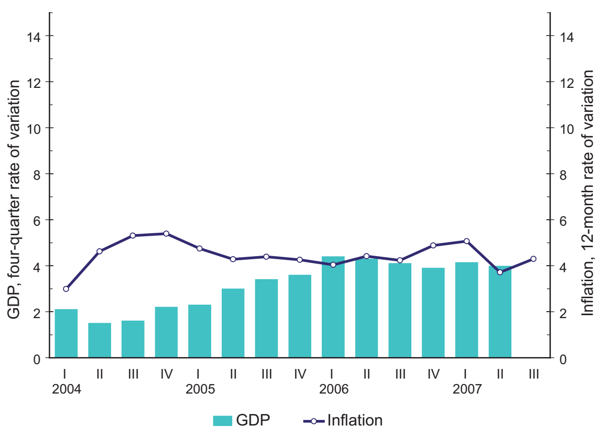
El Salvador

El Salvador posted a GDP growth rate of 4.5% in 2007, half a percentage point higher than the previous year and the best level in 12 years. Expansion was boosted by widespread buoyancy in the agricultural, manufacturing and services sectors. Family remittances (18.7% of GDP) once again stimulated private consumption and alleviated the impact of rising world oil prices on the current account, which registered a deficit of 4.6% of GDP. The overall fiscal deficit of the non-financial public sector (NFPS) stood at 0.6% of GDP, while annual inflation was about 5%.

GDP growth for 2008 is forecast at around 4.5%. Increased growth is expected in the agriculture, services and construction sectors thanks to the use of resources from the Millennium Challenge Account (US$ 80 million in 2008) and the high level of public investment (3.4% of GDP, a figure not seen since the earthquakes in 2001). These factors are expected to compensate for a slowing in external demand and remittances. Inflation is projected at about 4%. The main economic policy goal is to continue strengthening fiscal discipline and improve the efficiency of tax collection with a view to achieving a tax burden of 15.5% of GDP in 2011.[1]

Current revenue in 2007 was 17.6% of GDP. The tax burden was 14.2% of GDP (13.6% if refunds are discounted), almost a point higher than in 2006. This was due to the effects of economic growth and improvements in tax administration adopted as part of the 2005 reform measures, which broadened the tax base by including part of the informal sector, cross-referencing tax data and implementing large-scale inspection plans by the Internal Revenue Service and the customs service. Current spending (15.6% of GDP) was pushed up by the increase in public consumption and debt interest payments. The consumption of electric power and liquefied gas was subsidized, for the third consecutive year, to the tune of about US$ 140 million.

EL SALVADOR: GDP AND INFLATION



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

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1 The tax burden grew considerably between 2004 and 2007, by 2% of GDP. There is, however, still room for a tax reform which will provide increased resources to meet the population's current needs. The average tax burden in Latin America and the Caribbean is about 17% of GDP.

The creation in September 2006 of a trust fund to manage the pension system debt was an accounting modification which improved the fiscal accounts of the NFPS. Payments on the debt of the social insurance system fell by 1.6% of GDP between 2006 and 2007. The purpose of the trust fund, managed by the Multisectoral Investment Bank (BMI), is to issue social insurance debt certificates to be purchased by pension-fund managers for a term of 25 years. This has enabled the State to defer some US$ 328 million in debt and scale down the NFPS debt from 39.4% of GDP in 2006 to 36.5% of GDP in 2007. These measures reduced the overall deficit of the NFPS from the equivalent of 1.1% of GDP in 2006 to 0.6% of GDP in 2007 (including grants amounting to 0.3% of GDP). The central government's global deficit (0.4% of GDP) was unchanged in relation to 2006, while the central government's primary surplus declined slightly, slipping from 2.0% to 1.8% of GDP.

Nominal interest rates edged up in 2007 owing to higher international rates but, given rising prices, the real lending and deposit rates remained unchanged. Together with an improving economic performance, this led to expansion in bank lending, mainly to response to the demand for housing mortgages and consumer loans. In late 2007, the central bank had net international reserves of US$ 2.091 billion (9.6% more than the 2006 figure), equivalent to 2.6 months' worth of goods and services imports.

For the third consecutive year, the performance of the agricultural sector was strengthened by favourable prices for certain products. Thanks to the execution of infrastructure projects such as the construction of the Port of La Unión, and rising demand for housing, the construction sector achieved growth of 4%. Performance also improved in the following sectors: tourism, finance, electric power, transport and communications and manufacturing. The latter represented 23% of total GDP and rose by 3.9% in 2007 compared with 3.2% in 2006. Private investment was up (10.8%), but public investment declined by 2.4%. Some 5% of private consumption was sustained by remittances. All these factors led to an upswing in economic growth from 4.2% to 4.5%, despite the slowdown in the United States economy.

Year-on-year inflation stood at 5.5% in October, which was considerably higher than the figure of 4.9% recorded at the end of 2006, owing to the continuing rise in international prices for food and oil, which had a negative impact on the cost of gasoline and transport. Minimum wages were raised in mid-November 2007 by 3% in the maquila sector and by 5% in other areas.

EL SALVADOR: MAIN ECONOMIC INDICATORS

	2005	2006	2007 [a]
	Annual growth rates		
Gross domestic product	3.1	4.2	4.5
Per capita gross domestic product	1.3	2.4	2.8
Consumer prices	4.3	4.9	6.2 [b]
Real minimum wage	-4.5	-0.7	2.6
Money (M1)	9.3	14.1	11.0 [c]
Real effective exchange rate [d]	1.4	0.4	0.6 [e]
Terms of trade	0.0	-1.3	0.0
	Annual average percentages		
Urban unemployment rate	7.3	5.7	...
National administration overall balance / GDP	-1.0	-0.4	1.0
Nominal deposit rate	3.4	4.4	4.8 [f]
Nominal lending rate	6.9	7.5	7.8 [f]
	Millions of dollars		
Exports of goods and services	4 556	5 070	5 409
Imports of goods and services	7 744	8 741	9 650
Current account	-724	-700	-926
Capital and financial account	665	771	1 109
Overall balance	-59	72	183

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 2007.

[c] Twelve-month variation to September 2007.

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

[e] Year-on-year average variation, January to October 2007.

[f] Average from January to October, annualized.

These increases did not make up for the earlier fall in real wages, however, with the January-October average down by 4%. With the addition of 26,000 new contributors to the Salvadoran Social Security Institute (ISSS), there was a small downturn in open unemployment, to 6.5%. The need to create more high-quality jobs is a problem that remains to be addressed.

Exports of goods and services climbed by 6.7%. Non-traditional exports were up by 22.5%, while traditional exports rose by barely 0.7%. Maquila exports ended their downward trend of previous years. Goods and services imports showed stronger growth (10.4%). Imports of consumer goods, intermediate goods and capital goods increased by 13.4%, 10.5% and 15.7%, respectively, in comparison with 2006. The oil bill stood at US$ 1.4 billion, equivalent to 6.9% of GDP and 14.5% of total goods and services imports.

The economy experienced a strong upsurge thanks to inflows of family remittances (US$ 3.783 billion), although the annual rate of increase in such remittances slowed to 9% (versus 18% in 2006) owing to the economic slowdown in the United States and the hardening of its migration policy. Remittances covered 89% of the trade deficit (21% of GDP). Income from tourism was close to US$ 1 billion, thanks to over 1.2 million tourist arrivals. These various trends added up to a balance-of-payments current account deficit of 4.6% of GDP, almost one percentage point higher then in 2006. Foreign direct investment was four times more than the 2006 level, at US$ 1.027 billion, as a result of receipts from the sale of bank assets.