

July 2024

Central America, Panama and the Dominican Republic - CAPDR

RECENT DEVELOPMENTS AND IMPLICATIONS OF THE GLOBAL OUTLOOK

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4 reflections

ABOUT RECENT

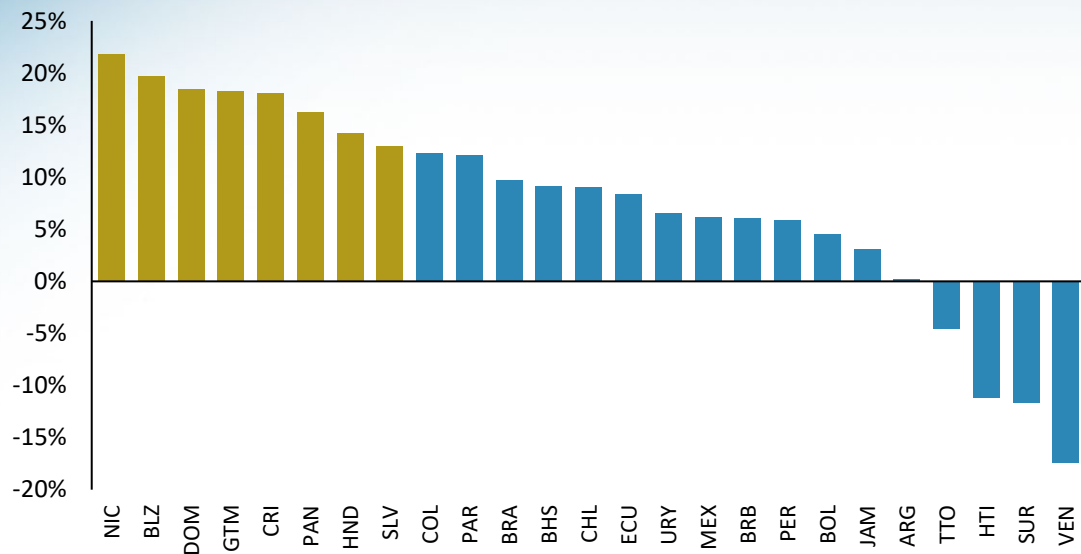
DEVELOPMENTS IN CAPDR



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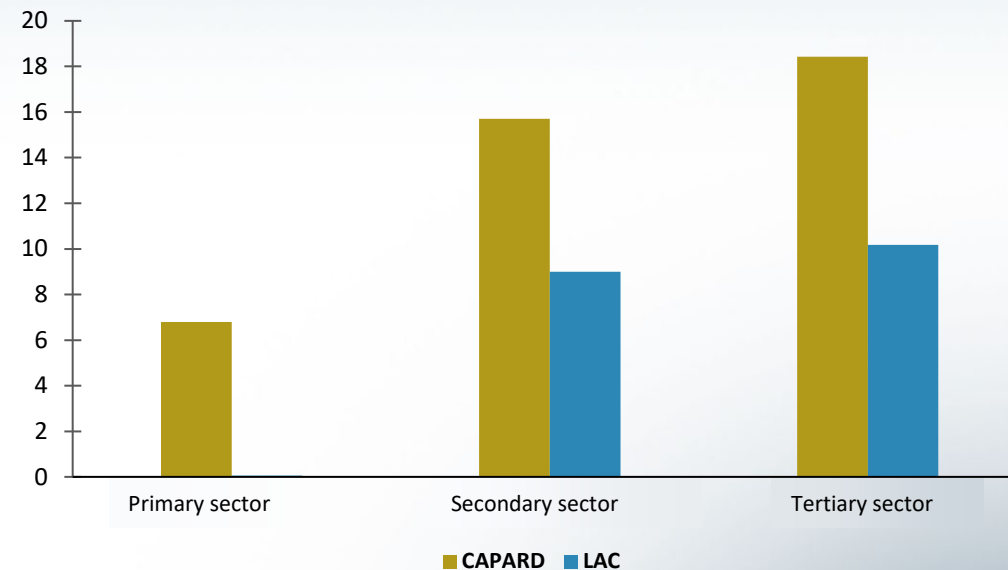
Post-pandemic growth has been stronger in CAPDR than in the rest of LAC, driven primarily by consumption-related services.

Real GDP, change between 2019 and 2024 (%)



Source: CID/IDB with April WEO 2024 data

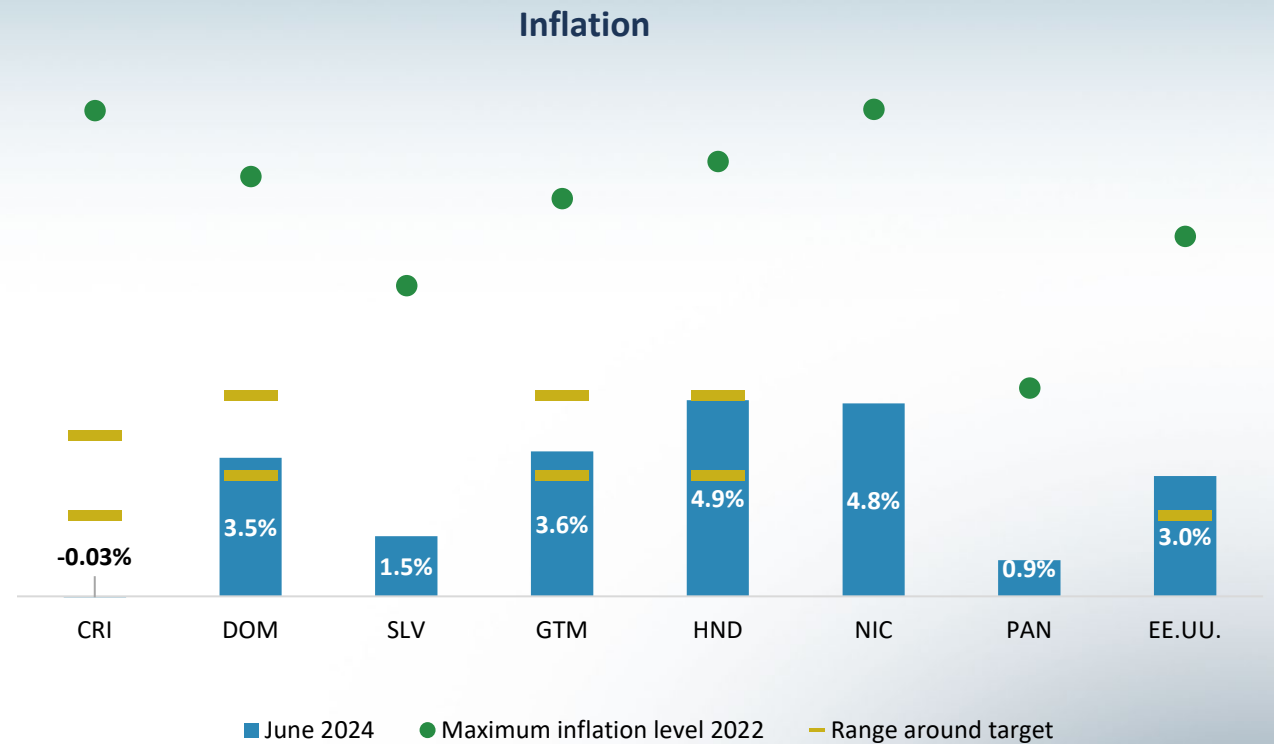
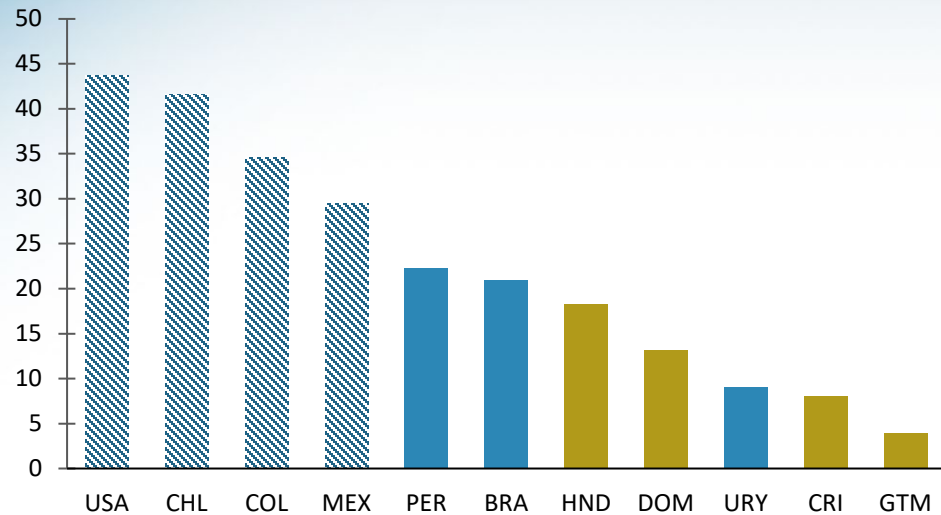
Real GDP change 2019-2023 in CAPDR, by sectors (%)



Source: ECLAC

2. Inflation in CAPDR returned to the target faster than in LAC and developed countries.

Number of months between the peak of inflation in 2022 and the inflation target (upper end of the range)

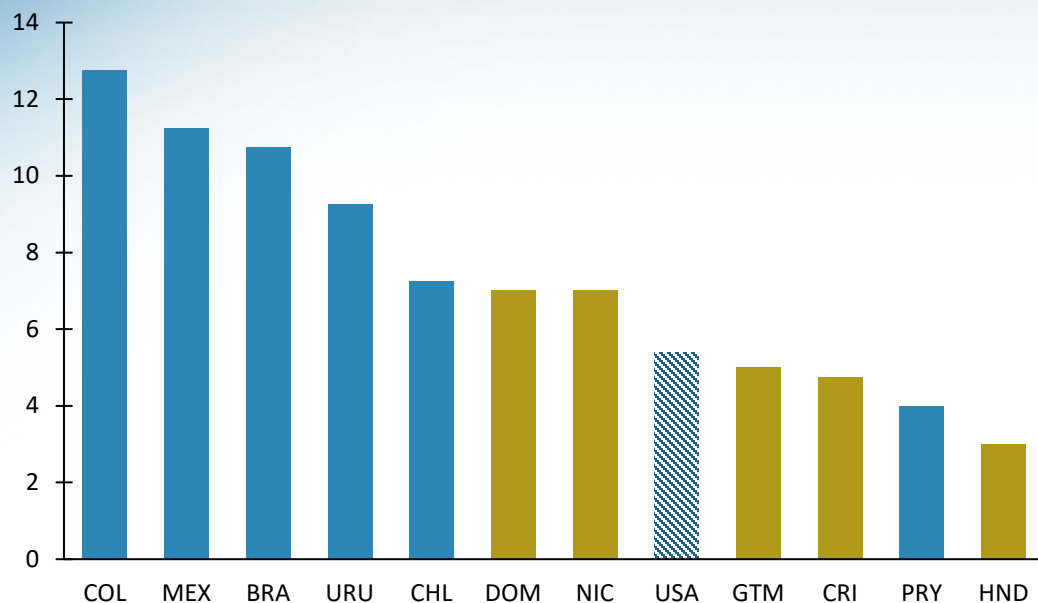


Fuente: SECMCA, Bancos Centrales y Bloomberg

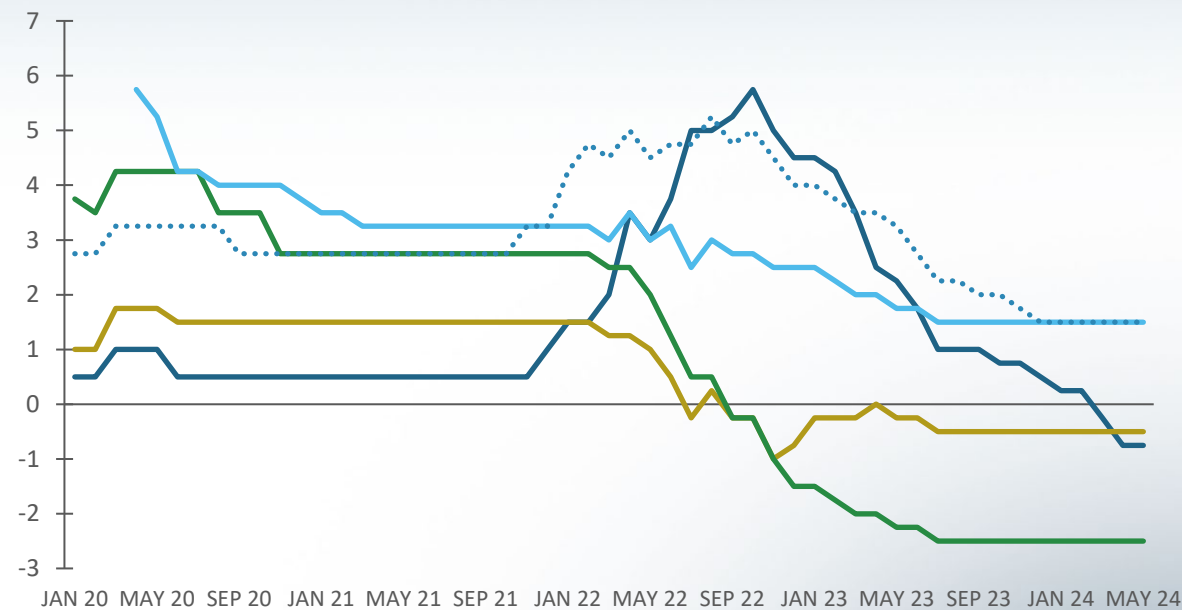
Nota: USA, CHL, COL y MEX aun no llegan al objetivo así que se utilizaron pronósticos de Bloomberg.

3. Control of inflation and exchange rate stability have allowed lower monetary policy rates than in LAC, below that of the Fed in some cases.

Monetary policy rate (%)



Interest rate differential with respect to the USA (%)

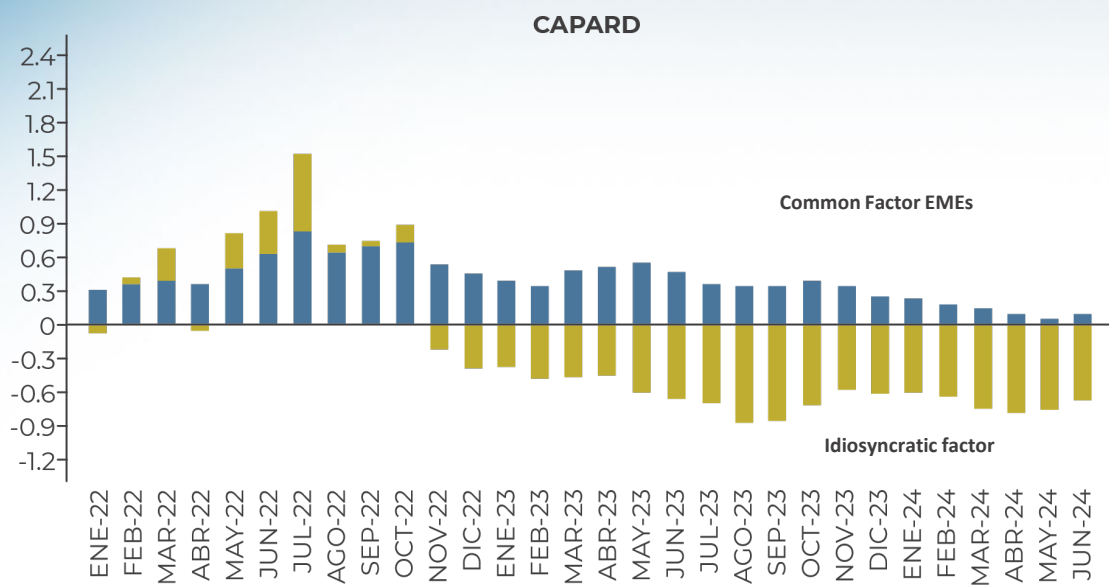


Source: SECMCA and Bloomberg
Note: Data are as of June 2024

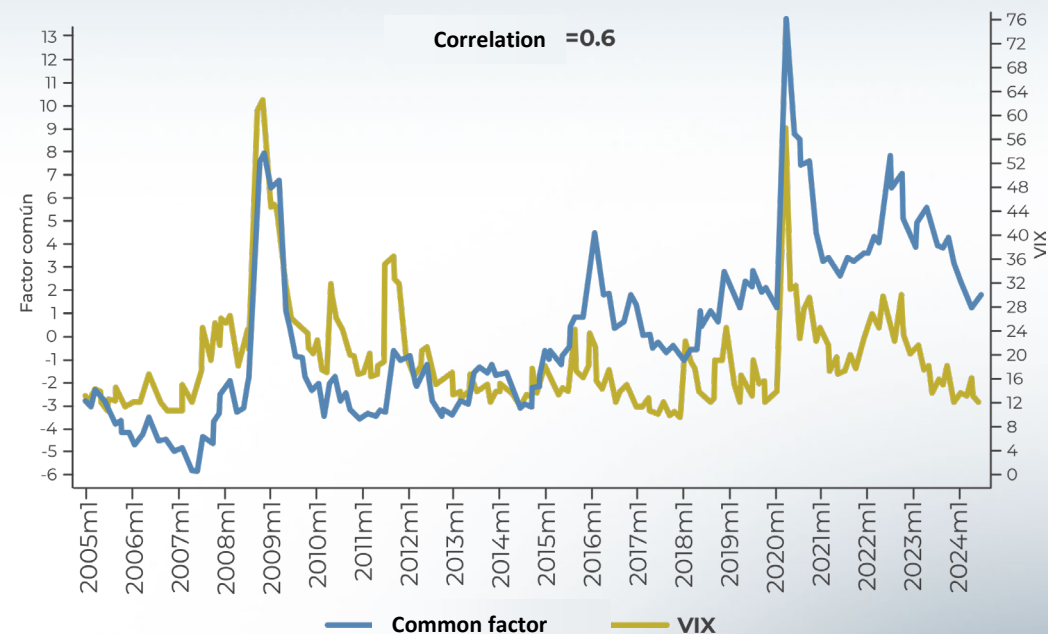
4.

Improvement in risk perception in CAPDR, associated primarily to region-specific factors (favorable macro) and also lower global risk.

CAPDR EMBI spread relative to historical average



VIX Index and EMs EMBI common factor (proxy of EM risk)



Source: own calculations

Calculations are made in relation to the EMBI spread with its average from 2005 onwards for each country. The methodology is described in López-Marmolejo, Eggers and Ruiz-Arranz (2023). Opportunities to boost production, employment and value chains.

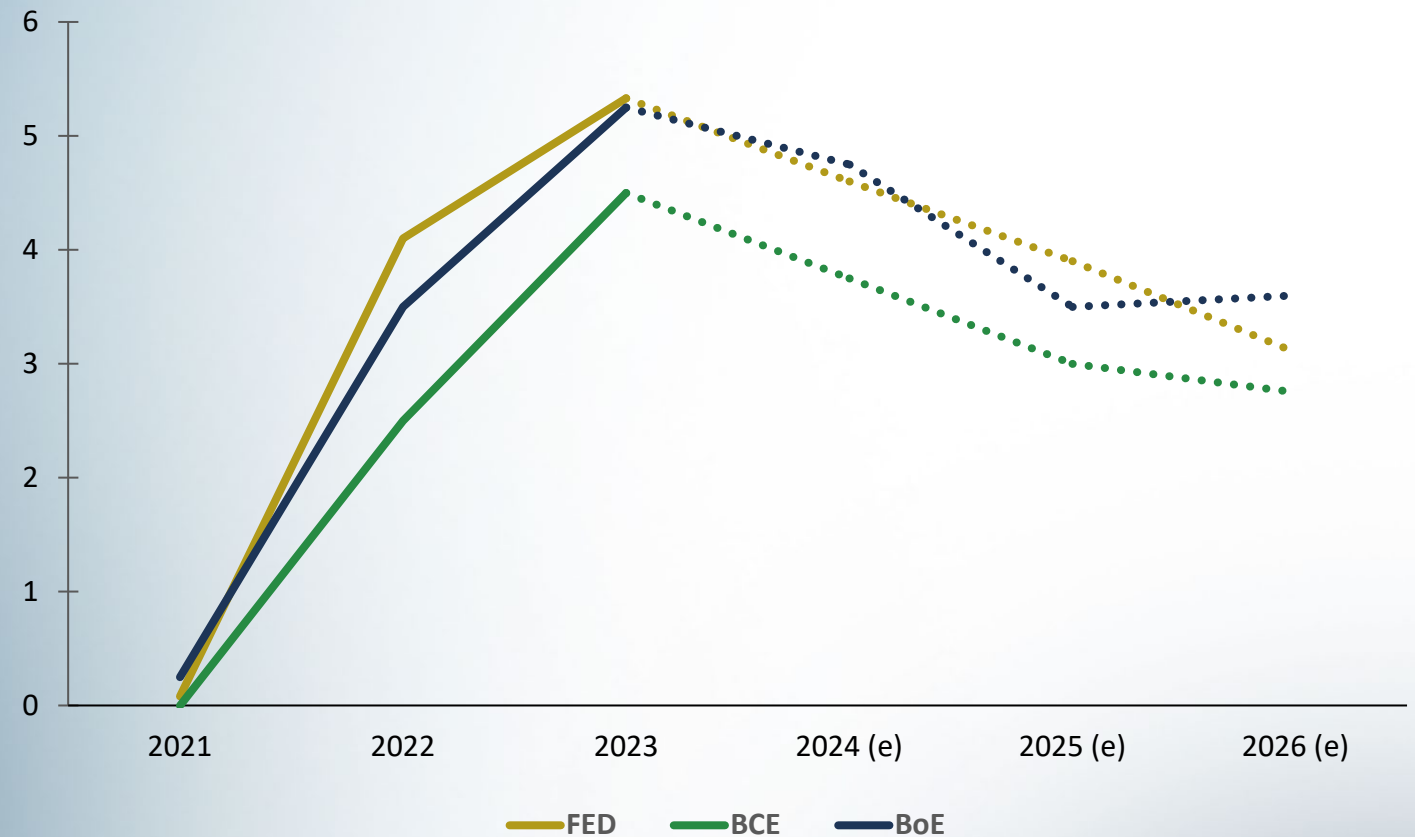
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ABOUT THE IMPLICATIONS

of the global Outlook in
CAPDR

Global interest rates are expected to remain high, with moderate reductions as inflation returns to target gradually.

Monetary policy rate: Fed, ECB, BoE (%)

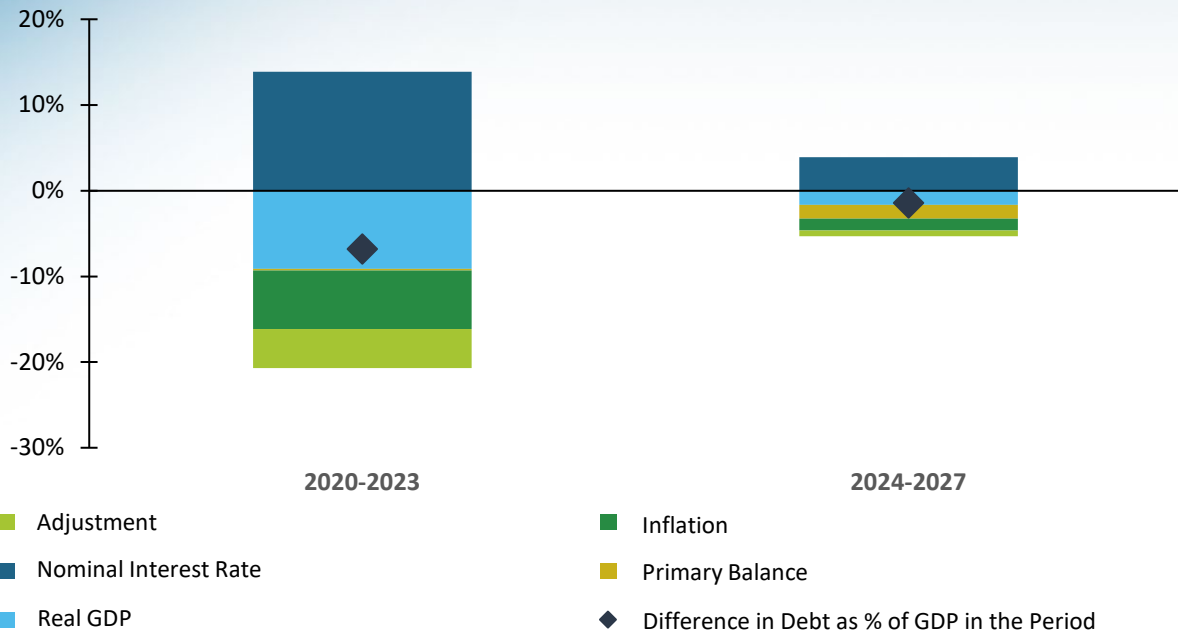


Source: Bloomberg
Note: Data are as of the end of the period

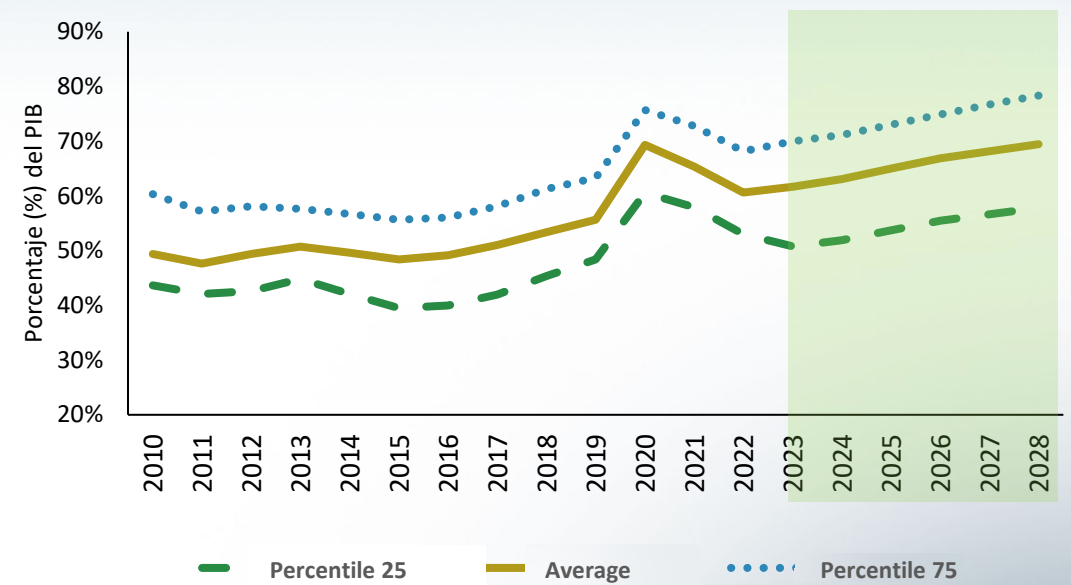


1. Interest rates are a headwind on debt dynamics in a context of moderate growth and inflation.

Descomposition of the reduction in public debt as % of GDP in CAPDR between 2020-23 and between 2024-27 (expected)



Public debt as % of GDP in CAPDR scenario of higher global interest rates

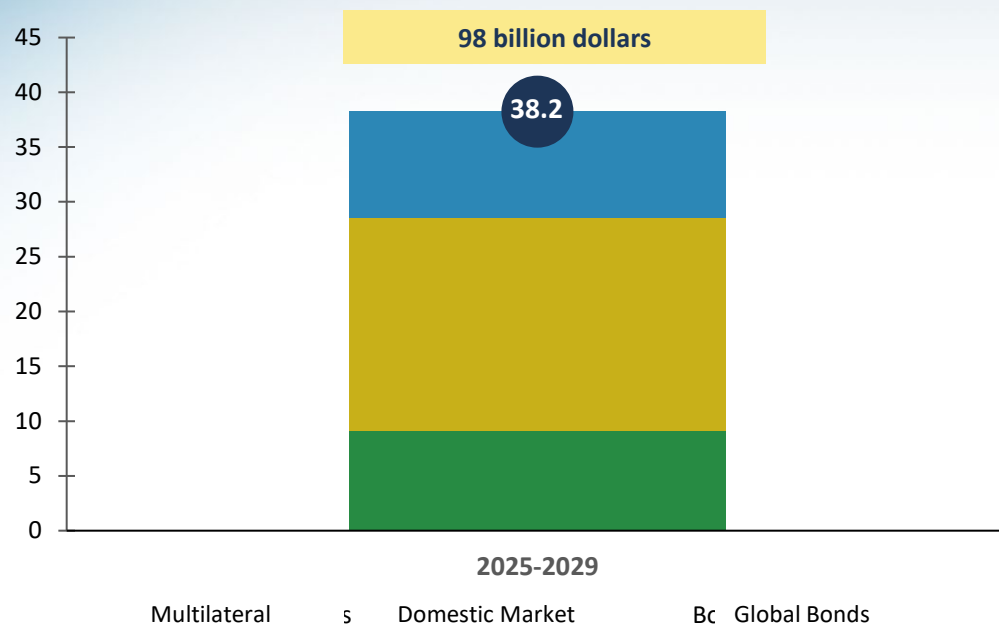




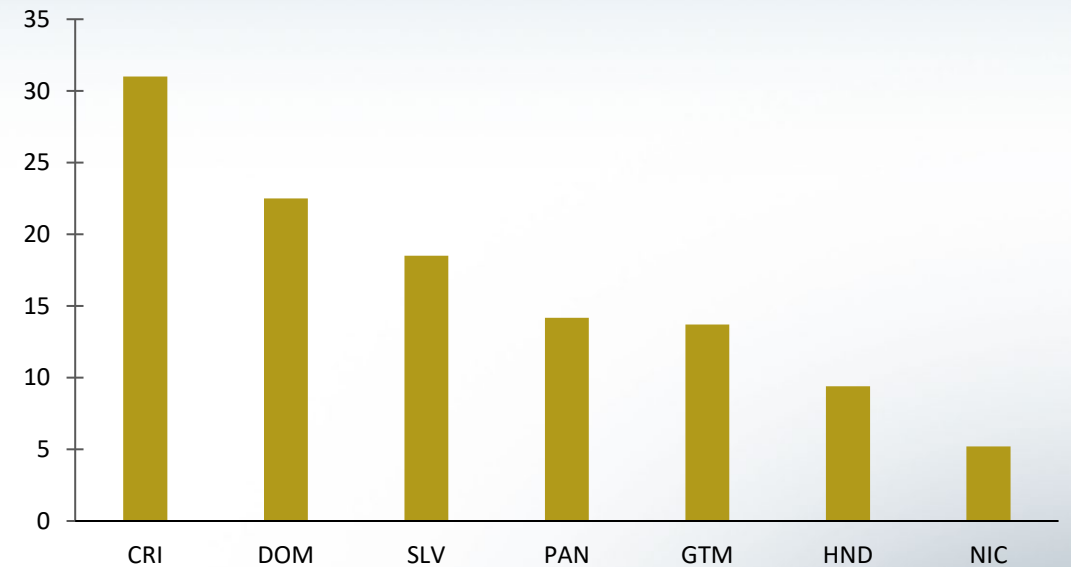
2.

With significant amortizations in the short term, debt refining at higher rates would increase the burden of interest payments in the budget.

Debt amortizations in CAPDR
(% of total)



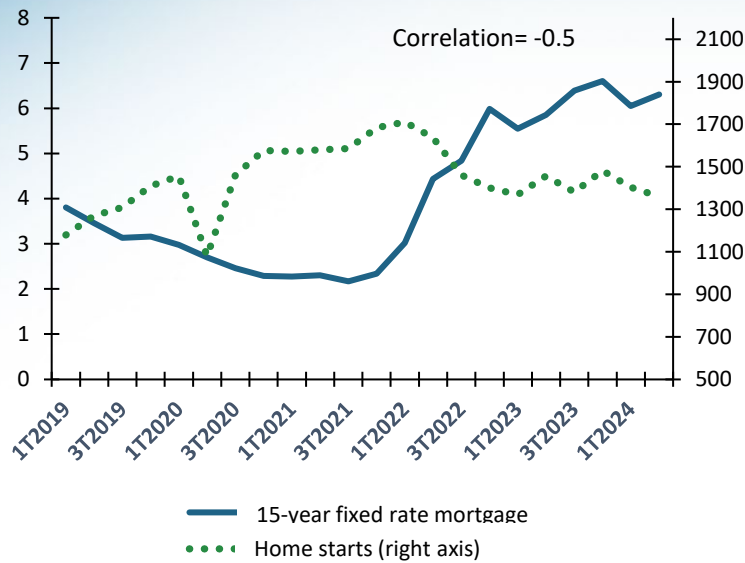
Interest Payments, 2023
(% of public revenues)



3. High interest rates in the US could reduce remittances through lower residential construction and latin employment.

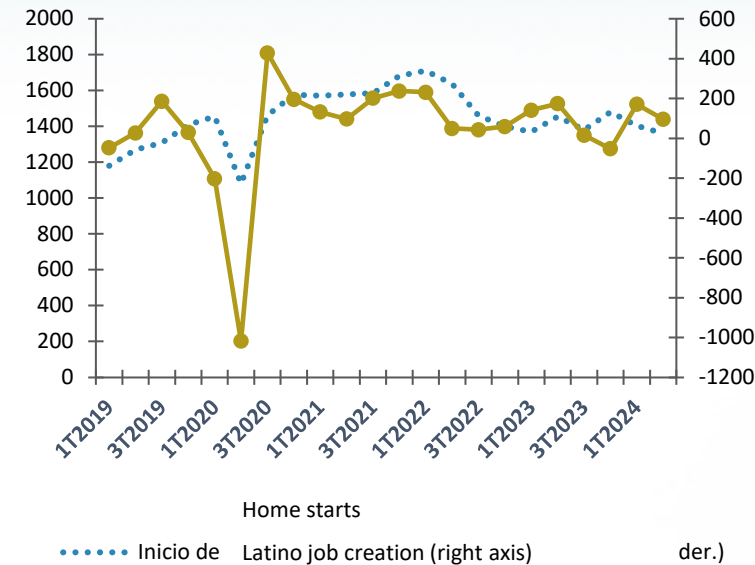
About 1 in 4 migrants in the US work in the construction sector, and 34% of employment of this sector is latino.

Mortgage interest rate and new residential construction in the US (quarterly average)



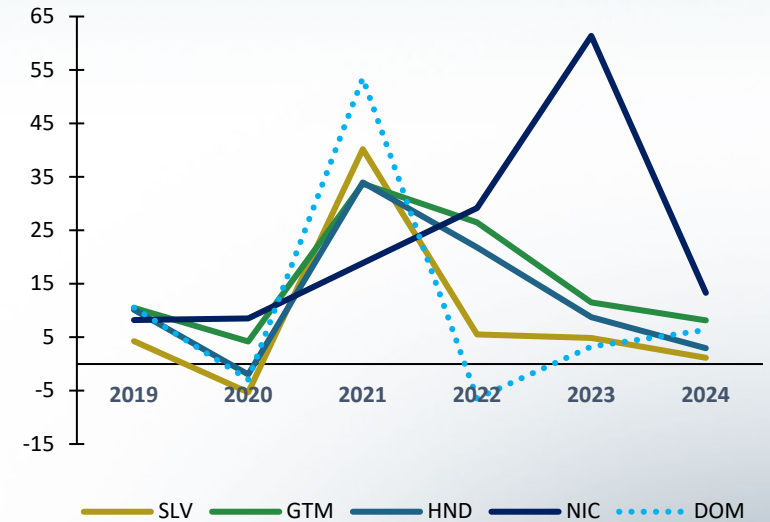
Source: Fed St. Louis.
Note: Seasonally adjusted housing starts.

New residential construction index and latin employment creation in the US (seasonally adjusted)



Source: Fed St. Louis.

Remittances growth (%)



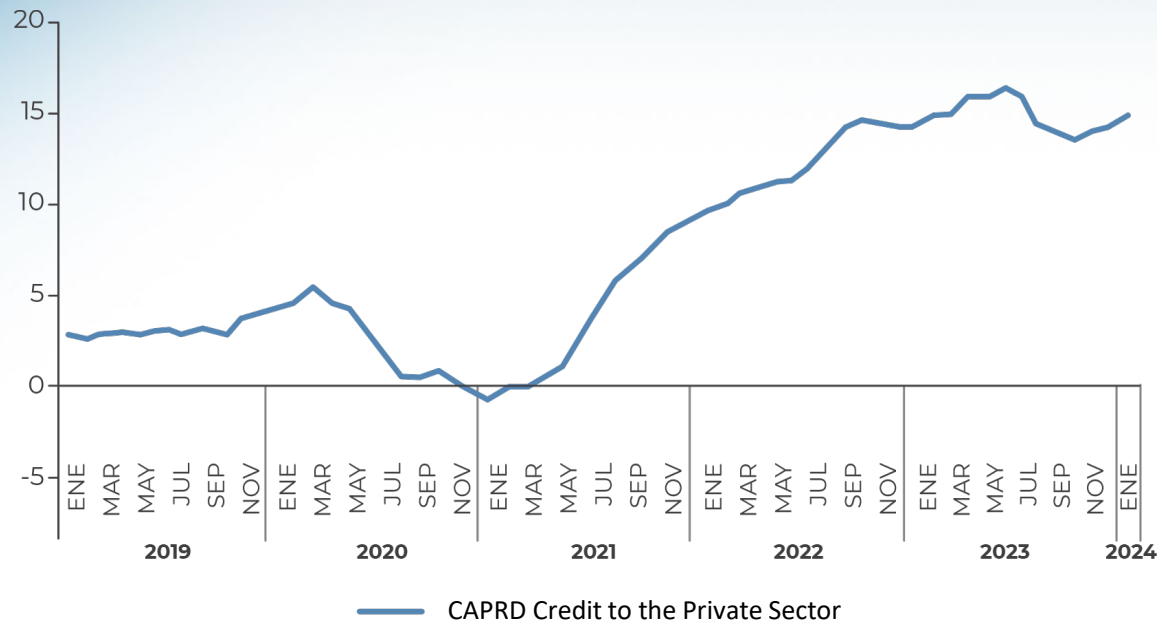
Source: SECMCA.
Note: For 2024, growth is cumulative from January to May.



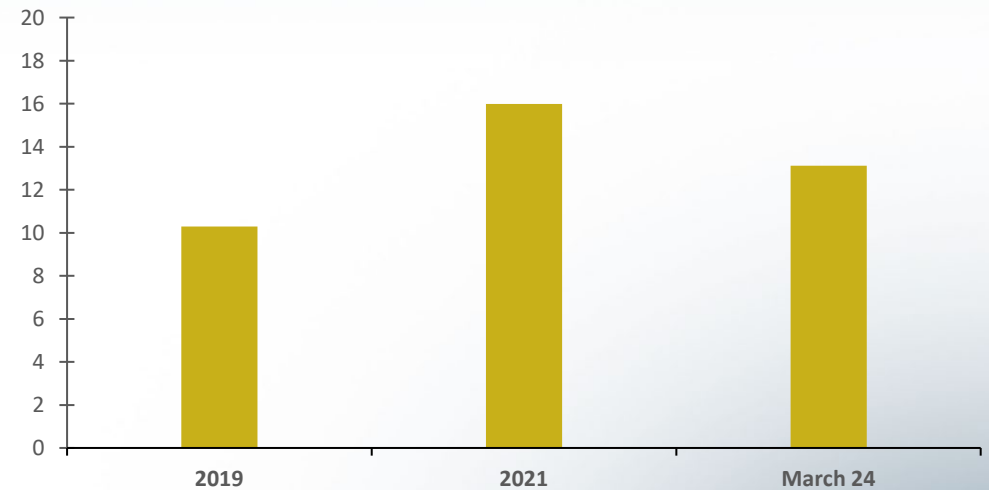
4.

High interest rates could constrain private sector credit growth, in a context where bank investments on sovereign debt are still above pre-pandemic levels in most countries.

Growth of bank credit to the private sector in CAPDR 2019-2024



Bank investments on sovereign debt in CAPDR (as % of bank assets)



Source: Bank Superintendencies of each country and IDC/IDB calculations.

CONCLUSIONS

→ CAPDR has benefited from faster inflation reductions, which have allowed for better consumption outcomes, lower interest rates and better credit risk perceptions.

→ Global interest rates are expected to remain high (consistent to gradual Convergence to inflation target and moderate growth), which has implications for the behavior of local interest rates.

→ Higher interest rates could:

- i. Create upward pressure on public debt and increase the burden of interest payments
- ii. Reduce remittances through lower construction and Latin employment in the US
- iii. Reduce bank credit to the private sector

Thank You

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