

## El Salvador

According to ECLAC estimates, GDP growth in El Salvador should stand at 3% in 2008, some 1.5 percentage points below the 2007 figure. Despite a slowdown, family remittances (17.5% of GDP) nonetheless helped to mitigate the negative impact of higher oil and food prices on the current account, which showed a deficit equivalent to 6% of GDP. The global fiscal deficit of the non-financial public sector stood at 0.9% of GDP, and annual inflation came in at around 5%.

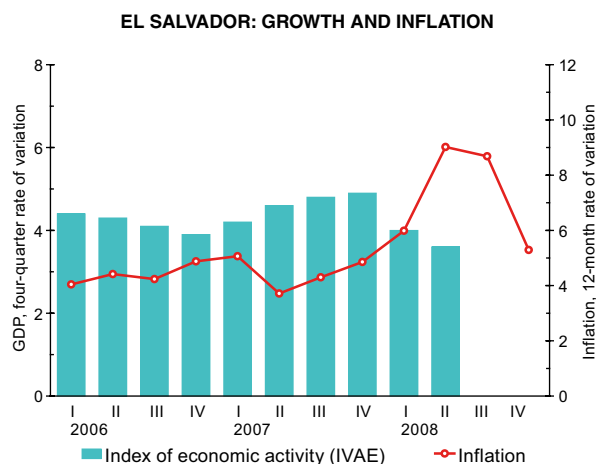
In 2009, owing to the worldwide slowdown, GDP growth in El Salvador will be around 1%, held back by falls in exports, remittances and foreign direct investment (FDI). Positive contributions to growth are expected from agriculture and the services sector, as well as the positive impact of the use of resources from the Millennium Challenge Account and increased public investment resulting from the holding of elections (legislative and municipal elections will take place in January and the presidential election in March). All these factors will tend to compensate for declining external demand. The falls in economic activity and world oil prices should reduce inflation, and the current account deficit is likely to be close to its 2008 level.

The current income of the non-financial public sector (NFPS) in 2008 stood at 17% of GDP (8% higher than in 2007). Tax receipts were up 12% and were equivalent to 13.6% of GDP, close to the 2007 figure. This was due to the positive impact of improvements in tax administration adopted as part of the reform of 2005. Current expenditure (16% of GDP) expanded by 13.6% as a result of increased transfers. Public transport and the consumption of electric power, water and liquefied gas were subsidized to the tune of about US\$ 400 million (1.8% of GDP).

This pressure on the fiscal accounts led to an overall NFPS deficit equivalent to 0.9% of GDP (0.7 percentage points above the 2007 figure). The overall central government deficit stood at 0.6% of GDP. The balance of the external public debt remained relatively stable but internal public debt rose by almost 12%. Treasury notes were issued totalling US\$ 450 million (2% of GDP, barely 0.3 percentage points more than in 2007). In November 2008, the political parties and the government agreed on

a US\$ 950 million increase in external debt in the form of loans provided by the Inter-American Development Bank (IDB) and the World Bank. Of that total, US\$ 650 million will be used to restructure the debt in Eurobonds maturing in 2011, and the remainder will be devoted to social development. The challenges facing the State in 2009 in terms of public resources will be to improve the targeting of subsidies and to streamline public spending.

Nominal interest rates remained relatively steady in 2008, resulting in negative real interest rates. Limited liquidity in the system led to a slowing of growth in bank



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

lending to the public and private sectors. The main financial indicators remained stable. In October, the net international reserves of the central bank stood at US\$ 2.344 billion (about 7% more than in 2007), equivalent to 2.5 months of goods and services imports.

Favourable prices for certain products boosted the performance of the agricultural sector for the fourth consecutive year, with growth of 8.4%, almost identical to the 2007 figure. Growth in other productive activities was positive, but less so than in 2007. Construction, manufacturing and mining expanded by 1.7%, 3.6% and 4.5%, respectively. Remittances accounted for 3.7% of the growth of private consumption, which was three points below the previous year's level. Public investment (11% of total gross fixed investment) increased by 13.7%, but did not make up for a 0.9% fall in private investment. The latter was due to worldwide financial uncertainties and the slowdown in the United States economy, which led to greater caution in investments and caused a fall in growth in 2008.

Owing to upward pressure on the prices of food and petroleum products, the annual inflation rate exceeded 9% in mid-2008. Between September 2007 and September 2008, the monthly cost of the basic food basket rose by 34.5% in rural areas and by 27.8% in urban areas. To attenuate this negative impact, the government raised its subsidies on public transport in mid-2008, strengthened the Solidarity Network programme in order to reduce absolute poverty and launched the Family Alliance programme, which aims to improve the standard of living of middle-income families through discounts on school fees, expanded health-care coverage and pension increases. Inflation moderated in the second half of the year, with the year-on-year rate approaching 5%. In June 2008, nominal minimum wages were increased by 5%, as a result of which the annual average for the real minimum wage remained constant. Open unemployment and underemployment also rose, a trend which will strengthen in 2009. The number of families living in poverty may therefore increase during the period 2008-2009.

Goods exports were strong, increasing by 17%, 10 percentage points more than in 2007. Non-traditional exports rose by 24% and traditional exports soared by 28%, thanks to the price effect on coffee and sugar. Maquila exports made up some of the ground they had lost in the previous three years, growing by 12% (a figure they had not achieved since 2000), and services exports rose by 6%. Goods imports were up 15%, and imports of consumer, intermediate and

#### EL SALVADOR: MAIN ECONOMIC INDICATORS

	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4.2	4.7	3.0
Per capita gross domestic product	2.4	2.9	1.3
Consumer prices	4.9	4.9	5.3 <sup>b</sup>
Real minimum wage	-0.7	2.5	-0.0
Money (M1)	15.2	16.5	6.3 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	0.4	1.3	2.4 <sup>e</sup>
Terms of trade	-1.3	-0.9	-4.6
<b>Annual average percentages</b>			
Urban unemployment rate	5.7	5.8	...
Central government			
overall balance / GDP	-0.4	-0.2	-0.6
Nominal deposit rate	4.4	4.7	4.0 <sup>f</sup>
Nominal lending rate	7.5	7.8	7.6 <sup>f</sup>
<b>Millions of dollars</b>			
Exports of goods and services	5 186	5 527	6 320
Imports of goods and services	8 805	9 842	11 201
Current account	-675	-1 119	-1 342
Capital and financial account	747	1 399	1 639
Overall balance	72	280	297

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2008.

<sup>c</sup> Twelve-month variation to October 2008.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October.

<sup>f</sup> Average from January to October, annualized.

capital goods rose by 9.8%, 27% and 3.5%, respectively. The oil bill reached a record level of US\$ 2 billion, 9% of GDP and 18% of total imports. Services imports rose by 7%, eight percentage points less than in 2007.

The economy benefited from inflows of family remittances (US\$ 3.943 billion), although their growth rate fell to 6.7% because of the economic crisis and the hardening of migration policy in the United States. Remittances covered almost 81% of the trade deficit (22% of GDP). These trends led to a balance-of-payments current account deficit of 6% of GDP (half a percentage point above the 2007 figure), which may expand if the inflow of remittances continues to decline. Foreign direct investment (FDI), totalling US\$ 463 million (2% of GDP), was mainly oriented towards electric power generation, the maquila industry, telecommunications and the financial sector, with the latter making up a third of total FDI in 2007.