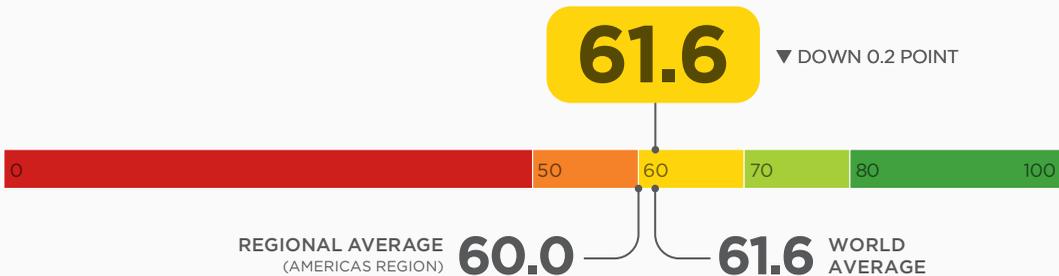# EL SALVADOR

El Salvador's economic freedom score is 61.6, making its economy the 90th freest in the 2020 *Index*. Its overall score has decreased by 0.2 point due to deteriorated **business freedom** and **investment freedom** scores. El Salvador is ranked 16th among 32 countries in the Americas region, and its overall score is slightly above the regional average and equal to the world average.

The Salvadoran economy began its long slide from the mostly free category to the lower reaches of the moderately free 15 years ago. GDP growth has been relatively modest as well because of such structural factors as the country's low productive base and an uncompetitive wage structure.

For the economy of El Salvador to reverse its declining level of economic freedom, the new government would have to prioritize policies to improve business freedom, labor freedom, and the three rule-of-law indicators: property rights, judicial effectiveness, and government integrity.
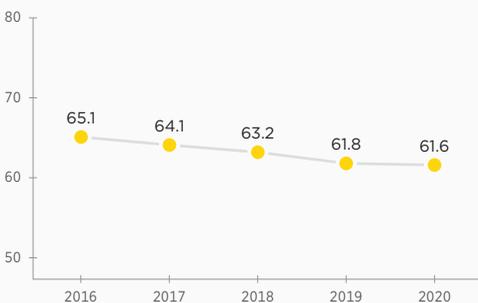
WORLD RANK:
90

REGIONAL RANK:
16

ECONOMIC FREEDOM STATUS:
MODERATELY FREE

ECONOMIC FREEDOM SCORE

61.6 ▼ DOWN 0.2 POINT

| 0 | 50 | 60 | 70 | 80 | 100 |

REGIONAL AVERAGE (AMERICAS REGION) **60.0**

61.6 WORLD AVERAGE

HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): −7.5

RECENT FREEDOM TREND

- 2016: 65.1
- 2017: 64.1
- 2018: 63.2
- 2019: 61.8
- 2020: 61.6

QUICK FACTS

POPULATION:
6.6 million

GDP (PPP):
$53.4 billion
2.5% growth in 2018
5-year compound annual growth 2.3%
$8,041 per capita

UNEMPLOYMENT:
4.4%

INFLATION (CPI):
1.1%

FDI INFLOW:
$839.6 million

PUBLIC DEBT:
67.1% of GDP

2018 data unless otherwise noted. Data compiled as of September 2019

BACKGROUND: After its 12-year civil war ended in 1992, El Salvador enjoyed strong export-led economic growth under pro-market, center-right National Republican Alliance (ARENA) presidents until the leftist and statist Farabundo Martí National Liberation Front (FMLN) took power for a decade in 2009. The 38-year-old former mayor of San Salvador, Nayib Bukele, of the small center-right Gran Alianza por la Unidad Nacional (GANA) party won a landslide victory and began a five-year term as president in June 2019. Bukele will need ARENA support, however, to confront anemic economic growth; weak government effectiveness; and a surge in violence, homicides, and drug trafficking. Remittances account for nearly one-fifth of GDP, and about one-third of the population lives below the poverty line.
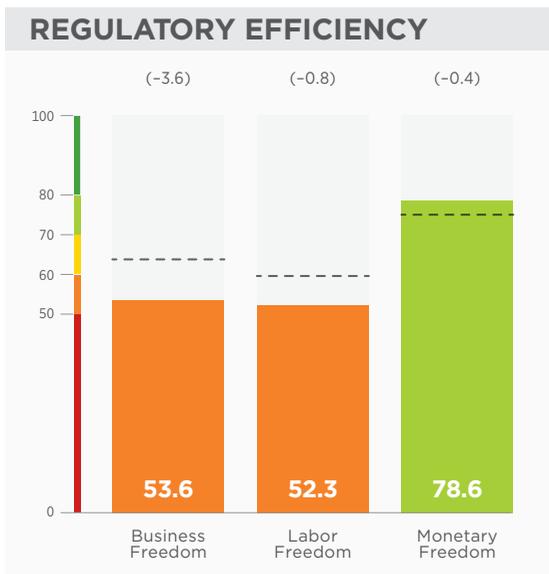
12 ECONOMIC FREEDOMS | EL SALVADOR

RULE OF LAW

(+4.0) (+1.0) (+8.2)

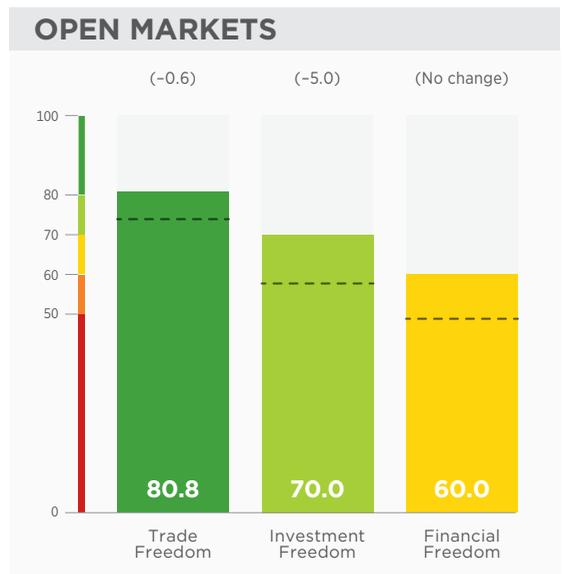| Property Rights	Judicial Effectiveness	Government Integrity
41.6	30.1	31.6
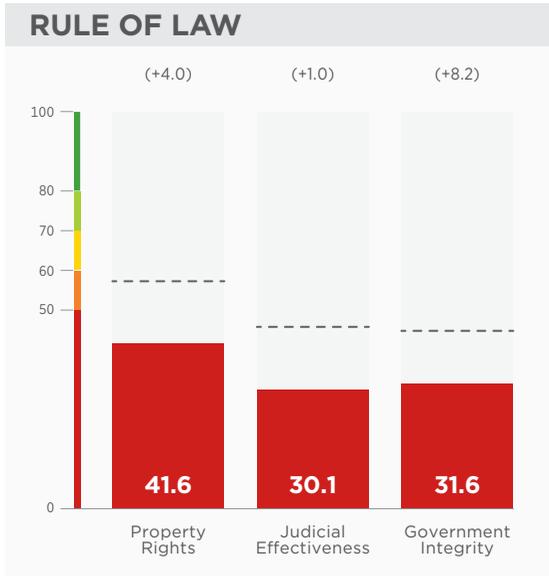
Real and personal private property rights are recognized, but the slow, costly, and unproductive judicial system makes execution of real estate guarantees difficult. Investment and commercial dispute resolution proceedings routinely last years. The judiciary is independent but may be subject to political influence. Corruption is a serious problem: Three of the past four presidents have been indicted, and a former attorney general is in prison on corruption-related charges.

GOVERNMENT SIZE

(−0.3) (−3.5) (−1.9)

Tax Burden	Government Spending	Fiscal Health
77.8	82.8	80.0
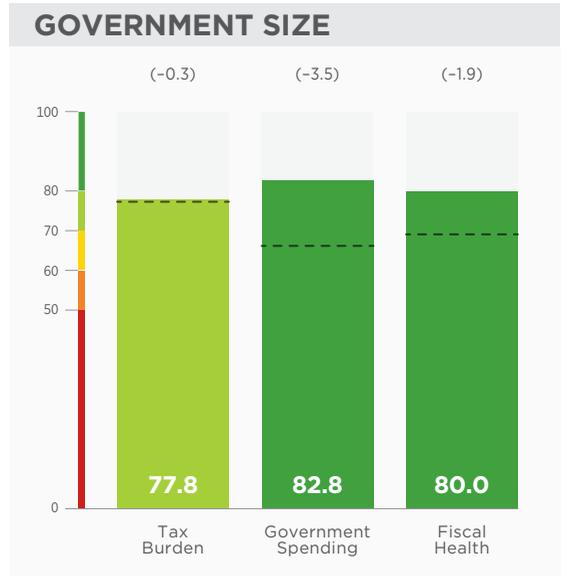
The top personal income and corporate tax rates are 30 percent. Other taxes include value-added and excise taxes. The overall tax burden equals 20.4 percent of total domestic income. Government spending has amounted to 23.9 percent of the country's output (GDP) over the past three years, and budget deficits have averaged 2.6 percent of GDP. Public debt is equivalent to 67.1 percent of GDP.

REGULATORY EFFICIENCY

(−3.6) (−0.8) (−0.4)

Business Freedom	Labor Freedom	Monetary Freedom
53.6	52.3	78.6

The outgoing government made only tepid attempts to improve the business climate. Laws and regulations are not applied uniformly, and businesses face lengthy bureaucratic delays. The Salvadoran workforce is hard-working but for the most part lacks education and professional skills. According to the International Monetary Fund, energy and transport subsidies amounted to about 2.5 percent of GDP in 2018.

OPEN MARKETS

(−0.6) (−5.0) (No change)

Trade Freedom	Investment Freedom	Financial Freedom
80.8	70.0	60.0

The total value of exports and imports of goods and services equals 77.5 percent of GDP. The average applied tariff rate is 2.1 percent, and eight nontariff measures are in force. Cumbersome bureaucracy and institutional weaknesses continue to undercut investment flows. The financial sector is dominated by banks that are mostly foreign-owned. Two state-owned banks focus on mortgages and agricultural-sector financial services.