

El Salvador

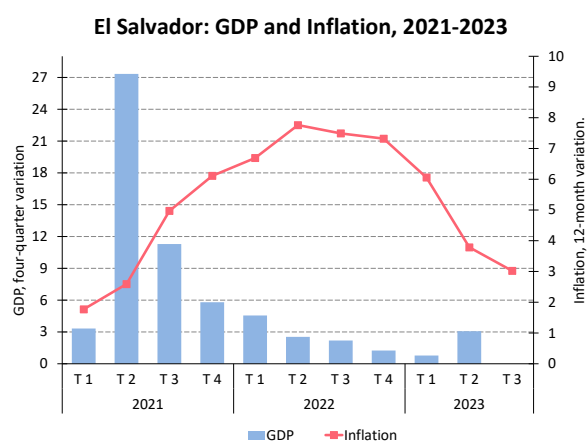
The Economic Commission for Latin America and the Caribbean (ECLAC) expects El Salvador's economy to grow by 2.3% in 2023, following expansion of 2.6% in 2022. This slightly slower growth primarily reflects a drop in exports and the damage to agriculture from tropical storm Pilar in November 2023. However, economic activity will be boosted by a continued recovery in tourism, new public investment projects, increased family remittance flows and improved public safety, which contributed to better performance by domestic demand for goods and services.

In 2023, the non-financial public sector deficit is expected to be in the region of 2.0% to 2.4% of GDP, as expenditure on public investment has continued to climb (in 2022, the deficit was 1.7% of GDP). The balance of payments current account deficit is on course to be around 2.5% of GDP, narrowing from 6.6% of GDP in 2022, owing to a decline in imports. Year-on-year inflation, which in 2022 was 7.3%, will be roughly 1.5% in 2023 owing to lower international commodity prices and the inflation control measures applied by the government. The Salvadoran Social Security Institute (ISSS) reported that in March 2023 there were 39,689 more workers contributing to social security than in March 2022 (a year-on-year increase of 4.3%).

In 2023, the government implemented a set of measures to strengthen public finances, which deteriorated considerably during the crisis caused by the coronavirus disease (COVID-19) pandemic. More specifically, further measures were applied to combat tax evasion, spending was more efficient and the debt maturing in 2023 and 2025 was settled through an early buyback of Eurobonds. To complete the repurchase, new loans were negotiated and use was made of the special drawing rights (SDRs) allocated by the International Monetary Fund (IMF) in 2021 for an amount of US\$ 360 million.

Total non-financial public sector revenues increased by 1.8% in real terms from January to November 2023. Tax revenues declined by 0.1%, with falls in all of their components, and particularly revenues from levies on imports (-3.8%), income tax (-0.7%) and value added tax (-0.4%). Non-tax revenues expanded 27.8% in real terms.

In the first 11 months of the year, total non-financial public sector spending showed grew by 0.6% in real terms. Among the components of this spending, capital expenditures increased by a notable 28.1%, with hydroelectric projects and improvements to the drinking water system standing out. In contrast, interest payments declined substantially (-16.4%), mainly owing to pension reforms and early repurchases of debt. Current transfers also decreased (-7.3%), in line with the reduction in the liquefied gas subsidy.



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

In November 2023, total non-financial public sector debt excluding pensions amounted to US\$ 18.865 billion (53.9% of GDP). This is an increase of US\$ 831.7 million on the amount recorded at the end of 2022. In December 2022, the Legislative Assembly passed the Comprehensive Pension System Act, which excludes pension debt from total debt from April 2023 onwards and defers payment of principal and interest for the following four years. The balance of domestic debt, represented by the Public Treasury Bills and Treasury Certificates of El Salvador, amounted to US\$ 2.8 billion in September 2023 (7.9% of GDP), US\$ 143 million more than at the end of 2022. Also in September, the Ministry of Finance accepted the proposal of the Salvadoran Banking Association (ABANSA) to restructure short-term domestic debt (with maturities of up to one year) into medium-term debt (with maturities of two to seven years). Around US\$ 1.4 billion of debt was restructured.

In 2023, nominal interest rates rose slightly for the different terms. In November 2023, the weighted average 360-day deposit rate was 5.9% nominal (3.7% real), up from 5.0% (-2.2% real) in the same month of 2022. Meanwhile, the rate for business loans with terms of up to one year was 7.8% nominal (5.5% real), up from 6.8% (-0.5% real) in November 2022.

In August 2023, loans extended by banks, cooperative banks and savings and loan societies totalled US\$ 18.319 billion, representing a year-on-year rise of 4.7%. This growth was slower than the 9.9% recorded in the same month of 2022.

Exports for January to November 2023 amounted to US\$ 6.049 billion, down 8.9% year-on-year. Traditional exports fell by 9.9%, non-traditional exports by 5.6% and maquila exports by 20.7%. Growth in the textile sector, which is key to the Salvadoran export sector, slackened. Revenues from call centre services, however, climbed by 18.9% to June 2023 to a total of US\$ 320.7 million.

For the first 11 months of 2023, imports amounted to a cumulative US\$ 14.4 billion, down 9.1% year-on-year. Within this, there was a double-digit decline in imports of semi-finished goods (-16.7%), owing to a fall in purchases by the manufacturing industry. Purchases of consumer goods (-2.4%) and capital goods (-0.1%) also decreased. Because of lower international oil prices, the total oil bill fell from US\$ 2.525 billion for January to November 2022 to US\$ 2.297 billion for the same months of 2023. As a result, the cumulative trade balance for January to November 2023 showed a deficit of US\$ 8.354 billion, narrowing from US\$ 9.204 billion for the same period of 2022.

Foreign direct investment for the first three quarters of 2023 showed a net inflow of US\$ 486.8 million, which compares favourably with the net outflow of US\$ 47.7 million in the same period of 2022. The flows were mainly driven by reinvestment of profits and nearshoring. Family remittances for January to November 2023 amounted to US\$ 7.394 billion, up 4.9% year-on-year.

El Salvador: main economic indicators, 2021-2023

	2021	2022	2023 ^a
	Annual growth rate		
Gross domestic product	11.2	2.6	2.3
Per capita gross domestic produ	10.8	2.2	...
Consumer prices	6.1	7.3	3.0 ^b
Real average wage ^c	4.5	-1.7	-2.8 ^d
Money (M1)	11.3	2.5	-3.9 ^e
Real effective exchange rate ^f	1.2	-1.4	0.2 ^b
Terms of trade	-3.6	-6.8	-5.9
	Annual average percentage		
Open urban unemployment rate	6.3	5.0	...
Central government			
Overall balance / GDP	-4.8	-1.8	...
Nominal deposit rate ^g	4.1	4.5	5.2 ^b
Nominal lending rate ^h	6.2	6.3	7.8 ^b
	Millions of dollars		
Exports of goods and services	8 330	10 129	5 109
Imports of goods and services	15 459	18 070	8 309
Current account balance	-1 272	-2 146	-365
Capital and financial balance ⁱ	1 631	1 444	510
Overall balance	359	-702	145

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

a/ Estimates.

b/ Figures as of September.

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

d/ Figures as of March.

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/ Includes errors and omissions.

Tourism has partly offset the drop in goods exports; between January and September, 2.5 million tourists arrived, generating revenues of US\$ 2.79 billion, surpassing the US\$ 2.646 billion for the full year of 2022.

In the first three quarters of 2023, GDP grew by an average of 2.4% year-on-year. The construction industry grew by 17.1% and the electricity supply industry by 14.6%, with investment focused on converting the energy matrix. The only sector that performed unfavourably was manufacturing, which contracted by 4.3% owing to weaker growth in the maquila export sector. On the demand side, gross fixed capital formation and public spending were the main drivers of growth (9.1% and 4.6%, respectively), while exports of goods and services increased by 0.9%.

In November 2023, year-on-year inflation stood at 2.1%, compared to 7.3% in the same month of 2022. The price rises were driven in particular by food (4.7%) and alcoholic beverages (3.2%). According to information available from the Salvadoran Social Security Institute at the time of writing, formal employment performed well. Between January and March 2023, 35,024 jobs were created in the private sector (a year-on-year increase of 4.7%) and 4,665 in the public sector (2.4%). In March 2023, the average wage of workers showed nominal year-on-year growth of 2.7% (-3.7% in real terms).

ECLAC estimates that El Salvador's economy will grow by 2.0% in 2024, boosted by increased public and private investment in infrastructure, but tempered by the slowdown in economic growth in the United States, the country's main trading partner, and the effects of climate change on agriculture. Inflation will continue to slow to around 0.5%, owing to more stable international commodity prices and electricity subsidies. The public sector deficit is expected to be 2.5% of GDP in 2024, with further implementation of the proactive anti-evasion policy and the launch of electronic invoicing. The balance of payments deficit will be around 2.0%, in a context of recovering exports. Presidential and parliamentary elections will be held in February 2024.