El Salvador

ECLAC estimates that El Salvador's GDP will grow by 2.2% in 2019 compared to the previous year's 2.5%, with moderate increases in remittances, exports and public sector investment. The fiscal deficit of the non-financial public sector (NFPS), including pensions, is forecast to rise to 3.1% of GDP (2.7% in 2018), under increasing pressure from pension costs. The balance-of-payments current account deficit is expected to narrow to 4.5% of GDP (4.8% in 2018), owing to a smaller oil bill. Inflation is forecast at 0.4%, similar to 2018, in a context of low fuel prices.

In the presidential elections of February 2019, Nayib Bukele, representing the alliance between the *Nuevas Ideas* (New Ideas) party and the Grand Alliance for National Unity (GANA), won with 53% of the vote. The key aims of the new government are to foster a stable business climate, attract investment and facilitate trade.

Fiscal policy was implemented within the framework of the Fiscal Responsibility Act, with the chief aim of ensuring long-term sustainability. As of September 2019, current revenues of the NFPS totalled US$ 4.554 billion, representing real annual growth of 0.4%, compared to 3.4% in 2018. This lower growth rate is explained by the slacker pace of economic activity, the elimination of the tax on financial transactions by the Constitutional Court, and special revenues obtained in 2018 from a tax amnesty. Total tax revenues grew by 1.0% (versus 6.0% growth in 2018), with income tax generating an additional 2.9% and value added tax revenue up by 1.3%. The tax burden is expected to represent 18.2% of GDP.

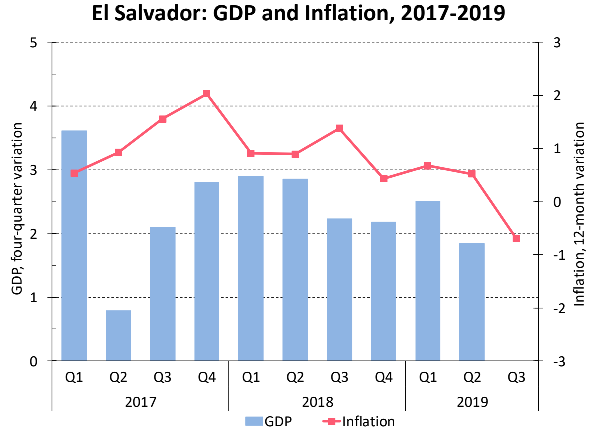
NFPS current expenditure posted real growth of 2.1% (10.3% in the previous year), due to weaker consumer spending (up 2.8% compared to a rate of 8.5% in 2018), compounded by cutbacks in both capital spending (-1.6%) and gross investment (-1.0%).

The medium- and long-term external debt of the NFPS stood at US$ 14.241 billion as of September, representing 53.1% of GDP. If the liabilities of the pension trust fund are included, the debt rises to US$ 19.405 billion (72.3% of GDP, compared to 69.4% as of end-December 2018). Treasury bills (LETES), a short-term financial instrument deployed to meet temporary cash needs, had a balance of US$ 853.304 billion as of June, 4.5% more than in December 2018.

Interest rates on deposits, according to the different maturities, rose moderately in the first nine months of 2019, from average real levels of 2.4%, 3.1% and 3.4% at 30, 60 and 180 days, respectively, in 2018, to 3.3%, 4.0% and 4.3% in the same order in 2019. The one-year lending rate went up from 8.9% to 9.4% in real terms in the same period, and the rate charged to companies increased from 7.4% in 2018 to 7.8% in 2019.

As of September, the total portfolio of lending to the production sector stood at US$ 14.299 billion, representing year-on-year growth

El Salvador: GDP and Inflation, 2017-2019



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

of 5.4%. Significant growth was seen in credit to the construction industry (40.2%), transport (8.6%) and consumption (5.8%).

The Free Trade Agreement between the Republic of Korea and the Central American Republics was ratified by the Central American countries in August 2019 and is expected to enter into force in early 2020. In late October, the second round of the customs union was completed with a view to facilitating trade, logistics and mobility in Central America. Progress was also made on the new Central American Single Customs Code (CAUCA) and on simplifying the procedure for completing the Central American Single Declaration (DUCA-T) to streamline trade at the borders.

El Salvador: main economic indicators, 2017-2019

	2017	2018	2019 [a]
	Annual growth rate		
Gross domestic product	2.3	2.5	2.2
Per capita gross domestic product	1.9	2.1	1.8
Consumer prices	2.0	0.4	-0.9 [b]
Real average wage [c]	1.0	1.0	1.0 [d]
Money (M1)	6.5	5.8	5.4 [e]
Real effective exchange rate [f]	1.8	0.5	-1.0 [e]
Terms of trade [g]	-2.1	-3.1	-1.0
	Annual average percentage		
Open urban unemployment rate	7.0	6.3	...
Central government			
Overall balance / GDP	-0.1	-1.1	-0.9
Nominal deposit rate [h]	4.4	4.2	4.3 [e]
Nominal lending rate [i]	6.5	6.5	6.6 [e]
	Millions of dollars		
Exports of goods and services	7 225	7 533	7 728
Imports of goods and services	11 336	12 668	13 048
Current account balance	-465	-1 242	-1 174
Capital and financial balance [j]	773	1 244	2 341
Overall balance	308	2	1 166

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/ Interannual variation of the period from January to August.
e/ Figures as of September.
f/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
g/ Economic Development Division, calculations for Preliminary Overview 2019.
h/ Basic deposit rate for up to 180 days.
i/ Basic lending rate for up to one year.
j/ Includes errors and omissions.

In the first nine months of the year, exports totalled US$ 4.54 billion, representing weak year-on-year growth of 0.5%, owing to a 4.1% reduction in the value of traditional exports, including sugar (-6.4%) and coffee (-0.7%) in the wake of lower international prices. Maquila exports also shrank by 1.8%, owing to a reduction in exports of electronic chips (-31.1%) and non-knitted clothing (-14.4%). Of El Salvador’s total exports, the United States absorbed 42.1% in 2019 (down from 44.3% in 2018), and the year-on-year growth rate for that nine-month period fell by 4.5%. However, exports to other Central American countries saw year-on-year growth of 6.3%, which offset the fall to the United States market.

Imports totalled US$ 9.014 billion in the first three quarters of 2019, representing a year-on-year increase of 2.2%. In particular, imports of consumer goods were up by 7.1% and those of non-durable goods increased by 7.3%, while maquila imports expanded by 2.2%. The oil bill came in at US$ 1.122 billion, 8.7% less than in the previous year, mainly owing to lower imports of liquefied gas (-45.7% in value), diesel (-13.5%) and gasoline (-11.9%), following the drop in international prices. The trade deficit widened by 3.9% relative to the previous year’s figure, to US$ 4.474 billion.

In the first half of 2019, the balance-of-payments current account posted a deficit of US$ 266 million, US$ 157.2 million less than in the year-earlier period. Net foreign direct investment totalled US$ 436 million, 13.4% below the same period in 2018, owing to the impact of tax reform in the United States. The sectors receiving the largest investment amounts were communications (US$ 160 million), electricity (US$ 116 million) and manufacturing (US$ 108 million). Remittances in the first 10 months totalled US$ 4.642 billion, an increase of US$ 201 million on the prior-year period.

In the first half of 2019, the economy grew by 2.2%, compared to a 2.9% expansion a year earlier. Growth was driven by construction (8.7%), electricity (7.3%) and financial and insurance activities (5.5%), while manufacturing grew by just 0.9%. On the expenditure side, exports grew by 4.2% (compared to 5.2% growth in 2018), while consumption increased by 3% (2% in the previous year). In August, the economic activity volume index (IVAE) was up by 2.4% year-on-year, driven by increases of 18.1% and 6.8% in construction and trade, respectively.

In October, inflation was down by 0.9% year-on-year, compared to a rise of 1.5% in the year-earlier period. This is mainly explained by price reductions in accommodation, electricity and gas (-4.7%), transport (-2.8%) and clothing and footwear (-1.5%). The total number of workers in formal employment (defined as those contributing to social security) grew by 4,589 (0.5%) up to July, with public sector employment (1.2%) outpacing employment in the private sector (0.4%). In July, the national average wage among formal workers was up by 1.0% in real terms (a nominal increase of 1.4%).

ECLAC expects the Salvadoran economy to grow by 2.3% in 2020, driven by public and private investment and supported by increased private consumption. The Standards Committee of the Central Reserve Bank aims to repeal the rule requiring banks to hold 3.0% of their liquid assets as reserves, in order to release about US$ 400 million in funds, which will be channelled mainly to the production sector. Inflation is expected to come in around 0.5%, since the oil price is likely to remain relatively stable as an average for the year. The fiscal deficit, including pensions, is forecast at 3.1% of GDP; and the balance-of-payments current account deficit is projected at 4.5%, in a context of lower coffee prices and less vibrant international trade.