



External Shocks, Food Security, and Development

Exploring Scenarios for Central America

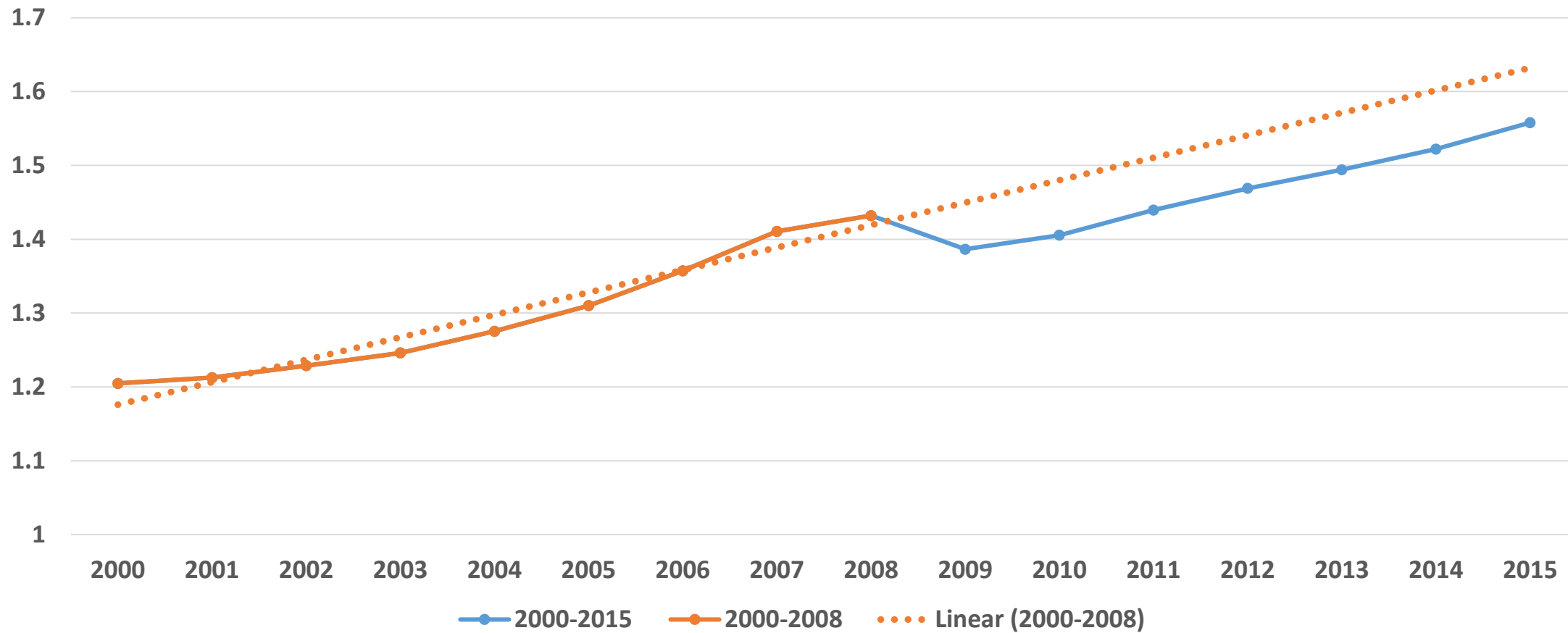
Valeria Piñeiro, Eugenio Diaz Bonilla and Pablo Elverdin
International Food Policy Research Institute
Lima, Peru. November 2017

Poverty headcount ratio at \$3.10 a day (2011 PPP) (% of population)

Country/Region	1985– 1989	1990– 1994	1995– 1999	2000– 2004	2005– 2009	2010– 2014
Costa Rica	24.9	17.7	13.1	12.1	7.4	4.0
El Salvador	35.6	35.2	34.9	23.8	17.7	14.7
Guatemala	62.0	na	26.7	27.2	23.7	26.5
Honduras	47.2	51.9	43.7	40.0	33.6	33.4
Nicaragua	na	42.2	37.6	40.7	32.3	25.2
LAC	33.6	29.5	26.7	25.8	17.9	12.9
Developing countries	67.6	65.2	59.6	55.0	46.2	37.5

Source: WDI, World Bank

GDP per capita: average all five countries (index 1960=1)



Source: WDI, World Bank

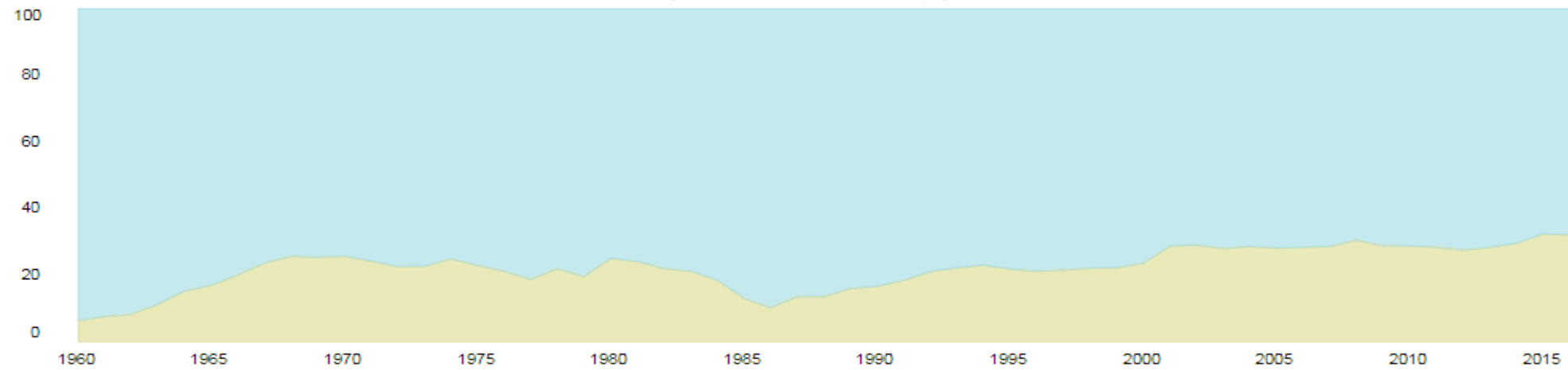


- Trade
- Financial flows
- Remittances
- Migration



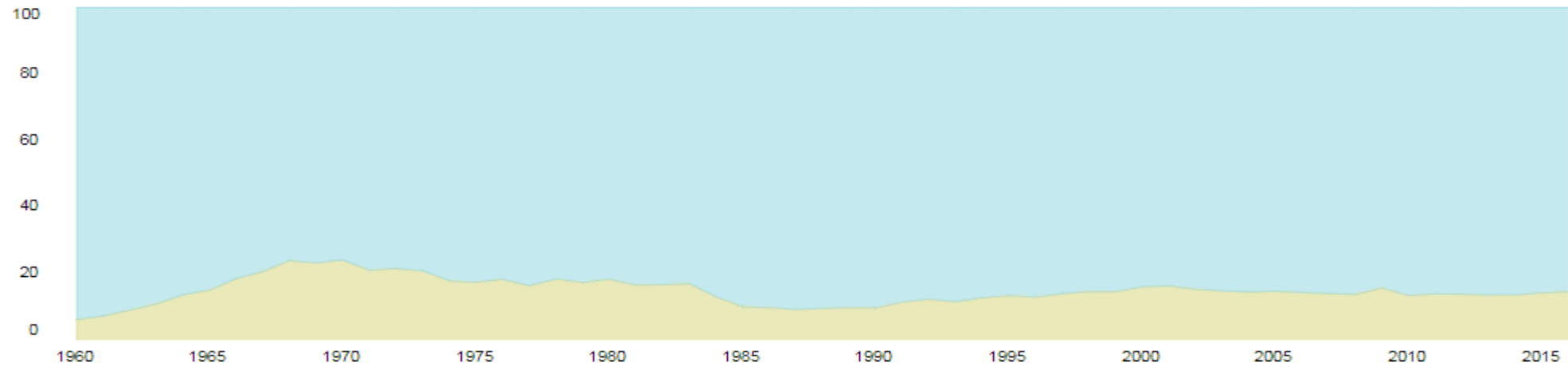
Exportaciones totales de Centroamérica según mercado

Importancia relativa 1960-2016 (%)



Importaciones totales de Centroamérica según mercado

Importancia relativa 1960-2016 (%)



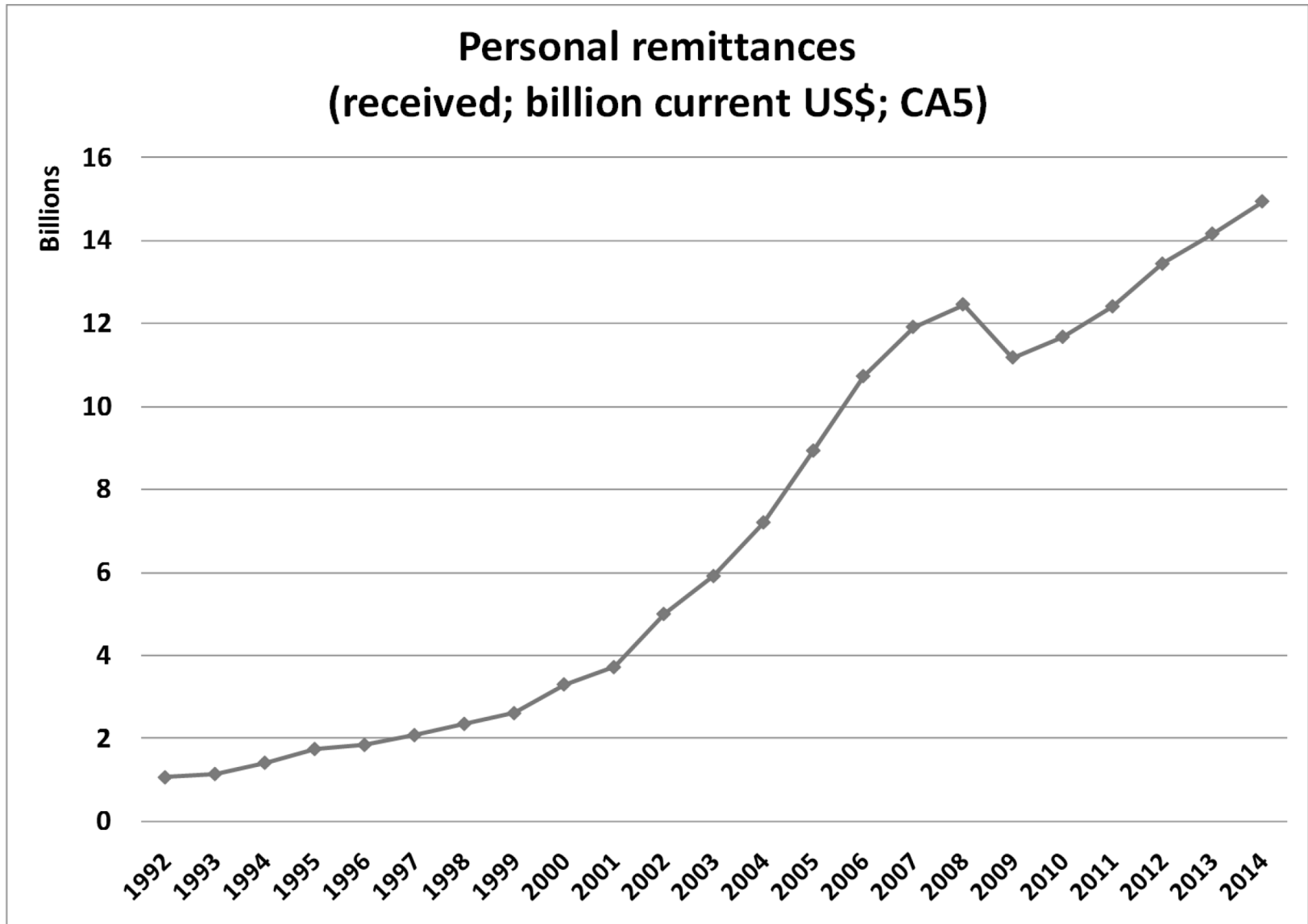
Mercado

Extrarregional

Intrarregional

Source: SIECA, 2017

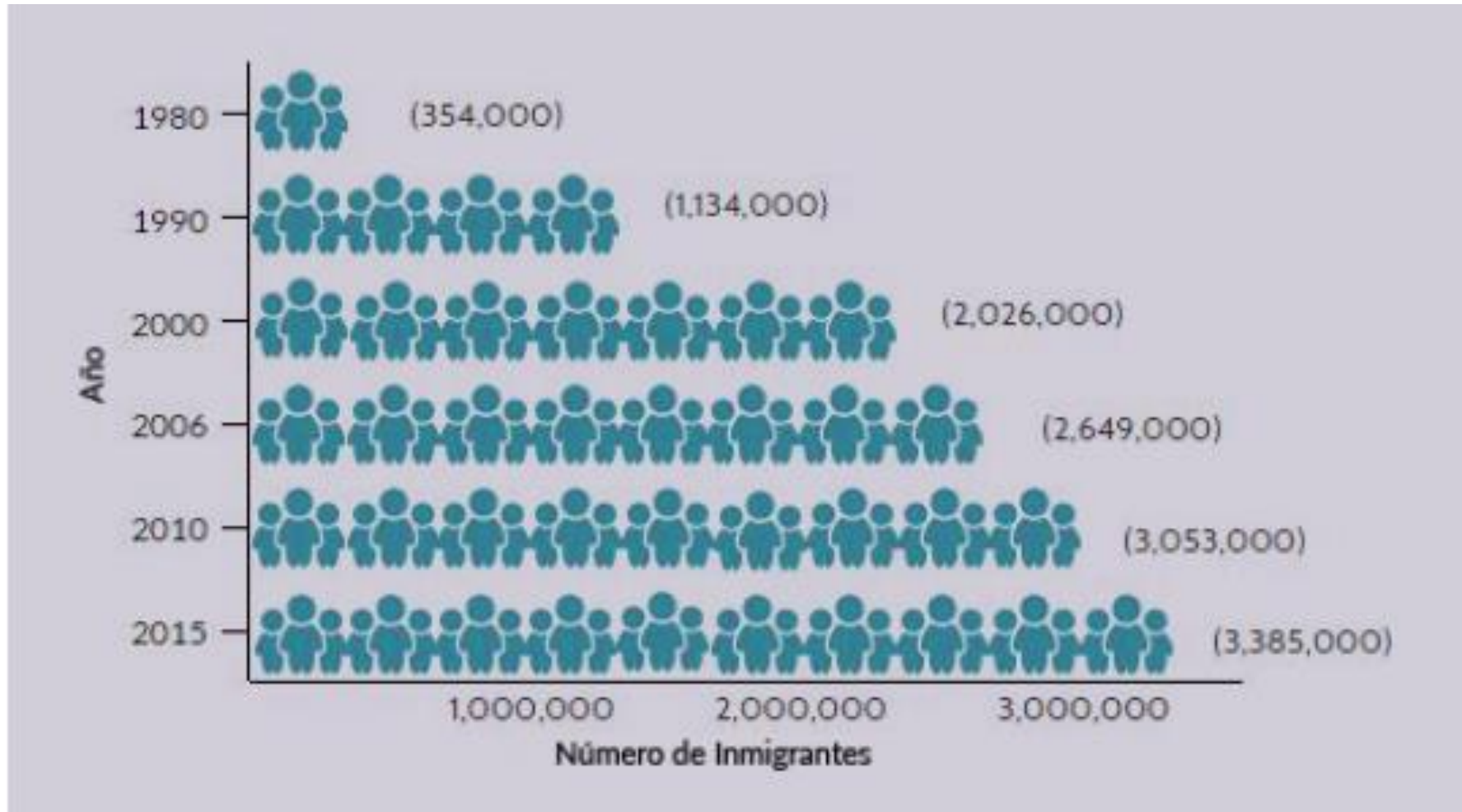
Personal remittances (received; billion current US\$; CA5)



Source: World Bank 2015

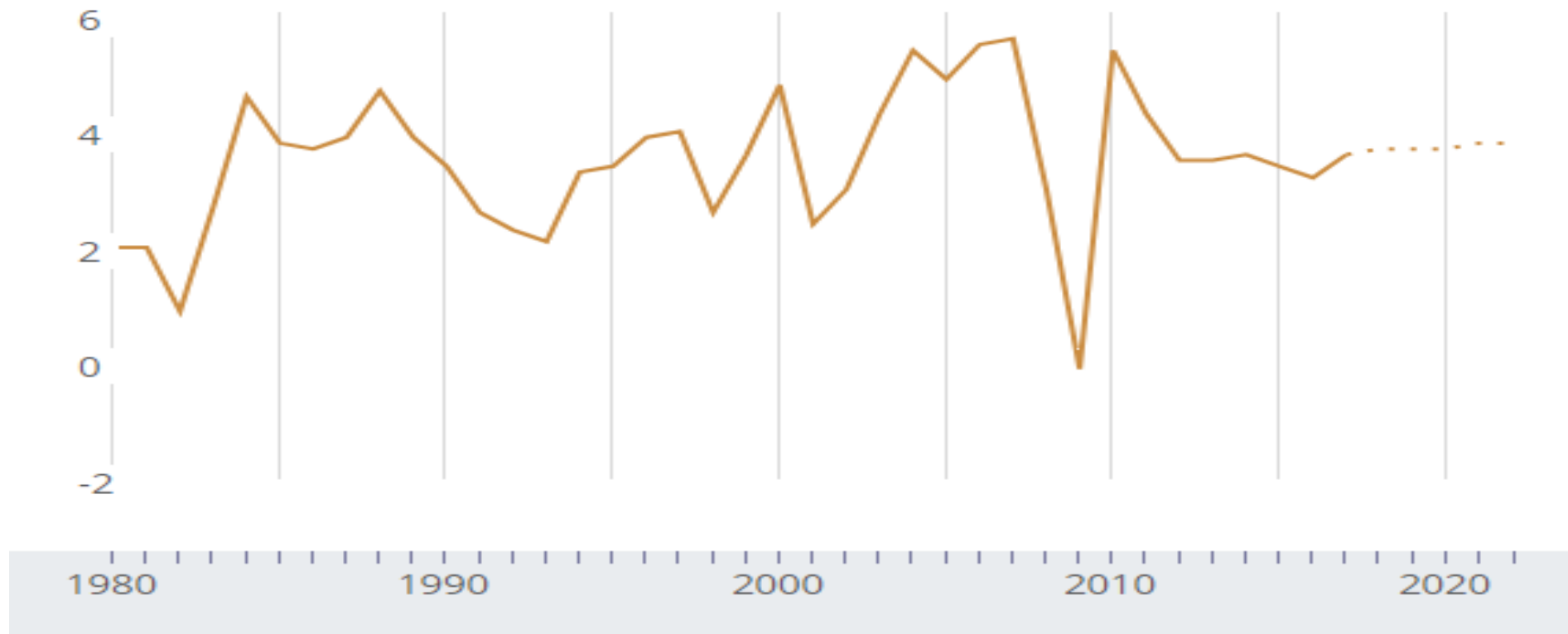


Migration: Population of Central American Immigrants in the US

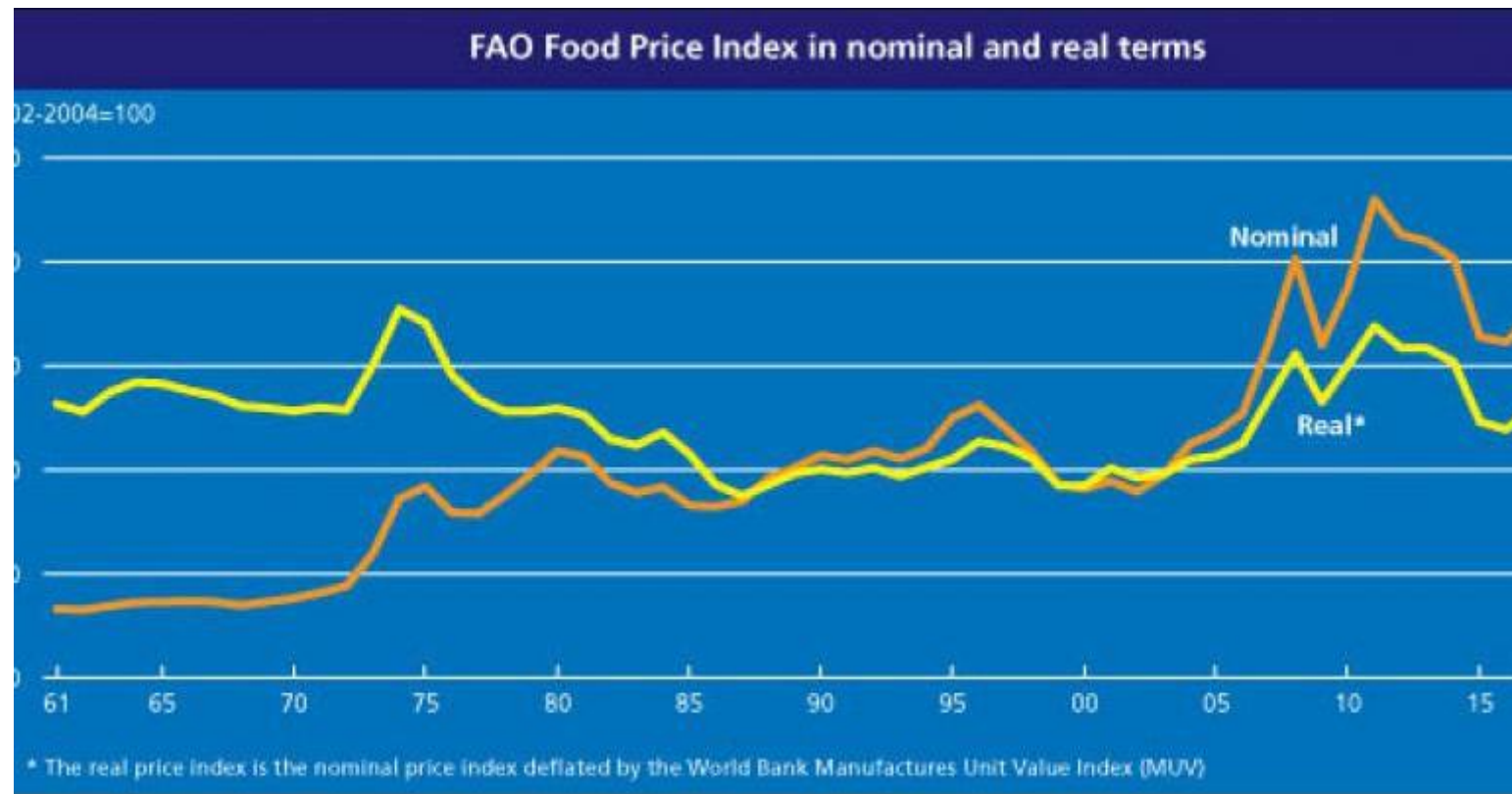


Source: American Community Surveys (ACS), 2015

Real GDP growth IMF Projections



Food Price Index- FAO



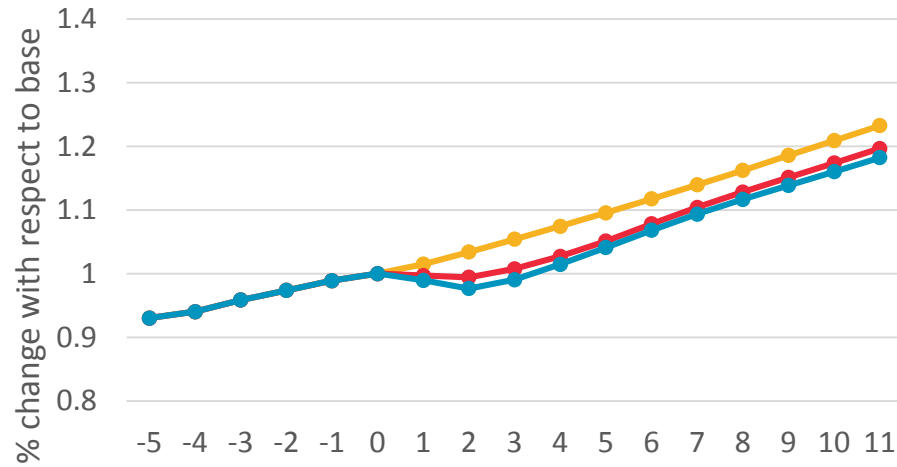
Scenarios

			Scenario 3	Scenario 6	Scenario 7	Scenario 8
			EXR Flexible	EXR Fixed	Poverty	Aggregate Demand
Shocks	Lower Global Growth	Decrease international prices	x	x	x	x
	Lower US Growth	Decrease Remittances	x	x	x	x
	Uncertainty Global markets	Decrease Capital Flows to CA	x	x	x	x
Interventions	Improve Safety nets	Government transfers			x	
	Increase Aggregate Demand	Cut income tax- increase public Investment				x

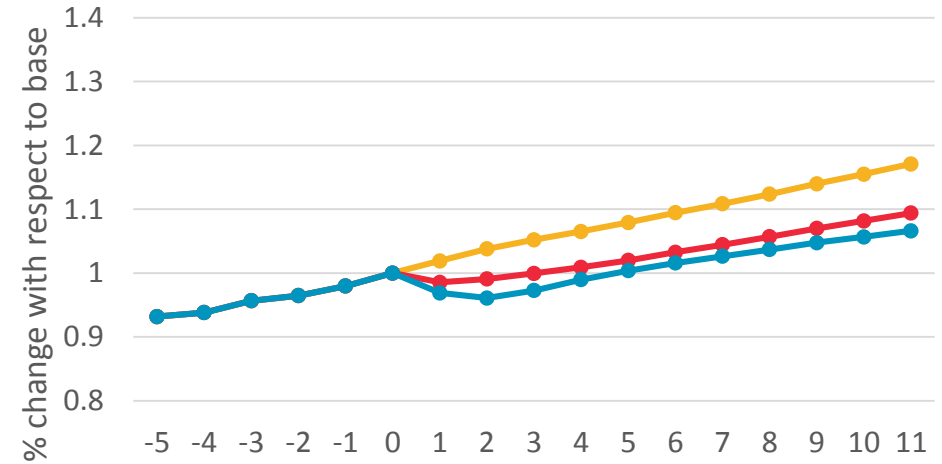
Note: For Scenarios 7 and 8, Costa Rica, Guatemala, Honduras and Nicaragua have a flexible EXR while El Salvador has a fixed EXR

Fixed vs Flexible Exchange Rates – GDP per capita

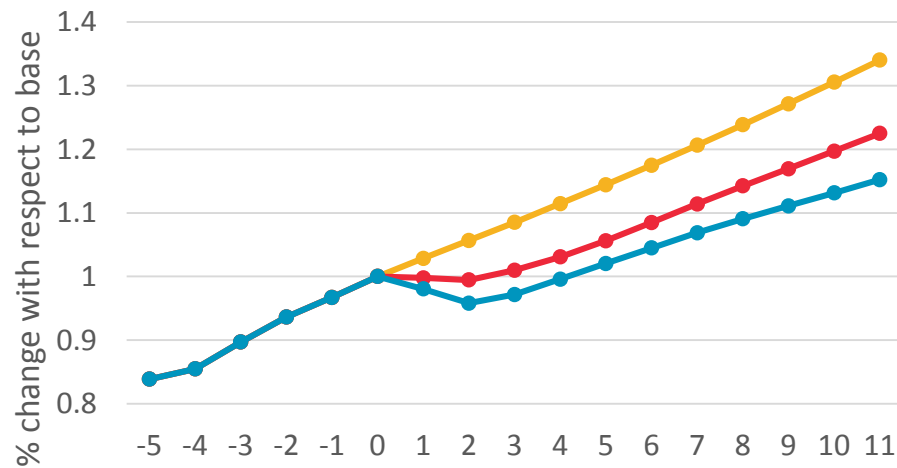
El Salvador



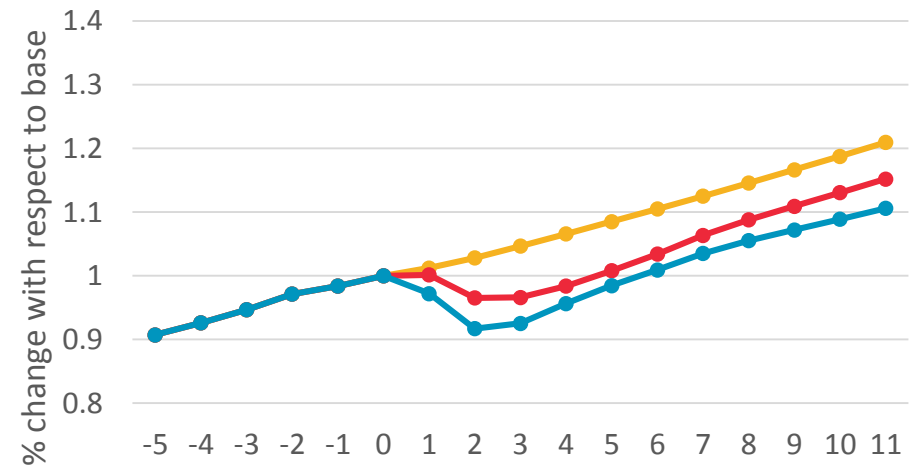
Guatemala



Nicaragua

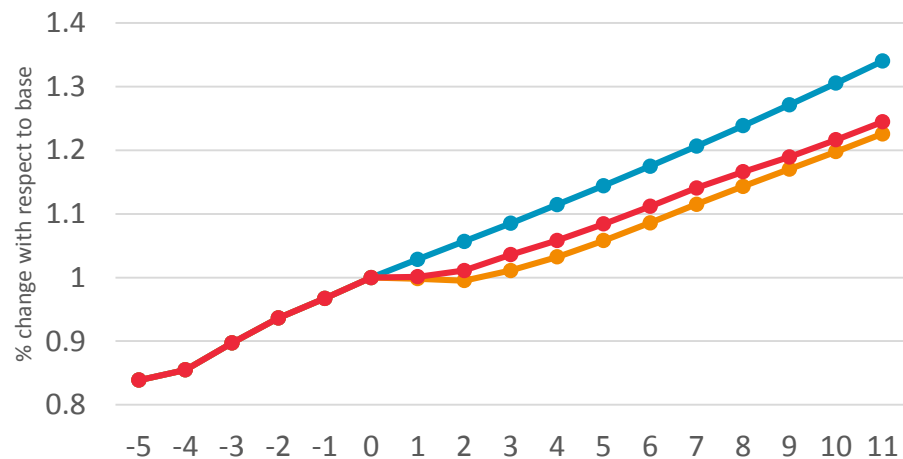


Honduras

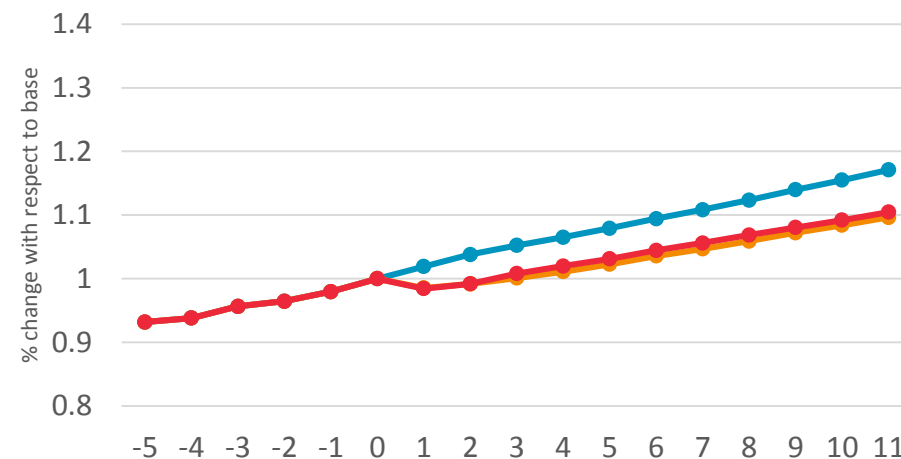


Poverty and Aggregate Demand- GDP per capita

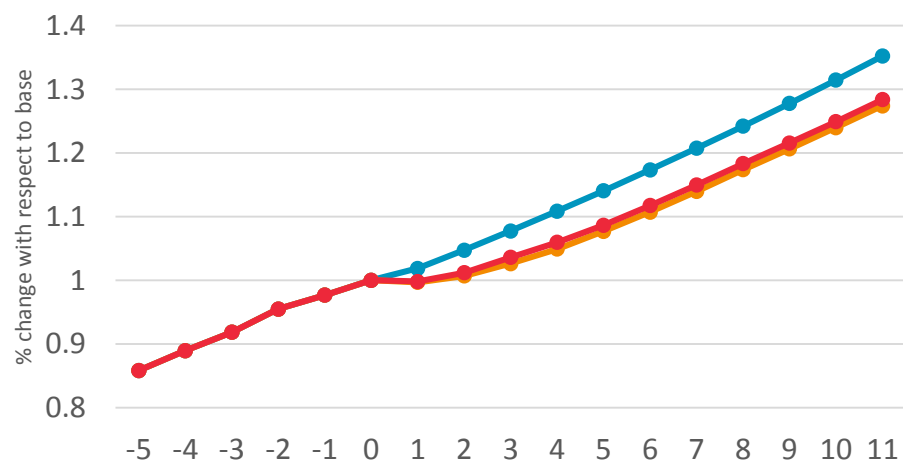
Nicaragua



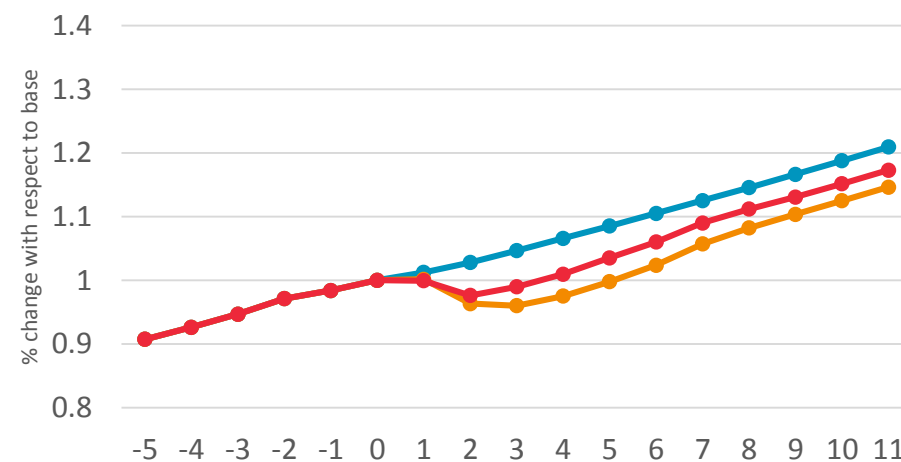
Guatemala



Costa Rica



Honduras



Concessional loan as percentage of GDP

Country	Average loan
Costa Rica	0.51
El Salvador	0.71
Guatemala	0.19
Honduras	0.33
Nicaragua	0.58

Size of the stimulus as a percentage of GDP

Country	Average stimulus
Costa Rica	1.0
El Salvador	0.9
Guatemala	0.7
Honduras	1.9
Nicaragua	1.6

Average period 2015-2019

Source: Author's worksheets

Final Comments

- Flexible exchange rate delivers better results – flexibility-
- Importance of government transfers to most vulnerable households
- Macroeconomic stimulus helps alleviate the negative shock

