

El Salvador

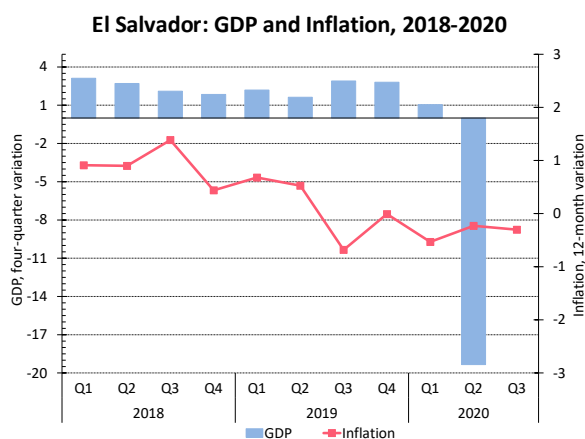
ECLAC estimates that El Salvador's GDP will contract by 8.6% in 2020 (after expanding by 2.4% in 2019), owing to the temporary cessation of economic activity in non-essential sectors of the economy because of the COVID-19 pandemic and a large drop in external demand. This would be the third-largest decline in output since 1950, after one of 11.8% in 1980 and one of 10.5% in 1981, at the beginning of the civil war. The health emergency began on 21 March and economic recovery on 16 June, with five phases of gradual opening.

The fiscal deficit of the non-financial public sector (NFPS) will represent 11.1% of GDP (as against 3.1% in 2019), owing to a decline in tax revenues, increased spending to deal with the health emergency, the support provided through social programmes and to firms, and the building of the Hospital El Salvador. The balance-of-payments current account deficit will be about 2.1% of GDP, similar to that of 2019, as the decline in exports and tourism revenues was offset by a lower oil bill and larger flows of family remittances. Inflation is estimated at 0.7% (as compared to 0.0% in 2019), while the unemployment rate will rise because of the sharp contraction in economic activity.

Fiscal policy had a countercyclical orientation in 2020. Total spending grew by 26.7% in real terms between January and October, as against 3.4% in the same period of 2019. Current spending grew by 34.1%, owing to a substantial increase in interest payments (13.7%), and current transfers by 165%, owing to the US\$ 300 subsidy provided to just over a million low-income households, the provision of food parcels, tax rebates and the payment of goods and services subsidies. Gross investment plummeted by 22.8% in real terms. The primary balance including pensions dropped from a surplus of US\$ 358.8 million in 2019 to a deficit of US\$ 1.201 billion in the same period of 2020.

NFPS revenues dropped by 5.9% year-on-year in real terms in the first 10 months of 2020 (1.2% in 2019). Tax revenues dropped by 6.2% because of declines in the receipts from income tax (2.4%), value added tax (5.9%) and the foreign trade tax (24.1%). Non-tax revenues rose by 7.6%. The deadline for declaring income tax for the 2019 financial year was extended until 30 June, without penalties, interest or surcharges. The external debt of the NFPS as of October was 86% of GDP, 16.1 percentage points above that recorded at the close of 2019. The balance of Treasury bills (LETES) in that same month was up 51.2% year-on-year.

To meet the financing needs created by the health emergency, on two occasions the Legislative Assembly approved the issuance of securities worth a total of US\$ 3 billion. In September, US\$ 645.8 million worth of Treasury certificates (CETES) were issued to support micro, small and medium-sized enterprises (MSMEs) through the Trust for the Economic Recovery of Salvadoran Businesses (FIREMPRESA), with US\$ 600 million of financing. The rest will be used to reimburse VAT on exports and pay suppliers. The Anti-Tax Evasion Plan initiated in October 2019 has raised US\$ 115 million, partially



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

offsetting the loss of revenues resulting from the decline in economic activity, estimated at about US\$ 700 million. The Fiscal Responsibility Act will be suspended for the duration of the COVID-19 pandemic.

The Standards Committee of the Central Reserve Bank waived the requirement for financial institutions to hold 3.0% of their liquid assets as reserves, releasing US\$ 500 million to increase the liquidity of the financial system and lower the cost of credit.

Lending and deposit interest rates over the different repayment terms fell slightly in the first 10 months of 2020. The nominal 30-day deposit rate fell from 3.74% (4.65% in real terms) in October 2019 to 3.36% (3.57% in real terms) in the same month of 2020, while the lending rate for periods of more than a year dropped from 9.34% (10.3% in real terms) to 9.0% (9.21% in real terms) in the same period.

The rate of growth in the portfolio of lending to the production sector slowed in the first 10 months of 2020 to 2.9% from 5.3% in the same period of 2019. Lending to the service sector, which barely shut down during confinement, grew by 11.8%, while that to industry rose by 2.9%. Lending to agriculture, which was hard hit by adverse weather conditions, fell by 0.5%.

Exports totalled US\$ 4.087 billion between January and October 2020, a contraction of 18.8% year-on-year. Non-traditional exports fell by 17.3% and maquila exports by 28.9%, while traditional exports declined by 3.5% because of falls of 3.9%, 2.7% and 97.7% in exports of sugar, coffee and shrimp, respectively. Trade with the United States contracted by 25.4% and exports to Honduras and Guatemala by 21.2% and 13.1%, respectively.

Cumulative imports totalled US\$ 8.514 billion in the first 10 months of the year, a year-on-year decline of 15.7%. Although all components suffered, the worst affected were intermediate goods and maquila, with declines of 21.4% and 32.3%, respectively. The oil bill fell by 37.8%.

Family remittance flows totalled US\$ 4.76 billion in the first 10 months of 2020, a year-on-year increase of 2.6%. The balance-of-payments current account deficit was US\$ 190 million in the first half of the year, US\$ 113 million less than in the same period of 2019. Net inward foreign direct investment totalled US\$ 346.6 million, 7% less than in the same period of 2019.

GDP fell by 9.3% year-on-year in the first half of 2020, with a rise of 1% in the first quarter and a sharp contraction of 19.3% in the second. With the exception of essential activities, there were large declines in all sectors, including accommodation activities (29.1%), professional activities (21.1%), manufacturing industry (17.8%) and construction (17.6%). There were four tropical storms during the

El Salvador: main economic indicators, 2017-2020

	2018	2019	2020 ^a
	Annual growth rate		
Gross domestic product	2.4	2.4	-8.6
Per capita gross domestic product	1.9	1.9	-9.1
Consumer prices	0.4	0.0	-0.3 ^b
Real average wage ^c	1.0	1.0	1.0 ^d
Money (M1)	5.8	7.2	10.0 ^e
Real effective exchange rate ^f	0.5	-0.2	0.8 ^d
Terms of trade	-4.6	-1.0	1.0
	Annual average percentage		
Open urban unemployment rate	6.3	6.3	...
Central government			
Overall balance / GDP	-1.1	-1.6	...
Nominal deposit rate ^g	4.2	4.3	4.2 ^d
Nominal lending rate ^h	6.5	6.6	6.8 ^d
	Millions of dollars		
Exports of goods and services	7 517	7 983	2 831 ⁱ
Imports of goods and services	12 639	12 873	5 198 ⁱ
Current account balance	-1 226	-558	-190 ⁱ
Capital and financial balance ^j	1 228	1 434	-824 ⁱ
Overall balance	2	876	-1 014 ⁱ

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

a/ Estimates.

b/ Twelve-month variation to August 2020.

c/ Average wage declared by workers covered by social security.

d/ Figures as of September.

e/ Figures as of August.

f/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

g/ Basic deposit rate for up to 180 days.

h/ Basic lending rate for up to one year.

i/ Cumulative figures to the second quarter of 2020.

j/ Includes errors and omissions.

health crisis, Amanda, Cristóbal, Eta and Iota, which affected the grain, vegetable and coffee crops and caused damage to infrastructure.

Consumer prices were down 0.2% year-on-year in October 2020. Price behavior varied considerably by component: while prices fell by 1.9% and 5.0%, respectively, in the accommodation and water category and the transport category, they increased for food and non-alcoholic beverages (0.7%) and for alcoholic beverages (2.2%). According to data from the Salvadoran Social Security Institute (ISSS), the average number of workers contributing to the system was down by 26,840 in September 2020, a year-on-year decline of 3.1%. The average nominal wage of contributing workers fell by 1.1% (0.7% in real terms) between January and September as pay fell in the context of the severe economic crisis.

ECLAC estimates that the Salvadoran economy will grow by 3.5% in 2021, driven by higher public and private investment, private sector consumption and the external sector. Inflation will be around 1%. The fiscal deficit including pensions will close the year at about 9% of GDP because of interest payments and higher public spending, including a social component exceeding US\$ 3 billion for health care, education and security, and public investment projects to deal with the damage caused by the tropical storms. The balance-of-payments current account deficit is expected to be 2.3%, in a context of sluggish international trade. Legislative elections will be held in February.