El Salvador

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the Salvadoran economy will post real growth of 2.4% in 2017 (matching the previous year's performance), fuelled by an expansion of the export sector and stronger domestic demand —particularly private consumption, driven by low levels of inflation, higher remittances and increased commercial bank lending. Year-on-year inflation is forecast at 1.8% by the year-end (-0.9% in 2016). Including of the pension system cost, the central government's fiscal deficit will come in at 2.6% of GDP, slightly below the previous year's 2.7%. The current-account deficit on the balance of payments will be 1.1% of GDP (compared to 2% in 2016); and the moderate upward trend in the number of workers enrolled with the Salvadoran Social Security Institute (ISSS) is set to continue.

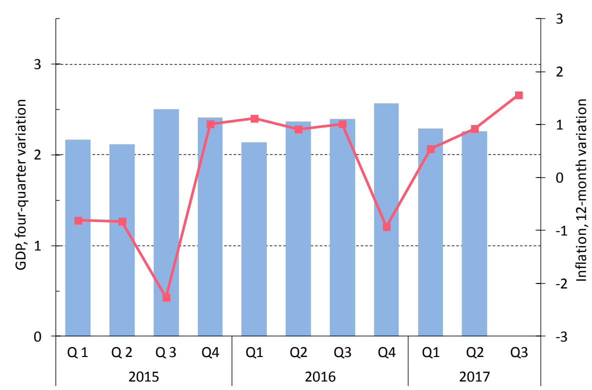
Lack of political agreements in the Legislative Assembly caused the government to run up arrears of US$ 56.6 million (1.1% of the total budget) on liabilities associated with Pension Investment Certificates (CIP). To enable the government to fulfil its obligations, in late April the Assembly passed a reform of the Budget Law and reallocated budgetary items. To pay a total of US$ 91 million falling due, two temporary decrees were approved in October to restructure the CIP liabilities, and the Pension Savings System (SAP) Act was reformed with a view to finding long-term solutions. In late October, the rating agencies, which for a while had placed the country in selective default owing to non-payment, raised El Salvador's sovereign risk rating, with S&P classifying it as "CCC +" and Fitch as "B-".

Against this backdrop, fiscal policy sought to contain public expenditure growth. In the first nine months of the year, current income of the non-financial public sector (NFPS) grew at a year-on-year rate of 3.5% in real terms, mainly owing to a 5% increase in tax revenues, particularly from income tax (ISR) and value added tax (VAT).

Total expenditure contracted slightly (-0.6%) in real terms, although current spending grew by 1.1% because of an 11.8% increase in interest payments. Gross investment fell by 13.9% in real terms; and the government tax burden is expected to reach 16% of GDP by the year-end.

In February 2017, the government made a 12-year eurobond issue of US$ 601.1 million at an interest rate of 8.625%. To improve debt servicing capacity, the Assembly reformed the Pension Liabilities Trust-fund (FOP) Act, which allows the maturity of CIPs that have already expired and new ones to be issued to be extended to 50 years. The total NFPS debt as of the third quarter represented 60.4% of GDP (US$ 16,860.3 million), up by 3.3% relative to its end-December 2016 level, mainly due to the increase in FOP debt.

El Salvador: GDP and Inflation, 2015-2017



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

In the first ten months of the year, interest rates on 180-day deposits averaged 4.44%, slightly higher than the year-earlier period's 4.39%. Rates on loans for periods of up to one year averaged

6.43%, reflecting a marginal 9 basis-point rise from a year earlier. Net international reserves stood at US$ 3.332 billion (about 12% of GDP), 14% more than in December 2016.

Agreements reached at the second meeting held to review the free trade agreement between El Salvador and Taiwan, Province of China, included an increase in the sugar export quota to 80,000 metric tons per year, and immediate elimination of import tariffs on natural honey in Taiwan, Province of China. Initial negotiating rounds were held following El Salvador's application to join the Guatemala-Honduras customs union; and an agreement in this regard would generate synergies for an expansion of trade with the subregion and would boost the national economy.

El Salvador: main economic indicators, 2015-2017

	2015	2016	2017 [a]
	Annual growth rate		
Gross domestic product	2.3	2.4	2.4
Per capita gross domestic product	1.9	1.9	2.0
Consumer prices	1.0	-0.9	1.6 [b]
Real average wage [c]	1.0	1.0	1.1
Money (M1)	4.9	3.9	4.2 [b]
Real effective exchange rate [d]	-0.8	0.0	2.3 [b]
Terms of trade	9.2	2.8	-2.9
	Annual average percentage		
Open urban unemployment rate	6.5	6.9	…
Central government			
Overall balance / GDP	-1.1	-0.8	-0.9
Nominal deposit rate [e]	4.2	4.4	4.4 [f]
Nominal lending rate [g]	6.2	6.4	6.4 [f]
	Millions of dollars		
Exports of goods and services	6 718	6 663	7 032
Imports of goods and services	10 916	10 544	11 139
Current account balance	-926	-531	-328
Capital and financial balance [h]	1 039	983	850
Overall balance	113	453	523

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 taxable wage.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
e/ Basic deposit rate for up to 180 days.
f/ Figures as of October.
g/ Basic lending rate for up to one year.
h/ Includes errors and omissions.

Salvadoran exports totalled US$ 4.315 billion between January and September 2017, representing year-on-year growth of 5.7%, while volumes increased by 14.4%. Exports of traditional products grew faster (33.3%) than non-traditional exports (6.8%), which make up nearly three quarters of the total, thanks to the dynamism of sugar sales. By sector, agricultural exports were up by 8.9% and manufacturing exports by 5.7%, the latter driven by clothing and by machinery, equipment and supplies.

Imports grew by 5.1% in value, but volume was down by 3.4%. The unit price of oil and its derivatives rose by an average of 24.2%, which meant an increase of 9.4% in the oil bill. The trade balance recorded a deficit of US$ 3.414 billion, 4.3% higher than a year earlier.

In the first half of 2017, net foreign direct investment (FDI) flows totalled US$ 413 million, 178.6% more than in the same period of the previous year. These flows, which were the largest received in a first semester since 2010, were driven by the reinvestment of profits, debt financing and new investment projects in the electric power sector. Family remittances were up by 10.4% year on year, totalling US$ 3.685 billion in the third quarter of 2017.

The second quarter of 2017 was the tenth consecutive quarter in which the economy has maintained growth above 2%. The real average expansion of GDP in the first half of the year was 2.3%, driven mainly by real estate and business services (4.5%), social and community services (3.4%) and agriculture (3.4%). In its trend-cycle series, the economic activity volume index (IVAE) for August recorded a year-on-year expansion of 2.8%, reflecting sectoral increases in construction (6.5%), financial institutions (4.9%) and commerce (4.3%). By contrast electric, power generation, gas and water dropped by 7.9%.

Year-on-year inflation to October was 1.4%, compared to -0.9% in the year-earlier period. Price rises in accommodation, water and electricity (4.4%), transport (2.3%) and restaurants and hotels (1.4%) were partially offset by lower prices for clothing and footwear (-1.9%). The overall increase reflects the impact of hurricanes Harvey and Irma, whereas core inflation to September posted a year-on-year rise of 0.3%, the highest rate of the year thus far.

In keeping with the economy's growth performance, formal employment continued to trend upwards, with a year-on-year increase of 0.8% in the number of workers registered in ISSS as of August 2017. Real wages were also up by 5% in June compared to a year earlier.

For 2018, ECLAC expects the Salvadoran economy to grow by 2.4% (the same rate as in 2017), driven by private investment, remittance flows and exports. The central government fiscal deficit is forecast to end the year at 2.8% of GDP, while the current account deficit is expected to widen slightly (1.9% of GDP) owing to a further deterioration in the terms of trade. The rising trend in raw material and fuel prices is expected to push inflation up by around 2%.