

EL SALVADOR

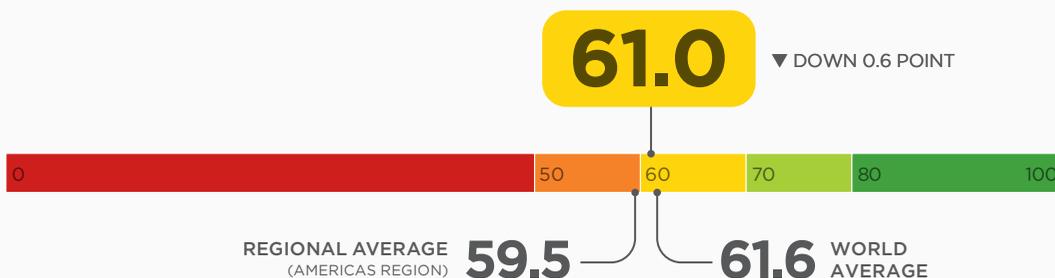
El Salvador's economic freedom score is 61.0, making its economy the 94th freest in the 2021 *Index*. Its overall score has decreased by 0.6 point, primarily because of a decline in **trade freedom**. El Salvador is ranked 18th among 32 countries in the Americas region, and its overall score is above the regional average but below the world average.

The economy of El Salvador lost further ground this year in the moderately free category and is at risk of dropping into the ranks of the mostly unfree. To return to an upward trajectory, the government will need to focus on institutional reforms to strengthen judicial effectiveness and government integrity and also take steps to improve the regulatory environment to enhance business freedom and labor freedom.

IMPACT OF COVID-19: As of December 1, 2020, 1,120 deaths had been attributed to the pandemic in El Salvador, and the economy was forecast to contract by 9.0 percent for the year.

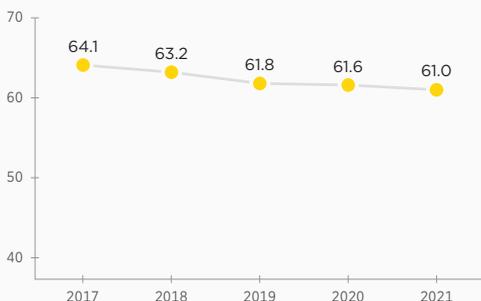


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): -8.1

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
6.5 million

GDP (PPP):
\$55.6 billion
2.4% growth in 2019
5-year compound annual growth 2.4%
\$9,140 per capita

UNEMPLOYMENT:
4.1%

INFLATION (CPI):
0.1%

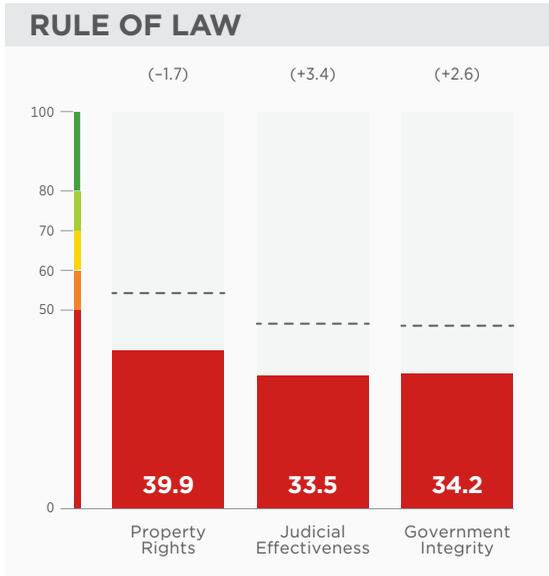
FDI INFLOW:
\$662.2 million

PUBLIC DEBT:
69.0% of GDP

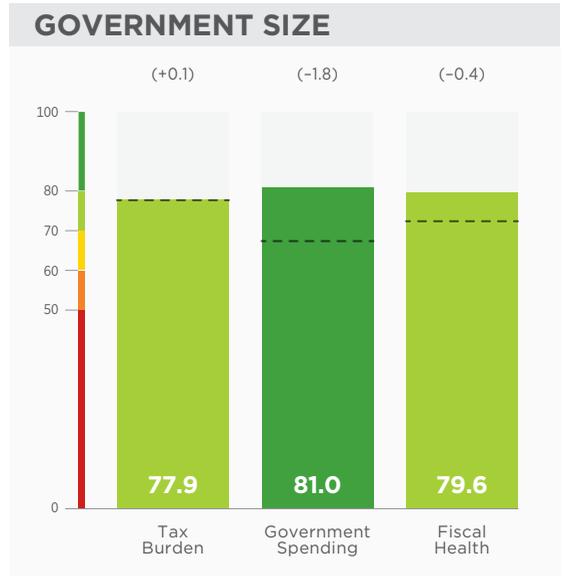
2019 data unless otherwise noted. Data compiled as of September 2020

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. Nayib Bukele, who began a five-year term as president in June 2019, pledged to improve El Salvador's investment climate to satisfy foreign investors concerned about bureaucracy, corruption, and the politicized legal system. However, his contentious relationship with the opposition-controlled Congress and often-questionable use of executive orders could undermine his reform agenda. Remittances account for nearly one-fifth of GDP. El Salvador's location in Central America's isthmus makes it a key transshipment point for drug trafficking.

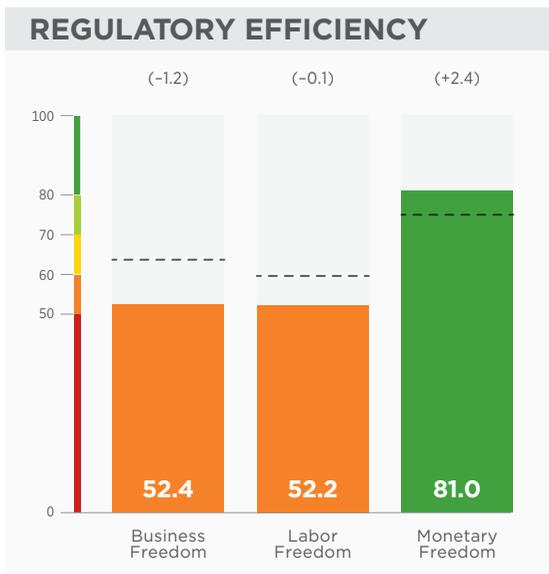
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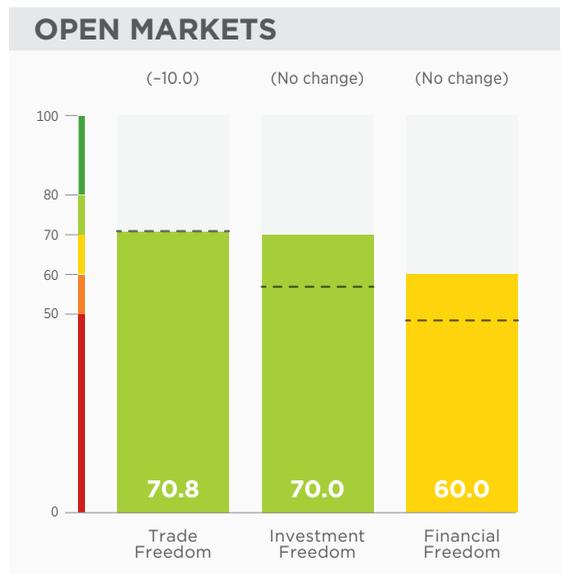
Although private property, both non-real estate and real estate, is recognized and protected by law in El Salvador, enforcement efforts to protect property rights are uneven. Mortgages and real property liens exist. The judicial system is slow and costly. Corruption scandals are common at the federal legislative and judicial levels and at the municipal level. Three of the past four presidents have been indicted for corruption.



The top individual income and corporate tax rates are 30 percent. Other taxes include value-added and excise taxes. The overall tax burden equals 20.2 percent of total domestic income. Government spending has amounted to 25.1 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.6 percent of GDP. Public debt is equivalent to 69.0 percent of GDP.



The cost of dealing with construction permits has increased, as has the time required to obtain an electricity connection. Labor laws dictate many heavy-handed government regulations, and they are enforced erratically. The government's 2020 budget included the extension of ongoing subsidies for electricity, liquid petroleum gas, and natural gas.



El Salvador has 11 preferential trade agreements in force. The trade-weighted average tariff rate is 7.1 percent, and eight nontariff measures are in effect. In general, foreign and domestic investors are treated equally, and there is no screening of foreign investment. Banking is highly concentrated, and four private banks account for over 70 percent of total assets. Foreign banks can offer all of the services that are offered by domestic banks.