

**COUNTRY PROFILE:****REPUBLIC OF EL SALVADOR**

IES/02: ATTACHMENT A

**DATED:****SEPTEMBER 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	I.L.C. Specified Bank

*Recent Political Highlights*

- ❑ Chief of state since June 2004 has been President Elias Antonio Saca Gonzalez;
- ❑ The president is elected by popular vote for a five-year term and the next election is scheduled for March 2009.

*Recent Economic Highlights*

- ❑ As one of the most densely populated countries in Latin America, El Salvador has a population of 6.9m that is expected to grow at a rate of 1.7% in 2007;
- ❑ An open business environment and little corruption have made El Salvador one of Latin America's most attractive places for business. It is becoming a business centre in the region. The construction of Puerto Cutuco, the deep sea port, and the growing investment in renewable energy projects are positioning the country as a regional leader for initiatives that bring economic benefits such as investments and creating sustainable employment sources;
- ❑ The IMF review of El Salvador noted that the economy has strengthened during the last year, with output growth of 4.5% in 2006. Inflation rose 5%, reflecting a sharp mid-year increase in the price of petroleum products. The Fund noted robust growth in nontraditional exports while remittances offset a decline in maquila exports. The outlook for 2007 was favourable with growth expected to be supported by investment and nontraditional exports. It forecasts GDP expansion of 4% in 2007 and 2008 and inflation of 4.4% in 2007 and 3.5% in 2008. The mission concurred with the authorities that a core challenge is sustaining a high rate of economic growth over the medium term and bringing about a marked reduction in poverty, while enhancing the economy's resilience to shocks;
- ❑ The 2007 Index of Freedom report says that El Salvador's economy is 70% free, making it the 29<sup>th</sup> freest economy in the world. Its Government expenditure is less than 15% of GDP and state-owned businesses account for less than 1% of total revenue. Starting a business takes an average of 26 days compared to the world average of 48 days. It is home to nine private commercial banks, two state-owned banks and two foreign bank branches;
- ❑ El Salvador lost its share of the coffee market during its internal war in the 1980s after being one of the top five powerhouses in coffee production. With conflict now well behind them, the coffee industry in El Salvador has supported the Cup of Excellence programme as a means to provide them with the specialty focus needed to help reestablish its former prestige. The 2007 coffee auction delivered its highest overall average prices to twenty-three winning farmers. The success experienced at the auction provides the winning farmers with the financial incentive to continue to focus on the kind of quality that has garnered this small Central American country's esteem among top specialty coffee buyers worldwide.

*Latest Trade Developments*

- ❑ Major exports: offshore assembly exports, coffee, sugar, shrimp, textiles, chemicals and electricity;
- ❑ Major imports: raw materials, consumer goods, capital goods, fuels, food, petroleum and electricity;
- ❑ Main trading partners: US, Guatemala, Honduras, Nicaragua, Mexico, Germany, China and Brazil;
- ❑ Since El Salvador implemented the Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) last year, it has seen a 68% increase in overall exports from \$240m in 2005 to \$404m in 2006. El Salvador was the first Central American nation to implement the CAFTA-DR accord in March 2006 and this has helped strengthen its export culture and increase investments. Currently about 60% of El Salvador's exports are destined for the US and an estimated 2m of its nationals work there illegally. Financial remittances from El Salvadorans overseas are equivalent to 16% of GDP;
- ❑ El Salvador is now looking beyond the US. It approved a legislature for a free trade agreement with Taiwan (for the export of 60,000 tonnes of tariff-free sugar in January 2008), that was signed in May 2007 which represents a significant step for the country in its search for market opportunities across the globe. President Saca signed a free trade agreement with Colombia, which will allow 75% of goods to enter the country tariff free. El Salvador and the rest of Central America is set to start formal negotiations with the EU for a free trade agreement. The relationship between El Salvador and China is very strong and stable as there have been frequent mutual exchanges between the official and private sectors of both countries;
- ❑ SA's exports to El Salvador totaled R4.6m in 2006 from R7.8m in 2005 and nil in the year to June 2007.