

El Salvador

The economic recovery seen during the first half of the year pointed to a growth rate of around 2% in 2011, versus 1.4% the previous year. However, this projection was revised downwards to 1.4% after tropical depression 12-E hit in October. The current account deficit and the non-financial public sector deficit are expected to stand at 4% of GDP and 3.6% of GDP, respectively.

The fiscal policy goal during 2011 was to meet the non-financial public sector deficit target equivalent to 3.6% of GDP, including pensions and trust funds, agreed with the International Monetary Fund (4.3% of GDP in 2010). In this context, fuel subsidies were granted in a concerted effort to shield the poorer segments of the population from soaring commodity prices.

A relative improvement in economic performance boosted total non-financial public sector revenue during the first nine months of the year despite temporary suspension of the specific fuel tax. The increase in real terms, however, was only 5.5% (8.8% during the same period in 2010) owing to the spike in inflation.

As a temporary measure, the government increased the subsidy for public transport operators and broadened the scope of the electricity consumption subsidy. The latter contributed to a marked 7.1% rise in current expenditure between January and September 2011, versus 2.1% over the same period in 2010. This was offset to some degree by underexecution of the investment plan, coupled with lower debt service payments. Total government spending therefore expanded by 6.1% in real terms over the first three quarters of the year.

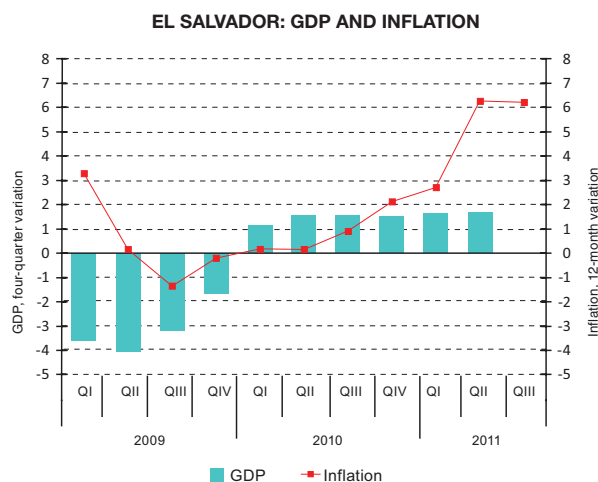
The resulting fiscal deficit has been funded primarily with external resources, in particular multilateral financing. The fiscal correction is estimated to have helped nudge down total public debt from 52.8% of GDP in 2010 to 52% of GDP in 2011.

The 2012 budget projects a non-financial public sector deficit equivalent to 2.5% of GDP—one percentage point lower than in 2011. This is based on real GDP growth of 2.5%, combined with legislative approval of measures to boost revenue by the equivalent of 0.5% of GDP. According to the Ministry of Finance, the greatest

threats to fiscal performance in 2012 are slower economic growth and delays in repealing temporary fuel subsidies.

In the financial domain, nominal deposit rates maintained the downward trend begun in 2009 and have remained stable at around 1.8% since early 2011. Borrowing rates have remained below -4% in real terms since the second quarter. This situation is one of the reasons behind the average decline of 2.8% in the monetary aggregate M2 to the third quarter, versus an average expansion of 1.8% over the same period the previous year.

Nominal lending rates fell from an average of 7.9% over the period January to September 2010, to 6.1% during the same period in 2011. Interest rates for loans of up to one year have fluctuated between 0% and -1% in real terms since May 2011. As a result, private sector lending began



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

expanding again in real terms from the third quarter of 2011 following more than two years of contraction.

Having maintained growth of around 1.5% for most of 2010, the Salvadoran economy picked up slightly during the first half of 2011 on momentum from the external sector and rising domestic demand. The rebounding construction industry and increasing government services contributed to this performance and helped offset the slowdown in the agricultural sector.

The damage and losses caused by tropical depression 12-E led to a drop of 0.7 percentage points in GDP growth in 2011. The estimated 2.9% decline in agricultural sector value added was a major factor in this slowdown. The production of basic grains was particularly hard hit, exacerbating the shortage experienced throughout the year. Given the lower production volumes, trade is expected to shrink by 0.7% of GDP, to 1.4% of GDP.

With regard to consumer prices, the targeted natural gas subsidy adopted in April 2011 triggered a sharp increase in 12-month inflation, which reached 6.8% in August.

A total of 12,500 formal jobs were created during the first half of 2011, taking the number of workers contributing to the Salvadoran Social Security Institute (ISSS) to 719,086, around 8,000 more than the peak recorded in July 2008. Having been held steady throughout 2010, the nominal minimum wage rose by 8% in 2011, yet this will barely maintain workers' purchasing power at the same level.

Assuming that Salvadoran exports continue to grow at the same pace as in 2011, more stable international commodity prices and spending on reconstruction in the aftermath of the October storms should translate into GDP growth of around 2% in 2012, with inflation projected at 3.5%.

Despite strong export growth (which benefited from international sugar and coffee prices and rising demand for garments in the United States), the external balance deteriorated, owing to higher international food and fuel prices and greater demand as consumption and public investment picked up. A current account deficit of 3.9% of GDP is forecast, as against 2.3% of GDP in 2010.

EL SALVADOR: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	-3.1	1.4	1.4
Per capita gross domestic product	-3.6	0.9	0.8
Consumer prices	-0.2	2.1	5.1 ^b
Real minimum wage	9.6	-0.9	-0.2
Money (M1)	1.2	4.2	-1.6 ^c
Real effective exchange rate ^d	-2.2	2.5	1.5 ^e
Terms of trade	3.2	-3.7	-0.9
Annual average percentages			
Open urban unemployment rate	7.1	6.8	...
Central government overall balance / GDP	-3.7	-2.7	0.4
Nominal deposit rate ^f	4.5	2.9	1.8 ^g
Nominal lending rate ^h	9.3	7.6	6.1 ^g
Millions of dollars			
Exports of goods and services	4 793	5 553	6 301
Imports of goods and services	7 991	9 258	10 642
Current account balance	-304	-488	-1 170
Capital and financial balance ⁱ	727	193	1 017
Overall balance	422	-295	-152

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

^a Preliminary estimates.

^b Twelve-month variation to November 2011.

^c Twelve-month variation to October 2011.

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

^e January to October average, year-on-year variation.

^f Basic rate for deposits of up to 180 days. Financial System.

^g January-November average.

^h Basic lending rate for up to 1 year. Financial system.

ⁱ Includes errors and omissions.

Although the employment situation for Latin American migrants in the United States has shown no significant improvement, remittance flows were up by 5.3% to September—double the growth seen in the same period the previous year. This had a positive impact on domestic demand. In contrast to 2010, when foreign direct investment totaled just US\$ 136 million, over US\$ 500 million was received during the first half of 2011. The manufacturing sector was the main recipient.

Inflation differentials between El Salvador and the United States, together with nominal appreciation of its main trading partners' currencies against the dollar, triggered real effective exchange rate appreciation of just over 1%.