



FMI
**CONFERENCIA
REGIONAL**

sobre Centroamérica, Panamá,
y la República Dominicana

Income convergence for Central American Countries

JULY 30, 2024

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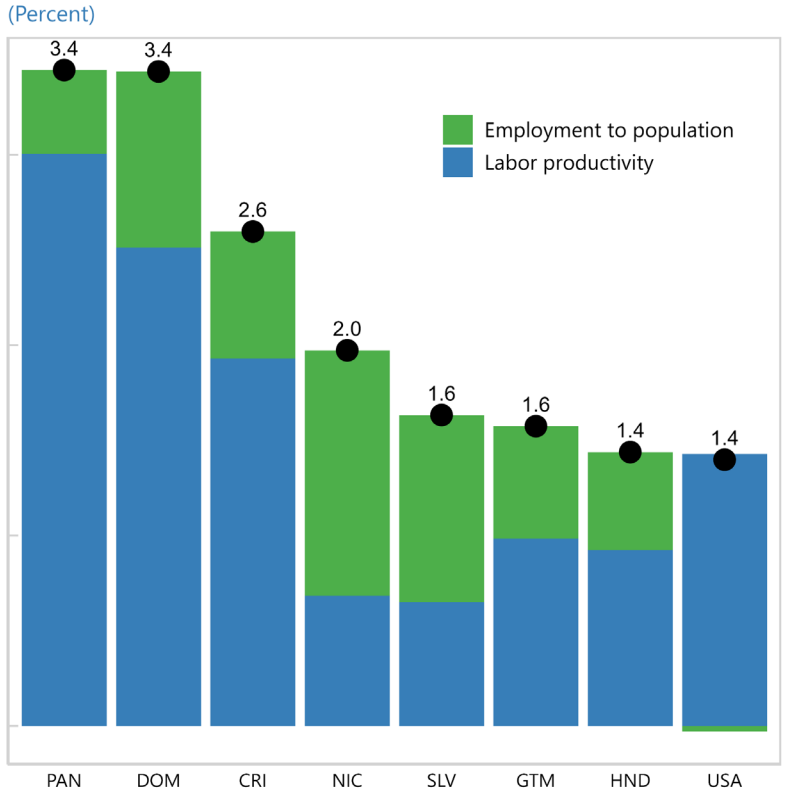
Division Chief, Latin Caribbean Division

Western Hemisphere Department

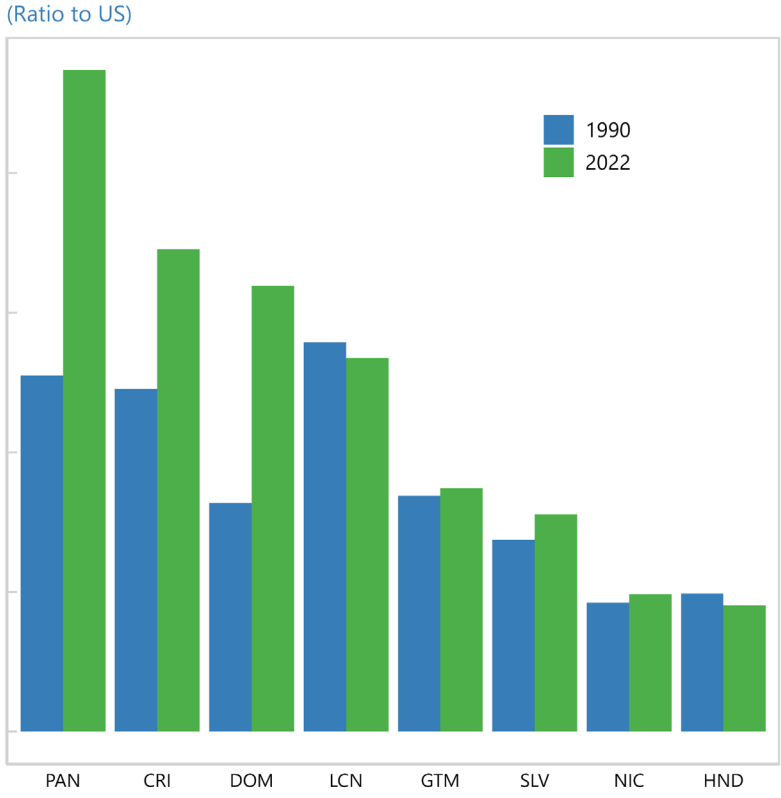
International Monetary Fund

There has been a stark difference in GDP growth across countries in CAPR

Average Annual GDP per Capita Growth and its Contributors, 1997-2022

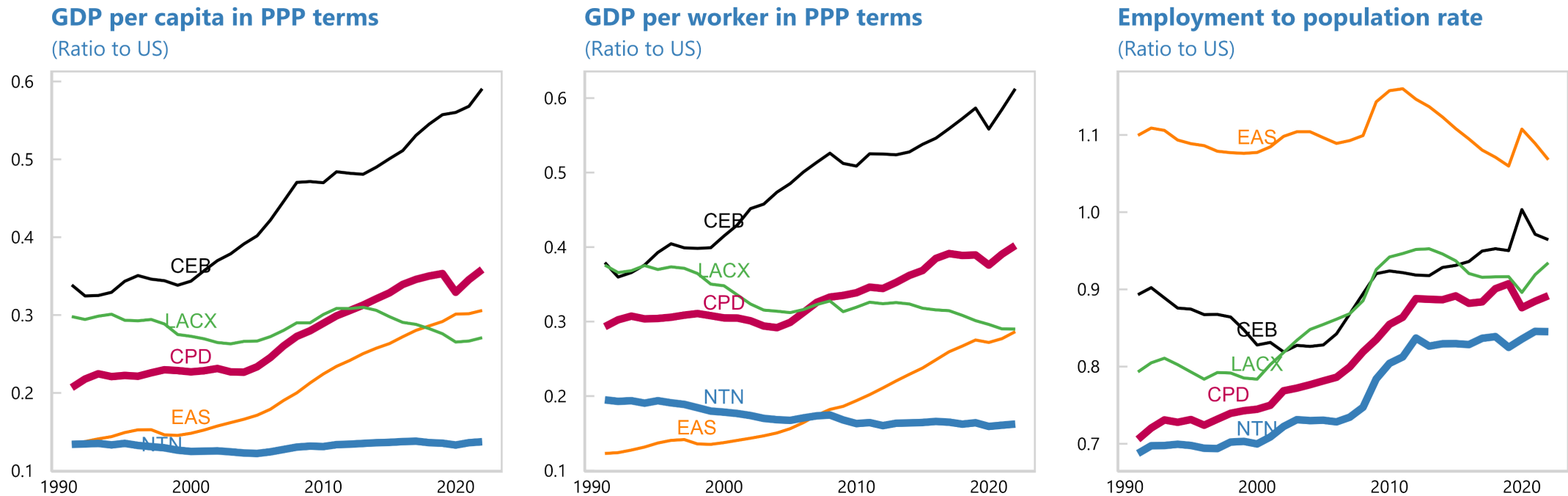


GDP per Capita in 1990 and 2022



CPD has converged rapidly, while NTN has seen no convergence

GDP per Capita Convergence and its Contributors, 1990-2022



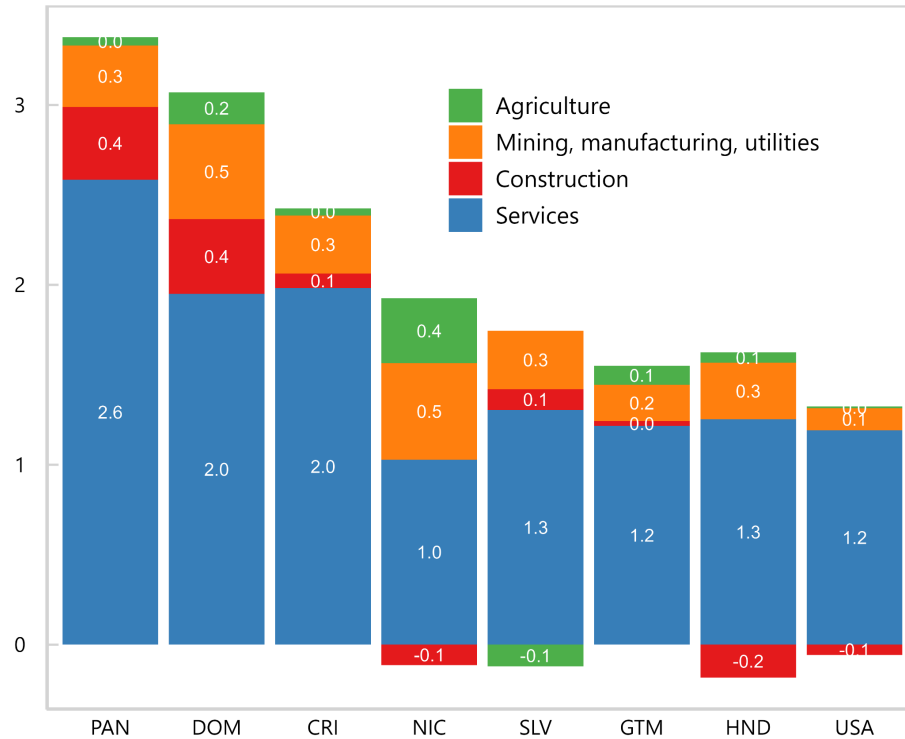
Sources: World Bank.

CEB= Central Europe and the Baltics, LACX=Latin America excluding CAPDR, CPD=Costa Rica, Panama, Dominican Republic, NTN=Northern Triangle and Nicaragua. EAS=East Asia

From supply side perspective, more rapid growth in CPD was due to services (and construction)

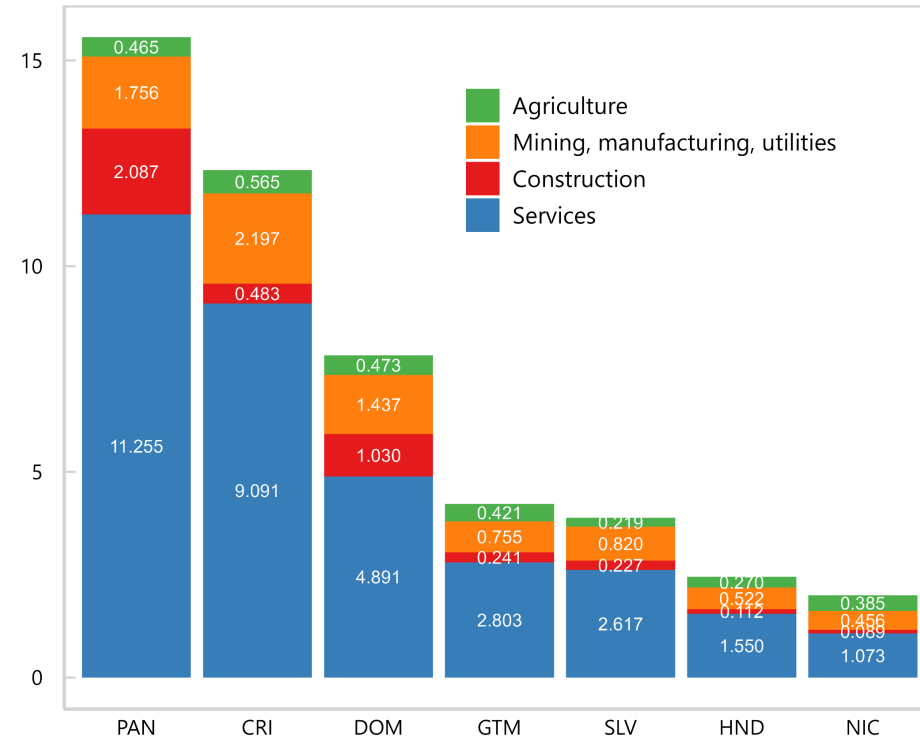
Sectoral Contributions to average Annual GDP per Capita Growth, 1997-2022

(In percentage points)



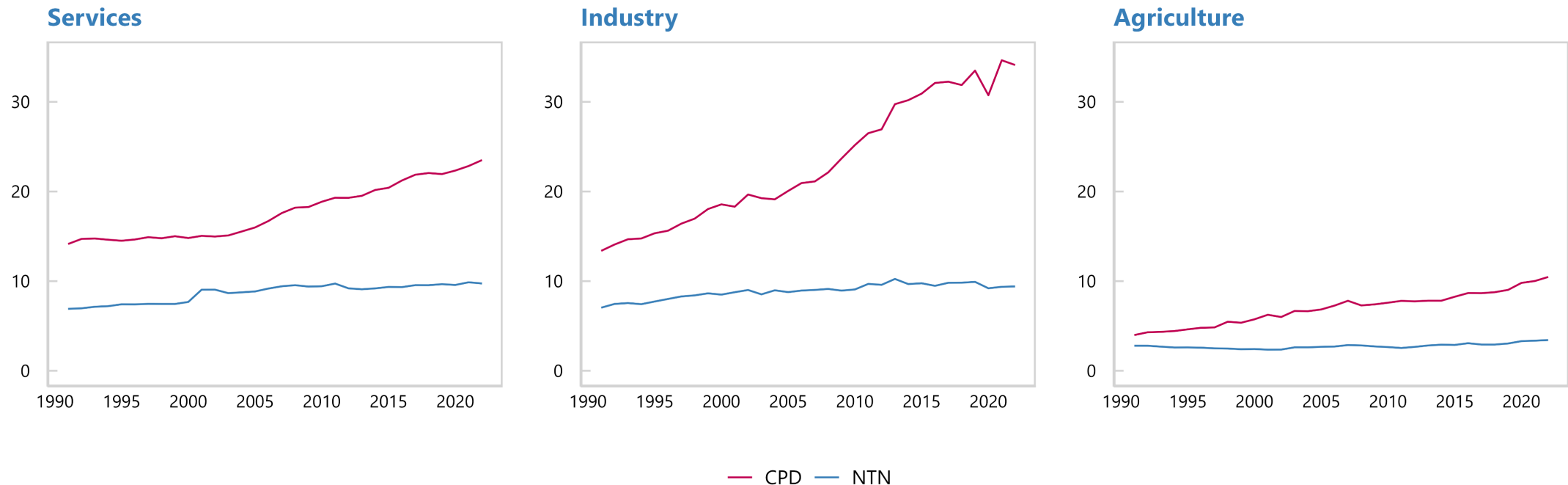
Sectoral Contributions to GDP per Capita, 2022

(In thousands of US dollars)



Faster growth of services was mostly the result of faster productivity growth...

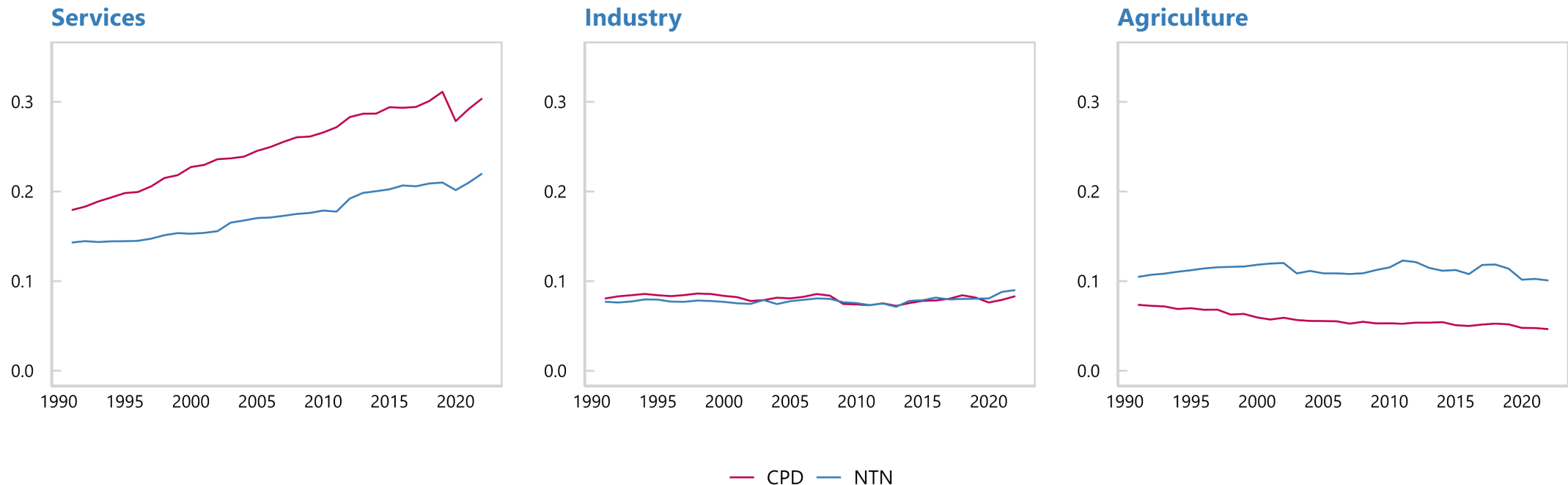
Labor productivity by Sector, 1990-2022
(Thousands of constant US dollars)



Sources: World Bank.
CPD=Costa Rica, Panama, Dominican Republic, NTN=Northern Triangle and Nicaragua.

...although faster growth of employment also played a role.

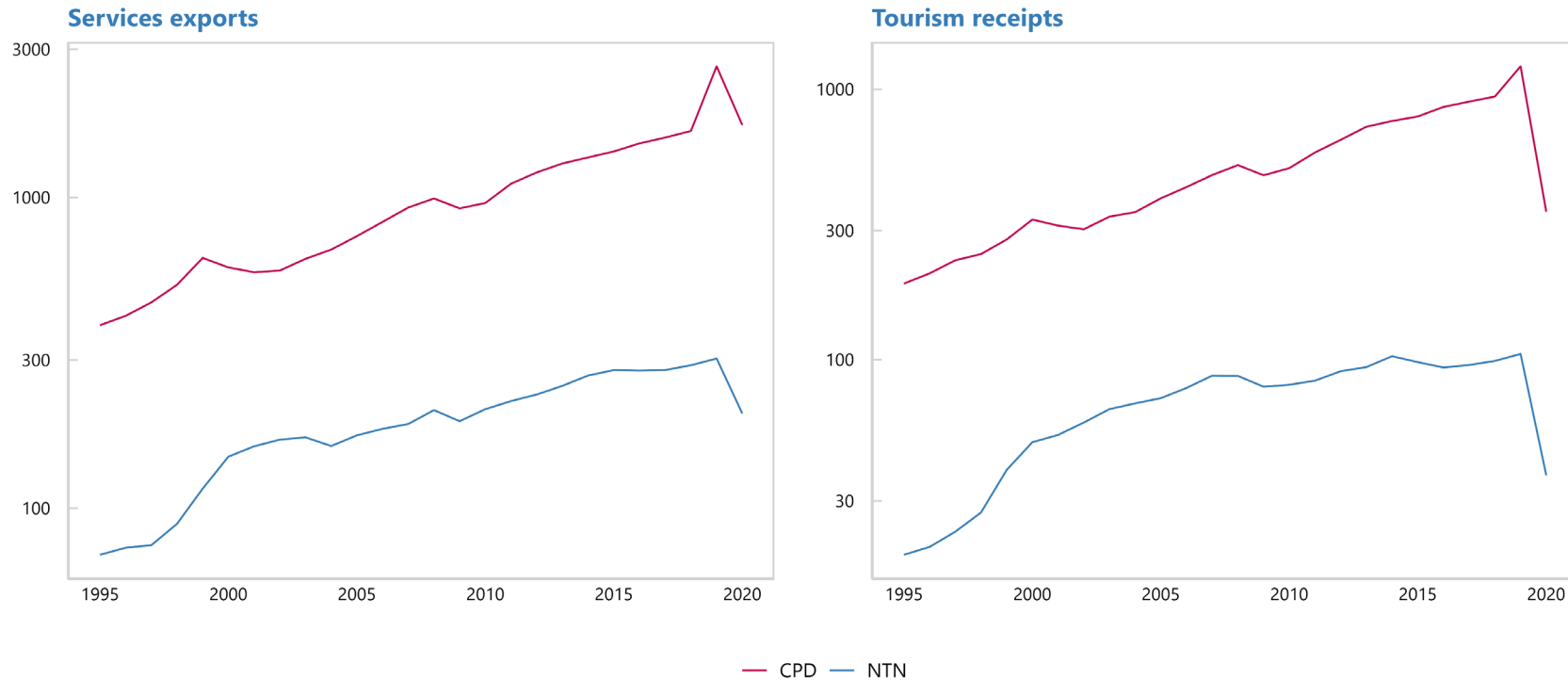
Employment by Sector, 1990-2022 (Percent of population)



Sources: World Bank.
CPD=Costa Rica, Panama, Dominican Republic, NTN=Northern Triangle and Nicaragua.

CPD services exports are far higher than those of NTN (only partly explained by tourism)

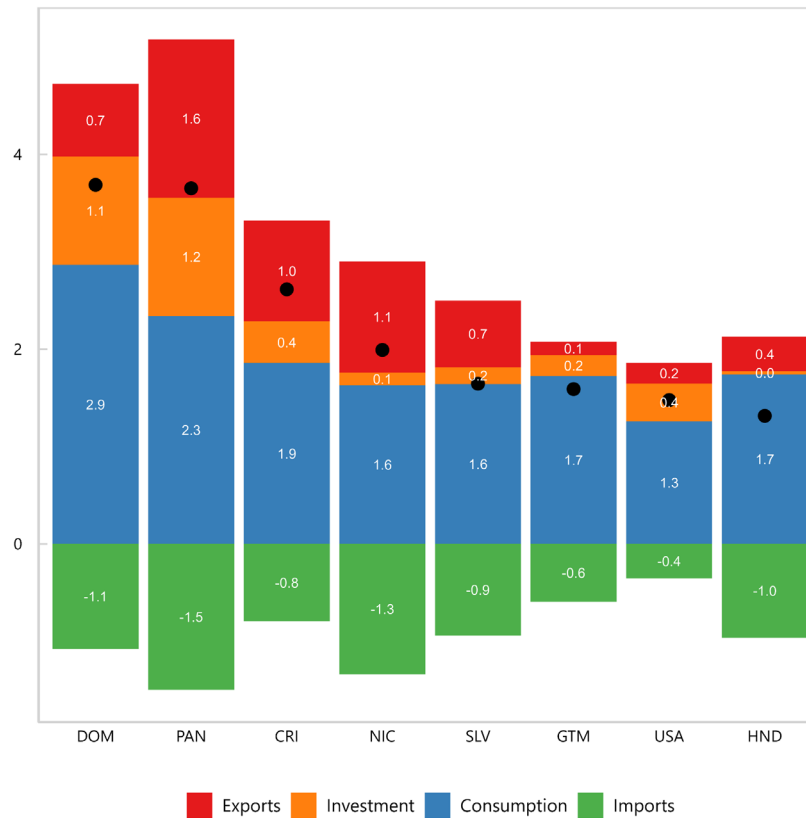
Per Capita Service Exports, 1970-2022
(US dollars)



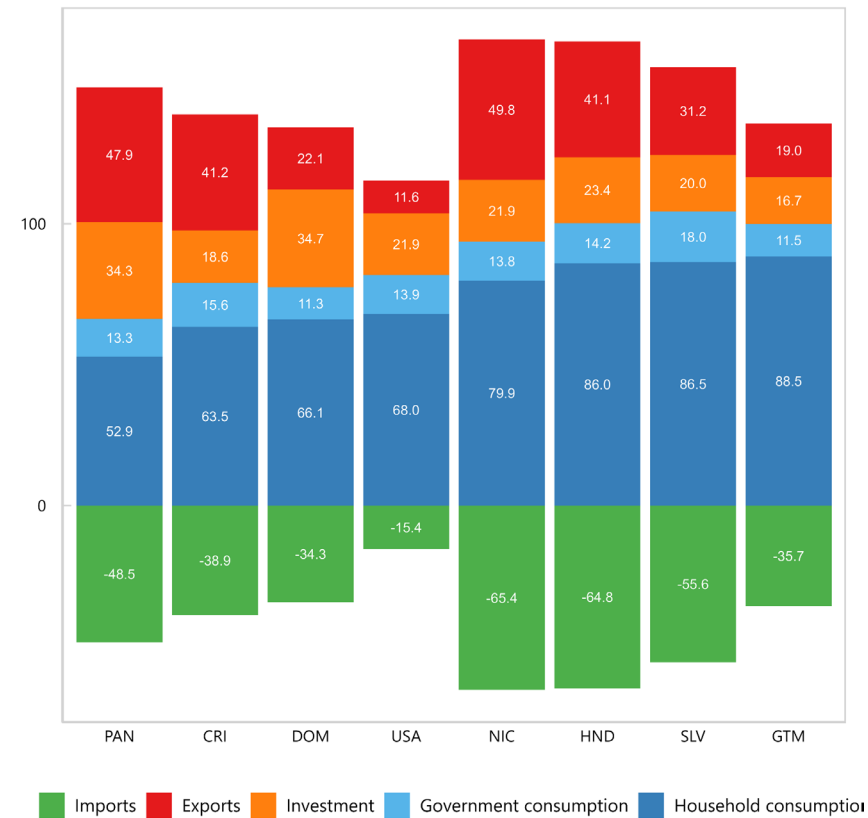
Sources: World Bank.
CPD=Costa Rica, Panama, Dominican Republic, NTN=Northern Triangle and Nicaragua.

From demand side perspective, CPD has seen much faster growth of investment and exports

Contribution to Average Annual Per Capita GDP Growth, 1997-2022
(Percentage points)



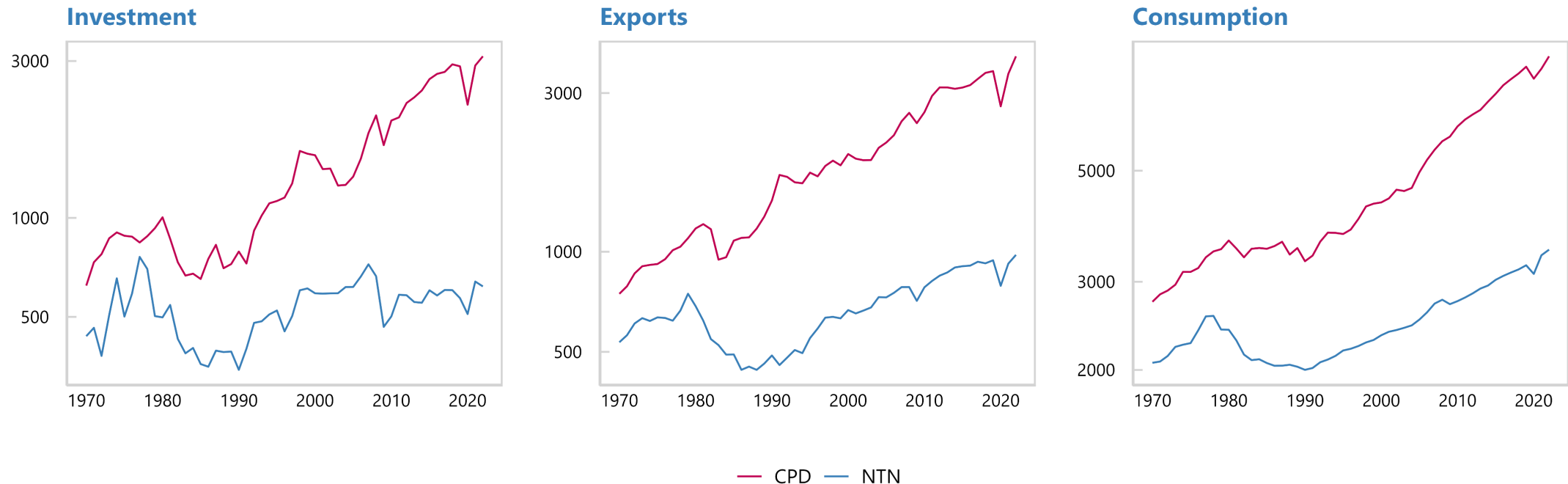
Sectoral Shares in GDP, 2022
(Percentage points)



Note: there are slight differences in GDP from demand and supply side figures.

Per capita investment in NTN has seen little change in 50 years!

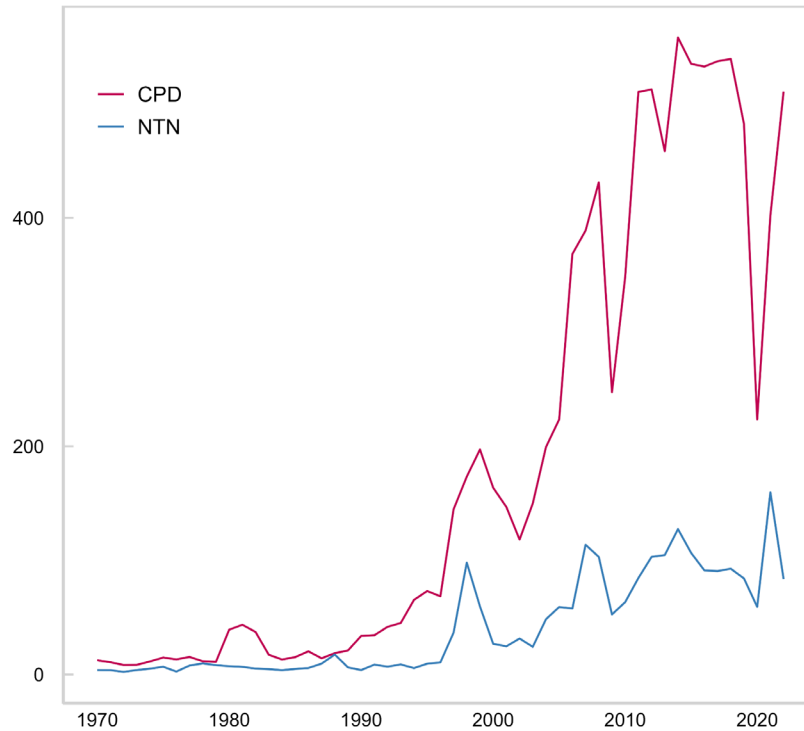
Per Capita GDP Expenditure Components, 1970-2022
(Constant US dollars)



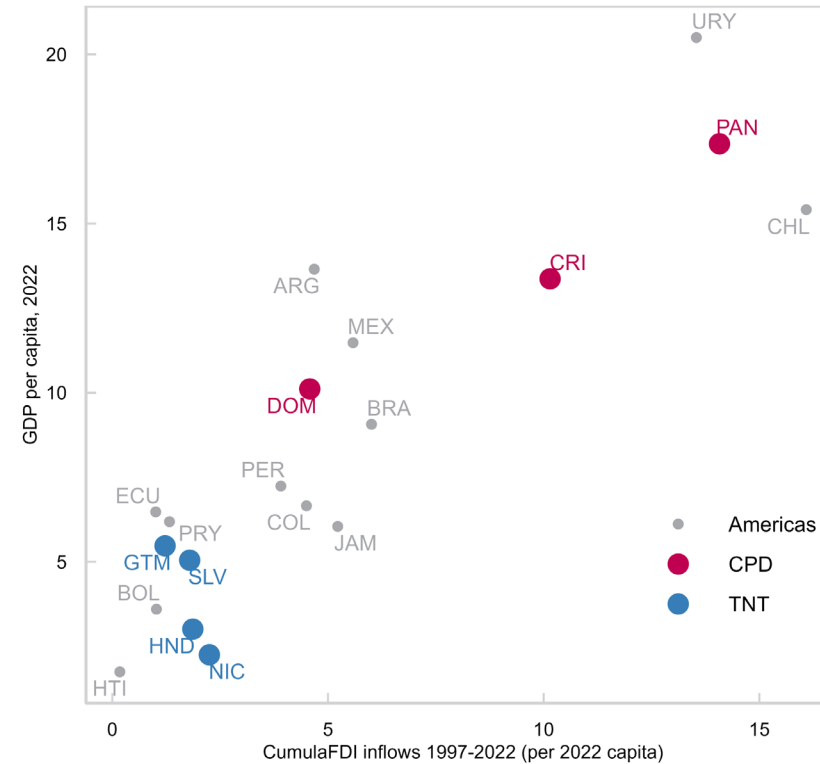
Sources: World Bank.
CPD=Costa Rica, Panama, Dominican Republic, NTN=Northern Triangle and Nicaragua.

What explains these differences? FDI inflows in CPD have been much higher than those in NTN...

Annual FDI per Capita, 1970-2022
(US dollars)



FDI inflows per capita 1997-2022 and GDP per capita 2022
(Thousand of US dollars)

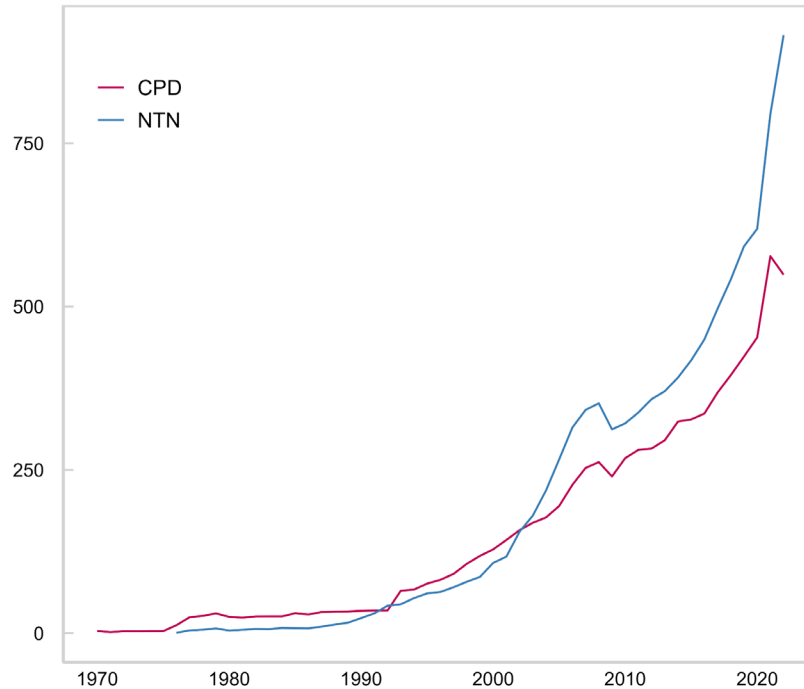


Sources: World Bank.
CPD=Costa Rica, Panama, Dominican Republic, NTN=Northern Triangle and Nicaragua.

...while NTN has seen faster growth of remittances

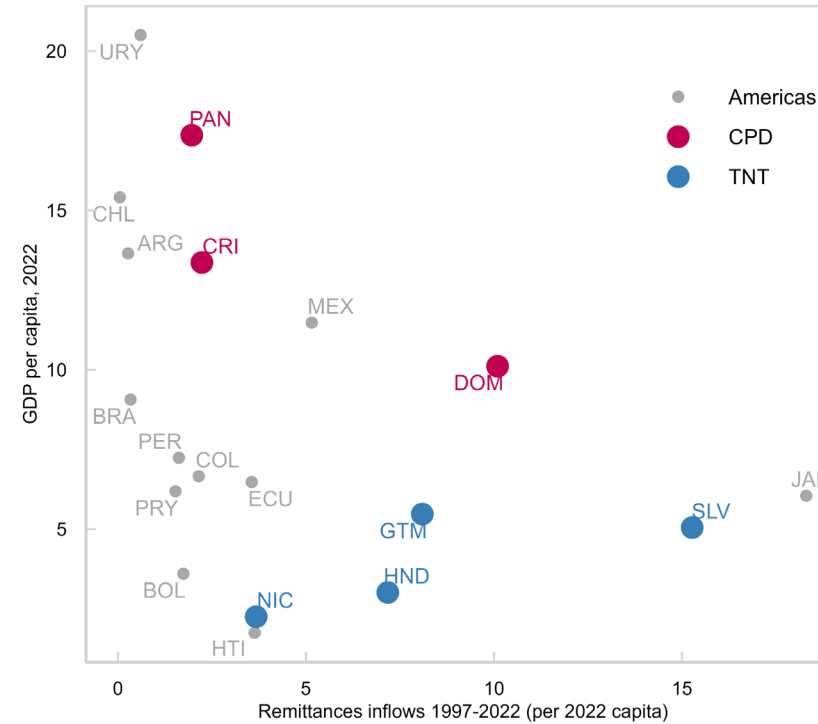
Annual Remittances per Capita, 1970-2022

(US dollars)



Remittances inflows per capita 1997-2022 and GDP per capita 2022

(Thousand of US dollars)

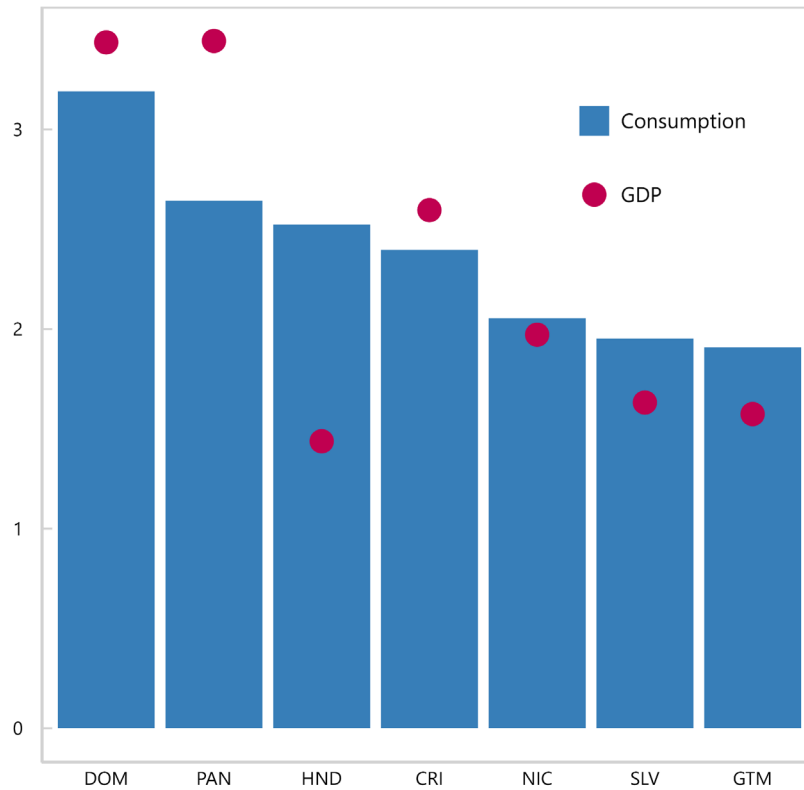


Sources: World Bank.

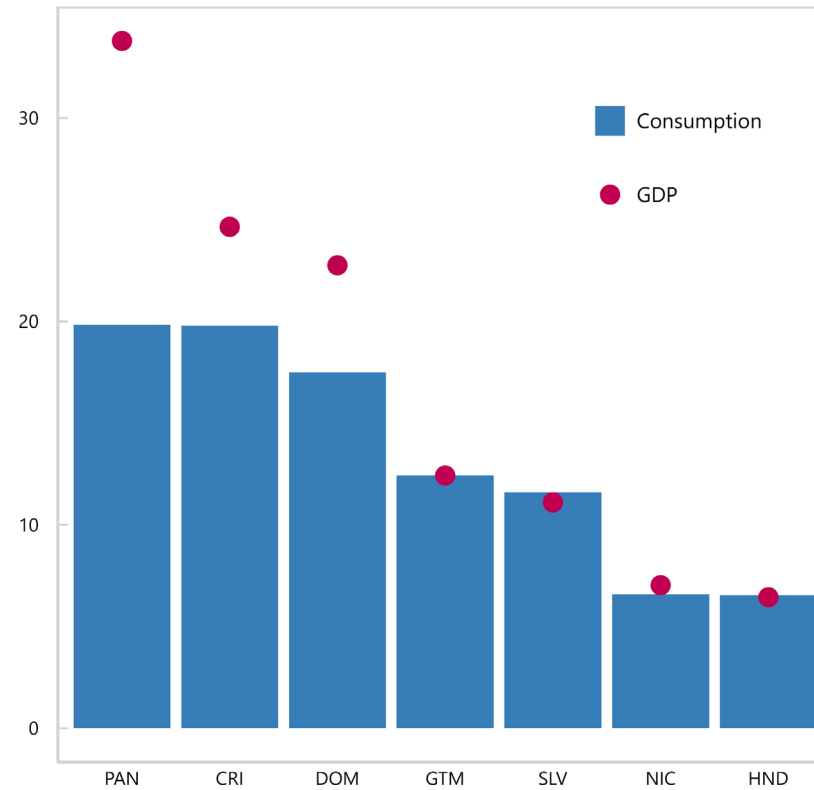
CPD=Costa Rica, Panama, Dominican Republic, NTN=Northern Triangle and Nicaragua.

Remittances have boosted consumption *growth* and consumption *levels*.

Average annual growth GDP and Consumption per Capita, 1997
(Percent)

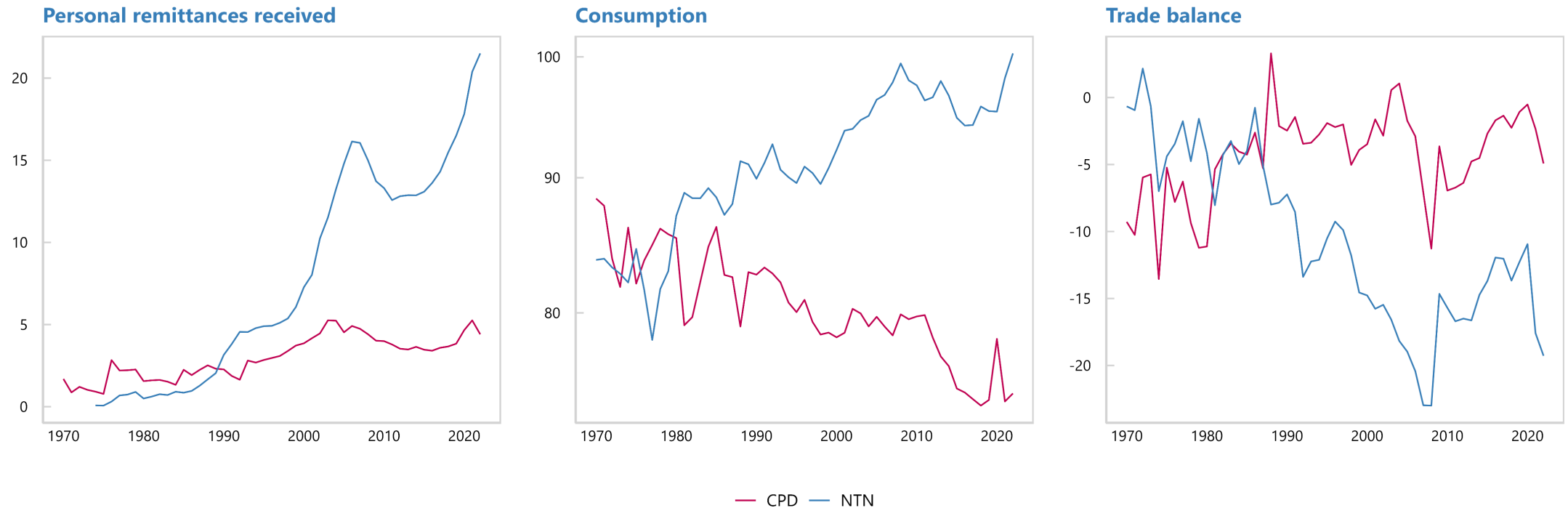


GDP and Consumption per Capita in 2022
(In thousands of US PPP dollars)



The increase in remittances in NTN led to higher consumption and a deterioration of the trade balance

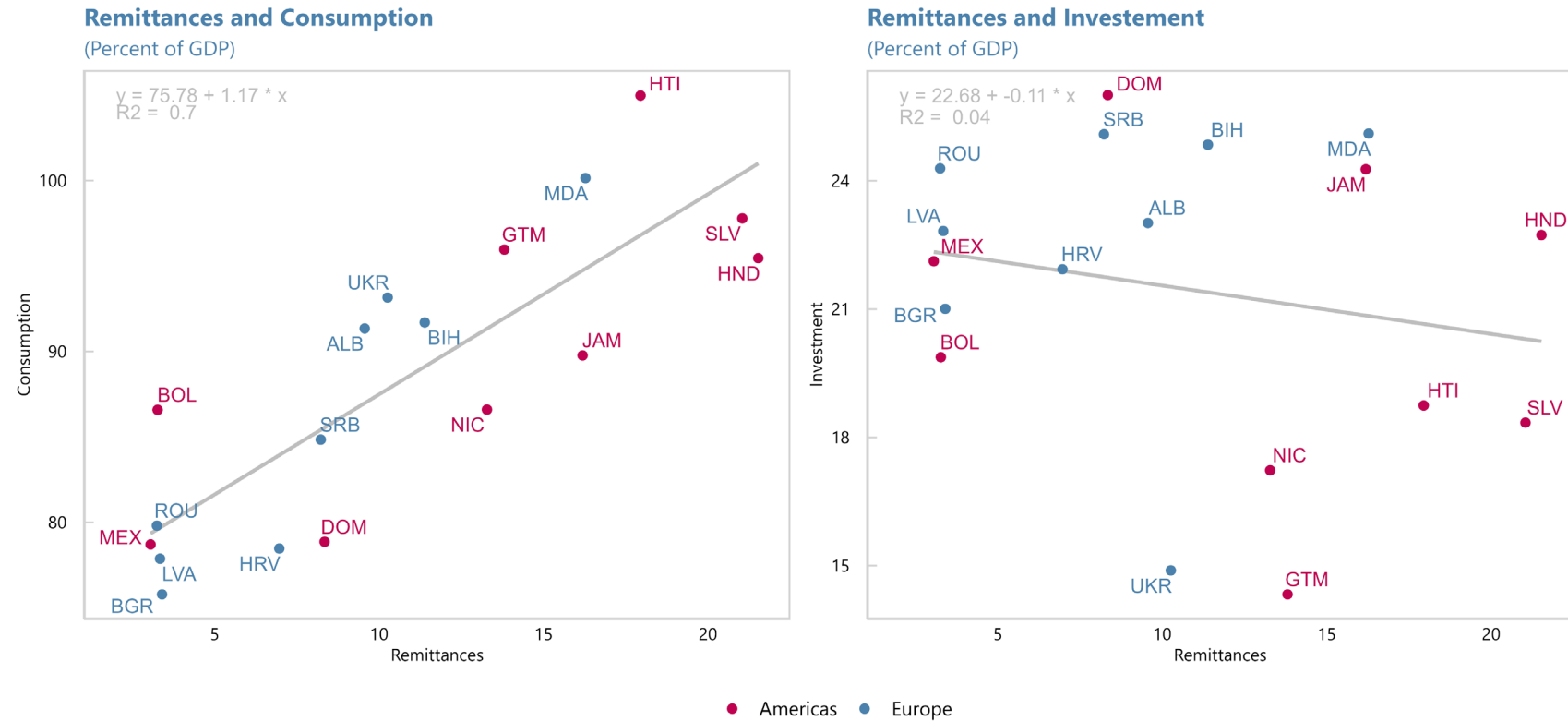
Consumption and Trade Balance, 1970-2022
(Percent of GDP)



Sources: World Bank.
CPD=Costa Rica, Panama, Dominican Republic, NTN=Northern Triangle and Nicaragua.

Higher remittances were not associated with higher investment

Remittances, Consumption and Investment, 2019
(Countries with remittances of more than 3 percent of GDP)

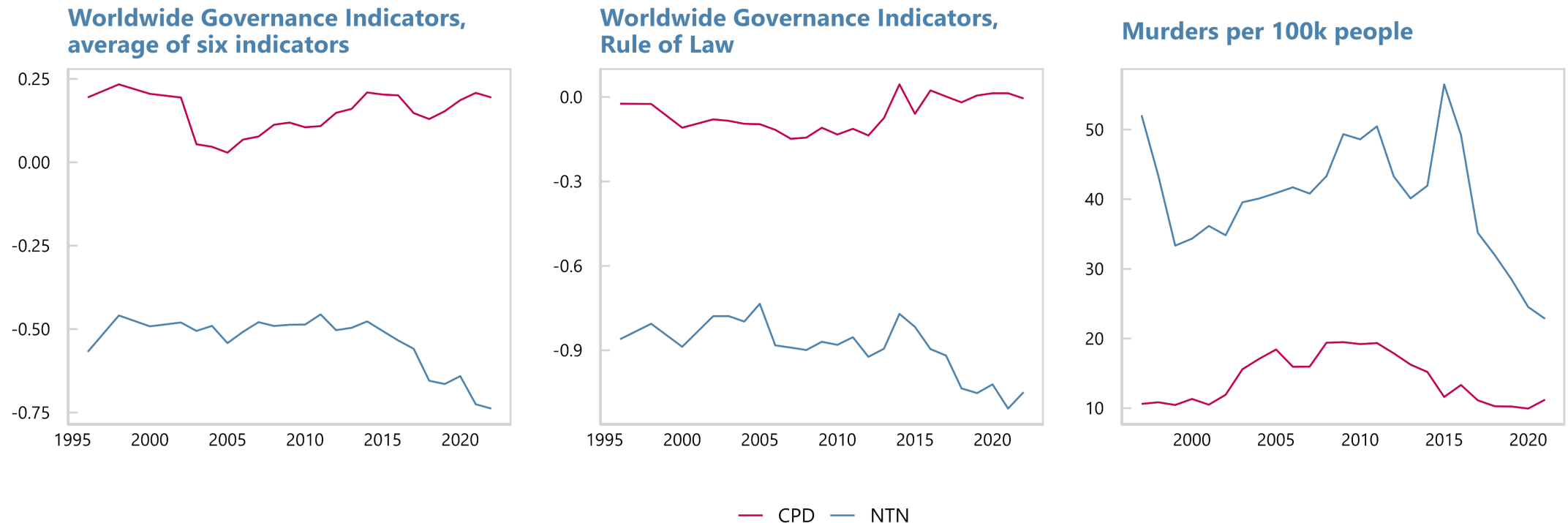


What explains these differences in BOP inflows?

- Explanation is likely to be multi-faceted
- Governance and crime are likely to have played a role

Governance is lower and murder rate is higher in NTN

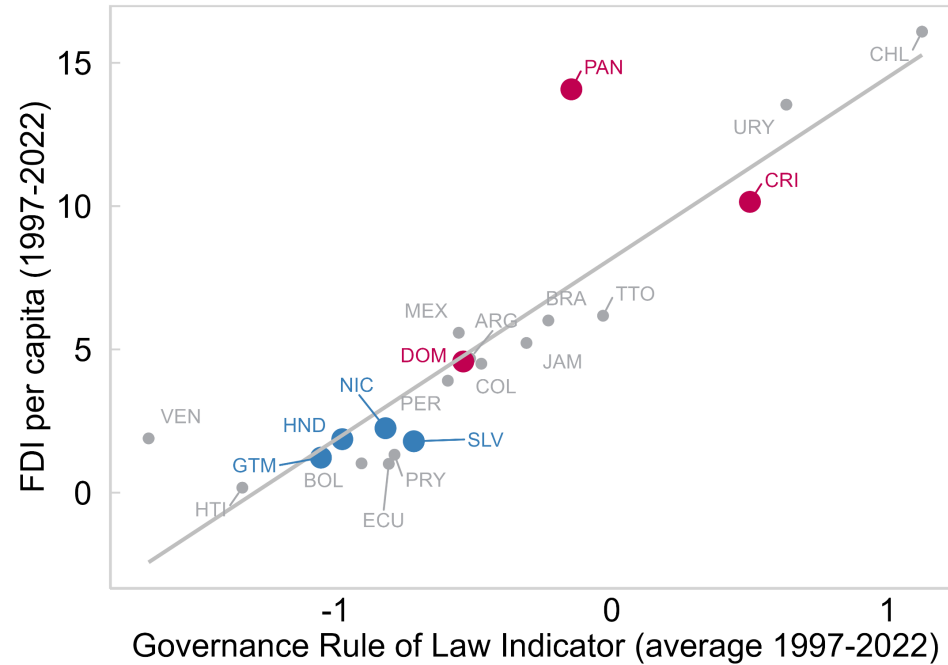
Governance and Crime, 1990-2022



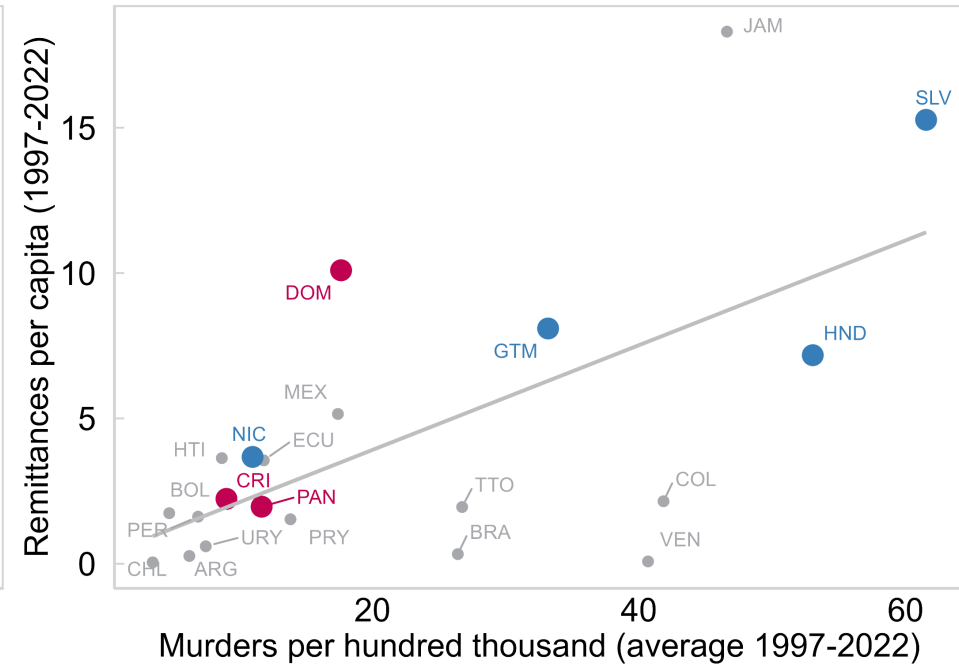
Sources: World Bank.
CPD=Costa Rica, Panama, Dominican Republic, NTN=Northern Triangle and Nicaragua.

Lower governance tends to deter FDI, while higher crime tends to boost emigration and remittances

Governance Rule of Law Indicator and FDI per capita, 1997-2022
(Thousands of US dollars)



Murders and remittances per capita, 1997-2022
(Thousands of US dollars)



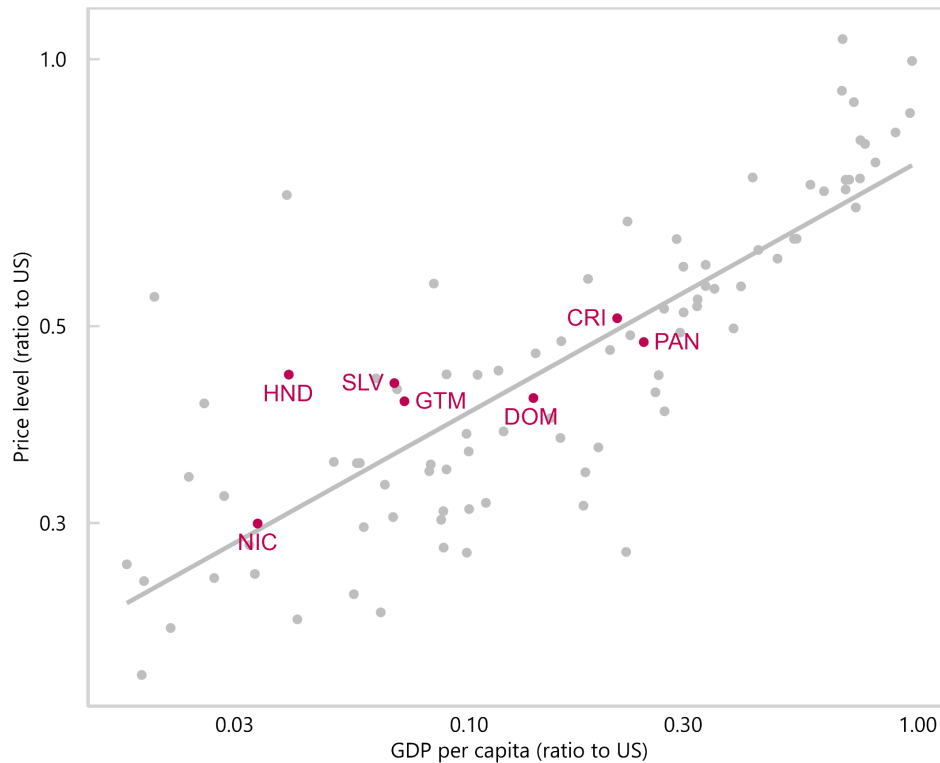
● Americas ● CPD ● TNT

To grow faster, NTN needs more FDI

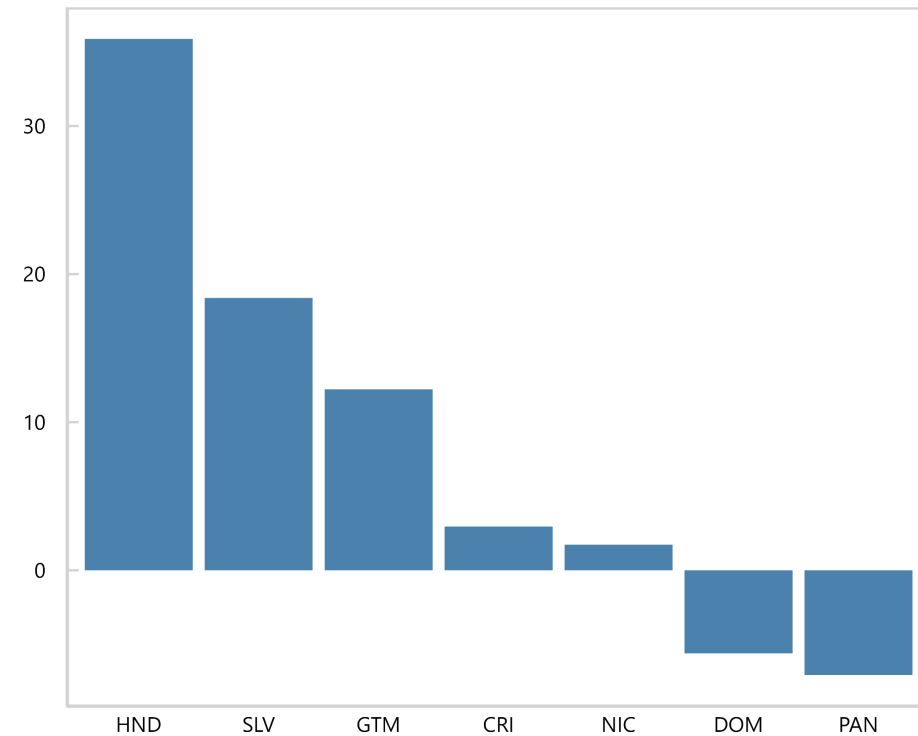
- It also needs to more productive use of remittances (use part of remittances for investment rather than consumption)
- In the absence of more FDI, ever rising remittances risks creating a vicious cycle where high remittances contribute to Dutch disease which dampens GDP growth and further encourages emigration and remittances.

Dutch disease? Price level in NTN higher than what you would expect given income level

Relative GDP per Capita and Relative Price Level, 2022



Deviation of price level from expected price level, 2022 (Percent)



Conclusion

- There have been large differences in growth between CPD and NTN
- CPD has converged as rapidly as East Asia and Eastern Europe, while NTN has seen no convergence
- These differences may in part be related to the different BOP inflows
 - CPD has received a lot of FDI, which has boosted exports and investments
 - NTN has received a lot of remittances, which have boosted consumption, but not investment
- NTN needs more FDI and more productive use of remittances

Session II.

Income convergence for Central American countries and structural reform priorities

Presenter: **Bas B. Bakker**, *IMF*

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Alexander Müller, *Bank of America Securities, Inc.*

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