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High oil prices and low world prices for Central American exports combined to kept the region stuck in the economic doldrums during 2000 despite generally low inflation and modest economic growth. Low prices for bananas hurt Costa Rica, Nicaragua, and Panama. Costa Rica, the world's second-biggest exporter after Ecuador, was hardest hit. A world glut of 100 million 18-kg boxes eroded prices and led to a 13.8% drop in Costa Rican banana exports.

Panama, fourth-largest exporter, lost US$25 million as its sales abroad fell by 12.6%. Nicaragua's banana exports fell 14%. Guatemala and Honduras, however, increased exports though their production is considerably lower than that of the major Central American producers. Guatemalan banana exports rose by 42% and Honduras' by more than 200%. Regional banana exports in 2001 are expected to be no better or even worse since the European Union (EU) has dropped its old quota system that guaranteed fixed amounts of imports to exporting countries (see NotiSur, 2000-04-07, NotiCen, 2000-10-26). Figures from the UN's Economic Commission for Latin America and the Caribbean (ECLAC) show that economic development was uneven in the region.

Costa Rica experienced the lowest growth in Central America, a minuscule 1.5% increase in GDP. Exports dropped by 11%, dragged down by computer-chip giant Intel, which shipped US$600 million less in 2000 than in 1999. Led by healthy Intel exports, Costa Rica had 8% growth both in 1998 and 1999. Inflation was 10.4% and the fiscal deficit 2.6% of GDP. Costa Rica's decline was general throughout the economy, with high interest rates, stagnant wages, and increased joblessness. Eduardo Lizano, president of the Banco Central de Costa Rica (BCCR), said the nation needed annual growth of 6% or 6.5% to overcome the 20% poverty rate. Indeed, none of the economies is showing growth adequate to significantly reduce poverty.

Poverty rates, conservatively estimated, range from about 20% in Costa Rica to between 37% and 58% in the rest of Central America. In Guatemala, GDP growth declined marginally from 3.6% in 1999 to 3.5% in 2000, but inflation dropped from 4.9% to 4.2%. The administration of President Alfonso Portillo expects some economic benefit from the partial dollarization adopted in December that will go into effect in May 2001 (see NotiCen, 2001-01-11).

A study by the Asociacion de Investigacion y Estudios Sociales (ASIES) indicates that 58% of Guatemalan businesses expect a downturn in the first half of 2001. A spokesperson for ARIES told Inter Press Service that disappointment in the Portillo administration, corruption, and coup rumors contributed to the pessimistic outlook. Growth in the Honduran economy increased from -1.9% in 1999 to 4% last year, while inflation dropped slightly from 10.9% to 10.6%. A report from the economic cabinet, which presented a slightly rosier picture than ECLAC's, noted growth in exports of agricultural products, as well as in the transportation, potable water, and electricity sectors.

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The report said private-sector confidence in the financial system and credit availability had grown with the announcement that Honduras as well as Nicaragua could expect significant reductions in foreign-debt service with induction into the World Bank's initiative for Heavily Indebted Poor Countries (HIPC). The program's immediate effect will be lower debt payments in 2001 (see NotiCen, 2000-01-11). Growth in Nicaragua was 5.5%, down from 7% in 1999, and inflation jumped from 7.2% in 1999 to 9.2% last year. The fiscal deficit hit 5.5% of GDP, up more than a point over 1999. Still, in a region suffering stagnation, Nicaragua's growth was among the highest.

Economists attribute Nicaragua's failure to perform better last year to spending on reconstruction after Hurricane Mitch, high interest rates, a contraction in foreign investments, and political uncertainty surrounding mid-term elections and the beginning of the 2001 presidential-election season. In Panama, the stagnation is shown in a half-point drop in GDP growth from 3.0% to 2.5% and a minuscule improvement of 0.01% in inflation between 1999 and 2000. Urban unemployment rose more than a point to 15.2% the highest in the region.

Economy and Finance Minister Norberto Delgado said the government was aware that the economy was in a slump but said growth would resume this year and reach 2.8%. ECLAC reported that Panama's economic decline last year was in part the result of a contraction in demand.

President Mireya Moscoso said it was caused by high oil prices, while her political opponents said it was because of her poor leadership. El Salvador's inflation rose from 1% in 1999 to 3.4% in 2000, while growth fell from 3.4% in 1999 to 2.5% in 2000. Low prices for coffee and sugar exports and high energy costs were the major contributors to stagnation and hurt growth everywhere in the region. Near the end of the year, Salvadoran economy officials were optimistic about 2001.

As it abruptly adopted the dollar as the official currency in December, the government promoted the idea that dollarization would lower inflation and the cost of credit, thereby boosting growth and employment (see NotiCen, 2000-12-14). But all forecasts have been invalidated by the Jan. 13 earthquake, which caused US$1 billion in property damage and, among other things, vastly increased El Salvador's already immense housing deficit (see NotiCen, 2000-01-25).

Jose Felix Solis, an economist at the Nicaraguan Economy Ministry, told Inter Press Service that, given the devastation from Hurricane Mitch in 1998, Central America did well last year. However, hurricanes and earthquakes are a fact of life in the isthmus and neither Nicaragua nor Honduras the countries hardest hit by the storm had factored the economic costs of natural disasters into long-term economic planning. Furthermore, inadequate spending in the public sector, especially on reforestation, poverty reduction, and housing, were widely believed to have contributed to the storm's destructiveness.

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