EL SALVADOR

Table 1	2023
Population, million	6.4
GDP, current US$ billion	35.5
GDP per capita, current US$	5580.8
International poverty rate ($2.15)[a]	3.4
Lower middle-income poverty rate ($3.65)[a]	8.6
Upper middle-income poverty rate ($6.85)[a]	27.5
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	88.7
Life expectancy at birth, years[b]	70.7
Total GHG emissions (mtCO2e)	12.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2021).

El Salvador is projected to experience an average growth of 2.5 percent from 2024 to 2026, influenced by a US slowdown affecting remittances and tourism. In 2024, inflation is expected to fall to 2.1 percent, though poverty and vulnerability rates will likely stay constant, highlighting the need for more and better jobs. The current account deficit is expected to narrow, but the fiscal position remains precarious due to uncertain financing options.

Key conditions and challenges

El Salvador has maintained an average growth rate of 2 percent between 2000 and 2019. Its economic performance is closely linked to the US economy, particularly through high remittance rates (26 percent relative to GDP) and trade flows. Poverty and vulnerability are high. Slightly more than one-fourth of the population live on less than US$6.85/day, while two-thirds live on less than US$14/day. Inequality, in contrast, is among the lowest in the region. However, El Salvador faces persistent structural challenges, including low productivity and human capital deficiencies originating from issues such as malnutrition and inadequate schooling levels. Since 2022, substantial progress has been made in reducing gang-related violence, with some positive social and economic outcomes.

Despite being one of the largest recipients of remittances globally, El Salvador runs a chronic current account deficit, stemming from energy price sensitivity and underperforming exports. The ability to finance this deficit through capital inflows, is constrained, further straining reserves. While the banking sector remains profitable with low levels of non-performing loans, reductions in reserve requirements to accommodate government short-term debt raise concerns.

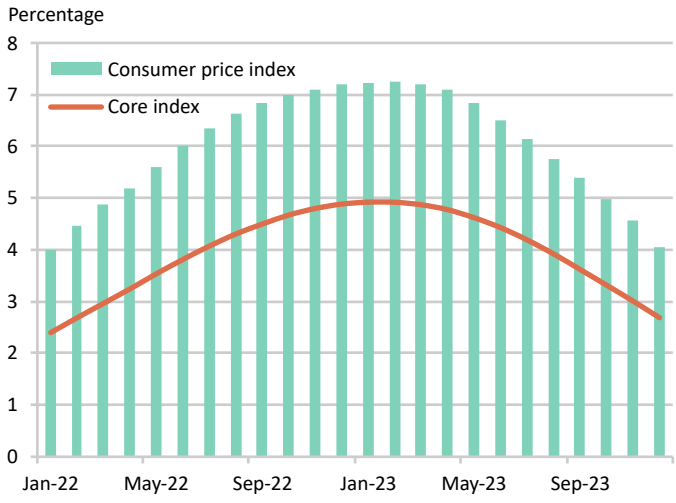
Addressing these challenges will require structural reforms, particularly in education and infrastructure, to stimulate long-term productivity growth, attract FDI, and generate jobs for the underprivileged. The latest PISA figures from the OECD reveal that improvements in education system are needed. However, persistent fiscal imbalances, coupled with limited access to external borrowing and a substantial current account deficit, present significant hurdles that may undermine potential growth.

Recent developments

El Salvador's growth is projected to reach 2.7 percent in 2023. Throughout the year, economic activity gained momentum, with year-on-year growth accelerating from 0.5 percent in the first quarter to 3.6 percent by the third quarter. This upswing was fueled by public investment and consumption, primarily driven by remittances, alongside a rebound in exports. The poor segment of the population, especially the extremely poor, rely less on remittances than more affluent households. This limits the potential impact of remittances on poverty reduction. Following a peak of 7.2 percent in 2022, inflation moderated to an average of 4.1 percent in 2023.

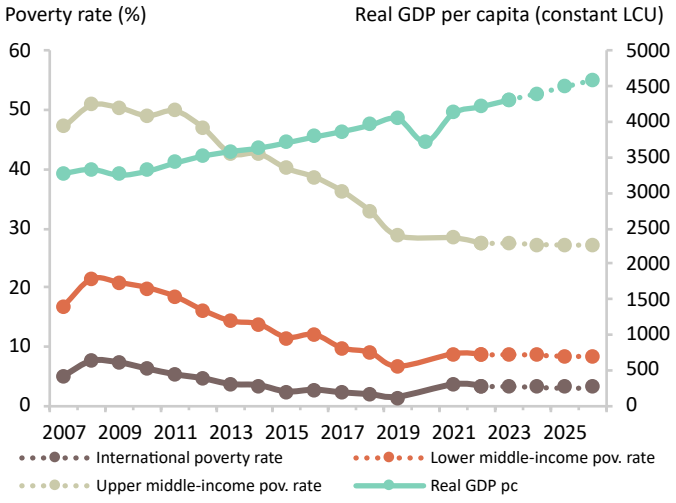
The fiscal deficit widened to 4.2 percent of GDP in 2023, up from 2.7 percent in 2022. Government revenues increased 6.8 percent, driven by higher current taxes stemming from improved economic performance, alongside rising social security contributions (13.8 percent). However, government spending outweighed it, expanding 10 percent, driven by both public

FIGURE 1 El Salvador / Consumer price index inflation and core inflation, 12 months moving average inflation



Source: World Bank staff calculations.

FIGURE 2 El Salvador / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

investment (69 percent) and consumption (9 percent). Nonetheless, social spending continues to be among the lowest in Latin America. El Salvador's public debt reached 76 percent of GDP in 2023.

The 2023 pension reform has temporarily improved the fiscal accounts by reducing interest payments until 2027. However, it may lead to future fiscal pressures due to increases in the minimum pension payout. Furthermore, while the reform has improved liquidity, El Salvador still confronts major financing challenges, and financing options are limited to pensions, banks and official creditors, as the government's access to international markets is closed.

The current account deficit, which widened in 2022, is expected to close 2023 at 2.5 percent, driven by declines in international fuel and food prices. Remittances continue to play a pivotal role in El Salvador's external position, stabilizing at 26 percent of GDP. Tourism has benefited from improvements in security, and arrivals have increased from 2.4 to 3.4 million between 2022 and 2023. Foreign Direct Investment rose by 1.1 percentage points, reaching 1.7 percent of the GDP in 2023, partially financing the deficit. Reserves remain low at 9 percent of GDP.

Outlook

El Salvador is projected to grow on average at 2.5 percent between 2024-2026, approaching its potential growth. This deceleration stems from a slowdown in US activity, likely dampening remittances, and tourism. Inflation is projected to continue its downward trajectory, reaching 2.1 percent in 2024. However, poverty and vulnerability rates are anticipated to remain almost constant until 2026, indicating that most of the population are not reaping the benefits of overall growth. This underscores the necessity for targeted policies, and the creation of higher-wage jobs.

The current account deficit is expected to narrow in 2024 on the back of improved net exports, despite the projected slowdown in remittances. This deficit is expected to be partly financed by official lending and FDI. Nonetheless, the pressure on international reserves is likely to persist without additional capital inflows and/or short-term fiscal consolidation.

The primary fiscal deficit is forecasted to decrease in 2024, primarily due to reduced public spending associated with the election cycle, the phase-out of subsidies (except for propane gas), hiring freezes, and the moderation of automatic wage adjustments. Debt service will remain below 2022 levels due to restructuring short-term debt into long-term instruments, lowering rollover risk. Moreover, revenues are expected to remain strong helped by enhanced tax collection efforts.

El Salvador's fiscal position remains delicate for a dollarized economy, facing liquidity challenges and limited financing options. Medium-term prospects continue to be risky without a credible medium-term fiscal consolidation plan. Furthermore, the interest savings resulting from the pension reform will turn into a cost after 2027. However, a sustained decrease in sovereign spreads and in the public debt to GDP ratio could facilitate El Salvador's return to international markets relaxing liquidity constraints.

Downside risks to the outlook include a slowdown in global economic activity, a shift in immigration policy in the US, and an overreliance on domestic financing that could crowd out the private sector. Moreover, a more severe El Niño could disrupt supply chains and increase logistics expenses, affecting the health of vulnerable households. While security measures are expected to boost consumption and investment, their long-term sustainability remains uncertain.

TABLE 2 El Salvador / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	11.2	2.6	2.7	2.5	2.5	2.5
Private consumption	16.1	2.6	1.8	1.7	1.7	1.7
Government consumption	7.2	-1.4	4.4	1.3	1.2	1.1
Gross fixed capital investment	25.1	2.6	6.4	5.1	3.6	3.6
Exports, goods and services	29.4	10.2	3.5	1.6	2.4	2.5
Imports, goods and services	28.9	1.2	3.9	1.5	1.4	1.4
Real GDP growth, at constant factor prices	10.2	3.1	2.7	2.5	2.5	2.5
Agriculture	4.0	0.6	-1.9	-1.8	-1.1	-1.7
Industry	10.5	3.6	1.5	2.9	2.5	2.5
Services	10.7	3.2	3.5	2.7	2.8	2.8
Inflation (consumer price index)	3.5	7.2	4.1	2.1	1.9	1.7
Current account balance (% of GDP)	-4.3	-6.6	-2.5	-2.3	-2.0	-2.0
Net foreign direct investment inflow (% of GDP)	1.0	-0.3	1.7	1.7	1.8	2.0
Fiscal balance (% of GDP)[a]	-4.8	-2.7	-4.4	-2.7	-2.6	-2.9
Revenues (% of GDP)	23.8	24.2	24.3	24.3	24.3	24.3
Debt (% of GDP)[b]	82.7	78.0	75.7	74.3	73.0	72.2
Primary balance (% of GDP)[a]	-0.4	1.9	-0.5	1.1	1.3	1.0
International poverty rate ($2.15 in 2017 PPP)[c,d]	3.6	3.4	3.4	3.3	3.2	3.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	8.7	8.6	8.7	8.6	8.5	8.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	28.4	27.5	27.6	27.2	27.0	27.0
GHG emissions growth (mtCO2e)	5.4	-0.5	-0.6	0.1	0.2	0.3
Energy related GHG emissions (% of total)	51.2	50.8	50.4	50.3	50.1	49.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal and Primary Balance correspond to the non-financial public sector.
b/ Debt is total public debt.
c/ Calculations based on SEDLAC harmonization, using 2022-EHPM. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
d/ Projections using microsimulation methodology.