El Salvador

The Economic Commission for Latin America and the Caribbean (ECLAC) expects El Salvador's economy to grow by 2.6% in 2022, after expanding by 10.3% in 2021. This growth rate, which is in line with the average of recent decades, reflects the complex economic conditions prevailing in the global economy, such as accelerating inflation, tighter monetary policies and the economic slowdown in major trading partners. Nevertheless, economic activity has been driven by credit and consumption, supported by a strong flow of remittances, together with merchandise exports and tourism receipts.

Tax and expenditure measures will reduce the fiscal deficit of the non-financial public sector (NFPS), including pensions, to 4.7% of GDP (from 5.6% in 2021). The current account deficit of the balance of payments is expected to end at around 8.0% of GDP (5.1% in 2021), reflecting a significant increase in imports, in particular a higher oil bill. Year-on-year inflation is projected to rise to 7.0% (6.1% in 2021), mainly due to higher international food, fuel and fertilizer prices as a result of the war between the Russian Federation and Ukraine. The expansion of economic activity has boosted formal job creation in most sectors.

On 27 July 2022, the Legislative Assembly passed two bills to launch an early repurchase offer to holders of sovereign bonds maturing in 2023 and 2025 (for US$ 800 million each). To finance the buyback, the Central Reserve Bank of El Salvador transferred to the Ministry of Finance the 275 million Special Drawing Rights (SDRs), equivalent to US$ 365.1 million, allocated by the International Monetary Fund in 2021.

Following the buyback, which took place from 12 to 20 September, the Ministry of Finance announced that the operation, including the discount, totalled US$ 354.6 million, resulting in savings of US$ 275.4 million.

The policy to combat tax evasion continued with the Anti-Evasion and Anti-Smuggling Plan, supplemented by a tax amnesty aimed at strengthening tax collection. Total NFPS income in the first 11 months of 2022, including grants, recorded real year-on-year growth of 4.2%, compared to 19.1% in 2021. This was fuelled by a 4.6% increase in total tax revenues, associated with a 17.3% real year-on-year increase in revenues from direct taxation (income tax), offset by a slight 0.2% decline in revenues from indirect taxation (VAT).

Cumulative total expenditure in the year to November was 5.3% lower in real terms, following a 26.0% fall in gross capital formation and an 18.4% drop in current transfers. By contrast, interest payments increased by 6.0%. As a result, the primary balance recorded a surplus equivalent to 3.6% of estimated GDP in 2022.

Total NFPS debt amounted to US$ 23.964 billion in October, equivalent to 75.3% of GDP — 5.7 percentage points lower than at the end of

El Salvador: GDP, Inflation and Unemployment, 2020-2022

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

2021. Of this total, US$ 15.214 billion is domestic and external debt (47.8% of GDP) and the rest is short-term debt. The latter includes US$ 2.661 billion (8.4%) in Treasury Certificates (CETES) and Treasury Bills (LETES) and US$ 6.089 billion (19.1%) in the Pension Obligations Trust.

Nominal interest rates rose in 2022. The average nominal 360-day deposit rate climbed to 5.0% in November (a real rate of minus 2.1%), compared with 4.8% (-1.3% real) in the same month of 2021. In the same month, the average nominal rate on loans with maturities of up to one year was 6.8% (-0.5% real), compared to 6.2% (0.1% real) a year earlier.

In November, outstanding loans by commercial banks, cooperative banks, and savings and loan associations totalled US$ 17.489 billion. This represented year-on-year growth of 9.9% (compared to 6.9% in the same month of 2021), and was driven by loans related to construction (+25.7%), trade and restaurants (+13.9%), and credit cards (+15.4%).

El Salvador: main economic indicators, 2020-2022

	2020	2021	2022 [a]
	Annual growth rate		
Gross domestic product	-8.2	10.3	2.6
Per capita gross domestic product	-8.6	9.7	2.1
Consumer prices	-0.1	6.1	7.5 [b]
Real average wage [c]	1.0	1.0	...
Money (M1)	13.2	11.3	4.4 [b]
Real effective exchange rate [e]	0.3	0.9	-0.1 [d]
Terms of trade	4.9	-7.7	-4.3
	Annual average percentage		
Open urban unemployment rate	6.9	6.3	...
Central government			
Overall balance / GDP	-9.2	-4.9	...
Nominal deposit rate [f]	4.2	4.1	4.5 [d]
Nominal lending rate [g]	6.6	6.2	6.2 [d]
	Millions of dollars		
Exports of goods and services	10 438	13 876	16 671
Imports of goods and services	20 053	29 346	35 094
Current account balance	2 690	2 952	2 686
Capital and financial balance [h]	1 457	-2 004	...
Overall balance	4 146	948	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
c/ Average wage declared by workers covered by social security.
d/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Basic deposit rate for up to 180 days.
g/ Basic lending rate for up to one year.
h/ Includes errors and omissions.

In the first 11 months of 2022, merchandise exports totalled US$ 6.807 billion, with year-on-year growth of 12.3% (compared to 33.4% in the year earlier period). Traditional exports grew by 32.4% and non-traditional exports by 11.0%. Maquila exports increased by 12.7% year-on-year, led by rubber and plastic products (up by 22.9%), food (13.3%) and textiles (9.5%).

In the year to November, imports were up by 17.9% at US$ 16.266 billion, driven by the expansion of domestic demand. Although nearly all components recorded double-digit growth rates, intermediate goods (up by 24.8%), consumer goods (17.3%) and maquila (20.4%) led the way. The oil bill increased by 56.1%, less than the 87.2% growth recorded in the same period of the previous year. The trade balance reflected a deficit of US$ 9.459 billion (32.0% of GDP), compared to US$ 7.731 billion (27.0% of GDP) in 2021.

Foreign direct investment (FDI) recorded a net outflow of US$ 44.7 million in the third quarter of 2022, compared to US$ 394.8 million a year earlier, mainly due to dividends paid to parent companies. Cumulative remittance flows in January–November totalled US$ 6.982 billion, representing year-on-year growth of 3.4%, compared to 28.0% in the year-earlier period.

In the first nine months of 2002, GDP grew by 2.7% year-on-year. Of the 19 activities, 16 maintained the previous year’s growth trend. On the expenditure side, private consumption grew by 3.3%, exports of goods and services by 11.3%, and gross fixed capital formation by 4.9%. By contrast, public sector consumption declined by 2.7%.

In November 2022, the year-on-year rise in the consumer price index was 7.3%, mainly due to price increases in food (12.0%) and household goods (8.3%). The government of El Salvador adopted a variety of measures to combat inflationary pressures, including fuel price subsidies.

Total formal payroll employment increased by 56,538 workers in September 2022 (6.3%) compared to the same month in 2021. Private sector employment increased by 50,238 and public sector employment by 6,300.

The last general wage increase took place in August 2021 and amounted to 20% to compensate for the negative effects of the coronavirus disease (COVID-19) pandemic on the population. This increase was subsidized by the government through a trust fund until July 2022. The average nominal wage in September 2022 was 3.8% higher than a year earlier, corresponding to a 3.1% reduction in real terms.

According to ECLAC projections, El Salvador’s real GDP will grow by 1.6% in 2023 due to a slowdown in the global economy, especially in the United States, its main trading partner, in a context of elevated interest rates and high international commodity prices. Inflation is expected to be around 3.5%, above the average of recent years, associated with persistently high international prices. The public sector deficit is expected to narrow to 4.2 % of GDP, which is less than had been estimated for end-2022. This would be the result of an active policy to combat tax evasion and make revenue collection more efficient, including the introduction of the electronic signature and other measures. The current account deficit is forecast at 7%, with exports less buoyant.