THE CARIBBEAN COUNCIL

The evolving economic situation in Central America and the response of governments to COVID-19

Webinar Recap

On Thursday 11 June, The Caribbean Council had the privilege of hosting Sofía Cobas, Business Director at Central America Data, and Javier Chamorro Rubiales, Managing Partner at Meca Consulting, for our webinar "The evolving economic situation in Central America and the response of governments to COVID-19".

Our guests shed light on the region's management of COVID-19 and the economic shifts that have resulted.

We are grateful to them for their analysis which is summarised below:

Presentation Take-Aways

The region has been hard-hit by COVID-19. At the time of the presentation, SICA had counted 58,500 cases of COVID-19 and 1,640 deaths in Central America. There remain concerns regarding underreporting due to limited testing capacity, a lack of transparency and different reporting methodologies. Observers suggest that the actual number of infections may be 10 times higher than currently confirmed.

Now, as the health crisis continues in the region - which has seen a spike in new COVID-19 cases - it must also begin to plot a path toward economic recovery.

Context

Prior to March 2020, when responses to the COVID-19 pandemic were taking shape globally, Central America – with the exception of Panama – showed lack-lustre economic performances, though the beginning of operations of a large gold mine in Panama, fiscal reform and loose monetary policy in Costa Rica, pro-business and renewed investor confidence in both El Salvador and Guatemala were expected to drive the regional average up to about 3.9% of GDP growth in 2020, according to the IMF. Across the region, the export sector was expected to continue to expand as a key contributor to GDP.

Due to the pandemic, ECLAC is now anticipating a sharp economic contraction. On average Central America is projected to see a 2.3% decline in GDP, with projected growth spanning -1.3% of GDP in Guatemala to -5.9% in Nicaragua.

Impacts

COVID-19 quickly compounded the challenges already faced by these tourism and remittances-dependent countries. April and March saw a progressive shutdown of travel and a sharp decline in economic activity in the United States, the main source of remittance outflows to the region. The pandemic has also led to a decline in the prices of key commodities.

External shocks have been exacerbated by domestic restrictions in some Central American countries, though national responses have varied significantly in the region. These range from strict home confinement measures implemented for all but a narrowly defined group of essential workers in El Salvador, to a much more laissez faire approach adopted by the government of Nicaragua. Nonetheless, due to a decline in commercial activity across the globe, public authorities across the region report a sharp increase in unemployment in both the formal and informal sectors.

The region, which has been closed to non-essential travel, has also been confronted with challenges related to cross border trade. Due to a lack of coordination between governments, merchandise had been blocked at the Costa Rica border for weeks, and transit continues to be slow due to a lack of regional standards and agreement on the health and safety of drivers transporting goods.

Changing Consumption Patterns

As is to be expected, regional consumer behaviour has shifted significantly reflecting new constraints and needs. An increase of expenditure on health has been observed, as has a decline on expenditure for services prohibited or discouraged by social distancing requirements. As a result, these along with a shift in global demand for Central American output are expected to have the following impacts:

- Entertainment and recreation, hotels and restaurants, retail, education, government revenue are likely to be the most severely impacted by COVID-19.

- Industrial production, corporate offices, services, wholesale and retail, energy, gas and water, as well as mining are expected to be moderately impacted.

- Sectors that may experience the least impact include telecommunications, construction, banking and finance as well as agriculture.

- The health sector is expected to grow.

Opportunities

COVID-19 is impacting the way the global economy is structured, presenting new opportunities for Central America.

- Due to COVID-19 restrictions effecting global commercial operations, US companies are now seeking producers that are closer to home to mitigate against the impact of a potential future crises. This may see a shift in supply chains away from Asia to the Americas.

- Furthermore, the standoff between the US and China has seen US corporations either divesting or expressing interest in relocating certain elements of their supply chains closer by. Central America, due to its geographic proximity with the US, and well-established supply chains, may be able to step in as a key supplier to US markets.

- There may be a financing vacuum in the near future, as domestic credit markets come under strain as a result of increased demand for credit, a likely increase in nonperforming loans, and limited savings. Regional companies will be looking for foreign partners to help them adapt to the new environment or bring new finance into otherwise sound businesses.

- Many trends which are already well-established in developed country markets such as e-commerce, use of credit and debit cards, and contactless systems are all being adopted at pace as a result of the crisis.