EL SALVADOR

Table 1	2023
Population, million	6.4
GDP, current US$ billion	34.0
GDP per capita, current US$	5344.2
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]	90.8
Life expectancy at birth, years[b]	71.5
Total GHG emissions (mtCO2e)	13.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

In recent decades, El Salvador has sustained stable, albeit low growth, achieving reductions in poverty and inequality, although progress on poverty has slowed since the pandemic. The country has also managed to curb gang violence—a significant barrier to inclusive growth. GDP growth is projected at 2.9 percent in 2024 but is expected to slow to 2.5 percent by 2026 due to limited measures to address fiscal and external imbalances as well as other structural obstacles to growth.

Key conditions and challenges

El Salvador is a small, dollarized economy closely tied to the U.S. through trade and remittances. Between 2000 and 2023, GDP grew at an average annual rate of 2.1 percent, while official poverty declined by 14 percentage points, reaching 30.3 percent of the population in 2023. However, poverty has risen in the past two years, with around 10 percent of the population living in extreme poverty in 2023. Inequality remains among the lowest in the region. Since 2022, strict security measures have significantly reduced gang violence, contributing to economic gains and job creation. However, structural challenges remain: low productivity and human capital deficiencies, stemming from malnutrition and poor schooling, impede further progress on inclusive growth.

The progress on crime reduction coincided with a deterioration in fiscal accounts (and the stalling of poverty reduction), with public debt exceeding 84 percent of GDP in 2023. Financing options are restricted to pensions, banks, official creditors, and short-term domestic debt. The 2023 pension reform provided short-term fiscal relief of approximately USD 1.5 billion but also poses risks of deepening structural imbalances and generating contingent liabilities, particularly through a higher minimum pension payout.

To enhance productivity, attract foreign direct investments (FDI), diversify the economy, and further reduce poverty and inequality, comprehensive reforms are needed to address inefficiencies in labor markets, enhance poor skill acquisition, and improve infrastructure. After focusing on security in his first term, President Bukele has signaled a shift towards strengthening the economy and growth during his second term which can impact poverty reduction. However, ongoing fiscal and external imbalances present major challenges to achieving sustained growth through policy reforms.

Recent developments

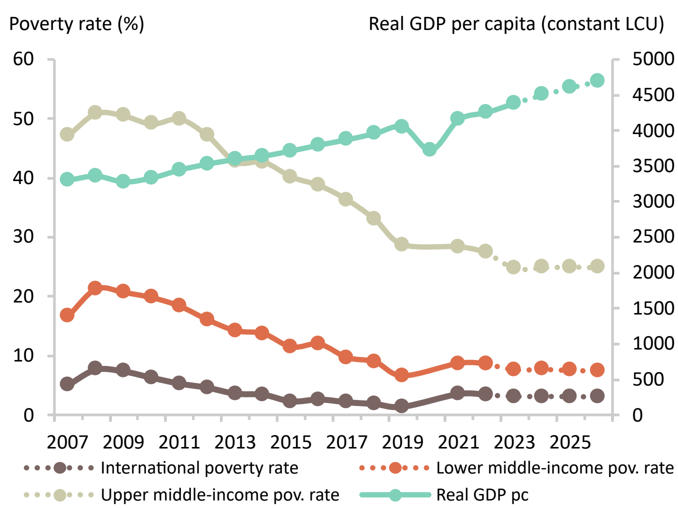
In 2023, El Salvador's economy grew by 3.5 percent, surpassing its historical average. This heightened economic performance was driven by public investment, exports, and private consumption, bolstered by increased foreign demand, higher remittances, an improved business environment following enhanced security measures, and a significant drop in inflation from 7.2 percent in 2022 to 4.0 percent in 2023. In 2024, tourism, exports, and public spending continued to drive growth, with the first quarter reporting an annual growth rate of 2.6 percent. Meanwhile, year-to-year inflation declined to slightly below 2 percent in June.

While stronger economic activity boosted government revenues by 6.8 percent in 2023, higher government spending (12.3 percent rise) increased the fiscal deficit to 4.7 percent of GDP, 2.0 percentage points higher than 2022. Public debt peaked at

FIGURE 1 El Salvador / Coinbase bitcoin price

Source: Federal Reserve Economic Data.

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



Source: World Bank. Notes: see Table 2.

84.9 percent of GDP, despite two sovereign debt buyback operations in 2023 and 2024. Sovereign spreads remained close to 700 bps, with limited financing options restricted to pensions, banks, and official creditors. To address these challenges, authorities are negotiating an IMF program, though Bitcoin's legal tender status remains a contentious issue amid its recent value volatility.

The current account deficit narrowed to 1.4 percent of GDP, aided by lower commodity prices, growing remittances that reached 24.2 percent of GDP in 2023, and tourism receipts. Foreign Direct Investment rose to 2.1 percent of GDP, helping to finance the deficit, but international reserves stayed low at 9.1 percent of GDP (about 2 months of imports).

Between 2021 and 2023, national poverty figures have been increasing (2.5 percentage points), while international poverty figures at 6.85 USD per capita per day (2017 PPP) show a decrease of a slightly higher magnitude (3.6 percentage points). Official and international poverty figures diverge due to methodological differences, particularly in how they account for the impact of inflation. The government has made poverty reduction a priority for the new presidential term.

Outlook

While growth in 2024 (2.9 percent) will remain above the historical average, it will slow over the medium term due to slower US growth and uncertainty regarding fiscal and external imbalances. Inflation is projected to ease to 2.1 percent in 2024. The current account deficit is projected to widen to 2.7 percent of GDP in 2024 and remain stable over the medium term, driven by slower remittance growth and a deteriorating trade balance. This deficit will be partially financed by FDI, expected to remain low at 2.0 percent of GDP. Without additional capital inflows or fiscal adjustments, international reserves are expected to remain low.

Despite these recent favorable conditions in terms of growth and low inflation, poverty measured with the upper-middle country poverty line of US$6.85/day (2017 PPP) is projected to stay stable, as growth in remittances is expected to decline.

The primary balance is expected to improve in 2024, largely due to reduced public spending linked to the election cycle, elimination of specific subsidies, and public sector wage and employment adjustments. The overall fiscal deficit is projected to close at 4.5 percent of GDP. This deficit will likely be financed through investment projects from multilaterals, pension assets not yet invested in treasury bills, and increased domestic debt holdings.

El Salvador's fiscal position will remain challenging in the medium term as liquidity needs persist. While the government is closing the 2024 financing gap, it still needs to secure an annual USD 900 million for 2025 and 2026, with a concerning USD 1.7 billion gap in 2027, including a Eurobond payment due that year.

Risks to economic performance include a potential global slowdown, changes in U.S. immigration policy, reliance on domestic financing that could crowd out private investment, and financial exposure to Bitcoin's volatility. Additionally, with a 79 percent likelihood of a La Niña event in late 2024, supply chain disruptions could further slow economic activity and increase fiscal pressures.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	11.9	2.8	3.5	2.9	2.7	2.5
Private consumption	9.5	2.5	3.4	2.6	2.4	2.2
Government consumption	9.0	-1.2	3.2	2.5	2.3	2.1
Gross fixed capital investment	25.3	4.4	8.9	3.0	2.9	2.7
Exports, goods and services	29.8	9.1	5.2	2.3	2.2	2.3
Imports, goods and services	28.8	0.9	-1.4	2.0	2.1	2.1
Real GDP growth, at constant factor prices	10.3	3.4	3.4	2.9	2.7	2.5
Agriculture	3.2	-1.2	0.4	0.7	1.4	1.6
Industry	9.2	4.1	4.8	3.0	2.9	2.5
Services	11.4	3.5	3.1	3.1	2.7	2.6
Inflation (consumer price index)	3.5	7.2	4.0	2.1	1.9	1.7
Current account balance (% of GDP)	-4.3	-6.8	-1.4	-2.7	-2.8	-2.7
Net foreign direct investment inflow (% of GDP)	1.3	0.4	2.1	2.2	1.9	2.0
Fiscal balance (% of GDP)[a]	-5.5	-2.7	-4.7	-4.5	-4.4	-4.4
Revenues (% of GDP)	24.5	24.6	24.7	25.0	24.9	24.8
Debt (% of GDP)[b]	83.9	79.2	84.9	84.6	84.2	83.5
Primary balance (% of GDP)[a]	-2.5	0.4	0.2	0.4	0.5	0.5
International poverty rate ($2.15 in 2017 PPP)[c,d]	3.6	3.4	3.1	3.1	3.1	3.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	8.7	8.6	7.7	7.7	7.6	7.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	28.4	27.5	24.8	24.9	25.0	24.9
GHG emissions growth (mtCO2e)	8.5	0.5	-0.6	1.4	1.0	1.1
Energy related GHG emissions (% of total)	53.2	53.5	53.4	53.8	53.7	53.7

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 2023-EHPM. Actual data: 2022 and 2023 (Preliminary). Nowcast: 2024. Forecasts are from 2025 to 2026.
d/ Projections using microsimulation methodology.