

El Salvador

With domestic demand weakening and external demand slowing, El Salvador's GDP is estimated to have grown by 1.2% in 2012, compared with 1.6% the previous year. Despite the rise in international oil prices, inflation is expected to stand at around 1.4%, several points below the 5.1% recorded 12 months earlier. A new series of tax measures was implemented, but weak growth meant that there was no appreciable decrease in the non-financial public sector deficit (which, including pensions, was 3.8% of GDP –similar to the 3.9% of GDP posted in 2011). In the external sector, the 1.2% nominal contraction of goods exports was essentially offset by the slowdown in goods imports, which grew by approximately 2.5% in nominal terms against 19% in 2011. The current account deficit therefore remained at 4.8% of GDP, which was slightly above the 4.6% of GDP recorded the previous year.

The cooling economy was reflected in slower growth of non-financial public sector revenue, which was evident in decelerating VAT receipts. Nevertheless, the tax measures adopted in late 2011 had a noticeable impact in that they helped push total revenue up by almost one percentage point of GDP to reach 20% of GDP.

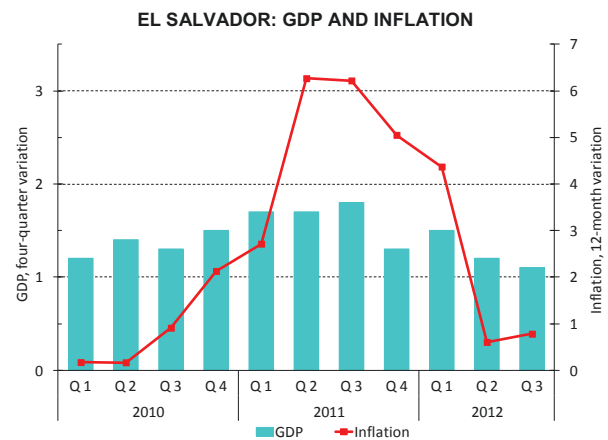
Expenditure followed a similar trend. Although the growth rate slowed, expenditure expanded by 0.7% of GDP to stand at 22% of GDP. Unlike 2011 (when current spending as a percentage of GDP widened while public investment declined), both components showed similar growth in 2012.

As a result, the current surplus reached 0.5% of GDP compared with a deficit equal to 0.2% of GDP the previous year. But the non-financial public sector fiscal deficit (including pensions and trust funds) declined by only 0.1% of GDP and will close the year at 3.8% of GDP, while the primary deficit is expected to be equivalent to 1.5% of GDP.

The lack of consensus on fiscal targets under the stand-by-agreement with the International Monetary Fund (IMF) has affected access to multilateral resources, forcing the government to issue short-term treasury bills to close the funding gap. According to official estimates, public sector debt stood at 57.1% of GDP at the end of 2012 (as against 56.2% of GDP in 2011).

The 2013 budget provides for new taxes in 2013 (particularly a tax on financial transactions), as well as measures to lower spending, especially on targeted subsidies. As a result, with an estimated growth rate of approximately 2%, the non-financial public sector deficit is expected to fall to around 2.7% of GDP, the primary balance will essentially be in equilibrium and total public debt will decline to around 53% of GDP.

In 2012, nominal deposit rates continued to trend slightly upwards and lending rates continued their downtrend. Nevertheless, both rates were up in real



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

terms as inflation dropped significantly. In the third quarter of 2012, the annual deposit and lending rates were, on average, 2.3% and 5.3%, respectively. With the real rates on deposits trending upwards, the monetary aggregate M2 started to expand in the third quarter after contracting for a year and a half. Lending to the private sector jumped 5.8% in nominal terms in the 12 months through July 2012 (2% in real terms), with consumer credit and the manufacturing sector showing the strongest growth. This is a positive development compared with the previous year, when there was a decline of 3.8% in real terms.

In contrast to economic growth projections of between 2% and 2.5% made at the start of the year, the most recent official estimates put the rise at only 1.2% (0.4% lower than in 2011). The slowdown is due to falling external demand and shrinking private investment (down by 3.4%, against a 16.3% gain in 2011). Government consumption is estimated to have grown by 1.5%, which is considerably lower than the 3.9% posted in 2011. Private consumption increased by 2.2% (0.7 points more than in 2011); public investment expanded by 1.1% after contracting 2.8% the previous year. The context for these figures is one of flat growth in migrant remittances and a modest increase in formal job creation.

Most of the production sectors saw a slowdown, which was especially marked in construction, financial institutions and transport, reflecting the loss of momentum in private investment and lower foreign trade volume. Some service sectors and the agricultural sector (which has benefited from the family farming programme) showed strong growth.

Growth is projected to be around 2% of GDP in 2013, assuming that Salvadoran manufacturing exports to the United States will pick up and private investment will gain momentum, boosted in part by government initiatives (such as investment projects backed by the development bank) to increase production capacity.

The increase in consumer prices in the 12 months to December 2012 is estimated at around 1.4% (as against 5.1% in 2011). This easing of inflation was due to the high rate on the comparison date, fuelled by the effect that targeted subsidies had on the price of energy products in 2011 and by temporary impacts on food prices. The uptick in international fuel prices

EL SALVADOR: MAIN ECONOMIC INDICATORS

	2010	2011	2012 ^a
Annual growth rates			
Gross domestic product	1.4	1.5	1.2
Per capita gross domestic product	0.8	0.9	0.6
Consumer prices	2.1	5.1	1.0 ^b
Real average wage ^c	1.1	-2.9	...
Money (M1)	19.8	10.4	6.0 ^d
Real effective exchange rate ^e	1.6	0.9	-0.2 ^f
Terms of trade	-3.7	0.0	-1.3
Annual average percentages			
Open urban unemployment rate	6.8	6.6	...
Central government			
overall balance / GDP	-2.7	-2.3	0.1
Nominal deposit rate	2.9	1.8	2.4 ^g
Nominal lending rate ^h	7.6	6.0	5.6 ^g
Millions of dollars			
Exports of goods and services	5 553	6 474	6 554
Imports of goods and services	9 176	10 753	11 037
Current account balance	-576	-1 070	-1 150
Capital and financial balance ⁱ	281	656	1 684
Overall balance	-295	-414	534

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

^a Estimates.

^b Twelve-month variation to October 2012.

^c Gross salary.

^d Year-on-year average variation, January to September.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Year-on-year average variation, January to October.

^g January-October average.

^h Basic lending rate for up to 1 year.

ⁱ Includes errors and omissions.

indicates that annual inflation will approach 3% in 2013.

Formal employment showed modest expansion of between 2.5% and 3% in 2012. In the first half of 2012, the average number of private-sector workers contributing to the Salvadoran Social Security Institute (ISSS) was only 1% above the average for 2008.

At year-end the current account deficit will be equivalent to 4.8% of GDP (as against 4.6% in 2011) as goods exports contract by a nominal 1.1% (compared with an 18% rise in 2011), the growth of goods imports slows to just 2.5% after surging 19% the previous year and remittance flows increase by 6.2% compared with 6.8% in 2011.

From January to August 2012, El Salvador's terms of trade improved by 1.9% on average, in contrast to the 3.8% drop during the same period the previous year. With inflation low throughout the year and nominal exchange rate depreciation of other Central American currencies against the dollar, the real effective exchange rate appreciated by a slight 0.5% during the first eight months of the year.