

How to Mitigate the Impact of Economic Downturns on Labor Markets?

Evidence from Nicaragua

Sandra Marcelino and Mariana Sans

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How to Mitigate the Impact of Economic Downturns on Labor Markets: Evidence from Nicaragua
Prepared by Sandra Marcelino and Mariana Sans*Authorized for distribution by Bas Bakker
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ABSTRACT: This paper studies the drivers of the labor market performance in Nicaragua with a particular focus on informality, to identify vulnerable groups during economic downturns; and estimates the speed of adjustment of employment to shocks. The paper compares this experience with the ones in other CAPDR countries (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Panama). Our findings are that while the high countercyclical informality in Nicaragua has been the active margin of adjustment during economic downturns mitigating unemployment, the trade-off has been a lower speed of adjustment to shocks hampering the country's ability to revert to its potential. Policy recommendations relate to mitigating the impact of downturns on employment in Nicaragua, easing adjustments and inequalities in the labor market to hasten the employment recovery and thus, support growth.

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WORKING PAPERS

How to Mitigate the Impact of Economic Downturns on Labor Markets?

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Prepared by Sandra Marcelino and Mariana Sans¹

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