

## EL SALVADOR

### 1. General trends

The economy of El Salvador grew by 2.6% in 2022, following the previous year's 11.2% expansion. This sharp slowdown is explained mainly by the dissipation of the statistical effect of the 2021 comparison base, compounded by a complex global economic environment which has slowed the growth of commercial transactions. Factors that boosted economic activity included household consumption, stimulated by family remittances; increased private investment linked to nearshoring and growth in tourism revenues. With the prices of imported raw materials rising, the balance of payments posted a current account deficit equivalent to 6.6% of GDP, 2.3 percentage points higher than in 2021.

The non-financial public sector deficit represented 1.7% of GDP in 2022, down from 4.6% a year earlier, owing to steps taken to curb spending. Inflation ended the year at 7.3%, 1.2 percentage points higher than at end-2021. To alleviate price pressures, the government adopted various counter-inflationary measures, such as fuel subsidies. The uptick in economic activity fostered greater formal job creation, with the Salvadoran Social Security Institute reporting a 5.8% increase in the number of new hires (8.0% in 2021).

The Economic Commission for Latin America and the Caribbean (ECLAC) expects El Salvador's economy to grow by just 2.1% in 2023, owing to the slowdown in the economy of the United States, its main trading partner. Domestically, growth will likely be driven by increased investment. Efforts to control public spending will continue, so the non-financial public sector deficit is forecast at around 1.5% of GDP. Owing to lower commodity prices and the recovery of the terms of trade, the Central Reserve Bank is projecting a balance-of-payments current account deficit of between 4.0% and 4.5% of GDP. This softening of international prices will make it possible for inflation to end 2023 at between 3.5% and 4.5%. For 2024, ECLAC forecasts economic growth of 1.8% in real terms.

### 1. General trends

#### (a) Fiscal policy

In March 2022, the Government of El Salvador approved 11 fiscal measures to counteract the adverse effects of the generalized increase in prices. These included a temporary cut in value added tax levied on fuels. The Ministry of Finance continued the anti-evasion and anti-smuggling plan to strengthen tax revenues. A tax amnesty was also put into effect for 67 days ending 1 November 2022, which produced a revenue intake of US\$ 131.3 million, US\$ 106 million more than initially forecast. The primary balance, including pensions, posted a surplus of US\$ 631.1 million (equivalent to 3.0% of GDP).

In 2022, public income and grants registered real growth of 3.4% (19.3% in 2021). Tax revenues expanded by 3.7%, driven particularly by income tax (15.6%), owing to inspection strategies, and by import taxes (2.1%), while revenue from value added tax (VAT) dropped by 0.9%, owing to discounts implemented to reduce and stabilize fuel prices. The tax burden represented 19.7% of GDP, similar to the 2021 level.

Total non-financial public sector expenditure declined by 6.7% in real terms in 2022 (25.9% of GDP). This contrasts with growth rates of 2.2% in 2021 (29.3% of GDP) and 20.9% in 2020 (32.4% of GDP), and thus concludes the expansionary policy cycle launched to address the 2020 health emergency caused by the coronavirus disease (COVID-19) pandemic. The reduction was driven by capital expenditure (down by 18.5%), in particular gross investment (which decreased by 29.5%). The real reduction in current expenditure, of 5.2%, is explained by smaller current transfers (which declined by 20.0%) and public consumption (down by 3.5%). The liquefied gas subsidy, introduced to stabilize fuel prices, amounted to US\$ 45.8 million. Interest payments grew by 6.7% in real terms, to represent 4.6% of GDP.

Total non-financial public sector debt, including pensions, ended 2022 at US\$ 25.35 billion, equivalent to 78.0% of GDP and 4.7 percentage points less than a year earlier. Meanwhile, treasury bills and treasury certificates, which are the short-term domestic debt instruments contracted with national banks, totalled US\$ 2.657 billion (8.2% of GDP).

In the first four months of 2023, El Salvador's public finances faced a scenario of weaker economic activity. Total non-financial public sector income fell by 6.8% in real terms, particularly because of the reduction in tax revenues (10.3%), which was partially offset by the growth of non-tax income (13.5%). In the midst of an austerity policy, expenditures contracted by 5.0%, aided by a 28.6% reduction in interest payments. In April 2023, total non-financial public sector debt stood at US\$ 19.588 billion compared to US\$ 25.709 billion in March. This difference of more than US\$ 6 billion is explained by the new pension reform introduced in April 2023, for which the government's contingent liability will be capitalized over a four-year period.

In January 2023, the government completed a successful buyback of eurobonds maturing in 2023 and 2025 by issuing two invitations to bondholders. The first of these took place on 12 September and the second on 29 November 2022, causing a further narrowing of Emerging Markets Bond Index (EMBI) spreads. The buybacks allowed the government to save a total of US\$ 275.30 million, including interest. To finance this operation, in August 2022 the Legislative Assembly had agreed that the central bank would transfer to the Ministry of Finance the US\$ 360 million of Special Drawing Rights (SDRs) that the IMF had allocated to the country in 2021, together with facilities from other international financial organizations, including a US\$ 200 million loan from the Central American Bank for Economic Integration (CABEI). For 2023, new austerity and public spending containment measures have been implemented (mainly affecting current expenditure), which is why the current budget law has frozen wage increases and new hirings. Progress also continues to be made in implementing administrative measures, such as electronic invoicing. This fiscal scenario led to Fitch Ratings lifting the country's sovereign debt rating by three notches, from CC to CCC+.

## **(b) Financial and exchange-rate policy**

In the absence of a monetary policy implemented by the central bank owing to the dollarization of the economy since 2001, the interest rate is determined mainly by controlling liquidity in the financial system.

The weighted average interest rate of the banking system for 30-day deposits stood at 3.5% at end-December 2022 (-3.5% in real terms), slightly above the previous year's 3.3% (-2.6% in real terms). The nominal interest rate on loans with maturities longer than one year rose; in particular, the rate on corporate loans was 9.2% until December 2022 (1.7% in real terms), compared to 7.3% in 2021 (1.1% in real terms). The rising levels of deposits in the financial system, with year-on-year growth rates of 4.0% in their different maturities, have alleviated some, but not all, of the upward pressure on interest rates.

In 2022, credit granted in the financial system by commercial banks, saving and loan companies and cooperative banks increased for all productive sectors. In particular, credit for construction expanded by 29.4%, while lending to the service sector increased by 15.1% and consumer credit grew by 14.8%.

The central bank has adopted a series of measures to digitalize and boost the economy, by modernizing the financial system's electronic payment and transfer systems through different modalities. These include the design and operation of the Transfer365 Mobile and Transfer Business systems, to streamline interbank digital payments. In addition, on 15 November 2022, the National Office of Statistics and Censuses (ONEC), which is part of the central bank, was inaugurated, taking over the functions of the General Directorate of Statistics and Census (DIGESTYC).

In August 2023, interest rates were trending up at all maturities. The 30-day deposit rate rose to 4.4%, one percentage point higher than in the same month of 2022, while the one-year lending rate was up by 1.4 percentage points at 7.8%. Despite market liquidity and a funding structure based on deposit-taking, it has been impossible to restrict the rise of interest rates completely. In the seventh month of 2023, the loan portfolio had grown by 7.0% year-on-year (10.2% in July 2022), with lending to the trade, restaurants and hotels sector increasing by 12.2%, and credit for construction up by 6.7%. The sectors in which financing was weakest were transport and communications (down by 6.0%) and credit cards (down by 2.2%).

### (c) Other policies

After the Ministry of Economy submitted a legal bill in April 2023, the Legislative Assembly adopted the Promotion of Innovation and Technological Manufacturing Act, which aims to foster the development of advanced technological manufacturing. The law grants tax incentives for 15 years to natural or legal persons, domestic or foreign, whether small, medium or large firms, that undertake new investments in national territory and generate innovation or technological manufacturing projects.

## 3. The main variables

### (a) The external sector

In 2022, goods exports totalled US\$ 7.115 billion (equivalent to 21.9% of GDP), representing annual growth of 11.3%. This was less than the previous year's 33.1% expansion, owing to the slowdown in world trade. Traditional exports increased by 24.1%, driven by coffee sales (up by 59.3%), while non-traditional exports grew by 10.3% and maquila by 11.9%. Textile exports displayed significant momentum, with foreign sales of sweaters and knitted T-shirts both increasing (by 23.6% and 10.4%, respectively). Salvadoran exports continued to be absorbed mainly by other Central American countries (47% of the total), with Guatemala accounting for 17.1% and Honduras 16.6%. The United States received 38.8% of El Salvador's total exports.

In 2022, imports totalled US\$ 17.108 billion (equivalent to 52.7% of GDP), representing year-on-year growth of 17.0% (47.8% in 2021). Intermediate and consumer goods expanded at double-digit rates of 25.2% and 16.1%, respectively, while capital goods imports grew by just 1.2%. The oil bill accounted for 15.6% of total imports, ending 2022 with a total of US\$ 2.673 billion, 48.0% more than in 2021. The goods trade account posted a deficit of US\$ 9.993 billion, equivalent to 30.8% of GDP.

The larger current account deficit is explained mainly by the deterioration in the terms of trade and higher import prices. The goods and services and primary income accounts jointly reported a deficit, which was partially offset by a secondary income surplus of US\$ 7.662 billion. Net foreign direct investment

inflows were negative to the extent of US\$ 99.1 million in 2022, following a positive balance of US\$ 314.5 million in 2021. The difference is explained by profit repatriation.

Foreign-exchange earnings from tourism in 2022 exceeded US\$ 2.646 billion (8.1% of GDP), recording 50% growth relative to the level in 2019 (before the COVID-19 pandemic); and the number of visitors represented 96% of those received before the pandemic.

Family remittances totalled US\$ 7.819 billion in 2022, representing annual growth of 3.2%, and were equivalent to 24.1% of GDP. Of this total, 1.6% or US\$ 126.7 million was sent in the form of cryptocurrencies.

From January to August 2023, remittances totalled US\$ 5.386 billion, up by 5.3% year-on-year. The value of exports up to the eighth month of the year was US\$ 4.548 billion, 8.3% lower than in the year-earlier period as the adverse effects of the economic slowdown in El Salvador's main trading partners made themselves felt. Total imports fell by 10.2%, with intermediate goods recording a decrease of 18.2% while maquila retreated by 19.1%. The trade deficit amounted to US\$ 5.878 billion.

#### **(b) Economic activity**

Most economic activities enjoyed positive growth in 2022. Electricity supply increased by 14.5%, owing to the diversification of the energy mix and an increase in hydropower generation. Professional activities and the construction industry also expanded significantly (by 9.5% and 8.3%, respectively). By contrast, agriculture recorded negligible growth of just 0.6%, while the manufacturing industry and mining and quarrying were the only sectors to report contractions (of 0.6% and 13.9%, respectively). In particular, the reduction in mining activity was the result of adverse weather conditions that delayed the production cycle.

On the expenditure side, all components expanded in 2022, except for public expenditure. Exports of goods and services were the main driver of economic growth, with an increase of 10.2%, while private consumption and gross capital formation expanded by 2.6% each. Public consumption retreated by 1.5%, owing partly to the demanding base of comparison resulting from the exceptional expenditures incurred in 2021 to address the pandemic. These included vaccine procurement, which was not repeated in 2022. Imports of goods and services expanded by 1.2%.

In the first quarter of 2023, GDP posted year-on-year growth of 0.8%. The volume index of economic activity (IVAE), in its original series, recorded year-on-year growth of 4.8% up to June 2023. Of its nine constituent sectors, two showed a decline, the most substantial being information and communications, while the construction industry has become the key driver of the economy in these initial months of the year, with double-digit growth (29.9%), and industrial output expanded by 3.4%.

#### **(c) Prices, wages and employment**

Inflation ended 2022 at 7.3% (6.1% in 2021), the highest annual rate of the last 12 years, having peaked at 7.8% in June. Food and beverages experienced the steepest price hikes, averaging 12.2%, followed by furniture and household items (8.3%) and restaurants and hotels (8.10%).

At the end of 2022, the number of workers reported as affiliated to the Salvadoran Social Security Institute totalled 968,245, representing an increase of 5.8% on the previous year's figure. Employment grew by 4.5% in the public sector, and by 6.1% in the private sector where the construction industry generated

6,926 jobs, an increase of 30%. In 2022, the national unemployment rate was 5.0%, slightly higher among women (5.2%) than among men (5.0%). In December 2022, the Legislative Assembly passed the new Comprehensive Pension System Act, creating the Salvadoran Pension Institute and the special Act for the issuance of pension obligation certificates. Then, on 30 April 2023, the deadline for liquidating the Pension Liabilities Trust Fund that had been operating until then expired. Among many other issues, it was agreed to raise the minimum pension by 30% from US\$ 304 to US\$ 400, and to establish a maximum pension of US\$ 3,000. The nominal minimum wage grew by 5.2%, which was equivalent to a reduction of 1.8% in real terms.

In August 2023, the year-on-year variation in the consumer price index was 3.1%, with restaurants and hotels recording the highest price increase (6.5%), along with food and beverages (6.1%). By contrast, prices in the telecommunications sector fell by 2.0%. Application of the temporary Act for the stabilization of liquefied petroleum gas prices, which the Legislative Assembly had approved and implemented in September 2021, expired on 31 May 2023.

The total number of payroll workers registered in March 2023 was 970,357, a year-on-year increase of 4.3%, with the private sector workforce expanding by 4.7% and that of the public sector growing by 2.4%.

Table 1  
EL SALVADOR: MAIN ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	1.7	2.4	2.5	2.3	2.4	2.4	-7.8	11.2	2.6
Per capita gross domestic product	1.3	2.0	2.2	2.0	2.3	2.3	-8.0	10.8	2.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.9	-5.5	8.4	0.7	-2.7	1.0	-4.3	4.0	0.6
Mining and quarrying	-4.2	-5.4	3.9	1.2	5.4	4.9	-10.3	11.8	-13.9
Manufacturing	2.6	3.0	1.4	1.2	0.5	2.0	-13.9	14.3	-0.6
Electricity, gas and water	3.9	-0.9	-0.9	2.1	-2.5	...	...	3.3	11.5
Construction	-1.6	-0.5	2.9	5.6	7.1	9.2	-17.8	7.0	8.3
Wholesale and retail commerce, restaurants and hotels	3.7	1.0	1.1	1.5	4.6	2.5	-14.5	15.7	2.6
Transport, storage and communications	-4.1	8.3	8.3	1.8	0.9	3.2	-9.3	12.3	4.8
Financial institutions, insurance, real estate and business services	4.2	2.7	3.7	2.8	4.5	2.4	-1.9	8.5	3.3
Community, social and personal services	-1.0	3.0	1.5	1.8	1.8	0.3	0.0	0.0	0.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	-0.3	2.8	1.6	1.3	1.4	1.5	-5.2	14.3	1.9
Government consumption	-1.1	2.1	-1.0	0.1	1.6	0.5	8.7	7.2	-1.4
Private consumption	-0.2	3.0	2.0	1.7	3.1	1.8	-7.9	16.9	2.6
Gross capital formation	-1.2	4.8	4.5	3.2	10.4	2.6	-12.0	9.8	-7.6
Exports (goods and services)	3.2	3.3	0.2	3.4	1.6	8.5	-24.6	29.4	10.2
Imports (goods and services)	-2.5	4.7	-0.6	1.4	2.6	4.2	-14.8	28.8	1.2
Investment and saving c/	<b>Percentages of GDP</b>								
Gross capital formation	16.4	16.0	16.0	16.7	18.4	18.3	17.1	20.6	20.0
National saving	11.0	12.8	13.7	14.8	15.1	17.9	18.7	16.3	13.4
External saving	5.4	3.2	2.3	1.9	3.3	0.4	-1.6	4.3	6.6
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-1 214	-754	-550	-465	-859	-113	403	-1 272	-2 146
Goods balance	-5 287	-4 970	-4 654	-4 845	-5 640	-5 709	-5 025	-8 009	-9 569
Exports, f.o.b.	4 294	4 437	4 322	4 667	4 736	4 748	3 920	5 151	5 723
Imports, f.o.b.	9 581	9 407	8 976	9 512	10 376	10 457	8 945	13 160	15 292
Services trade balance	868	959	808	733	882	1 297	701	881	1 628
Income balance	-1 035	-1 092	-1 246	-1 388	-1 470	-1 341	-1 258	-1 566	-1 867
Net current transfers	4 240	4 349	4 542	5 035	5 369	5 640	5 985	7 422	7 662
Capital and financial balance d/	1 181	867	1 002	773	861	989	-1 790	1 631	1 444
Net foreign direct investment	306	396	348	889	826	636	272	308	-101
Other capital movements	874	470	654	-116	35	354	-2 062	1 322	1 545
Overall balance	-33	113	452	308	2	876	-1 387	359	-702
Variation in reserve assets e/	33	-113	-452	-308	-2	-876	1 387	-359	702

Table 1 (concluded)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2015=100) c/	101.8	100.0	99.1	99.6	99.9	100.7	100.6	101.8	100.6
Terms of trade for goods (index: 2018=100) f/	91.9	102.7	106.9	104.1	100.0	102.5	107.3	97.9	94.1
Net resource transfer (millions of dollars)	201	145	-225	-244	-615	-609	-352	-3 048	65
Total gross external debt (millions of dollars)	14 800	15 217	16 376	16 474	16 603	17 350	18 731	20 345	20 539
<b>Employment g/</b>									
	<b>Average annual rates</b>								
Labour force participation rate	62.8	62.1	62.2	61.9	61.3	62.2	61.4	61.4	...
Unemployment rate	7.0	7.0	7.1	7.0	6.3	6.3	6.9	6.3	5.0
Visible underemployment rate	6.0	6.0	6.8	6.8	5.7	6.3	6.1	6.2	6.4
<b>Prices</b>									
	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	0.5	1.0	-0.9	2.0	0.4	0.0	-0.1	6.1	7.3
Variation in industrial producer prices (December-December)	1.4	-1.3	0.2	1.4	1.8	-0.1	0.5	4.8	5.5
Variation in average real wage	...	...	...	3.1	0.6	1.3	-0.1	4.5	-1.7
Nominal deposit rate h/	3.9	4.4	4.5	4.6	4.4	4.3	4.2	4.1	4.5
Nominal lending rate i/	5.7	5.9	6.1	6.3	6.4	6.6	6.6	6.2	6.3
<b>Central government</b>									
	<b>Percentages of GDP</b>								
Total revenue	17.6	17.7	18.1	19.1	19.3	19.1	19.6	20.5	20.5
Tax revenue	16.7	16.7	17.2	17.6	18.0	17.7	18.2	19.6	19.7
Total expenditure	19.3	18.9	19.0	19.2	20.4	20.7	28.7	25.3	22.3
Current expenditure	16.2	16.0	16.1	16.5	17.3	17.6	23.6	21.6	20.2
Interest	2.6	2.7	2.8	3.1	3.4	3.5	4.1	4.2	4.2
Capital expenditure	3.1	2.9	2.9	2.7	3.0	3.1	3.2	3.7	2.1
Primary balance	0.9	1.5	1.9	3.0	2.3	1.8	-5.0	-0.6	2.4
Overall balance	-1.7	-1.2	-0.9	-0.1	-1.1	-1.6	-9.1	-4.8	-1.8
<b>Central government public debt</b>									
Domestic	49.6	49.7	49.6	48.2	47.6	48.8	62.4	57.6	54.0
Domestic	13.4	15.2	14.5	13.4	14.5	14.4	21.0	20.0	20.9
External	36.2	34.5	35.1	34.8	33.2	34.4	41.4	37.6	33.1
<b>Money and credit</b>									
	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	71.5	75.7	77.3	80.8	83.2	87.0	100.0	91.6	91.7
To the public sector	32.9	36.3	37.3	38.4	40.1	41.4	50.4	46.3	45.4
To the private sector	53.3	54.1	55.1	56.0	57.3	59.1	65.3	60.3	61.4
Others	-14.6	-14.8	-15.0	-13.6	-14.2	-13.5	-15.7	-15.0	-15.2
<b>Monetary base</b>									
Money (M1)	10.9	11.0	11.2	12.0	11.9	13.6	9.6	9.1	6.5
Money (M1)	12.9	13.9	13.0	14.7	14.7	15.8	20.0	17.4	15.4
M2	45.1	46.4	46.5	49.8	50.7	54.7	65.8	57.1	54.3

**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/ Nationwide total.

h/ Basic rate for deposits of up to 180 days.

i/ Basic lending rate for up to one year.

Table 2  
EL SALVADOR: MAIN QUARTERLY INDICATORS

	2021				2022				2023	
	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/	3.3	27.3	11.3	5.8	4.5	2.5	2.2	1.2	...	...
Gross international reserves (millions of dollars)	2 683	2 839	3 312	3 455	3 746	3 980	3 818	2 942	3 331	3 005 c/
Real effective exchange rate (index: 2005=100) d/	102.3	102.1	101.7	101.4	101.2	101.2	100.3	99.0	99.4	...
Consumer prices (12-month percentage variation)	1.8	2.6	5.0	6.1	6.7	7.8	7.5	7.3	6.1	3.8
Wholesale prices (12-month percentage variation)	1.3	2.8	4.0	4.82	5.7	5.7	5.8	5.47	4.6	4.0 e/
Nominal interest rates (average annualized percentages)										
Deposit rate f/	4.0	3.9	4.0	4.4	4.4	4.4	4.6	4.8	5.0	5.2
Lending rate g/	6.1	6.2	6.3	6.2	6.1	6.1	6.4	6.8	7.1	7.3 e/
Sovereign bond spread, Embi Global (basis points to end of period) h/	595	721	1052	1491	1774	2704	2256	1839	1521	1096
International bond issues (millions of dollars)	-	-	-	-	-	-	-	-	-	-
Domestic credit (variation from same quarter of preceding year)	7.4	7.0	9.5	10.4	7.7	7.9	9.9	9.4	11.6	9.8

**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 April.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Figures as of May.

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.