

Keep an eye on the stars and stripes

General Information



GDP	USD25.850bn (World ranking 98, World Bank 2015)
Population	6.127mn (World ranking 108, World Bank 2015)
Form of state	Presidential republic
Head of government	Salvador Sánchez Cerén (left-wing), since 2014
Next elections	Legislative 2018 (3-year term), presidential 2019 (5-year term)



Strengths

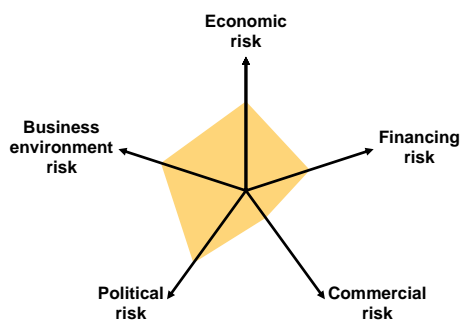
- Dollarized economy
- Low and stable inflation
- The government is conducting fiscal and institutional growth-boosting reforms, supported by the FOMILENIO grant from the US
- Sound banking system, thanks to prudent supervision and regulation

Weaknesses

- High fiscal deficit and public debt
- Lack of export diversification
- Vulnerability to external shocks through global trade and financial links
- High dependence on remittances, particularly from the US
- Widespread corruption, especially in public institutions
- High criminality

Country Rating

B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	47% 1	39% United States
Honduras	14% 2	10% Guatemala
Guatemala	14% 3	8% China
Nicaragua	7% 4	7% Mexico
Costa Rica	5% 5	6% Honduras

By product (% of total)

Exports	Rank	Imports
Clothing	34% 1	14% Mineral fuels
Plastics	6% 2	7% Electrical machinery
Clothing accessories	5% 3	7% Industrial machinery
Paper	5% 4	6% Plastics
Sugar	5% 5	4% Vehicles

Source: Comtrade (2015)

Growth remains resilient

El Salvador fell behind the region for over a decade but has recently achieved to flip the situation. The economy is expected to register growth figures above its neighbors. Private consumption should remain an important driver of growth. Credit growth has accelerated, supporting economic activity. Foreign direct investment has increased and negatively impacted the current account deficit.

Monetary policy should remain accommodative in order to support still lagging domestic private sector investment and consumer spending. Inflation is gradually picking up from negative territory and is expected to remain moderate in the following years. Remittances are at their highest level in the country's history (around 17% of GDP) and capable of financing consumption to a substantial extent.

Despite an impressive track record of reforms, structural weaknesses remain

El Salvador has achieved important structural reforms over the past years, including trade liberalization and privatization of many state holdings. However, doing business in the country remains challenging. Access to credit notably deteriorated according to the World Bank, while violence, crime and drug-trafficking hampered business activity and discouraged investment. In addition, exports are still overly concentrated in low value added and labor intensive goods and agricultural products.

The public accounts are in a fragile state. Despite recent fiscal reforms, the public deficit is expected to widen, driving public debt upward. Fiscal consolidation should continue along with tax and institutional reforms. Regarding the current account balance, the deficit shrank as a result of low oil prices, but is expected to widen again.

High dependence on the US economy

The Salvadorian economy is highly dependent on the US cycle through different channels, such as remittances, exports and investment. The current account deficit will likely be sensitive to potential protectionist policies adopted by the new US administration.

The dollarization of the economy entails that the amount of liquidity in the domestic market depends on USD inflows. Moreover, the foreign exchange reserves held by the Central Bank have been on a downward trend and cover just over three months of imports.

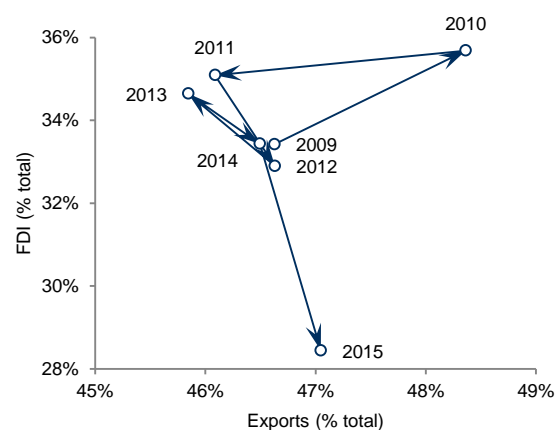
The tightening of monetary policy in the US could become a major challenge if it departs from the expected path of normalization.

Key economic forecasts

	2015	2016e	2017f	2018f
GDP (real, %)	2.5	2.4	2.4	2.3
Inflation (average-of-period, %)	-0.7	1.0	1.5	2.0
Inflation (end-of-period, %)	1.0	0.3	2.0	2.0
Fiscal balance (% of GDP)	-3.2	-3.5	-3.9	-4.3
Public debt (% of GDP)	58.7	60.4	62.0	63.6
Foreign debt (% of GDP)	59.2	59.9	59.1	57.5
Current account (% of GDP)	-3.6	-2.1	-2.9	-3.4

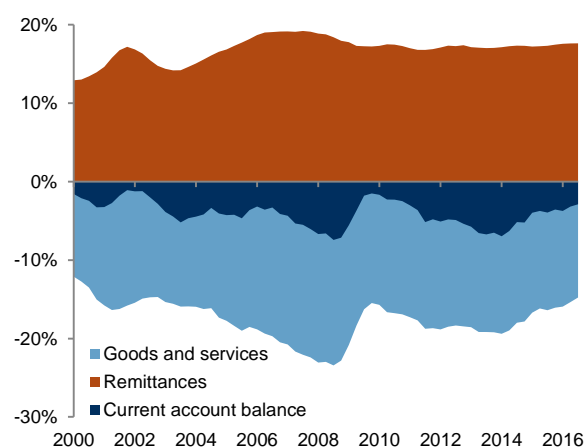
Sources: IMF, Euler Hermes

US FDI position and exports to the US



Sources: BEA, UNCTAD, Comtrade, Euler Hermes

Current account breakdown



Sources: IHS, Euler Hermes

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