EL SALVADOR

1. General trends

The Salvadoran economy grew by 2.5% in real terms in 2018 (2.3% in 2017). The segments driving domestic economic activity were consumption, boosted by higher remittance inflows, credit to the private sector, gross capital investment, and programmes fostering productive activity. In the external sector, exports of goods posted a moderate expansion of 2.5%, below their 6.3% growth in 2017. The influx of tourists also helped finance the external sector. Year-on-year inflation in December 2018 was 0.44%, below the 2% recorded in 2017, due to the decline in international oil prices in the last few months of the year. The balance-of-payments current account deficit widened substantially to 4.8% of GDP, compared to 1.9% in 2017, owing to a 28.2% hike in the oil bill. The non-financial public sector deficit, excluding pensions, was equivalent to 1.3% of GDP, compared to the prior year's 0.3%, as a result of an increase in interest payments and capital expenditure. According to Salvadoran Social Security Institute (ISSS) figures, the workforce grew at an annual average of 1.4% (1.3% in 2017).

Legislative Assembly elections were held in February 2018. The governing party, the Farabundo Marti National Liberation Front (FMLN), lost its majority in the Legislative Assembly, as a result of which the Nationalist Republican Alliance (ARENA) became the leading political force. Presidential elections were held in February 2019, in which Nayib Bukele, the candidate for the Grand Alliance for National Unity (GANA) won 53% of the vote in the first round. His term (2019–2024) began on 1 June 2019. The President-elect announced his government plan, entitled Plan Cuscatlán, which has eight cross-cutting themes and aims to tackle the new challenges posed on all strategic fronts (social, economic, financial, infrastructure, territorial development and others).

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Salvadoran GDP will grow by 2.3% in 2019. The slight downturn compared to growth in 2018 stems mainly from lower projected economic growth in the United States, El Salvador's principal trading partner. Consumption will remain fairly buoyant, driven by remittances and credit. Average inflation is expected to reach 1.1% and the balance-of-payments current account deficit will be equivalent to 4.1% of GDP, due to less buoyancy in the economy as a whole and the modest increase in the oil price. The non-financial public sector deficit, including pensions, will equal 3.2% of GDP, owing to lower income following the end of the back tax regularization programme in 2018 and because the Supreme Court declared that collecting the tax on financial transactions as from January 2019 was unconstitutional.

2. Economic policy

The fiscal policy stance remained geared to meeting the targets of the Fiscal Responsibility Act and achieving macroeconomic stability. The implementation of tax collection programmes furnished the government with resources to invest in public works and settle debts to providers, thereby further stimulating economic activity.

(a) Fiscal policy

The non-financial public sector, including pensions, posted a US$ 694 million deficit, equivalent to 2.7% of GDP (2.5% in 2017). Pension payments accounted for 1.4% of GDP, 0.8 percentage points less than in 2017.

Total non-financial public sector income grew by 1.9% in real terms, below the 5.5% growth in 2017, owing to a decline in non-tax income. Income from collection of value-added tax (VAT) posted real growth of 6.9%, 2.8 percentage points more than in 2017, thanks to the uptick in economic activity. Income tax revenue grew by 3.8%, slightly more than the 3.5% growth recorded in 2017. Revenue was also bolstered by non-recurrent revenue stemming from the tax and customs amnesty, which totalled US$ 92.7 million (2% of tax revenue). Non-tax income fell in real terms by 16.5% because of the lower income of non-financial public enterprises compared to 2017, when non-recurrent income had been received from the sale of shares in Corporación Salvadoreña de Inversiones (CORSAIN) and from profits earned by the companies in the River Lempa Hydroelectric Executive Commission (CEL) group, which were not repeated in the 2018 fiscal year. Against that backdrop, the tax burden was 18% of GDP.

Total expenditure rose by 6.1% in real terms to the equivalent of 24.5% of GDP (23.9% in 2017). Current expenditure saw a 4.4% increase, to reach 21.1% of GDP. Provisional investment certificate and interest payments (14.3%) were higher, as a result of the higher rates on external loans, domestic bonds and Eurobonds, as was consumption expenditure (4.2%), due to the increase in wages and goods and services. Capital expenditure, accounting for 13.9% of total expenditure, jumped by 18.2%, after having shrunk by 9.9% in 2017. Gross investment grew by 21.9% in real terms (after falling 12.9% in 2017). This hike in investment stemmed from road building, expansion of the international airport, hydroelectric projects and water treatment plant renovations.

The non-financial public sector debt totalled US$ 18.084 billion in December 2018, equivalent to 69.4% of GDP (69.7% in 2017). Of that, US$ 9.217 billion was external debt (35.4% of GDP) and US$ 8.867 billion domestic debt (34% of GDP). Of the domestic debt, US$ 771 million corresponded to short-term Treasury bills (LETES) (3% of GDP), US$ 4.922 billion to the Pension Liabilities Trust Fund (18.9%) and US$ 3.175 billion to public sector debt (12.1%). Disbursements of external loans and Eurobonds totalled US$ 548.8 million (2.1% of GDP) at the end of 2018, most of it lent by multilateral organizations, such as the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (CABEI) and the International Bank for Reconstruction and Development (IBRD).

In the first quarter of 2019, total income grew by 2.4% in real terms (5.7% in the prior-year period), due mainly to increased non-tax revenue (16.6%), as tax revenue grew at a more sluggish pace (2%). Expenditure fell by 1.6%, compared with a 10.7% surge the previous year; capital expenditure shrank by 2.5% (compared to a 21.5% expansion in the prior-year period).

Once a consensus was reached in the Legislative Assembly to pass the budget law, at the end of 2018 Standard and Poor's upgraded its sovereign rating from "CCC+" to "B-", with a stable outlook. A securities issuance of US$ 1.297 billion was included in the budget to finance needs that cannot be covered by current revenue, as was a commitment to pay US$ 800 million on Eurobonds maturing in December 2019, along with other financing requirements to pay other debts falling due, payment of interest and the placement of US$ 286 million to pre-pay Eurobonds maturing in 2034.

(b) Financial and exchange-rate policy

As the Salvadoran economy has been dollarized since 2001, the Central Reserve Bank does not have monetary autonomy, so it is the market that sets the interest rate through supply and demand. In 2018, interest rate stability created a favourable environment for stimulating productive activity.

Deposit rates posted reductions, for all maturities. Nominal 120-day and 180-day rates averaged 3.7% and 4.2%, respectively, below the 3.9% and 4.4% rates reached in 2017; real-terms rates were 2.6% and 3.1%, respectively. In the same vein, the average over-one-year lending rate, in its different categories and maturities, also fell: the rate for personal loans stood at 11.2% (11.5% in 2017); the corporate lending rate at 8.5% (8.7% in 2017); and the home loan (mortgage) rate at 7.5% (7.6% in 2017). The real-terms rates also dropped to 10%, 7.3% and 6.4%, respectively. The lower cost of money further bolstered productive sectors.

Bank loans to the private sector totalled US$ 13.828 billion in 2018, up 6% on the figure at December 2017. Particularly buoyant were lending to the construction sector (25.4%), agriculture and livestock (14.1%) and transport, storage and communications (13%).

In the third quarter, total credit grew by 6.4% year on year; construction by 32.8%, followed by transport and communications (10.8%). There were minor changes in interest rates: the 120-day deposit rate continued to average 3.72%, while the over-one-year lending rate was 10.02%.

(c) Other policies

In August 2018, the Government of El Salvador announced an end to the free trade agreement with Taiwan Province of China, and the start of a new era of diplomatic ties with the Government of China, outlined in a memorandum of understanding. China offered to provide opportunities for promoting trade, investment, the improvement of infrastructure, and scientific and economic cooperation, and other benefits.

In July 2018, the Legislative Assembly ratified the Protocol of Accession of El Salvador to the Enabling Protocol for the process of deep integration towards the free movement of goods and natural persons between the Republics of Guatemala and Honduras. One of the objectives of the Protocol is to simplify customs procedures on the borders between Salvador, Guatemala and Honduras, increase logistical efficiency, reduce costs and facilitate the integration of production chains. The Fifth Trinational Round of the Customs Union was held to consolidate the deep integration process. It addressed economic integration techniques, migration, security, domestic taxes, tariffs and customs, as well as implementation of the Central American Invoice and Single Declaration (FYDUCA) and adaptation of border crossing points.

In June, the Legislative Assembly ratified the free trade agreement between Central America and the Republic of Korea, El Salvador being the first country to have done so. July saw the start of the first round of negotiations on adopting the Additional Protocol to deepen the Partial Scope Agreement between El Salvador and Cuba. Among other issues, the talks addressed access to markets, rules of origin, and the settlement of disputes.

3. The main variables

(a) The external sector

Exports of goods totalled US$ 5.905 billion (22.6% of GDP), a year-on-year gain of 2.5%, measured in dollars, despite a drop in volume of 7.7% The decline in the value of agricultural exports (3.3%) was due to lower sales of coffee and plants, which were offset by increased exports of manufactured goods (1.6%), especially of those from free-trade zones, driven by a buoyant economy in the United States. By product, the main contributors to that growth were exports of textiles, such as sweaters (12.9%), t-shirts and knitted vests (5.0%), paper (16.6%), electric capacitors (7.6%) and items for transport or packaging (7.2%).

Leading the list of exports to countries with which El Salvador has trade agreements were those to the United States, which purchased goods worth US$ 2.602 billion (47.7% of total exports), followed by those to the rest of the Central American Common Market (CACM), which accounted for US$ 2.419 billion (41% of total exports of goods). The principal trading partners in the latter market were Honduras and Guatemala, with 16.6% and 15.6% of total exports, respectively. As a result of the political and social crisis in Nicaragua, exports to that country fell by 5.8%.

Imports amounted to US$ 11,830 billion (45.5% of GDP), representing a year-on-year increase in dollar terms of 11.9%, while volume grew 6.7%. Imports of manufactured goods totalled US$ 10.410 billion (a year-on-year increase of 10.9%), while imports of the maquila sector totalled US$ 686 million (a year-on-year increase of 12.9%). By type of good, imports of consumer goods rose by 10%; intermediate goods imports by 14.5%, mainly due to the higher cost of fuel imports; and capital goods imports by 9.4%. The oil bill was US$ 1.654 billion: 14% of total imports and 6.3% of GDP (5.2% in 2017).

There was no change in the terms of trade. The trade deficit was US$ 5.925 billion, or 22.7% of GDP, compared to 19.3% in 2017.

Remittances by family members totalled US$ 5.391 billion (21% of GDP): a year-on-year increase of 8.1%. That surge is partly explained by the drop in the Hispanic unemployment rate in the United States, which stood at 4.4% (down from 4.9% in 2017), and by a precautionary hike in remittances in anticipation of harsher immigration policies.

Net foreign direct investment flows surpassed US$ 800 million for the second year running, totalling US$ 840 million in 2018. The sectors that received most inflows included manufacturing (69%), commerce (12.8%) and electricity supply (8.9%). Investment flows from the United States amounted to US$ 335 million (39.9% of the total) and were mainly directed to the industrial sector, while investment from Panama accounted for 21.8% of the total.

In the first quarter of 2019, exports fell by 1.1% year on year, with declines in almost all sectors: wholesale commerce (23%), manufacturing (2%) and the maquila sector (0.4%), the decline in the maquila sector being mostly due to lower exports of textile products. Since imports grew by 7.9%, the trade balance posted a deficit of US$ 1.439 billion, an increase of 18.8%. In the same quarter, remittances totalled US$ 1.298 billion: a year-on-year rise of 5.9%.

(b) Economic activity

In the first two quarters of 2018, the economy posted average year-on-year growth of 2.9%, while in the last two it lost some momentum and expanded by an average 2.2%. Driving the economy in the second half of the year was the implementation of Plan 10: priority measures and complementary institutional strategies from April 2018 to January 2019. That Plan focused on public investment projects, stepped-up financing for micro- and small enterprises and the construction industry and for diversification of the energy matrix.

The mining and quarrying sector expanded in 2018 at a year-on-year rate of 6.8%, driven by strong growth in the construction industry (6.6%) in residential, commercial, and corporate real estate projects. The information and communications sector, which includes digital mobile internet and data transmission services, expanded by 2.6%. The sectors showing a decline were electricity supply (0.4%), due to power being imported from Guatemala instead of being produced domestically (because of high production costs following the hike in oil prices); water supply (0.3%,), as fewer wells were drilled; and agriculture, which stagnated as a result of a prolonged drought, followed by rains and Hurricane Michael, which mainly hurt output of basic grains.

Final consumption contributed 2.4 percentage points to the growth in GDP, thanks to expansion of the consumer credit component and robust remittances. Real exports contributed 0.9 percentage points and gross capital formation 1.5 percentage points, thanks to construction, investment in alternative sources of energy and public investment in roads and expansion of the international airport, as well as other works.

In February 2019, the economic activity index (IVAE) posted year-on-year growth of 2.3%, below the 4.5% growth in the prior-year period. Economic activity continues to be driven by construction (3.7%), financial activities (5.9%) and commerce (5%).

(c) Prices, wages and employment

Following the downturn in international fuel prices in the last months of 2018, inflation fell sharply, ending the year at a year-on-year rate of 0.44%. The highest year-on-year rate (1.5%) was recorded in October. Overall, inflation reflected the effect of higher prices of accommodation, water, and electricity (3.0%), restaurants and hotels (1.8%) and alcoholic beverages (1.4%), combined with lower prices of clothing and footwear (1.7%), furniture and household items (1.1%) and transport (1.0%).

In the private sector, the average number of workers contributing to the Salvadoran Social Security (ISSS) increased by 12,933 (up 1.9% year-on-year). The sectors benefiting most were real estate activities (14.6%), professional activities (5.5%), manufacturing industry (1.8%) and commerce (1.7%). By contrast, 1,641 jobs were lost in the public sector (1.0%). In 2018, unlike 2017, there was no across-the-board hike in wages, except for workers on temporary contracts, which resulted in a nominal wage gain of 0.85% (-0.23% in real terms).

Year-on-year inflation, in April 2019, was 0.8%, due to lower prices in certain sectors, such as furniture and clothing (1.1% in both cases). The largest price increases were for food and non-alcoholic beverages (1.7%).

Table 1
EL SALVADOR: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	2.1	3.8	2.8	2.2	1.7	2.4	2.5	2.3	2.5
Per capita gross domestic product	1.7	3.4	2.4	1.8	1.3	2.0	2.1	1.9	2.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.0	-4.2	4.4	-7.2	0.9	-5.5	6.8	0.2	0.0
Mining and quarrying	-4.4	18.2	-7.1	8.3	-4.2	-5.4	1.5	1.6	6.8
Manufacturing	1.9	4.2	1.5	0.8	2.5	3.1	0.8	2.4	2.4
Electricity, gas and water	2.9	5.5	1.5	-2.5	3.9	-0.9	-1.3	-0.4	-0.3
Construction	6.4	13.4	4.4	3.2	-1.5	-0.5	3.6	2.9	6.6
Wholesale and retail commerce, restaurants and hotels	0.8	2.1	5.9	5.9	3.7	1.0	1.9	2.8	3.2
Transport, storage and communications	4.8	6.1	-1.3	2.9	-4.1	8.3	8.6	2.9	2.2
Financial institutions, insurance, real estate and business services	-4.3	-1.6	5.1	2.4	3.5	3.9	4.0	2.3	1.7
Community, social and personal services	1.9	7.7	4.8	2.5	-0.9	2.6	1.8	18.8	30.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.2	3.0	3.0	3.3	-0.3	2.8	1.5	2.1	2.4
Government consumption	2.6	10.8	1.9	2.8	-1.1	2.1	-1.0	1.9	0.8
Private consumption	1.0	1.6	3.3	3.5	-0.2	3.0	1.9	2.2	2.7
Gross capital formation	10.1	7.4	0.6	-3.8	-1.1	4.8	4.4	-9.4	9.9
Exports (goods and services)	13.5	7.2	0.5	6.3	3.2	3.3	0.2	4.7	2.9
Imports (goods and services)	9.0	5.2	1.1	4.7	-2.5	4.7	-0.5	-0.8	5.2
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	16.7	17.8	17.7	17.0	16.4	16.0	16.0	16.6	20.4
National saving	13.8	12.3	11.9	10.1	11.0	12.8	13.7	14.8	15.7
External saving	2.9	5.5	5.8	6.9	5.4	3.2	2.3	1.9	4.8
Balance of payments	**Millions of dollars**								
Current account balance	-533	-1 112	-1 240	-1 518	-1 214	-754	-550	-465	-1 242
Goods balance	-4 022	-4 772	-4 917	-5 289	-5 287	-4 970	-4 654	-4 845	-5 936
Exports, f.o.b.	3 473	4 243	4 242	4 395	4 294	4 437	4 322	4 667	4 735
Imports, f.o.b.	7 495	9 015	9 159	9 684	9 581	9 407	8 976	9 512	10 671
Services trade balance	398	449	531	671	868	959	808	733	800
Income balance	-538	-618	-871	-990	-1 035	-1 092	-1 246	-1 388	-1 472
Net current transfers	3 629	3 830	4 016	4 090	4 240	4 349	4 542	5 034	5 366
Capital and financial balance d/	237	698	1 891	1 192	1 181	867	1 002	773	1 244
Net foreign direct investment	-226	218	466	179	306	396	348	889	840
Other capital movements	462	479	1 425	1 013	874	470	654	-116	404
Overall balance	-296	-414	651	-327	-33	113	452	308	2
Variation in reserve assets e/	296	414	-651	327	33	-113	-452	-308	-2

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	101.1	102.4	103.1	104.0	104.6	103.7	103.9	107.1	103.2
Terms of trade for goods (index: 2010=100) g/	100.0	97.5	97.1	94.5	96.7	105.6	108.6	106.2	103.0
Net resource transfer (millions of dollars)	179	-302	79	1 020	201	145	-225	-244	-615
Total gross external debt (millions of dollars)	11 399	11 858	13 353	14 035	14 800	15 217	16 376	16 474	16 661
Employment	**Average annual rates**								
Labour force participation rate f/	62.5	62.7	63.2	63.6	63.6	62.8	62.1	61.9	61.3
Open unemployment rate i/	6.8	6.6	6.2	5.6	6.7	6.5	6.9	6.8	6.1
Visible underemployment rate i/	7.0	3.4	5.8	5.8	6.7	6.8	7.7	7.6	6.3
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	2.1	5.1	0.8	0.8	0.5	1.0	-0.9	2.0	0.4
Variation in industrial producer prices (December-December)	1.3	8.1	1.8	0.6	1.4	-1.3	0.2	1.1	1.8
Variation in average real wage	1.1	-2.9	0.2	0.5	0.7	2.5	1.4	1.0	0.1
Nominal deposit rate j/	2.9	1.8	2.5	3.4	3.8	4.2	4.4	4.4	4.2
Nominal lending rate k/	7.6	6.0	5.6	5.7	6.0	6.2	6.4	6.5	6.5
Central government	**Percentages of GDP**								
Total revenue	17.4	17.5	17.6	18.0	17.6	17.7	18.2	19.2	19.3
Tax revenue	15.6	15.7	16.1	17.0	16.7	16.7	17.2	17.7	18.0
Total expenditure	20.6	20.1	19.5	20.0	19.3	18.9	19.0	19.2	20.3
Current expenditure	16.9	16.6	15.8	16.6	16.2	16.0	16.1	16.6	17.3
Interest	2.7	2.5	2.5	2.6	2.6	2.7	2.8	3.1	3.4
Capital expenditure	3.7	3.5	3.7	3.3	3.1	2.9	2.9	2.7	3.0
Primary balance	-0.4	-0.1	0.6	0.7	0.9	1.5	1.9	3.0	2.3
Overall balance	-3.1	-2.6	-1.9	-2.0	-1.7	-1.2	-0.9	-0.1	-1.1
Central government public debt	49.4	47.6	50.9	49.2	49.6	49.7	49.6	48.3	47.6
Domestic	16.6	16.9	17.3	16.3	13.4	15.2	14.5	13.4	14.5
External	32.8	30.7	33.6	32.9	36.2	34.5	35.1	34.9	33.2
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	65.9	64.7	63.7	68.8	71.2	75.1	76.9	79.3	78.1
To the public sector	28.3	30.2	29.0	32.4	32.8	36.3	37.3	37.4	36.5
To the private sector	47.5	45.3	44.8	47.1	48.9	49.5	50.6	51.5	52.4
Others	-9.9	-10.8	-10.0	-10.7	-10.6	-10.7	-11.0	-9.6	-10.8
Monetary base	12.8	11.2	10.4	11.3	10.9	11.0	11.2	12.1	11.9
Money (M1)	14.3	13.7	13.1	13.2	12.9	13.9	13.0	14.7	14.6
M2	52.8	47.7	46.0	46.2	44.8	45.9	46.0	49.3	49.9

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

a/ Preliminary figures.
b/ Based on figures in local currency at constant 2014 prices.
c/ Based on values calculated in national currency and expressed in current dollars.
d/ Includes errors and omissions.
e/ A minus sign (-) indicates an increase in reserve assets.
f/ Annual average, weighted by the value of goods exports and imports.
g/ Economic Development Division, calculations for Economic Survey of Latin America and the Caribbean, 2019.
h/ Nationwide total.
i/ Urban total.
j/ Basic rate for deposits of up to 180 days.

Table 2
EL SALVADOR: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	3.6	0.8	2.1	2.8	2.9	2.9	2.2	2.2	...	...
Gross international reserves (millions of dollars)	3 615	3 697	3 745	3 665	3 765	3 804	4 008	3 808	3 935	4 293 c/
Real effective exchange rate (index: 2005=100) d/	104.7	106.4	108.2	109.0	106.0	103.8	101.7	101.2	101.5	102.3 c/
Consumer prices (12-month percentage variation)	0.5	0.9	1.6	2.0	0.9	0.9	1.4	0.4	0.7	0.8 c/
Wholesale prices (12-month percentage variation)	1.1	1.8	1.2	1.42	1.3	1.3	1.8	1.76	1.5	1.7 e/
Nominal interest rates (average annualized percentages)										
Deposit rate f/	4.5	4.4	4.4	4.4	4.3	4.2	4.2	4.2	4.3	4.2 c/
Lending rate g/	6.3	6.5	6.5	6.6	6.5	6.5	6.6	6.6	6.5	6.7 c/
Sovereign bond spread, Embi Global (basis points to end of period) h/	553	561	448	383	380	450	445	515	447	496 c/
International bond issues (millions of dollars)	951	-	-	-	-	-	-	-	-	-
Domestic credit (variation from same quarter of preceding year)	4.3	3.7	4.1	5.3	6.0	5.8	3.1	2.7	3.6	3.6 c/

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2014 prices.
c/ Figures as of May.
d/ Quarterly average, weighted by the value of goods exports and imports.
e/ Figures as of April.
f/ Basic rate for deposits of up to 180 days.
g/ Basic lending rate for up to one year.
h/ Measured by J.P.Morgan.

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