

El Salvador

ECLAC estimates El Salvador's real GDP growth in 2016 at 2.2%, down from 2.5% in 2015. The slowdown was mainly due to lower external demand, offset in part by a positive performance for domestic demand as private consumption and investment increased in both the private and the public sectors. Year-on-year inflation at the end of December is put at about 0.5%, or roughly the same as in 2015. The non-financial public sector (NFPS) fiscal deficit, including the cost of pensions and trust funds, is expected to be about 3.3% of GDP, close to the figure for 2015, while the balance-of-payments current account deficit is expected to narrow to 2.2% of GDP, as compared to 3.6% in 2015. By year's end, a small increase of about 1% is expected in the number of workers affiliated to the Salvadoran Social Security Institute (ISSS).

The legislative assembly passed the Fiscal Responsibility Act in November 2016, the aim of this being to consolidate the public finances and reduce public debt. It provides for issuance of US\$ 550 million in bonds, mostly to pay down capital and interest on short-term debt. This figure covers only a part of what the government originally proposed, which implies that future bond issues will need to be approved.

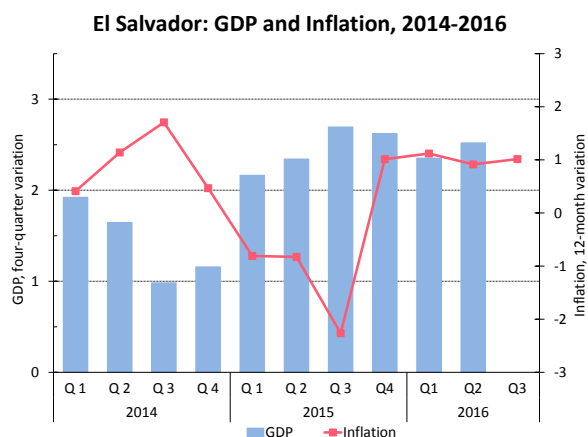
In the first three quarters of 2016, the government adjusted its fiscal behaviour to strengthen the public finances. Over this period, NFPS revenue rose at a real year-on-year rate of 6.8%, driven by growth of 5.0% in tax revenues, which are expected to amount to the equivalent of 15.8% of GDP by the end of 2016. Total NFPS expenditure grew by 1.2% in real terms in the same period as the result of a small (0.4%) reduction in current expenditure and a 12.6% increase in capital spending.

Cumulative fiscal deficits meant that, according to Ministry of Finance data, total NFPS debt grew by 3.9% relative to the end of the previous year to a total of US\$ 16.114 billion (equivalent to 60.1% of GDP) in the third quarter of the year, feeding concerns about the sustainability of public debt.

In early October 2016, Standard & Poor's announced that it was downgrading El Salvador's long-term credit rating from B+ to B. It also put the country's ratings under special review with a negative outlook. In November, Moody's downgraded the country's debt rating from B1 to B3, also with a negative outlook.

In the financial domain, the nominal interest rate on 180-day deposits was 4.51% in September 2016, representing a small increase since the end of 2015 (4.33%). The nominal rate on one-year loans was 6.27%, which was almost the same as at the end of 2015. Consistently with the positive performance of domestic demand, total deposits in the financial system expanded, fuelled by the private sector, while the cumulative credit portfolio as of September was up by 6% year on year. Net international reserves stood at US\$ 2.954 billion in October, an increase of 10.6% on the end-2015 figure.

Goods exports were down 3.9% by value year on year in the first 10 months of 2016, mostly because of lower volumes (-7.0%), since the



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

average price rose 3.4%. Exports of both traditional and non-traditional products fell (by 28.9% and 3.6%, respectively), while the maquila sector posted growth of 3.7%. The goods showing the strongest export growth were grain mill products (13.1%), prepared medications (11.8%) and other textiles and manufactures thereof (9.0%).

Goods imports, meanwhile, fell 6.6% by value in the period despite volume growth (3.7%) as a result of the falling oil bill, which had contracted by a cumulative US\$ 288 million year on year by October. Between January and October 2016, the trade deficit narrowed by 9.8% relative to the same period the year before.

Net foreign direct investment was US\$ 157 million in the first half of 2016, 19.6% up on the same period the year before. This result was due to profit reinvestment in manufacturing, the information and communications technology sector and commerce. Family remittances totalled US\$ 3.728 billion as of October, a year-on-year increase of 6.2%.

The economy expanded at an average year-on-year rate of 2.4% in the first half of 2016 (as compared with 2.3% in the same period the year before), thanks to the dynamism of the agricultural sector (3.6%), manufacturing (2.5%) and commercial activity (2.9%). This last was driven by higher real wages and family remittance inflows. One of the main drivers of investment was increased lending by credit institutions (banks and cooperative banks) to private enterprises (up 8.3% year on year) and households (4.4%). The trend-cycle series of the economic activity index (IVAE) showed year-on-year growth of 2.1% to September (as compared with 1.5% for the same period in 2015) as a result of expansion in the transport and communications, agriculture and construction sectors.

Annual inflation was about 1% in the first nine months of the year and then turned negative in October (-0.9%, as against -0.2% in the same month of 2015). Product groups registering price decreases were furniture and household articles (-3.0%), apparel and footwear (-2.5%), recreation and culture (-2.2%) and food and non-alcoholic beverages (-1.7%), reflecting the impact of low fuel prices.

On the employment front, a total of 647,161 people were paying into the Salvadoran Social Security Institute (ISSS) at the end of August 2016, representing a year-on-year increase of 1.1%. The sectors where formal job creation was most dynamic were electricity and water (3.6% year on year), commerce, restaurants and hotels (3.1%) and transport (2.8%). The nominal wage index to August showed year-on-year growth of 5%.

ECLAC projects growth of 2.2% for 2017, as it expects a solid performance from domestic demand, particularly private consumption (helped by remittance inflows, higher real wages, lower interest rates and greater disposable income). Foreign demand is expected to lose momentum in a highly uncertain international context. The NFPS fiscal deficit, including pensions, is expected to come in at around 3.3% of GDP. The central bank expects small increases in both the trade and current-account deficits, if

El Salvador: main economic indicators, 2014-2016

	2014	2015	2016 ^a
	Annual growth rate		
Gross domestic product	1.4	2.5	2.2
Per capita gross domestic product	1.0	2.0	1.8
Consumer prices	0.5	1.0	1.0 ^b
Real average wage ^c	0.7	1.1	...
Money (M1)	4.0	4.9	5.9 ^d
Real effective exchange rate ^e	1.2	-0.6	-0.7 ^b
Terms of trade	3.4	11.7	4.2
	Annual average percentage		
Open urban unemployment rate	6.7	6.8	...
Central government			
Overall balance / GDP	-1.6	-1.1	-0.2
Nominal deposit rate ^g	3.8	4.2	4.4 ^f
Nominal lending rate ^h	6.0	6.2	6.3 ^f
	Millions of dollars		
Exports of goods and services	6,482	6,710	6,719
Imports of goods and services	10,949	10,865	10,477
Current account balance	-1,307	-920	-399
Capital and financial balance ⁱ	1,274	1,033	1,063
Overall balance	-33	113	664

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Estimates.

b/ Figures as of September.

c/ Average taxable wage.

d/ Figures as of August.

e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

f/ Figures as of October.

g/ Basic deposit rate for up to 180 days.

h/ Basic lending rate for up to one year.

i/ Includes errors and omissions.

external trade grows as expected. Inflation is expected to edge up, subject to the behaviour of international prices for oil and its derivatives. The number of formal workers affiliated to the ISSS is expected to continue growing much as in 2016.