EL SALVADOR

1. General trends

In 2023, El Salvador's GDP grew by 3.5% in real terms, thus surpassing the previous year's 2.8% expansion. This growth is explained mainly by domestic factors, including the expansion of public and private investment in road infrastructure, strengthening of the energy mix, and growth in the tourism sector. In addition, domestic consumption rebounded on the back of increased lending to the production sectors, which increased employment and the demand for goods and services, supported by the flow of family remittances.

In 2023, the non-financial public sector deficit widened to 4.7% of GDP, including pensions, compared to 2.7% in 2022, owing mainly to the impact of increased public investment and higher pension and debt interest payments. Inflation had dropped to 1.2% by the end of 2023, 6.1 percentage points lower than in 2022, thanks to an easing of external pressures in the supply chain, lower fuel prices and government measures to combat inflation. The balance-of-payments current account deficit was equivalent to 1.4% of GDP, down from 6.8% in 2022, thanks to the growth of services exports, which offset the deficit in the goods trade. At the time of writing, the official unemployment rate for 2023 had not been published.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects El Salvador's GDP to grow by 3.5% in 2024. This increase is explained by the continuity of public and private investment in public infrastructure, residential works, and electricity generation. In addition, the services sector, including hotels and restaurants, is likely to be boosted by tourism projects, such as Surf City. According to the Ministry of Finance, the non-financial public sector deficit, including pensions, will represent 4.3% of GDP. The export sector will be less buoyant, associated with trade in traditional goods and the maquila industry, so the current account deficit of the balance of payments is expected to be between 2.0% and 2.5% of GDP. In the absence of further increases in international fuel prices, inflation will end 2024 between 0.5% and 1.0%. ECLAC forecasts 3.1% growth for the Salvadoran economy in 2025.

2. Economic policy

(a) Fiscal policy

In December 2022, the Legislative Assembly passed the new Comprehensive Pension System Act, which replaced the Pension Savings System Act, creating a pension system with a normative and regulatory framework to expand benefits for contributors and pensioners in the private and public sectors. The new law came into effect in late April 2023, allowing the government to cease amortizing principal and interest on pension debt for a period of four years.

In fiscal year 2023, the non-financial public sector recorded income growth, including grants, of 2.6% in real terms, compared to 3.4% in 2022. Tax revenues grew by 0.5%. Value added tax recorded an increase of 0.3%, while income tax and import duty retreated by 0.3% and 2.9%, respectively, the latter linked to slacker trade. The implementation of electronic invoicing has also boosted tax collection. The tax amnesty issued by the Ministry of Finance in the last two months of 2023 enabled an additional US$ 143 million to be collected. Non-tax income experienced real growth of 46.1%, based on higher rates and fees for public services. The tax burden was 20.2% in 2023, compared to 20.5% the previous year.

In 2023, the non-financial public sector recorded real expenditure growth of 5.0%, which contrasted with the 6.7% reduction in fiscal year 2022. Of note was a 4.7% increase in consumption expenditure, while capital spending also grew sharply (61.9%). Gross investment increased by 83.4%, to represent 3.9% of GDP, its highest percentage in the last 18 years. The primary deficit amounted to 0.1% of GDP, compared to the surplus of 2.0% recorded in 2022.

Non-financial public sector debt at end-2023 totalled US$ 28.377 billion, equivalent to 83.4% of GDP, including pensions. Excluding pensions, the debt was US$ 18.882 billion, equivalent to 54.0% of GDP in the same year. In December 2023, the short-term debt balance of Treasury bills and certificates totalled US$ 2,390.2 million and was equivalent to 7.0% of GDP. The government has been adopting various measures to alleviate the domestic debt burden. In September 2023, it accepted an extension of the payment of the Treasury bill and certificate debt held by banks, amounting to US$ 1.045 billion with maturities of two, three, five and seven years.

In April 2024, President Bukele announced a public and voluntary bond buyback, to manage liabilities totalling US$ 1.749 billion, maturing in 2025 (US$ 347.9 million), 2027 (US$ 800 million) and 2029 (US$ 601.1 million). This was the third time that the government had carried out an operation of this type since 2022 when it repurchased bonds maturing in early 2023 and 2025, leaving a remainder of the 2025 bond. This operation enabled the government to generate savings by reducing interest payments, easing cash-flow pressures, expanding fiscal space and improving country risk as measured by the Emerging Market Bond Index.

The amount of the buyback offer for this operation, at market price, totalled US$ 946.03 million. However, the government purchased only US$ 486.8 million (51.4% of the initial offer), divided as follows: the 2025 bond was purchased in full for US$ 248.3 million (100.0%), the 2027 bond was purchased for US$ 166.9 million (41.0% of the total offer) and the 2029 bond was purchased for US$ 71.5 million (25.0%). Thus, only US$ 99.56 million of the 2025 bond, US$ 633.06 million of the 2027 bond and US$ 529.53 million of the 2029 bond, remained to be paid. Considering all these financial operations, on 4 May 2024, Moody's rating agency raised El Salvador's sovereign risk rating from Caa3 to Caa1, thereby reducing the probability of liquidity stress.

In April 2024, the government placed a bond on international markets for the first time in almost four years, for US$ 1 billion with a coupon of 9.5%. This raised US$ 908 million owing to the discount.

In the first four months of 2024, non-financial public sector income grew by 14.1% in real terms year-on-year, thanks to a robust 16.8% expansion of tax revenues, owing to double-digit growth in value added tax (15.3%) and income tax (19.9%). Expenditure increased by 20.4%, fuelled by stronger consumer spending (27.6%) and interest payments (12.2%). In April 2024, the balance of short-term debt (Treasury bills and certificates) was US$ 2.12 billion (5.9% of GDP) and the total debt balance, excluding pensions, amounted to US$ 19.541 billion (54.7% of GDP), US$ 659 million more than at the end of 2023.

(b) Monetary policy and exchange-rate policy

Up to December 2023, the weighted average 30-day interest rate on deposits was 4.4% in nominal terms (3.1% in real terms), rising to 3.5% at the end of 2022 (-3.6% in real terms). The rate on corporate loans, with up to one year maturity, was 8.1% (6.8% in real terms), up from 7.0% until December 2022 (-0.3% in real terms). Total deposits of other depository corporations through December 2023 stood at US$ 18.706 billion, a nominal increase of US$ 1.187 billion, equivalent to 6.8% growth year-on-year.

The balance of loans extended by banks, cooperative banks and savings and credit unions totalled US$ 18.368 billion in late 2023, representing 4.5% growth year-on-year, thanks to the liquidity of the financial system. Credit to the services sector grew by 8.5%, followed by the consumer sector (7.9%) and commerce, restaurants and hotels (6.3%). In contrast, lending to agriculture and livestock declined by 12.1% and lending to industry fell by 3.1%.

Interest rates rose slightly in the first few months of 2024. The deposit rate for April stood at 5.1%, or 1.5 percentage points higher than in the same month of 2023, while the rate on loans of up to one year stood at 7.8%, or 0.7 percentage points higher than a year earlier. The balance of credit up to April totalled US$ 18.834 billion, representing growth of 4.8%, with lending to the services sector up by 10.8% and consumer credit up by 6.9%, while lending to industry retreated by 2.4%.

(c) Other policies

In April 2024, the Ministry of the Economy announced the start of negotiations aimed at signing a comprehensive free trade agreement with China, which would boost economic growth based on sectors such as tourism, renewable energies, the digital economy, intellectual property, foreign investment, and expansion of the range of exportable products. The government has been working on procedural simplification and digitalization, with a view to increasing private sector investment.

3. The main variables

(a) The external sector

In 2023, goods exports totalled US$ 6.498 billion, down by 8.7% year-on-year, owing mainly to weaker demand from the United States. Relative to GDP, exports decreased from 21.9% in 2022 to 18.4% in 2023. Traditional exports contracted by 10.7%, owing to a drop in the price and volume of coffee and sugar, and non-traditional exports declined by 5.2%. Textile exports, in their different forms, contracted by 40.6% in 2023, which was partially offset by the expansion of exports of metal sheeting and electrical energy (56.2% and 86.8%, respectively). Exports to the United States, which represent 35.6% of the total, contracted by 16.2% in 2023, while those to Nicaragua and Costa Rica, which together account for 13.0% of the total, each grew by 2.6%. Those destined for Guatemala and Honduras, which jointly account for 35% of the total, fell by 1.2% and 10.6%, in that order.

Imports in 2023 totalled US$ 15.648 billion (equivalent to 44.2% of GDP), representing an annual reduction of 8.5%, compared to growth of 17.0% recorded in 2022. All components contracted, except for capital goods, which expanded by 0.4%. Maquila imports were down by 28.0%. The trade balance recorded a deficit of US$ 9.15 billion, equivalent to 25.9% of GDP and 4.9 percentage points less than the deficit recorded in 2022.

The current account of the balance of payments recorded a surplus of US$ 465.7 million, US$ 1.716 billion less than in 2022, as a result of a smaller deficit in the balance of goods and a surplus in the services and secondary income accounts. Net foreign investment flows totalled US$ 759.7 million (2.2% of GDP), which exceeds the amounts received in the last five years. These inflows went mainly to the air transport and financial sectors.

Tourism has been a key driver of growth in recent years, thanks to an improvement in the country's security conditions and the hosting of various international events. In 2023, this sector generated revenues of US$ 2.755 billion, representing an annual increase of 47.8%, while the number of visitors grew by 36.0%.

Family remittance inflows totalled US$ 8.182 billion in 2023 (equivalent to 24.2% of GDP), representing growth of 4.6% on the previous year's total. Remittances through cryptocurrencies accounted for 1.1% of total remittances in 2023.

Up to August 2024, the trade balance recorded a deficit of US$ 6.134 billion, 4.4% larger than in the year-earlier period. The value of exports totalled US$ 4.319 billion, a 5.0% year-on-year drop, owing to the reduction in textile exports and the fall in coffee prices. Imports amounted to US$ 10.453 billion, representing growth of 0.3% and reflecting increases in components such as consumer goods (5.1%) and capital goods (2.1%). From January to August 2024, remittances totalled US$ 5,458 million, an increase of 1.3%.

(b) Economic activity

In 2023, the economy grew by more than the annual average of the last two decades. Of the 19 branches of economic activity, 17 recorded positive growth, including expansions of 19.9% in construction, 14.6% in electricity supply and 11.5% in professional activities. The financial sector grew by 7.5%, thanks to increased liquidity in the financial system and an expansion of credit. Agriculture grew by just 0.4%. The sectors that retreated were manufacturing industry (3.4%), owing to slacker external demand from the textile and clothing maquila industry, and the mining sector (0.6%).

On the expenditure side, all components contributed to growth, but especially total investment, which increased by 8.9%. Private investment grew by 6.3%, thanks mainly to the strong performance of construction. Public investment grew by 33.2% and was channelled into hydroelectric generation and solar energy, customs clearance of goods and people, and the construction of road infrastructure to improve the country’s connectivity. Private consumption advanced by 3.4% thanks to higher employment, moderating price increases, and income from family remittances. Exports of goods and services grew by 5.2%, owing mainly to the increase in tourism services, while imports of goods and services contracted by 1.4%.

As of June 2024, the economic activity volume index, in its seasonally adjusted series, recorded an average year-on-year increase of 0.5%, driven by the financial and insurance activities (7.2%), which supports credit to individuals and companies, and by agriculture and livestock (2.0%), while the construction industry contracted by 6.1%.

(c) Prices, wages and employment

Inflation slowed significantly throughout 2023. At the year-end, some of its components were sharply lower, such as transport services (4.3%), recreation and culture (2.2%) and household goods (1.7%). Sectors that experienced the largest price increases included alcoholic beverages (4.4%) and food and non-alcoholic beverages (4.0%). The Special Temporary Act to Combat Commodity Price Inflation, which was adopted by the Legislative Assembly in March 2022 and extended in March 2024, will remain in effect until 31 March 2026. This law is intended to support the reduction of the price of the basic food basket and high-demand products, by eliminating import duty on milk, meat, fertilizers and other products.

As of August 2024, the year-on-year increase in consumer prices stood at 1.2%, 1.9 percentage points less than in the same month of 2023, owing to a reduction in the prices of transport, alcoholic beverages and healthcare.

Recently, the Salvadoran Social Security Institute has not published statistics on formal employment or the average nominal wage. With the most recent information available, the Ministry of Labour announced that in 2023 the number of formal workers totalled 1,000,976, which implies that 32,731 new jobs have been added since December 2022.