El Salvador

ECLAC estimates El Salvador's 2015 real GDP growth at 2.4% — up from the 2.0% recorded in 2014 — thanks to the positive performance of the export sector and robust domestic demand (particularly private consumption expenditure). Average inflation for the year is expected to be around zero, owing mainly to the fall in international fuel prices. The non-financial public sector (NFPS) fiscal deficit, including pensions and trust funds, is converging on 3.6% of GDP, similar to the previous year's figure; and the balance-of-payments current account deficit is expected to narrow to 3.2% of GDP (from 4.8% in 2014). By the end of the year, the number of formal jobs registered with the Salvadoran Social Security Institute (ISSS) will have grown by about 3%, similar to the previous year's rate.

In late October, the Legislative Assembly approved the law requiring large taxpayers to make a special contribution to the citizen security plan, to help implement the Plan for a Safe El Salvador, reduce gang-related violence, prevent crime, protect social development, and fuel economic growth. The central pillar of the plan's financing is a special 5% tax on firms that earn net profits of US$ 500,000 or more. A special levy of 5% on the acquisition or use of telecommunication services was also approved for the same purpose.

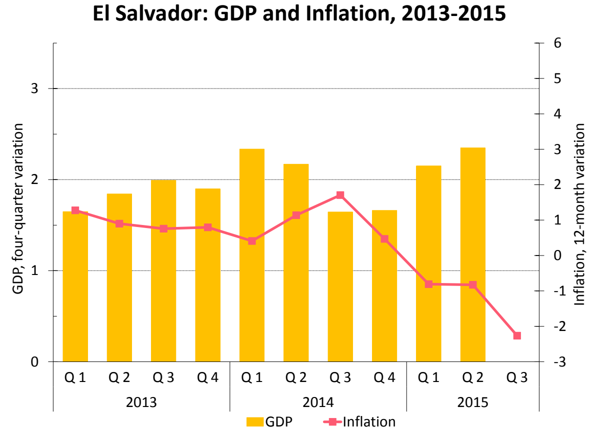
In 2015, fiscal policy struck a balance between meeting expenditure and investment needs and maintaining public finance sustainability, particularly given the pressure exerted by the payment of overdue pensions. NFPS income grew by 4.8% in real terms year-on-year in the first nine months, as a result of a 5.0% increase in tax revenue, which in late 2015 is expected to reach the equivalent of 15.7% of GDP. Total NFPS expenditure grew by 2.0% in real terms in the same period, owing to a 2.7% increase in current expenditure, while capital spending declined by 2.4%.

The government used mainly domestic sources of financing, issuing US$ 672.5 million in treasury bills (LETES) between January and September. The domestic debt stock displayed year-on-year growth of 14.3% in September, to reach US$ 7.5 billion (nearly 30% of GDP). Total outstanding debt grew by an annualized 5.5% to reach US$ 16.2 billion by the third quarter of the year (equivalent to 65% of GDP).

In the financial domain, the nominal interest rate paid on 180-day deposits was 4.29% in September 2015, while the nominal rate charged on loans of up to one year rose to 6.48% in the same period. Total funding for the financial system expanded, fuelled by private sector deposits, while the cumulative credit portfolio as of September was up by 3.2% year-on-year, owing mainly to increases in consumer and housing loans. Net international reserves stood at US$ 2.401 billion in October (5.5% higher than the end-2014 figure).

September 2015 saw the entry into force of the law on financial inclusion, which aims to lay the groundwork for setting up an electronic money system and establishing savings accounts with simplified requirements.

El Salvador: GDP and Inflation, 2013-2015



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

Goods exports were up 5.6% in value terms year-on-year in the first 10 months of 2015, the fastest-growing products being textiles and garments, non-alcoholic beverages, medicines and chemicals. Traditional products, such as coffee, sugar and shrimp, grew by 26.7%. Maquila exports also continued to expand, reporting cumulative growth of 9.1% year-on-year in October. On the import side, despite a 12.4% increase in volumes, foreign goods purchases were down by 0.6% in the same period, as a result of a smaller oil bill, which in October 2015 was displaying a year-on-year saving of US$ 318.1 million. The trade deficit narrowed by 7.0% year-on-year between January and October.

In the first half of the year, the balance-of-payments financial account was in deficit to the tune of US$ 283.4 million, stemming from foreign direct investment (FDI) flows totalling US$ 138.4 million, chiefly in the manufacturing industry, information and communication technologies, and financial activities, and portfolio investment assets totalling US$ 27.4 million.

El Salvador: main economic indicators, 2013-2015

	2013	2014	2015 [a]
	Annual growth rate		
Gross domestic product	1.8	2.0	2.4
Per capita gross domestic product	1.4	1.5	2.0
Consumer prices	0.8	0.5	-0.2 [b]
Real average wage [c]	0.5	0.7	6.9
Money (M1)	2.9	4.0	3.6 [b]
Real effective exchange rate [d]	1.0	0.2	-1.3 [b]
Terms of trade	-0.4	3.5	8.0
	Annual average percentage		
Open urban unemployment rate	5.6	...	...
Central government			
Overall balance / GDP	-1.8	-1.6	-0.7
Nominal deposit rate [e]	3.4	3.8	4.2 [b]
Nominal lending rate [f]	5.7	6.0	6.1 [b]
	Millions of dollars		
Exports of goods and services	6,422	6,482	6,864
Imports of goods and services	11,099	10,950	10,911
Current account balance	-1,574	-1,199	-878
Capital and financial balance [g]	1,248	1,167	958
Overall balance	-327	-33	80

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

The economy expanded at a rate of 2.2% in the first half of 2015, similar to the year-earlier period, driven by increases of 3.3% in the manufacturing industry and 2.7% in commerce, the latter being fuelled by buoyant remittances. Although the agriculture sector recorded positive growth of 1.4%, this was a whole percentage point lower than in 2014. The IVAE index of economic activity, measured by its trend-cycle series, reported sustained year-on-year growth as from the second quarter. September's year-on-year growth of 1.8% (up from -0.8% in the year-earlier period) reflects continued expansions in the mining, transport and communications, agriculture and financial service sectors.

From the expenditure standpoint, El Salvador's GDP growth reflects a surge in goods and service exports in the first half of the year, as well as stronger government and private sector consumption. Private investment required larger imports of capital goods and fuelled an increase in lending to the private sector. Private consumption indicators have risen thanks to gains in wage purchasing power and lower inflation, together with the growth of family remittances, which, in October 2015, were 2.5% higher year-on-year, at US$ 3.519 billion.

Annual inflation to October was negative (-0.2%) —substantially lower than the 1.9% of 12 months earlier— thanks mainly to the slide in fuel prices. The product categories displaying the steepest annual reductions were diesel, gasoline and food products. The drought that occurred in June and July is likely to impact fourth-quarter prices.

On the employment front, the data on ISSS contributors reveal a slower pace of formal job creation, averaging 1.7% in the first eight months of the year compared to the 2.9% reported for the same period in 2014. The slowdown occurred mainly in the mining and quarrying sector and in transport, storage and communications. The real wage index displayed year-on-year growth of 7.2% in August (compared to the 2.7% of 12 months earlier).

For 2016, ECLAC projects growth above the past-decade average, at 2.4%, thanks to the revitalization of El Salvador’s main trading partner, the United States, assisted by low import prices, particularly of intermediate inputs and fuels, and stronger domestic demand. The NFPS fiscal deficit, including pensions, is expected to come in at around 4%; and the central bank is forecasting smaller trade and the current-account deficits. Inflation is expected to edge up, subject to fluctuations in global raw material prices; and the number of formal ISSS-affiliated workers is also set to continue rising in 2016.