El Salvador

The Economic Commission for Latin America and the Caribbean (ECLAC) calculates that the Salvadoran economy will grow by 10% in 2021, following a 7.9% contraction in 2020. This healthy rebound in economic activity, supporting a return to pre-pandemic levels, is driven by both internal and external factors. The former include progress with the national vaccination programme, business support policies and rising domestic demand, linked to remittance flows, and an increase in the minimum wage. The external factors include the recovery of tourism revenues and an uptick in goods exports.

The non-financial public sector (NFPS) fiscal deficit will close 2021 at 7.6% of GDP (against 10.1% of GDP in 2020). The balance-of-payments current account will post a deficit of 3.1% of GDP (compared to a surplus of 0.5% in 2020) on account of the significant upswing in trade. Inflation will be around 6% (against -0.1% in 2020) because of rising international prices for fossil fuels and foodstuffs. This dynamic will favour the recovery of employment, which will end up at a level very close to that of the pre-pandemic period.

On 9 June 2021, the Legislative Assembly passed Decree No. 57, the Bitcoin Act, which came into force on 7 September. With this, El Salvador is the first country in the world to adopt bitcoin as legal tender and a means of payment for any economic transaction, alongside the United States dollar.

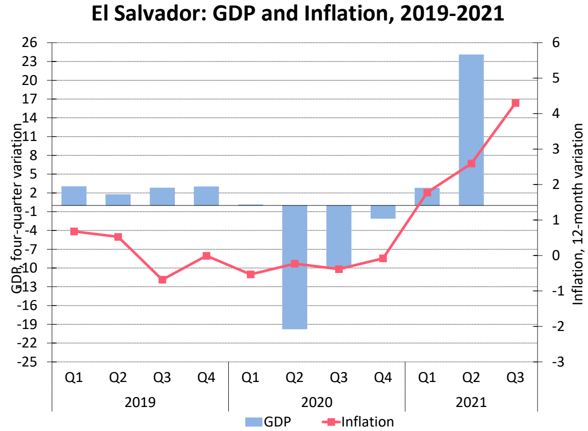
Fiscal policy in 2021 was focused on bolstering economic growth and combating tax evasion through the Anti-Evasion Plan and the Anti-Contraband Plan. These two plans have enabled the recovery of US$ 420 million and US$ 19 million, respectively, since October 2019.

Current NFPS revenue posted a real-term year-on-year growth of 23.5% in the first 11 months of 2021. This contrasts with a 5.2% drop in the prior-year period and reflects growth of 7.7% and 87.4%, respectively, in tax and non-tax revenues. There were notable increases in the collection of import levies (55.5%), value added tax (33.7%) and income tax (12.8%).

Current expenditure rose by 3.1% between January and November 2021, partly on account of the 39.6% decrease in current transfers. While interest payments fell by 9.7% (against a 93% increase in 2020), capital spending rose by 40% (compared to 21.4% in 2020).

Total NFPS debt continued to rise, from US$ 21.652 billion at the end of 2020 to US$ 23.050 billion in November 2021, but falling from 87.9% to 83.8% as a proportion of GDP over the same period thanks to the significant uptick in economic activity. El Salvador Treasury Bills (LETES), a short-term financial instrument, recorded a balance of US$ 1.309 billion in November (4.8% of GDP), a drop of US$ 99.8 million from the close of 2020. The Ministry of Finance has announced that it is continuing talks with IMF to secure a US$ 1.3 billion credit line.

El Salvador: GDP and Inflation, 2019-2021



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

The average 360-day deposit rate stood at a nominal 4.2% (0.98% in real terms) in November 2021, down from 4.4% (a real-term 4.8%) a year earlier. The average company lending rate for periods of up to one year was 6.3% (3.1% in real terms), compared to 6.7% (7.2% in real terms) in November of the previous year.

In November 2021, total lending by banks, banking cooperatives and savings and loan societies totalled US$ 15.919 billion, for a year-on-year increase of 6.9% (up from 2.9% in November 2020). The recovery was grounded on the healthy performance of the economy's main activities: the services sector grew by 15.6% and industry by 6.4%, while consumer spending, which includes credit cards, rose by 5.2%; agriculture continued to weaken, however, shrinking by 6.8%.

In September 2021, the Government of the United States renewed its Temporary Protected Status (TPS) for an additional 15 months, benefiting 400,000 Salvadorans.

El Salvador: main economic indicators, 2019-2021

	2019	2020	2021 [a]
	Annual growth rate		
Gross domestic product	2.6	-7.9	10.0
Per capita gross domestic product	2.1	-8.4	9.5
Consumer prices	0.0	-0.1	4.3 [b]
Real average wage [c]	1.0	1.0	5.2 [d]
Money (M1)	7.3	13.2	14.5 [b]
Real effective exchange rate [e]	-0.2	1.1	2.6 [d]
Terms of trade	0.3	4.3	-0.9
	Annual average percentage		
Open urban unemployment rate	6.3	6.9	...
Central government			
Overall balance / GDP	-1.6	-9.2	...
Nominal deposit rate [f]	4.3	3.9	3.9 [d]
Nominal lending rate [g]	6.6	6.6	6.4 [d]
	Millions of dollars		
Exports of goods and services	7 982	6 290	8 519
Imports of goods and services	12 453	10 816	15 121
Current account balance	-165	121	-921
Capital and financial balance [h]	1 041	-1 508	...
Overall balance	876	-1 387	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of August.
c/ Average wage declared by workers covered by social security.
d/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Basic deposit rate for up to 180 days.
g/ Basic lending rate for up to one year.
h/ Includes errors and omissions.

In the first 11 months of 2021, goods exports posted a year-on-year growth of 33.9% for a total of US$ 6.064 billion, in contrast to the 17% drop over the year-earlier period. Traditional exports increased by 0.5% and non-traditional exports by 32.9%. Maquila exports expanded by 49.3% on the back of a remarkable performance by the textile sector. Particularly noteworthy in this regard were cotton yarns (147.4%) and sweaters (71.8%); microchips, with growth of 87.1%, also played their part.

In turn, imports recorded year-on-year growth of 50.1% between January and November 2021 (against -14.3% in the prior-year period), with increases across all categories. Thus, the trade balance accumulated a deficit of US$ 7.731 billion, 65.9% higher than during those months in 2020.

Foreign direct investment inflows reached a net total of US$ 408.1 million during the first three quarters of 2021 (US$ 123.8 million more than received in the same period of 2020), partly on account of the business sector's confidence in the economic recovery and the reinvestment of profits. During the first 11 months of 2021, remittance flows totalled US$ 6.767 billion, a year-on-year increase of US$ 1.489 billion. The tourism sector earned revenues of US$ 1.100 billion between January and August, surpassing the annual target of US$ 800 million set for the whole of 2021.

GDP recorded a year-on-year growth rate of 12.5% in the first three quarters, which contrasts with the 10% slowdown over the year-earlier period. Sectors across the board expanded during this period, especially transport, mining and quarrying, and manufacturing, which posted growth rates of 20.6%, 16.1% and 15.2%, respectively. Spending also registered positive growth across all its components: private consumption was up by 15.2%, exports rose by 34.3% and, driven by the private infrastructure projects undertaken, gross fixed capital formation increased by 31.6%.

During the final months of 2021, inflation reached levels not seen for a decade. In November, year-on-year change in the consumer price index stood at 6.2%, in sharp contrast to the 0.17% drop recorded in November 2020. The sectors with the highest price increases were transport (10.7%) and fuels (8.4%). Total formal payroll employment increased by 65,755 workers (7.8%) in October 2021 compared to October 2020: the private sector added 59,013 to its workforce (9.0%), while the public sector increased its workforce by 6,742 (3.7%).

On 2 July 2021, the National Minimum Wage Council resolved to increase the minimum wage by 20%, from US$ 304 to US$ 365 a month, effective 1 August. Formal microenterprises and small and medium-sized companies will receive a government subsidy of US$ 100 million to assist with this increase until July 2022. Average workers' wages posted a nominal year-on-year growth rate of 10.6% in August 2021 (6% in real terms).

ECLAC calculates that the Salvadoran economy will grow by 3.8% in 2022, on account of strong domestic and external demand and the increased public spending on investment and social programmes in areas such as health, education and security. Inflation is expected to be around 4%, above the levels of previous years, due to the supply chain crisis and international energy prices. The public sector deficit is expected to reach 4.5% of GDP, reflecting the active anti-evasion policy and the efforts to increase tax collection efficiency, and the balance-of-payments deficit is expected to reach 4.2%, as imports expand on the back of increased economic activity.