

Fiscal and external vulnerabilities

General Information



GDP	USD25.22bn (World ranking 105, World Bank 2014)
Population	6.38mn (World ranking 107, World Bank 2014)
Form of state	Republic
Head of government	Salavador Sanchez Ceren (FMLN)
Next elections	2017, presidential



Strengths

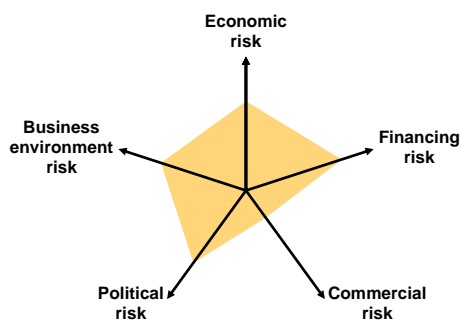
- Dollarized economy
- Low and stable inflation
- FOMILENIO II grant from the U.S. for putting into practice growth-enhancing reforms
- Sound banking system, thanks to prudent supervision and regulation

Weaknesses

- High fiscal deficit and public debt
- Lack of export diversification
- Widespread corruption, especially in public institutions
- Vulnerability to external shocks (through global trade and financial links)
- High dependence on remittances
- High exposure to natural disasters (hurricanes and earthquakes)

Country Rating

B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	47% 1	United States
Guatemala	14% 2	Guatemala
Honduras	11% 3	Mexico
Nicaragua	6% 4	China
Costa Rica	4% 5	Honduras

By product (% of total)

Exports	Rank	Imports
Apparel & clothing accessories	36% 1	Petroleum
Coffee, tea, cocoa, spices	6% 2	Textile yarn
Sugar and honey	5% 3	Cereals
Miscellaneous manufactures	5% 4	Miscellaneous manufactures
Paper and paper manufactures	5% 5	Plastics in primary forms

Source: ITC, Chelem

Economic Overview

Remittances-dependent growth and low inflation

El Salvador's growth has lagged the Latin American region for over a decade, but it is now showing resilience and is expected to grow on average by +2.5% in 2015-2017, above the average of +1.7% achieved in 2010-2014. While the country fully benefits from currently low oil prices, private consumption (93% of GDP), mainly financed by remittances, will continue to be an important driver of growth. Investment should also remain dynamic after the approval in late 2013 of a public-private partnership law and by the launch of Fomilenio II, a cooperation program with the United States that aims to support investment, increase growth and reduce poverty.

Consumer prices are well-anchored by the dollarization of the economy effective since 2001. Inflation is expected to become negative at -1% in 2015, mainly due to the fall in energy prices, and to remain at low levels thereafter.

Fiscal and external fragilities

The economy is highly dependent on the U.S. cycle, through remittances, exports and investment. Exports are concentrated in low value added and labor intensive goods (such as textiles) and agricultural products (coffee). Due to the dollarization, the amount of liquidity in the economy depends on USD inflows. Given the persistent external deficits and the relatively low level of FDI inflows (which covered less than 10% of the current account deficit), liquidity tensions cannot be ruled out. Notably, the tightening of monetary policy in the U.S. will be a major challenge. The FX reserves held by the Central Bank have been on a downward trend and cover just three months of imports.

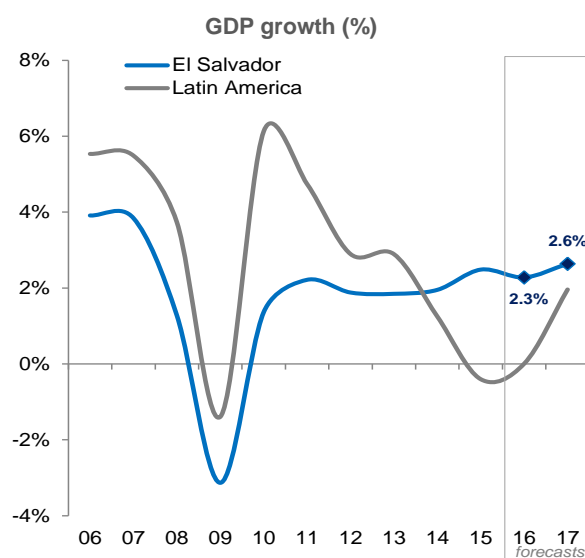
Public accounts are fragile. On the top of this, revenue growth was weakened in 2013-2014 by the Constitutional Court reversal of some earlier tax measures that in turn caused public investment cuts and the accumulation of payment arrears. At the same time, imbalances in the pension system and electricity and water subsidies continue to weigh heavily on the budget. The fiscal deficit is expected to widen to -4.8% of GDP in 2017, driving public debt above 60% of GDP from 2016.

El Salvador has achieved important structural reforms over the past years, including trade liberalization and privatization of many state holdings. However, the business environment has space for improvement. According to the World Bank's *Doing Business 2016* survey, El Salvador ranks 86th out of 189, but shortcomings remain in particular with regard to paying taxes, dealing with construction permits, protecting investors and starting a business. Moreover, violence, crime and drug-trafficking remain areas of concern.

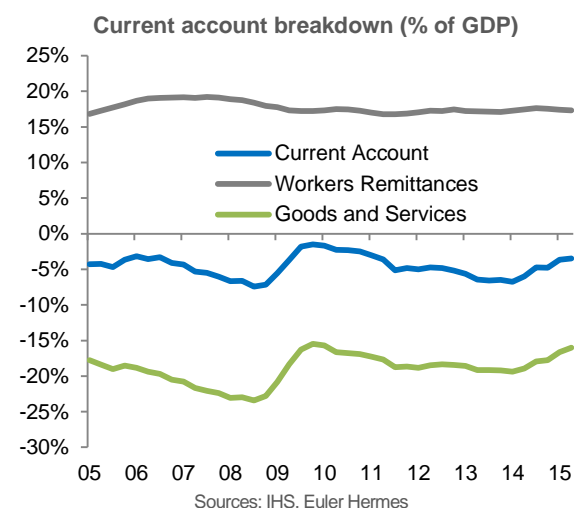
Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)	2.0	2.3	2.1	2.6
Inflation (% end-year)	1.1	-1.1	0.5	1.9
Fiscal balance (% of GDP)	-3.4	-4.3	-4.6	-4.8
Public debt (% of GDP)	56.8	58.7	60.6	62.1
Current account (% of GDP)	-3.8	-3.5	-3.8	-3.5
External debt (% of GDP)	50.8	52.1	53.4	54.5

Sources: National sources, IMF-WEO, IHS, Euler Hermes



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