

## EL SALVADOR

### 1. General trends

The economy of El Salvador enjoyed a significant economic recovery in 2021: it recorded a growth rate of 10.3% after contracting by 8.2% in 2020, taking it back above its pre-pandemic levels. The domestic factors behind this expansion included the recovery of employment, progress with inoculation programmes, the increase in the minimum wage—which boosted domestic consumption—and the rebound in the tourism sector. On the external front, a fundamental role was played by the increase in family remittance flows and in the demand for manufactured export goods, driven by the dynamism of global trade. After posting a surplus of 0.8% in 2020, the balance-of-payments current account recorded a deficit of 5.1% of GDP, as imports grew more rapidly than exports. Thanks to the reactivation of economic activity, which boosted tax collection levels, the non-financial public sector (NFPS) fiscal deficit closed the year at 4.6% of GDP, against 9.0% in 2020. As a result of rising international fuel and raw material prices, year-on-year inflation—which in the last three years had stood at almost zero—closed 2021 with an increase of 6.1% after a drop of 0.1% between December 2019 and December 2020. According to statistics from the Salvadoran Social Security Institute (ISSS), the number of people employed in the formal sector rose by 8.0% in year-on-year terms, with recoveries in practically all sectors.

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that El Salvador's GDP will grow by 2.5% in 2022. This estimate has been adjusted downward in recent weeks on account of factors associated with higher global inflation rates and slower growth in the United States, the country's main trading partner. The Ministry of Finance estimates that the NFPS deficit will reach 5% of GDP, as a result of increased tax revenues and more efficient spending, although increasingly high interest payments will offset those improvements. The Central Reserve Bank forecasts that the balance-of-payments current account deficit will reach 6.1% of GDP on account of more moderate growth in exports and the higher cost of the oil bill. Inflation will be around 7%, mainly owing to the increase in the international price of oil and other commodities.

### 2. Economic policy

#### (a) Fiscal policy

To cushion the impact of international oil price fluctuations, in September 2021 the Legislative Assembly passed the Transitional Act for the Stabilization of Liquefied Petroleum Gas (LPG) Prices, and a subsidy benefiting 1.6 million households was granted. In the same vein, and to address price increases arising from the conflict between the Russian Federation and Ukraine, the government announced a package of 11 economic measures in March 2022. The measures include suspending payments of the economic development stabilization fund tax (FEFE) and the special transportation tax (CONTRANS). The tax holidays, which were initially planned for three months and later extended to six months, carry a fiscal cost of approximately US\$ 150 million, which will be offset by adjusting public spending and seeking current spending efficiencies. The Ministry of Finance estimates that the fiscal cost of the entire package of measures to address rising prices will be around US\$ 400 million (5.0% of total revenues in the current budget proposal) up to 31 August 2022, its planned conclusion date. In addition, on 13 March 2022, the Special Transitory Act to Combat Basic Product Price Inflation was adopted, which exempts 20 basic consumer goods from import duties for one year.

The government has made efforts to increase public resources through its anti-evasion and anti-smuggling plans, which have raised approximately US\$ 675 million since October 2019. In addition, in order to facilitate compliance with tax obligations, the Special Transitory Act was adopted between October and December 2021 to enable taxpayers to put their tax situations in order free of fines or arrears interest payments; this secured revenues of some US\$ 125 million.

Compared to the 5.8% drop observed in 2020, total NFPS revenues and donations rose by 19.3% in real terms in 2021, as a result of an increase of 22.7% in tax revenues and 22.6% in non-tax revenues. On the back of the economic recovery, import levies were up by 50.3%, value added tax (VAT) collections by 31.7% and revenue from income tax (ISR) by 13.0%. This resulted in a tax burden equivalent to 21.0% of GDP, compared to 18.5% in 2020.

Total NFPS spending grew by a real-term 2.2% in 2021—well below the 20.9% increase observed in 2020—and accounted for 29.3% of GDP. Spending was allocated primarily to capital expenditures (38.5%), interest payments (16.5%) and public consumption (5.5%). A large part of the resources spent went to the education sector, to pay wages and to hire new personnel in the main government sectors, such as health and defence.

Thanks to the significant rebound in economic activity, NFPS debt amounted to US\$ 17.454 billion in 2021, 62.6% of GDP and 2.7 percentage points below the result at the close of 2020. Domestic debt stood at 22.4% of GDP, compared to 8.0% in 2020. Including pensions, NFPS debt stood at 83.5% of GDP, 4.4 percentage points down from the end of 2020.

Over the first half of 2022, there was 10% real year-on-year growth in total revenue, the result of the economic stimulus policy and the stepped-up anti-evasion strategy. Net tax revenues grew by 10.5%, mainly thanks to increases of 22.5% in income tax, 7.6% in VAT, and 7.6% in import levies. With public finances fragile, total spending fell by 2.7%. Gross investment was the most affected, with a drop of 4.4%; by contrast, the only item that expanded was interest payments, which rose by 3.4%. In June, NFPS debt was equal to 77.2% of GDP, 3.8 percentage points below the value recorded at year-end 2021.

Standard & Poor's, Moody's and Fitch Ratings downgraded El Salvador's sovereign risk rating, citing the lack of an official announcement of a financing strategy for addressing the country's fiscal shortfall and debt commitments. The Ministry of Finance continued its talks with the International Monetary Fund (IMF) to obtain a US\$ 1.3 billion loan.

On 1 February 2022, the Legislative Assembly adopted the decree ratifying the Agreement on Immunities and Privileges between the Andean Development Corporation (CAF) and the Republic of El Salvador. The benefits include access to new sources of financing to further boost economic growth and development.

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

Since the economy has been dollarized since 2001, the Central Reserve Bank of El Salvador does not pursue monetary policy as such; therefore, one way to determine the interest rate is through the liquidity levels in the financial system. Interest rates over different terms behaved differently in 2021, although there was a slight uptrend broadly speaking.

The weighted average bank interest rate and repo yield rate for 30-day deposits stood at 3.3% at the end of December 2021 (-2.6% in real terms), slightly higher than the 3.2% rate recorded in 2020 (a real-

term 3.3%). Meanwhile, the nominal interest rate for loans with a term of more than one year rose slightly: for example, the corporate lending rate was 7.3% in 2021 (a real-term 1.1%), compared to 6.9% in 2020 (a real-term 7.1%).

Liquidity in the financial system encouraged a year-on-year increase of 6.8% in the credit granted by cooperative banks and savings and loan societies (SACs) in 2021, compared to a rise of 1.47% in 2020. Credit evolved differently from one sector to the next: while loans to the services, commercial and consumer sectors rebounded by 12.4%, 5.3% and 5.2%, respectively, agricultural and construction credit volumes fell by 6.1% and 3.9%.

The central bank made important improvements through the Transfer365 system to facilitate payments and money transfers and modernize the payment system. The central bank's policy committee approved technical standards to gradually reverse the special measures adopted during the pandemic to sustain liquidity and provide debt relief to households and businesses.

In June 2022, interest rates evolved along different lines. For example, while the 30-day deposit rate stood at 3.3% (0.4 percentage points above the June 2021 figure), the maximum one-year lending rate fell marginally by 0.16 percentage points to 6.2%. In June 2022, the balance of loans for economic purposes showed a slight recovery, with a growth rate of 9.6% compared to 2.4% in 2021. The sectors most favoured were services (17.1%), industry (9.2%), commerce, restaurants and hotels (13.1%) and construction (7.9%). In contrast, there were reductions of 8.6% in the agricultural sector and of 3.6% in the transport sector.

Since the implementation of the Bitcoin Act, whereby the country recognized bitcoin as legal tender in September 2021, President Bukele has announced the purchase of 2,301 cryptoassets worth approximately US\$ 103.8 million, equivalent to 1.5% of 2021 total fiscal revenues or 2.9% of the international reserve balance at the end of May 2022. At the time of writing (June 2022), the updated value of that investment was US\$ 45 million, due to the 56% plunge in the price of the cryptocurrency over the first six months of 2022. Against that backdrop, and in view of the complex situation within the stock market, the Ministry of Finance has delayed the issue a sovereign bitcoin bond worth US\$ 1 billion, which President Bukele had announced in November 2021 to finance the construction of the Bitcoin City project.

### **(c) Other policies**

To continue driving the economic recovery, in 2021 several amendments were made to the Trust Fund for the Economic Recovery of Salvadoran Businesses (FIREMPRESA), with the aim of expanding its beneficiaries among micro, small and medium-sized enterprises. Similarly, in order to bolster the productive apparatus, in early 2022 the government presented the “Ten Economic Impulses” plan to encourage investments in public works (mainly in road infrastructure), boost tourism, attract more investment and address high inflation levels.

## **3. The main variables**

### **(a) The external sector**

Foreign trade saw a remarkable recovery in 2021 after its slump in 2020. Goods exports totalled US\$ 6.629 billion (equal to 23.1% of GDP) with an unprecedented growth rate of 31.8%, contrasting with the 14.8% drop recorded in 2020. In addition to the recovery of world trade, exports were boosted by the launch of a single-window system to streamline and simplify procedures. Traditional exports grew by 9.5%, bolstered by sales of coffee, sugar and shrimp. Non-traditional exports increased by 31.5%, while the

maquila sector expanded by 40.8%. Among the products exported, a strong performance was posted by the textile sector, including cotton yarn (123.6%) and electrical capacitors (73.5%). In terms of trading partners, exports within the subregion were at the forefront, accounting for 47.2% of the total; Guatemala and Honduras, which respectively account for 17.3% and 16.4% of exports, are El Salvador's main trading partners. Shipments to the United States accounted for 39.4% of the total.

In 2021, goods imports amounted to US\$ 15.076 billion (52.5% of GDP), for an annual growth rate of 47.1%. Double-digit growth rates were seen across the board, including intermediate goods (57.0%), capital goods (52.8%) and the maquila sector (47%). The oil bill closed the year at US\$ 1.830 billion (6.4% of GDP), for an annual increase of 93%. As a result, the balance of trade in goods posted a deficit of US\$ 8.447 billion, equal to 29.4% of GDP.

With a remarkable annual growth rate of 26.8%, family remittances flows recorded a record high and totalled US\$ 7.517 billion in 2021: the equivalent of 26.2% of GDP, up from 24.1% in 2020. This robust increase was mainly on account of the economic upturn in the United States and cash transfers from family members residing in that country. Remittance transfers through digital cryptocurrency wallets accounted for 0.8% of the total.

In 2021, net foreign direct investment (FDI) totalled US\$ 313.4 million, US\$ 32.8 million more than in 2020 but US\$ 322.4 million less than the 2019 figure.

The Ministry of Tourism reported that the recovery of the tourist sector is continuing thanks, among other factors, to the promotion of the Surf City project and the attractiveness of the bitcoin cryptocurrency. Tourism revenues, while still below the US\$ 1.777 billion recorded in 2019, amounted to around US\$ 1.4 billion in 2021 (4.9% of GDP), with the arrival of 1.3 million foreign visitors.

In the first half of 2022, remittances recorded a year-on-year growth rate of 3.5% (against 45% in the corresponding period of 2021). This period also saw a slight slowdown in trade due to constraints in global supply chains, higher commodity prices and slower growth in the world economy on account of the war in Eastern Europe. Goods exports grew by 16.8% over the first six months, compared to 48.1% during the same period in 2021, driven by sales of non-traditional goods (16.4%) and maquila products (15.4%). Over the same period, imports recorded year-on-year growth of 27.2%, with increases across the board: imports of intermediate goods rose by 38.2%, maquila products by 26.8% and consumer goods by 19.6%. The balance of trade posted a deficit of US\$ 5.132 billion, up 36.1%.

## **(b) Economic activity**

After the 8.2% slump in GDP in 2020, the economy returned to pre-pandemic levels in 2021 and grew by 10.3%. Positive results were reported in all 19 branches of economic activity. With double-digit growth, notable figures were recorded in the accommodation and food service sectors (36.5%), transport (17%), manufacturing (12.2%) and professional activities (10.8%). Despite growth of 6.1%, the construction industry did not manage to recover from its 15.4% decline in 2020. The agriculture and livestock sector grew by 2.1% in 2021, down from the 2.8% seen in 2020.

On the spending side, household consumption increased by 15.4% in 2021 after the 10.8% drop seen in 2020, while government consumption was 7.2% (compared to 10.1% in 2020). The components of public and private gross fixed capital formation grew by 29.5% and 23.9%, respectively. Exports and imports, of both goods and services, increased by 26.1% and 26.6%, respectively. According to the original series of the economic activity volume index (IVAE), year-on-year growth of 4.2% was posted in May.

Almost all sectors presented positive results, in particular construction (7.6%) and commerce and transport (6.5%). The only sector to record a decline was the information and communications sector, which shrank by 3.9%. The upturn in construction was on account of the increased placement of loans to build industrial and hospital infrastructure.

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

Inflation, which accelerated in the second half of 2021, ended with a year-on-year rate of 6.1% in December, which contrasts with the near-zero levels recorded in recent years. Prices in all sectors increased significantly. The sharpest hikes were seen in transport (9.5%), foodstuffs (8%) and accommodation (7%); the sole drop (of 0.1%) was reported by the telecommunications sector.

In 2021, El Salvador's labour market experienced a strong recovery to above pre-pandemic levels. ISSS figures indicate a total of 915,096 reported payroll workers at the close of December 2021: 67,573 more jobs than at the close of 2020, for annual growth of 8.0%. At year-end, 726,305 jobs were in the private sector and 188,791 in the public sector, with growth rates of 9.0% and 4.2%, respectively. The National Minimum Wage Council approved a 20% increase in the minimum wage, effective August 2021, to alleviate the impact of the coronavirus disease (COVID-19) pandemic. Over the course of the year, the minimum wage increased by a nominal 8.4% (4.8% in real terms).

Inflation steepened in 2022, to reach a year-on-year rate of 7.8% in June, with an average of 6.9% over the first six months. This was due to the increase in international commodity prices, despite the approval in March of a series of public policy measures, such as the temporary cut in vehicle fuel VAT. The items most affected by these price increases were foodstuffs (14.4%), household goods (9.6%) and recreational services (8.2%). Once the government unveiled its 11 measures to reduce the gallon price of fuel and maintain the propane gas subsidy, price increases in the transportation sector eased from a year-on-year variation of 9.6% in February to one of 4.1% in June; over the same period, the variation in the accommodation, water, electricity and gas sectors fell from 4.9% to 3.5%.

As of January 2022, the total number of new workers reported by the ISSS was 10,156, for a year-on-year increase of 9.0%. Private sector employees increased by 31.0%, while public sector staffing levels fell by 47.0%.

Table 1  
**EL SALVADOR: MAIN ECONOMIC INDICATORS**

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	2.2	1.7	2.4	2.5	2.2	2.4	2.4	-8.2	10.3
Per capita gross domestic product	1.8	1.2	1.9	2.0	1.7	1.9	1.9	-8.6	9.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.2	0.9	-5.5	8.3	0.7	-2.7	1.0	-2.8	2.1
Mining and quarrying	8.3	-4.2	-5.4	3.9	1.2	5.4	4.8	-11.2	8.4
Manufacturing	0.8	2.5	3.1	1.3	1.3	0.5	1.9	-12.3	12.2
Electricity, gas and water	-2.4	3.9	-0.9	-0.9	2.1	-2.5	...	...	2.8
Construction	3.2	-1.5	-0.5	2.9	5.6	7.1	9.3	-15.4	6.1
Wholesale and retail commerce, restaurants and hotels	5.9	3.7	1.0	1.1	1.5	4.6	2.5	-12.0	14.2
Transport, storage and communications	2.9	-4.1	8.3	8.3	1.8	0.8	3.2	-11.8	13.0
Financial institutions, insurance, real estate and business services	2.1	4.2	2.7	3.7	2.9	4.5	2.4	-5.4	6.4
Community, social and personal services	1.9	-1.0	3.0	1.4	1.8	1.8	0.3	-5.6	10.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.3	-0.3	2.8	1.5	1.4	1.4	1.5	-7.4	13.8
Government consumption	2.8	-1.1	2.1	-1.0	0.1	1.7	0.5	10.1	7.2
Private consumption	3.5	-0.2	3.0	2.0	1.7	3.1	1.7	-10.1	15.4
Gross capital formation	-3.8	-1.1	4.7	4.6	3.1	10.5	2.6	2.3	8.1
Exports (goods and services)	6.3	3.2	3.3	0.2	3.4	1.6	8.5	-21.0	26.1
Imports (goods and services)	4.7	-2.5	4.7	-0.5	1.4	2.6	4.2	-10.6	26.6
Investment and saving c/	<b>Percentages of GDP</b>								
Gross capital formation	17.0	16.4	16.0	16.0	16.7	18.4	18.3	18.9	22.8
National saving	10.1	11.0	12.8	13.7	14.8	15.1	17.9	19.8	17.6
External saving	6.9	5.4	3.2	2.3	1.9	3.3	0.4	-0.8	5.2
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-1 518	-1 214	-754	-550	-465	-859	-113	203	-1 456
Goods balance	-5 289	-5 287	-4 970	-4 654	-4 845	-5 640	-5 709	-5 147	-8 208
Exports, f.o.b.	4 395	4 294	4 437	4 322	4 667	4 736	4 748	4 143	5 385
Imports, f.o.b.	9 684	9 581	9 407	8 976	9 512	10 376	10 457	9 289	13 592
Services trade balance	671	868	959	808	733	882	1 297	678	945
Income balance	-990	-1 035	-1 092	-1 246	-1 388	-1 470	-1 341	-1 315	-1 624
Net current transfers	4 090	4 240	4 349	4 542	5 034	5 369	5 640	5 987	7 431
Capital and financial balance d/	1 192	1 181	867	1 002	773	861	989	-1 590	1 815
Net foreign direct investment	179	306	396	348	889	826	636	281	313
Other capital movements	1 013	874	470	654	-116	35	354	-1 871	1 502
Overall balance	-327	-33	113	452	308	2	876	-1 387	359
Variation in reserve assets e/	327	33	-113	-452	-308	-2	-876	1 387	-359

Table 1 (concluded)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	100.6	98.7	102.9	104.7	102.6	100.0	101.5	104.7	97.2
Net resource transfer (millions of dollars)	1 020	201	145	-225	-244	-615	-609	-352	-2 905
Total gross external debt (millions of dollars)	14 035	14 800	15 217	16 376	16 474	16 603	17 350	18 731	20 286
Employment g/									
	Average annual rates								
Labour force participation rate	63.6	62.8	62.1	62.2	61.9	61.3	62.2	61.4	...
Open unemployment rate	5.9	7.0	7.0	7.1	7.0	6.3	6.3	6.9	...
Visible underemployment rate h/	5.8	6.7	6.8	7.7	7.6	6.3	6.3	6.1	...
Prices									
	Annual percentages								
Variation in consumer prices (December-December)	0.8	0.5	1.0	-0.9	2.0	0.4	0.0	-0.1	6.1
Variation in industrial producer prices (December-December)	0.6	1.4	-1.3	0.2	1.4	1.8	-0.1	0.5	...
Variation in average real wage	0.5	0.7	2.5	1.4	1.0	0.8	3.8	1.4	4.5
Nominal deposit rate i/	3.6	3.9	4.4	4.5	4.6	4.4	4.3	4.2	4.1
Nominal lending rate j/	5.5	5.7	5.9	6.1	6.3	6.4	6.6	6.6	6.2
Central government									
	Percentages of GDP								
Total revenue	18.0	17.6	17.7	18.1	19.1	19.3	19.1	19.9	21.0
Tax revenue	17.0	16.7	16.7	17.2	17.6	18.0	17.7	18.5	20.1
Total expenditure	20.0	19.3	18.9	19.0	19.2	20.4	20.7	29.2	25.9
Current expenditure	16.6	16.2	16.0	16.1	16.5	17.3	17.6	24.0	22.1
Interest	2.6	2.6	2.7	2.8	3.1	3.4	3.5	4.2	4.3
Capital expenditure	3.3	3.1	2.9	2.9	2.7	3.0	3.1	3.3	3.8
Primary balance	0.7	0.9	1.5	1.9	3.0	2.3	1.8	-5.0	-0.6
Overall balance	-2.0	-1.7	-1.2	-0.9	-0.1	-1.1	-1.6	-9.2	-4.9
Central government public debt									
Domestic	49.2	49.6	49.7	49.6	48.2	47.6	48.8	63.2	59.9
External	16.3	13.4	15.2	14.5	13.4	14.5	14.4	21.3	20.8
	32.9	36.2	34.5	35.1	34.8	33.2	34.4	41.9	39.1
Money and credit									
	Percentages of GDP, end-of-year stocks								
Domestic credit	69.2	71.5	75.7	77.3	80.8	83.0	86.8	103.8	96.6
To the public sector	32.4	32.9	36.3	37.3	38.4	40.1	41.4	51.2	47.5
To the private sector	51.5	53.3	54.1	55.1	56.0	57.3	59.1	66.3	61.8
Others	-14.7	-14.6	-14.8	-15.0	-13.6	-14.2	-13.5	-13.4	-12.7
Monetary base									
Money (M1)	11.3	10.9	11.0	11.2	12.0	11.9	13.6	9.7	9.3
M2	13.2	12.9	13.9	13.0	14.7	14.7	15.8	20.3	17.9
	46.5	45.1	46.4	46.5	49.8	50.7	54.7	66.8	58.5

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/ Urban total.

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

j/ Basic lending rate for up to one year.