



PERSPECTIVAS ECONÓMICAS PARA LA MYPE EN EL 2021



ECONOMIC OUTLOOK FOR SMES IN 2021

QUARTERLY REPORT

DECEMBER 2020



ECONOMIC OUTLOOK FOR SMEs IN 2021

THE OUTLOOK IS MODERATELY OPTIMISTIC IF THE DYNAMIC CONTINUES AT THE CURRENT RYTHM

The Salvadorean economy had its hardest moments during May and June of 2020. Nonetheless, against all odds, it has been able to recover faster than expected.

Among the sectors that have led this boost are SMEs, which are characterized by their high level of informality, above 90%. Also, they give employment to almost 2 million Salvadorans.

Albeit an uncertain first uncertain Quarter is expected to come due to the electoral juncture, the **SMEs Observatory** estimates that once this period is over, and in a context where the pandemic is more under control, 2021 will register an upturn from the activity of SMEs. It will be better than the one registered during 2020, and it will be propelled by the following factors:

- An increase of family remittances
- An economic activity that will recover faster than expected
- A low-risk scenario in terms of politics
- There is an optimistic Outlook of SME entrepreneurs, especially in the sectors of Commerce, Services, and Production, which make up more than 70% of all workers within the informal economy.
- A higher local demand, due to the problems that can be predicted regarding international supply chains.

INCREASE OF REMITTANCES

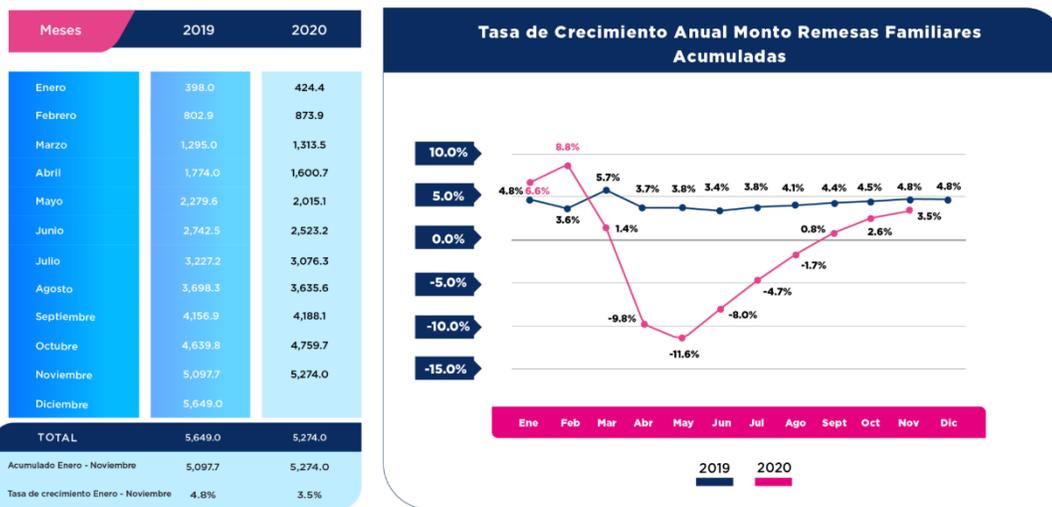
According to the data from the Homes and Multiple Purposes Survey 2019, more than 24% of Salvadoran homes, which amounts to more than 1,600,000 people, receive family remittances, an income that they use for consumption spending by a 96%.

Remittances went through a very fast recovery since June, which has allowed for a 3.5% accumulated annual growth despite the pandemic, as of September 2020. Analysts predict that if the trend continues, the growth will be above the one registered during 2019, which was 4.5%

The recent announcement of Trump's Administration regarding the extension of Temporary Protected Status (TPS) and change of government to a democratic one, allows us to reasonably predict that there will be more aperture and less pressure on the immigrant population. Also, the shift of the Administration suggest that the normalization of the status from the immigrant

population could advance and that there is no reason to think that the remittance's flow will diminish, especially when the local population is demanding more help from their relatives that are under a better situation in the United States.

CRECIMIENTO ANUAL ACUMULADO DE REMESAS FAMILIARES



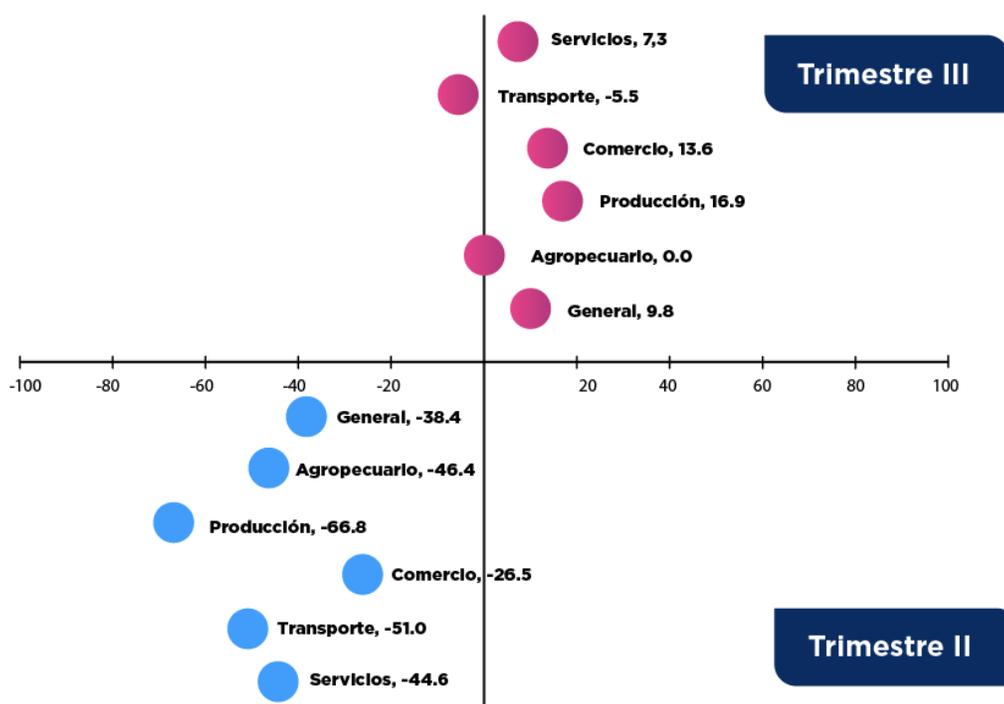
According to the image above, at the moment when the pandemic had its biggest impact on our country, the growth rate of remittances fell by 11.6% from January till May, in comparison to the same period a year prior. As a result, and after seeing this phenomenon, some specialized organisms predicted that remittances would suffer falls greater than 20% in the current year.

At the end of November, the registered growth was 3.5%, which indicates, that even against all odds the rhythm of growth had recovered by 130%, with high chances of exceeding last year's growth rates of 4.8%.

ECONOMIC SECTORS DYNAMISM

In the following graph, you can see how during the Second Quarter of 2020, of all economic sectors SMEs (red-colored spheres) were the ones pessimistically ponderating the economy. They were qualifying the moment as not suitable for investment or increasing production because they were assuming a decrease in demand for their services and products.

CONFIANZA EMPRESARIAL POR SECTOR ECONÓMICO



At the closure of September 2020, with the recent reopening of the economy that ponderation improved in all economic sectors and it acquired a neutral and slightly optimistic qualification. This is an important turning point upwards.

As was mentioned before, 96% of all remittances flow is used for consumption, this money is directly injected into the economy; free of speculations and without income being concentrated. That turns them into a strong energizer for all economic sectors, among which are SMEs.

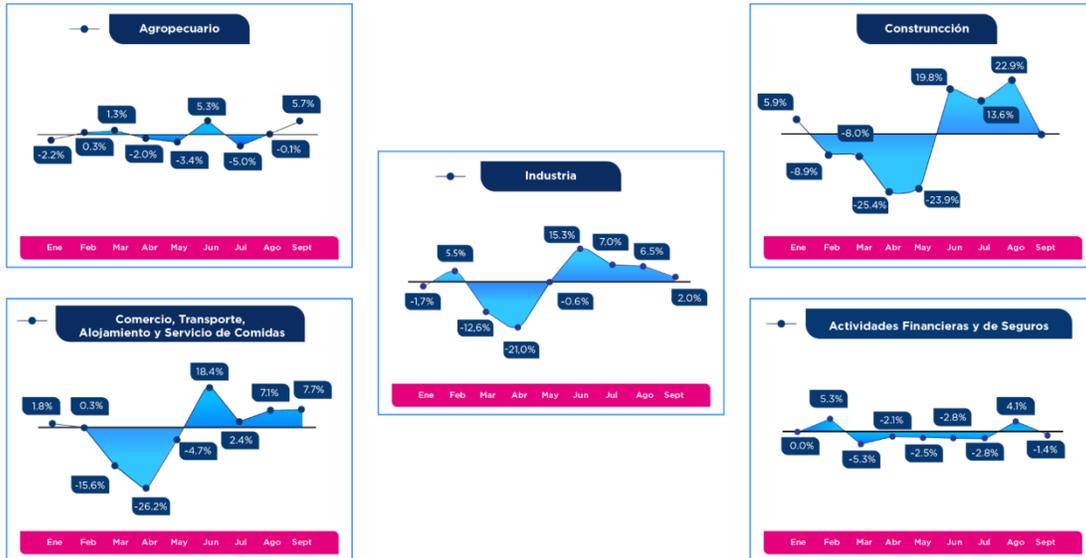
This dynamism can also be seen in the behavior of the Monthly Added Value Index, whose main objective is to indicate the interannual trajectory of productive activity, and thus provide signals to economic agents about the trend-cycle of economic activity and its changes.

The monthly behavior of the VAT (value-added tax) for segments that are more closely linked to the informal sector, due to commercial exchange activities and because they contribute to informal employment. In particular, sectors like Construction, Commerce, Transport, and Industry registered an accelerated and overcompensated reactivation, which impacted SMEs positively.

After a period with negative monthly growth rates, that went over 20% between March and May 2020; when that time had gone by, SMEs have been able to recover and find sustainable

growth mechanisms to keep going forward. Being at a position in which they can accomplish similar results as the ones before the pandemic, by the end of 2020.

% DE CRECIMIENTO MENSUAL IVAE POR SECTOR ELABORACIÓN PROPIA CON BASE A DATOS DEL BCR



The impact that has been reflected in the agriculture sector has been of a lesser magnitude, the indicator has had a constant behavior and the pandemic hasn't caused many obstacles. Between January and September 2020, the monthly growth has been 0.0%.

In the financial sector, there is a more stable behavior. Analyzing its behavior is important because SMEs will not be able to ensure their sustainability and development if their main provider of financial resources is facing a critical situation. This sector has enough available funds to keep providing SMEs with the financial resources that they may need in the reopening, sustainability, and growth of their operations.

The only element that has to be monitored about the financial sector is how they increase their innovative efforts to attend to the new necessities and product configurations brought by the pandemic. In terms of how SMEs have adapted in order to make business.

The sectors that have been the most affected by the pandemic and that registered a slow reactivation are those of, Tourism, Accommodation and Education.

Year 2021 will put into test the capacity to innovate and invent that they have developed throughout this year to guarantee the continuity of their businesses.



SMEs FACE A SMALL RISK IN POLITICAL TERMS

Although in terms of the main economic aggregates, the first Quarter has a highly uncertain outlook due to the elections, which could potentially impact the dynamism of the economy, SMEs are less exposed to the dynamics of formal business sectors and monopolistic positions on the market; due to the local character of their operations. Even so, the caution of all economic agents and the uncertainty of the results of the elections allow us to predict a slow first Quarter for SMEs; as it has happened in the past.

Once the fiscal situation gets cleared up, and once we have gained more control over the Pandemic, we can almost predict a second Quarter in which sectors that were left behind like Tourism, Education and Accommodation will start to see an increase in their sales. It is expected that those elements, together with the previously mentioned factors, will substantially improve the perspective for SMEs as a whole.

Menor impacto ha sido el que se refleja en el sector agropecuario, en el cual ha existido un comportamiento constante del indicador sin mayores retos planteados por la pandemia, teniendo de enero a septiembre 2020, en promedio mensual un crecimiento de 0.0%.

En el Sector financiero se visualiza un comportamiento estable. Analizar su comportamiento es importante. dado que, las mypes no lograran apalancar su sostenibilidad y desarrollo si su principal proveedor de recursos financieros enfrentara una situación crítica. Este sector posee la disponibilidad de fondos suficientes para seguir proporcionando a las Mypes los recursos financieros que necesiten en el reinicio, sostenibilidad y crecimiento de sus operaciones.

El único elemento que debe advertirse en cuanto al sector financiero es que deben incrementar sus esfuerzos innovadores para entender las nuevas necesidades y configuración de productos que la pandemia trajo consigo de cara a las nuevas formas de hacer negocio que han desarrollado las mypes en general.

Los sectores más afectados por la pandemia y que registran una reactivación lenta son los sectores de Turismo, Alojamiento y Educación.

El año 2021 permitirá poner a prueba toda la capacidad inventiva e innovadora que han desarrollado durante este año, para garantizar la continuidad de sus negocios.

SMEs BUSINESS OWNERS THAT HAVE AN OPTIMISTIC OUTLOOK ABOUT THE END OF THE YEAR



Of all respondents of the **SME Observatory**, during September 2020, 66.7% of all people who carry out production activities expressed that they awaited a favorable atmosphere for their businesses at the end of the current year. 66.3% of the interviewees that compose the Commerce Sector had the same opinion, and 63% of the service sector had a similar viewpoint. As can be seen on the graph, more than 50% of the interviewed respondents of all sectors have an optimistic outlook for the future.

What the Outlook index measures is the perception of informal SMEs regarding their expectation on how the economy will behave, more specifically their businesses, during the following months.

Right upon this moment, since June, SMEs have registered a sustained recovery for 7 months in a row. Due to the following reasons:

1. The capacity to adapt in the face of adversity
2. An entrepreneurial spirit and optimism that characterizes business owners of SMEs
3. A business dynamic that is mainly driven by the need to survive, and not by speculation or the need to make profits.
4. Available funds from the financial system to continue accompanying their financial needs.
5. Constant growth of the flow of family remittances
6. The rehabilitation and continuity plans for businesses powered by formal business owners that demand their products and services.



To conclude, we can deduce that the pandemic has brought 3 positive aspects that will have to be dealt with during 2021. These are:

1. Optimization and improvement in the consumption habits of the population. They have switched from emotional spending to using their reasoning more at the moment of purchase.
2. An increased adoption of technology and communications tools for business goals, which imply new development opportunities for SMEs.
3. A bigger adoption of tools for control and to manage unforeseen events (spending habits, insurance acquisition, business decisions taken with more previous reasoning instead of being emotionally driven, among others)

To summarize, the **SME Observatory** estimates that, because SMEs differ from the dynamic of the general economy, and due to the improvement of the macroeconomic environment during the second Quarter of 2020; the activation of all sectors from the economy at the end of the year; the development of a newfound capacity to be resilient; a bigger control of the Pandemic during 2021; and the little impact that the political scene has on the sector; it is possible to estimate that the outlook of the sector will be moderately positive. As long as the current dynamic continues its behavior and the scenario doesn't change dramatically.