor.

e. Service charges on external public debt in relation to exports of goods and services are still low for Guatemala, El Salvador and Honduras (2 to 5%) but relatively high for Costa Rica and Nicaragua (16-19%).

f. Inflation averaged about 10% in 1977, ranging between 8-13% in particular countries. For 1978 a slight reduction in inflation is predicted.

3. Gross Domestic Product Growth Trends Over 1974/77 and Prospects for 1978

1977 was a good year for the Central American economy, with an average growth of 7.2% in real terms for the Gross Domestic Product which favorably compares with the 6.1% in 1976. This is the highest growth registered after the recessionary/inflationary period that followed the OPEC's increase in POL prices in 1973. (See Table 1.)

TABLE 1

CENTRAL AMERICA: TRENDS IN GROSS DOMESTIC PRODUCT, 1974-78

- Million of Constant 1960 CA Pesos* -

	1974	1975	1976	1977 Prel.	1978 Proj.	Percent Increase 1974/75	1975/76	1976/77	1977/78
TOTAL C.A.	5959.1	6092.4	6466.5	6930.1	7273	2.2	6.1	7.2	5.0
Guatemala	2295.4	2340.2	2513.1	2721.7	2885	2.0	7.4	8.3	6.0
El Salvador	1201.1	1252.4	1306.5	1371.8	1413	4.3	4.3	5.0	2.5-3.5
Honduras	607.4	610.7	651.0	702.4	752	0.5	6.6	7.9	7.0
Nicaragua	840.3	852.9	902.5	956.2	980	1.5	5.8	5.9	2-3
Costa Rica	1014.9	1036.2	1093.4	1178.0	1243	2.1	5.5	7.7	5-6

* 1 CA$ = 1 US$

Sources: For 1974 and 1975, SIECA; Centroamérica: Estadísticas Macroeconómicas 1971-76 (August 1977). For 1976 and 1977, Central Banks. For 1978, Central Banks and ROCAP estimations.

The main factors in this performance were good crop production and excellent world prices for the region's traditional agricultural exports, especially coffee. 1977 constituted the most favorable year for coffee prices in this century.

Another important factor in the favorable GDP increase was the high level of both private and public investment. Special mention goes to public investment in hydroelectric generation projects which are being developed by all the Central American governments to reduce their present high dependence of imported petroleum.

Table 1 also shows that each country registered a satisfactory real growth rate during 1977. Even El Salvador, which had the poorest performance, registered a growth of 5%, while Guatemala's GDP increase was a truly creditable 8.3%. Also impressive was the growth in Honduras (7.9%) and Costa Rica (7.7%). Nicaragua's GDP rose at 5.9%. In all countries the growth in 1977 surpassed that attained in 1976.

The breakdown of the regional Gross Domestic Product by sector of origin (see Table 2)* shows highly satisfactory

---

* For a country-by-country data (1976 and 1977), see Annexes A & B.

growth rates surpassing 10% for construction, electricity, and banking/insurance. Manufacturing, transportation and commerce also achieved a real growth rate of 9%.

The agricultural sector registered a low 3.6% growth which compares with the 3% growth of population in the region. This lack of dynamism has moved agriculture from its traditional place as the main GDP component to second behind commerce, as measured in constant 1960 prices:

GDP's SHARE BY MAIN SECTORS OF ORIGIN
(In percentage)

	1960	1970	1975	1976	1977
Agriculture	30	26	25	24	24
Commerce	23	24	24	25	25
Manufacturing	13	17	18	18	18

Based on data in Table 2 (years 1975 and 1977) and on SIECA statistics.

On a country-by-country basis (see Annexes A & B) and also measured in constant 1960 prices, agriculture in three countries (Guatemala, El Salvador and Costa Rica) also trails commerce, while only in Honduras does agriculture continue to be definitely the leading sector. In Nicaragua, both sectors appear balanced.

TABLE 2

CENTRAL AMERICA: BREAKDOWN OF REGIONAL GROSS DOMESTIC PRODUCT
BY SECTOR OF ORIGIN AND FINAL EXPENDITURES 1975-1977
- In Millions of Constant 1960 C.A. Pesos* -

	1975	1976	1977 Prel.	Percent Increase 1975/76	Percent Increase 1976/77
By Final Expenditures					
Total GDP	6092.4	6466.5	6930.1	6.1	7.2
Consumption	5032.6	5460.8	5903.0	8.5	8.1
Public	527.5	587.3	629.1	11.3	7.1
Private	4505.1	4873.5	5273.9	8.2	8.2
Gross Domestic Investment	969.4	1122.5	1318.3	15.8	17.4
Public	289.0	375.7	471.8	30.0	25.6
Private	680.4	746.8	846.5	9.8	13.4
Increase in Inventories	-21.7	-76.9	136.3	-	-
Exports of Goods & Services	1590.9	1634.7	1622.7	2.8	-0.7
Less: Imports of Goods & Services	1478.8	1674.6	2050.2	13.2	22.4
By Sector of Origin					
Total GDP	6092.4	6466.5	6930.1	6.1	7.2
Agriculture, Forestry & Fishing	1548.6	1578.5	1635.8	1.9	3.6
Mining	22.7	20.3	21.5	-10.6	5.9
Manufacturing Industry	1086.0	1170.5	1280.9	7.8	9.4
Construction	216.5	265.5	291.5	22.6	9.8
Electricity	108.0	122.9	136.5	13.8	11.1
Transport	318.9	342.1	372.1	7.3	8.8
Commerce	1488.7	1610.2	1750.0	8.2	8.7
Banking & Insurance	162.3	177.4	196.0	9.3	10.5
Housing Property	358.1	341.3	359.4	-4.7	5.3
Public Administration & Defense	376.4	412.6	429.6	9.6	4.1
Services	406.2	425.3	456.7	4.7	7.4

* One CA peso = one US dollar
Source: For 1975 SIECA, Centroamérica: Estadísticas Macroeconómicas, 1971-1976 August 1977.
For 1976 and 1977, ROCAP calculations based on Central Banks figures.
For a country-by-country data (1976 and 1977), see Annexes A & B.

With regard to expenditures, continued increases in public and private investment contributed satisfactorily to GDP growth. Private consumption also continued to be a dynamic factor of growth.

Pre-Nicaraguan crisis prospects for 1978 are for a regional growth rate near 5%. All five countries are expected to achieve slower growth rates than in 1977, although there will be significant differences among them. The most dynamic growth for this year is expected for Honduras (7%), Guatemala (6%) and Costa Rica (5 to 6%), while a recession is forecast for El Salvador (2.5 to 3.5%) and Nicaragua (2 to 3% on very optimistic forecasts). According to present expectations, all countries will suffer from reduced coffee prices and reduced public investment, although a favorable rainy season could result in good crops in grains and some export products (cotton, coffee and banana).

In the case of Honduras, important investments supported by the International Financial Institutions are expected to increase significantly agricultural output. An agricultural diversification program, as well as additional investment in traditional crops, promises dynamic economic growth. Sizeable investment is also expected in public works.

The promising growth in Guatemala and Costa Rica results from expected good crops in basic grains and coffee, some diversification in agricultural production and private investment. Guatemala will continue developing important hydroelectric generation projects.

El Salvador and Nicaragua will also be favored with good crops due to favorable weather conditions, but internal political developments are expected to affect adversely the climate for private investment, especially in the latter country.

4. The Balance of International Payments

Table 3 summarizes regional balance of payments for the period 1975-77 and includes an estimate for 1978. The following conclusions emerge:

a. The current account balance deteriorated in 1977 as compared to that in 1976, increasing the deficit from CA$362 to CA$620 million. This occurred despite a substantial expansion of total exports on the order of CA$1 billion in 1977, or 34% above 1976. Increases in imports of goods and services, exacerbated by international inflation, increased in cost by CA$1.2 billion, more than offsetting export gains.

b. Among the traditional export products, coffee alone, whose prices reached record levels in 1977 (see Table 4),

TABLE 3

BALANCE OF PAYMENTS OF C.A. REGION
1975-77 WITH PROJECTIONS FOR 1978
(In Millions of US Dollars)

	1975	1976	1977	1978 (Projection)
1. Exports (FOB)	2349	3079	4126	4211
Coffee	559	1022	1832	1581
Cotton	250	284	398	393
Bananas	246	307	315	340
Sugar	296	228	161	119
Wood	47	52	60	68
Meat	100	134	125	156
All Others	851	1052	1235	1554
2. Imports (FOB)	2710	3201	4141	4680
3. Trade Balance	-361	-122	- 15	-469
4. Services (Net)	-460	-505	-778	-881
5. Transfers (Net)	145	265	173	186
6. Current Account Balance	-676	-362	-620	-1164
7. Official & Banking Capital (Net Autonomous)	323	281	410	549
8. Private Capital (Net Autonomous)	328	483	474	567
9. Errors & Omissions	29	-39	2	-
10. Compensatory Capital Inflows	156	61	10	58
11. Increase (-) or Decrease (+) In International Reserves	-160	-424	-276	-10
12. Estimated Surplus (+) or Deficit (-) in Balance of Payments (Lines 6+7+8+9 or Increase in Reserves Less Compensatory Capital Inflows	4	363	266	-48

Sources: For 1975, C.A. Monetary Council, Bulletin No. 14 (1977).
For 1976-78 the sources are the Tables 5, 6 and 7.

TABLE 4

PRICES OF KEY EXPORT PRODUCTS
(Dollars per Pound)

	Coffee (Other Milds)	Cotton	Sugar	Beef	Bananas Retail (US Dept. of Agriculture)
1974					
January	.69	.78	.12	.77	.17
June	.72	.55	.27	.64	.23
September	.55	.48	.34	.69	.20
December	.59	.37	.43	.62	.17
1975					
January	.56	.36	.38	.60	.19
June	.56	.43	.15	.88	.26
September	.81	.51	.18	.82	.22
December	.83	.55	.16	.76	.23
1976					
January	.93	.57	.15	.70	.23
June	1.50	.73	.14	.66	.24
September	1.59	.72	.095	.61	.23
December	2.07	.73	.10	.66	.23
1977					
January	2.19	.67	.11	.64	.23
June	2.62	.61	.10	.66	.27
September	1.90	.49	.11	.67	.24
December	2.03	.48 1/	.11	.72	.25
1978					
January	2.06	.51 1/	.11	.78	.25
April	1.78	.55 1/		1.02 1/	
May	1.69	.57 1/		1.04 1/	
July	1.35 2/	.60 2/		.83 2/	

Sources: For coffee, Central Bank of Guatemala and the IMF's International Financial Statistics (World Commodities: Wholesale Prices, line "Other Milds").

For cotton, sugar and beef, U.S. Dept. of Commerce Survey of Current Business (various issues, except for those with footnotes.

For bananas, U.S. Department of Agriculture, Fruit Situation (March, July 1976, July 1977 and March 1978).

1/ Bank of Guatemala's Informe Sobre los Principales Productos de Exportación, July 7, 1978, based on Merrill Lynch's data (cotton) and The National Provisioner (Beef).
2/ Cash prices as of July 28, 1978.
Source: The Wall Street Journal, July 31, 1978

accounted for 77% of the CA$1 billion increase in exports. Important gains were also obtained from cotton and manufactured goods (the latter listed under "all others"). In the specific case of sugar, a decline from CA$228 to CA$161 million was registered between 1976 and 1977.

c. The inflow of non-compensatory private and official capital, which amounted to CA$884 million in 1977, more than compensated for the current account deficit. In fact, the overall balance of payments registered a gain on the order of CA$266 million for the whole region.

d. In Table 5, note that direct private investment plus the net* loans inflow to the official and banking sectors (CA$587 million) covered most of the deficit in the current account.

e. Due to high capital inflows, Central America only contracted low amounts in compensatory (short-term) capital.

Predictions for the balance of payments in 1978 are still highly speculative due to declining coffee prices and political uncertainty in some Central American countries. For these reasons, Central Banks are very cautious in their projections. However, a first attempt at projecting the balance of payments indicates the following trends·

---

* New loans less repayments.

TABLE 5

CENTRAL AMERICA: CAPITAL INFLOWS
- Millions of U.S. Dollars -

		1975	1976	1977	1978 Projected
1.	Private Capital, Net	328	483	474	567
	Direct Investment	187	198	198	
	Loans	150	244		
	Repayments	-41	-139		
	Others (Net)	32	180	165	
2.	Official & Banking Capital, Net Autonomous	323	281	410	549
	Loans	505	371	589	
	Repayments	-143	-115	200	
	Special Drawing Rights	-	-	-	
	Others (Net)	-39	25	21	
3.	Compensatory Capital Inflow 1/	156	61	10	58

1/ In contrast to "autonomous" capital inflows, "compensatory" inflows refer to official borrowing undertaken to help finance imports. Examples of compensatory inflows include net borrowing from the Venezuela Investment Fund, the IMF and the C.A. Monetary Stabilization Fund.

Source: Central Banks and C.A. Monetary Council, Bulletin No. 14, 1977.

a. Growth of imports of goods and services is likely to outpace the growth of exports of these same items, resulting in a projected wider deterioration of the regional deficit in the current account balance of over CA$1 billion.

b. Declining coffee prices will impact in a reduced export value for that product, although not as much as might be expected since most Central American 1978 sales were completed prior to the more recent price decreases.

c. A deficit in the overall regional balance of payments is projected. This result, of course, could be reversed were coffee exports values to significantly recover during the last months of the year and were some countries to contract additional compensatory capital.

d. Central America will continue to be vulnerable to changes in international prices of coffee and some other primary products, and will also continue to depend on external capital inflows to balance the increased current account deficit.

In Tables 6, 7 and 8, a country-by-country breakdown of the Central American balance of payments situation in 1976, 1977 and projections for 1978 is presented.

- With respect to exports, all five countries achieved substantial gains in 1977 as compared to those in 1976.

Greatest increases were registered in Guatemala (50%), Costa Rica (38%) and El Salvador (30%).

- For the first time, coffee was the main export product in all countries, surpassing the value of bananas in Honduras and cotton in Nicaragua. The value of coffee exports in 1977 more than doubled in two countries (Guatemala and Costa Rica) as compared to 1976. Cotton exports also registered significant gains for the producer countries, especially Guatemala, Nicaragua and El Salvador.

- On the import side, major increases were registered by Nicaragua (45%) and Costa Rica (31%). In the rest of the countries the increase remained around 25%. All countries had deficits in their current accounts. Higher increases in imports in Nicaragua and Costa Rica were clearly reflected in their current account balance. Different levels of capital inflows during 1977 resulted in surpluses for Guatemala, Honduras and Costa Rica, a deficit in Nicaragua and a balanced account in El Salvador. For 1978, some reduction in the value of exports will probably occur in almost all countries; the disruption of C.A. intra-regional trade due to the Nicaraguan political crisis will also affect C.A. exports. Improvement of coffee prices during the last months of the year, however, might help to dampen that negative picture.

TABLE 6

CENTRAL AMERICA: BALANCE OF PAYMENTS, 1976
(By Country)
- Millions of U.S. Dollars -

	Total C. A.	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
1. Exports (FOB)	3079	794	745	406	542	592
Coffee	1022	243	406	100	119	154
Cotton	284	85	64	4	131	-
Bananas	307	46	-	107	5	149
Sugar	228	108	40	2	53	25
Wood	52	1	-	41	10	-
Meat	134	25	-	26	38	45
All others	1052	286	235	126	186	219
2. Imports (FOB)	3201	905 1/	684	432	485	695
3. Trade Balance	-122	-111	61	-26	57	-103
4. Services (Net)	-505	-92	-96	-99	-106	-112
5. Transfers (Net)	265	199 1/	30	13	10	13
6. Current Account Balance	-362	-4	-5	-112	-39	-202
7. Official & Banking Capital (Net Autonomous)	281	13	26	74	64	104
8. Private Capital (Net Autonomous)	483	197	55	53	27	151
9. Errors & Omissions	-39	-7	-6	1	-13	-14
10. Compensatory Capital Inflows 2/	61	23	6	7	-	25
11. Increase (-) or Decrease (+) in International Reserves	-424	-222	-76	-23	-39	-64
12. Estimated Surplus (+) or Deficit (-) in Balance of Payments (Lines 6+7+8+9 or Increase in Reserve Less Compensatory Capital Inflows)	363	199	70	16	39	39

1/ Includes Q75 million of donations in kind.

2/ From Venezuelan Investment Fund, IMF and C.A. Stabilization Fund

Source: Central Banks and C.A. Monetary Council figures (Statistical Bulletin No. 14, 1977).

TABLE 7

CENTRAL AMERICA: BALANCE OF PAYMENTS, 1977
(By Country)
- Millions of U.S.Dollars -

	Total C. A.	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
1. Exports (FOB)	4126	1189	972	520	630	815
Coffee	1832	542	613	168	191	318
Cotton	398	155	81	11	149	2
Bananas	315	45	-	125	4	141
Sugar	161	84	26	4	31	16
Wood	60	3	-	48	9	-
Meat	125	26	-	22	34	43
All Others	1235	334	252	142	212	295
2. Imports (FOB)	4141	1142	846	540	704	909
3. Trade Balance	-15	47	126	-20	-74	-94
4. Services (Net)	-778	-203	-169	-114	-152	-140
5. Transfers (Net)	173	97	36	14	11	15
6. Current Account Balance	-620	-59	-7	-120	-215	-219
7. Official & Banking Capital (Net Autonomous)	410	58	-20	106	144	122
8. Private Capital (Net Autonomous)	474	160	26	55	33	200
9. Errors & Omissions	2	20	-	-	-18	-
0. Compensatory Capital Inflows	10	-	-	4	-	6
1. Increase (-) or decrease (+) in International Reserves	-276	-179	1	-45	56	-109
2. Estimated Surplus (+) or Deficit (-) in Balance of Payments. (Lines 6+7+8+9 or Increase in Reserves Less Compensatory Capital Inflows)	266	179	-1	41	-56	103

Sources: Central Banks and C.A. Monetary Council, Bulletin No. 14, 1977.

TABLE 8

CENTRAL AMERICA: BALANCE OF PAYMENTS PROJECTIONS 1978
- Millions of U.S. Dollars -

	Total C. A.	Guate-mala	El Sal-vador	Hondu-ras	Nica-ragua	Costa Rica
1. Exports (FOB)	4211	1140	987	614	630	840
Coffee	1581	450	480	204	164	283
Cotton	393	155	81	14	140	3
Bananas	340	48	-	136	5	151
Sugar	119	40	29	16	17	17
Wood	68	3	-	55	10	-
Meat	156	28	-	26	56	46
All others	1554	416	397	163	238	340
2. Imports (FOB)	4680	1260	968	682	700	1070
3. Trade Balance	-469	-120	19	-68	-70	-230
4. Services (Net)	-881	-255	-169	-129	-148	-180
5. Transfers (Net)	186	101	43	15	11	16
6. Current Account Balance	-1164	-274	-107	-182	-207	-394
7. Official & Banking Capital (Net autonomous)	549	130	43	125	96	155
8. Private Capital	567	195	43	61	69	199
9. Erros & Omissions	-	-	-	-	-	-
10. Compensatory Capital Inflows	58	20	23	2	-	13
11. Increase (-) or Decrease (+) in International Reserves	-10	-71	-2	-6	42	27
12. Estimated Surplus (+) or Deficit (-) in Balance of Payments. (Lines 6+7+8+9 or increase in reserves Less compensatory Capital Inflows.)	-48	51	-21	4	-42	-40

Sources: Central Banks, Planning Offices and C.A. Monetary Council projections. In all cases based on unpublished data.

Nicaragua will need--and Costa Rica will probably have--to contract compensatory capital to alleviate predicted deficits. The former's ability to do so will also depend, in part, on settlement of the current political crisis.

5. International Reserves

The latest available information on Central American gross international reserves, as well as a comparison with similar data in previous years, is presented in Table 9. These figures come from the International Monetary Fund. The following is noted:

a. The regional level of reserves registered a big jump on the order of 68% or by some CA$700 million between 1976/77* following the favorable trend observed during the last years. In June 1978, however, the level was close, but lower, to that in 1977.

b. Between 1976/77 all countries registered increases. In 1978, however, important reductions are observed for El Salvador and Nicaragua. The other countries continued the favorable trend.

c. The distribution of reserves among C.A. countries has been very uneven. El Salvador (with reserve equivalent

---

* As of June 30 each year.

TABLE 9

GROSS INTERNATIONAL RESERVES OF THE CACM COUNTRIES
AS OF JUNE 30, 1974 TO 1978

(In Millions of U.S. Dollars)

	1974	1975	1976	1977	1978	
Guatemala	232.8	298.5	456.9	728.9	805.5	
El Salvador	63.4	129.7	206.8	408.5	153.2	
Honduras	41.6	38.9	130.0	196.2	217.5	(April)
Nicaragua	186.7	145.6	165.9	194.8	149.8	(April)
Costa Rica	35.3	47.9	75.1	213.4	298.7	
Total C.A.	559.8	660.6	1034.7	1741.8	1624.7	

Source: IMF International Financial Statistics, various issues.

to 1.9 months of imports) and Nicaragua (2.6 months of imports)* saw a notable deterioration of their reserve position between 1977-78. Guatemala and Costa Rica accounted for 68% of the region's total reserves as of June 1978.

The region traditionally has had little influence over its foreign reserve account, depending as it does on factors, such as coffee prices, that are largely beyond the Central Americans' control. With coffee prices dropping, and without signs of significant new capital inflows, the signs are definitely cautionary.

6. Service Charges on External Public Debt

The sum of the amortization and interest on the external public debt as well as the export of goods and services for 1977 and 1978 is shown on Table 10 for four countries. The 1978 figures represent the latest estimates. The ratio of debt service charges to exports continues to be low for Guatemala and Honduras (ranging from 2 to 5%) and relatively high for Costa Rica and Nicaragua. The ratio for El Salvador is not shown in Table 10, but it is estimated that it continues to be close to that for Guatemala (2 to 4%). Special mention

---

* As of April 30, 1978 (latest figure available).

TABLE 10

FOREIGN PUBLIC DEBT SERVICE CHARGES AS PERCENT OF EXPORTS OF GOODS AND SERVICES 1977-1978
- Millions of C.A. Pesos -

		1. Exports of Goods & Services	2. Foreign Public Debt Service Charges	3. Column 2 as % of Column 1
Guatemala	1977	1353	29.0	2.1
	1978	1350	36.0	2.7
Honduras	1977	572	30.1	5.3
	1978	671	36.5	5.4
Nicaragua	1977	727	111.0	15.3
	1978	735	141.0	19.1
Costa Rica	1977	959	97.0	10.1
	1978	1035	174.0	16.8

Sources: Guatemala unpublished data from Central Bank.
Honduras. Central Bank and Planning Office estimates.
Nicaragua. Exports Central Bank and C.A. Monetary Council.
Service Charges, U.S. Embassy's Economic Trends Report for Nicaragua (March 1978)
Costa Rica. Central Bank and Planning Office estimates.

should be made of the 19% ratio expected for Nicaragua in 1978 which reflects the high amounts of short-term credit contracted during the last years. According to two different sources*, during 1977 alone the Nicaraguan government contracted some $190 million, part of it on commercial terms which are non-concessionary. Costa Rica's case, although less dramatic than that of Nicaragua, has led that government to announce that it is seeking to renegotiate its external debt to alleviate the present high charges.

7. Inflation

According to official sources, consumer price increases in 1977 were 8-13% higher than those registered in 1976 (see Table 11). These increases are highly related to the spectacular coffee prices of last year and to the excess of liquidity resulting from extraordinary export income. Some measures taken by Central Banks (special bond issues) moderated the inflationary pressure. In the case of Costa Rica, although consumer prices followed the general trend, wholesale price inflation was less severe. In 1978, the decreased growth of export earnings will moderate inflationary pressures which, according to trends observed for first half

---

* INFORPRESS Centroamericana No. 298 and U.S. Embassy.

TABLE 11

CHANGES IN PRICE INDEX

Country	Period	PERCENT INCREASE Consumer Prices	Wholesale Prices
GUATEMALA	Average CY 1974/75	13.1	12.3
	Average CY 1975/76	10.7	10.5
	Average CY 1976/77	12.6	13.0
	January-June 1977	10.7	11.9
	January-June 1978	5.5	2.5
EL SALVADOR	Average CY 1974/75	19.2	7.1
	Average CY 1975/76	7.1	11.3
	Average CY 1976/77	11.8	11.7
	January-April 1977	5.1	8.2
	January-April 1978	5.6	2.0
HONDURAS	Average CY 1974/75	7.6	
	Average CY 1975/76	5.4	
	Average CY 1976/77	8.6	
	January-May 1977	6.8	
	January-May 1978	4.5	
NICARAGUA	Average CY 1974/75	7.5	
	Average CY 1975/76	2.9	
	Average CY 1976/77	11.4	
	January-April 1977	8.7	
	January-April 1978	3.1	
COSTA RICA	Average CY 1974/75	17.4	21.6
	Average CY 1975/76	3.5	9.3
	Average CY 1976/77	4.2	7.5
	January-June 1977	2.6 (Jan-May)	5.6
	January-June 1978	3.6 (" ")	5.0

Sources: Central Banks, C.A. Monetary Council, Statistical Bulletin No. 14. 1977 and IMF. International Financial Statistics, various monthly issues.

of the year and official estimates, might range between 8-11%.* This improvement, however, could be offset by imported inflation, particularly if the prices of U.S., European and Japanese goods and services (Central America's largest suppliers) continue to increase steeply. The rate of inflation in some Central American countries is also likely to quicken during the second half of 1978 because of internal decision, e.g., Nicaragua's recently increased consumer taxes will likely reactivate inflation in that country.

A cautionary note on official government cost of living statistics is also necessary since, for political considerations, Central American government data are at times below the actual inflation rates.

8. Money Supply and Bank Credit

The regional consolidated money supply increased at an annual rate of 19% in 1977, or down almost half from the 34% rate registered in 1976 (see Table 12). The development observed for 1977, as reported by official sources, contrasts with the high inflows of income resulting from extraordinary exports, especially due to coffee. This means that part of this money did not reach the banking system and that it

---

* In Costa Rica as measured by wholesale prices.

TABLE 12

MONEY SUPPLY AT END OF YEAR IN CENTRAL AMERICA
- Millions of C.A. Pesos -

	1974	1975	1975	1977	Annual Growth Rate 1974/75	1975/76	1976/77
Total C.A.	1069.1	1210.0	1617.1	1924.6	13.2	33.6	19.0
Guatemala	299.3	348.6	483.3	573.0	16.5	38.6	18.6
El Salvador	227.0	259.3	374.8	410.1	14.2	44.5	9.4
Honduras	119.5	126.2	172.4	214.3	5.6	36.6	24.3
Nicaragua	185.8	178.0	228.9	239.7	-4.2	28.6	4.7
Costa Rica	237.5	297.9	357.7	487.5	25.4	20.1	36.3

Sources: For 1974-77, Central American Monetary Council, Statistical Bulletin No. 14, 1977.

was compensated for in part also by the higher value of imports and from specific Central Bank policies (coffee bonds) to neutralize part of the foreign inflow.

For individual countries, with the exception of Costa Rica, the rest of the Central American states in 1977 registered a desceleration with respect to 1976 in the money supply growth rate. The desceleration was relatively moderate for Guatemala and Honduras, but substantial for El Salvador and Nicaragua. For Costa Rica, the substantial increase appears in line with the high amounts of total internal credit, especially that directed to the public sector (see Table 13).

With respect to banking credit, different national credit policies were practiced. For instance, in Guatemala and El Salvador a reduction in credit to the public sector was registered, while important amounts were conceded to the private sector. The reduction in public credit is attributable to the substantial increases in tax collections from exports in 1977 as compared to those in 1976 (in million of CA$: from 49 to 144 in Guatemala and from 96 to 184 in El Salvador).* For the region as a whole, however

---

* Source: C.A. Monetary Council, Bulletin No. 14 (1977) pages 145 and 148.

TABLE 13

CENTRAL AMERICA: PUBLIC & PRIVATE CREDIT EXTENDED BY CONSOLIDATED BANKING SYSTEM
- Million of C.A. Pesos -

		1975	1976	1977	Annual Growth Rate 1975/76	Annual Growth Rate 1976/77
C. America	Total	2599.8	3045.4	3665.4	17.1	20.4
	Public (Net)	440.7	471.9	547.2	7.1	16.0
	Private	2159.1	2573.5	3118.2	19.2	21.2
Guatemala	Total	651.5	770.1	867.7	18.2	12.7
	Public (Net)	140.5	169.4	114.6	20.6	-32.4
	Private	511.0	600.7	753.1	17.6	25.4
El Salvador	Total	613.9	702.2	835.6	14.4	19.0
	Public (Net)	84.9	69.5	66.8	-18.1	-3.9
	Private	529.0	632.7	768.8	19.6	21.5
Honduras	Total	306.5	374.7	444.3	22.3	18.6
	Public (Net)	54.2	56.0	57.2	3.3	2.1
	Private	252.3	318.7	387.1	26.3	21.5
Nicaragua	Total	393.3	445.4	538.0	13.2	20.8
	Public (Net)	13.2	20.9	32.4	58.3	55.0
	Private	380.1	424.5	505.6	11.7	19.1
Costa Rica	Total	634.6	753.0	979.8	18.7	30.1
	Public (Net)	147.9	156.1	276.2	5.5	76.9
	Private	486.7	596.9	703.6	22.6	17.9

Sources: Central Banks, Economic Research Department Publications.

increases in credit to both public and private sector were registered.

For 1978, the credit policy--which has not been totally defined by Central Banks--will be related to political developments and what happens in coffee prices. Central Banks are currently significantly revising their first estimates on available credit. Improved coffee prices (an uncertainty at this time) would reduce internal credit in El Salvador and Guatemala. In Nicaragua, banking credit will also be affected by the acceptance of additional consumer taxes by the population. At best, any estimate at this date is little more than an educated, and then perhaps not too educated, guess.

ANNEX A

C.A.: BREAKDOWN OF REGIONAL GROSS DOMESTIC PRODUCT - 1976 -
- Millions of Constant 1960 CA $ -

	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	Total C. A.
By Final Expenditures						
Total GDP	2513.1	1306.5	651.0	902.5	1093.4	6466.5
Consumption	2100.1	1212.1	564.3	709.8	874.5	5460.8
Public	167.3	131.2	86.3	65.8	136.7	587.3
Private	1932.8	1080.9	478.0	644.0	737.8	4873.5
Gross Domestic Investment	354.3	183.2	140.5	174.0	270.5	1122.5
Public	94.9	67.9	47.4	68.1	97.4*	375.7
Private	259.4	115.3	93.1	105.9	173.1*	746.8
Increase in Inventories	-10.2	-22.5	-32.0	- 8.2	- 4.0	-76.9
Exports of Goods & Serv.	461.9	306.6	217.0	283.2	366.0	1634.7
Less: Imports of Goods & Services	393.0	372.9	238.8	256.3	413.6	1674.6
By Sector of Origin						
Total GDP	2513.1	1306.5	651.0	902.5	1093.4	6466.5
Agriculture	639.2	303.5	215.5	196.4	223.9	1578.5
Mining	2.7	2.6	12.5	2.5	-	20.3
Manufacturing Industry	386.8	253.5	96.8	212.6	220.8	1170.5
Construction	76.7	53.0	34.2	49.8	51.8	265.5
Electricity	33.9	31.6	10.7	25.5	21.2	122.9
Transportation	138.8	66.6	38.2	48.2	50.3	342.1
Commerce	797.0	292.0	90.9	189.8	240.5	1610.2
Banking and Insurance	44.2	33.8	16.9	28.6	53.9	177.4
Housing Property	110.5	56.2	54.3	43.7	76.6	341.3
Public Administration	135.1	107.4	22.8	45.8	101.5	412.6
Services	148.3	106.3	58.2	59.6	52.9	425.3

* The breakdown was obtained applying the percentages obtained from C.A.Monetary Bulletin No. 14 (page 183) on current prices.

Source: Central Banks

ANNEX B

C.A.:BREAKDOWN OF REGIONAL GROSS DOMESTIC PRODUCT - 1977 -
- Millions of Constant 1960 CA $ -

	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	Total C. A.
By Final Expenditures						
Total GDP	2721.7	1371.8	702.4	956.2	1178.0	6930.1
Consumption	2267.9	1317.7	598.0	754.4	965.0	5903.0
Public	170.8	140.6	99.1	73.1	145.5	629.1
Private	2097.1	1177.1	498.9	681.3	819.5	5273.9
Gross Domestic Investment	387.2	216.3	155.5	241.0	318.3	1318.3
Public	110.8	84.1	55.5	106.8	114.6*	471.8
Private	276.4	132.2	100.0	134.2	203.7*	846.5
Increase in Inventories	43.1	32.1	7.1	42.6	11.4	136.3
Exports of Goods and Serv.	489.6	264.0	212.9	263.3	392.9	1622.7
Less: Imports of goods & services	466.1	458.3	271.1	345.1	509.6	2050.2
By Sector of Origin						
Total GDP	2721.7	1371.8	702.4	956.2	1178.0	6930.1
Agriculture	670.2	304.3	232.4	202.4	226.5	1635.8
Mining	3.1	2.4	13.4	2.6	-	21.5
Manufacturing Industry	428.4	270.2	107.6	226.0	248.7	1280.9
Construction	90.1	55.5	35.4	54.5	56.0	291.5
Electricity	38.7	34.9	11.9	28.7	22.3	136.5
Transportation	154.4	71.8	41.1	51.4	53.4	372.1
Commerce	863.7	310.7	96.4	202.6	276.6	1750.0
Banking & Insurance	54.3	36.8	18.4	31.2	55.3	196.0
Housing Property	119.6	58.1	56.5	46.4	78.8	359.4
Public Administration	139.4	115.2	25.1	47.5	102.4	429.6
Services	159.8	111.9	64.2	62.9	57.9	456.7

* ROCAP assumption based on historical trends and applying same distribution of 1976.

Source: Central Banks.