

EL SALVADOR

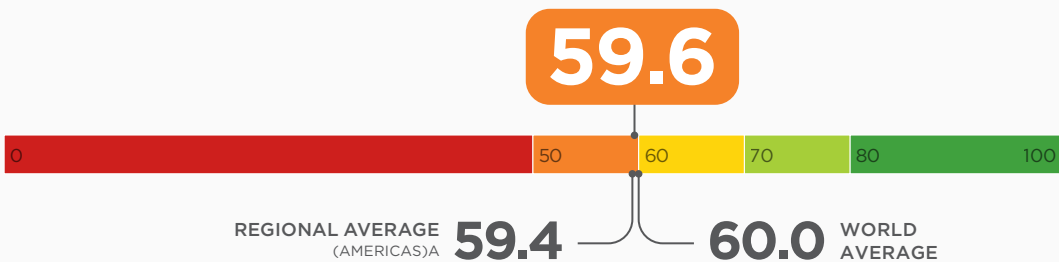
El Salvador's economic freedom score is 59.6, making its economy the 90th freest in the 2022 *Index*. El Salvador is ranked 18th among 32 countries in the Americas region, and its overall score is above the regional average but below the world average.

Over the past five years, El Salvador's economic growth accelerated until 2019, turned negative in 2020, and rebounded in 2021. A five-year trend of declining economic freedom has continued. Dragged down by sharp drops in scores for **fiscal health** and **trade freedom**, El Salvador has recorded a 4.5-point overall loss of economic freedom since 2017 and has fallen from the "Moderately Free" category to the "Mostly Unfree" category. Scores for **tax burden** and **government spending** are relatively good, but **government integrity** is weak.

IMPACT OF COVID-19: As of December 1, 2021, 3,778 deaths had been attributed to the pandemic in El Salvador, and the government's response to the crisis ranked 146th among the countries included in this *Index* in terms of its stringency. The economy contracted by 8.6 percent in 2020.

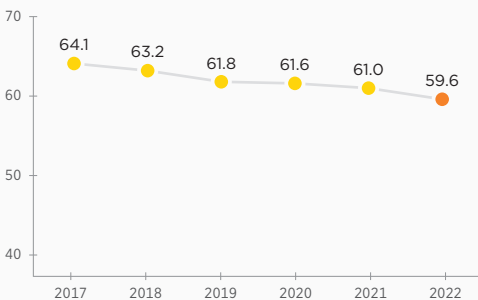
WORLD RANK: **90** | REGIONAL RANK: **18**
ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): -9.5

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
6.5 million

GDP (PPP):
\$54.6 billion
-8.6% growth in 2020
5-year compound annual growth 0.2%
\$8,422 per capita

UNEMPLOYMENT:
7.0%

INFLATION (CPI):
0.2%

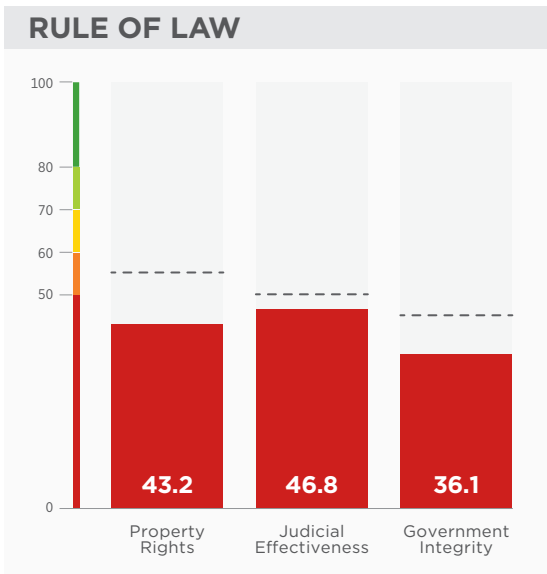
FDI INFLOW:
\$200.0 million

PUBLIC DEBT:
88.2% of GDP

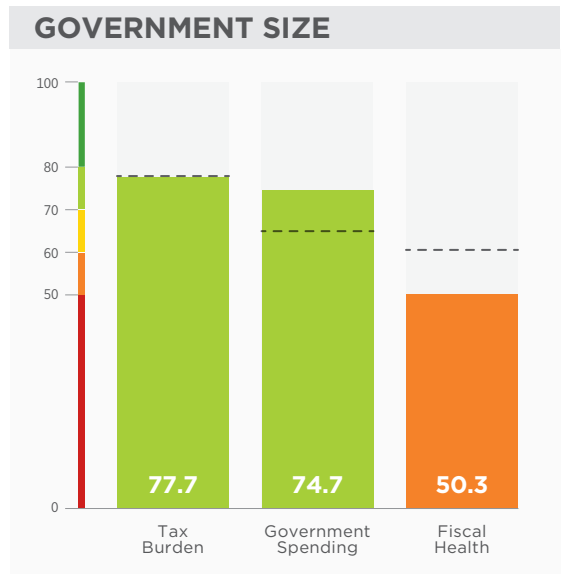
2020 data unless otherwise noted. Data compiled as of September 2021

BACKGROUND: After its 12-year civil war ended in 1992, El Salvador enjoyed robust growth under center-right governments until the leftist and statist Farabundo Martí National Liberation Front (FMLN) took power in 2009. Nayib Bukele, a former FMLN mayor, formed a third party and handily won a five-year term as president in 2019. He pledged to improve the investment climate by addressing investor concerns about bureaucracy, corruption, and the politicized legal system. Since taking office, however, Bukele has increasingly exhibited authoritarian tendencies. His Supreme Court allies have unconstitutionally permitted him to seek an immediate second term, and his commitment to reform is now in question. Its location on Central America's isthmus makes El Salvador a key transshipment point for drug trafficking.

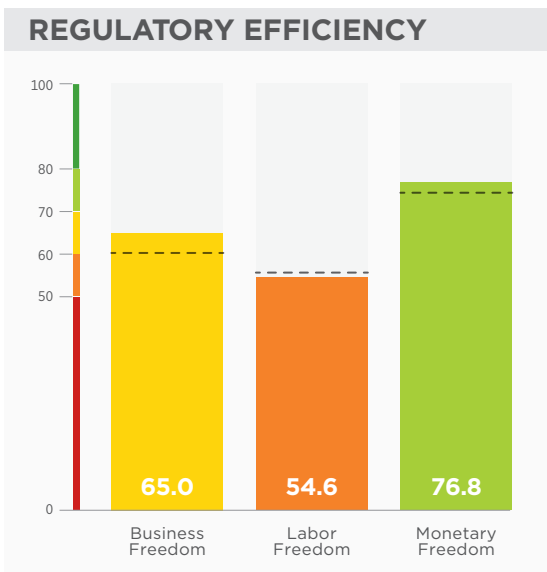
12 ECONOMIC FREEDOMS | EL SALVADOR



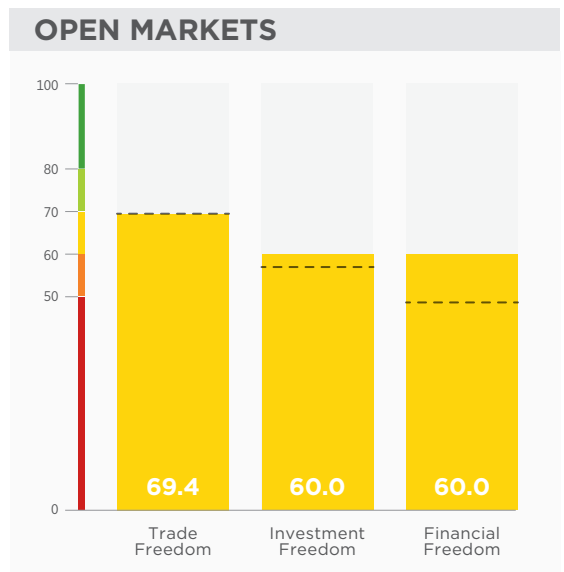
Property rights are recognized by law, but enforcement is uneven. The judiciary is independent but slow and costly, and some judges have been subject to political, economic, or other corrupting influences. Corruption is widespread at all levels of government. In June 2021, the increasingly corrupt and authoritarian Bukele administration terminated El Salvador's participation in a regional agreement against impunity.



The top individual income and corporate tax rates are 30 percent. Other taxes include value-added and excise taxes. The overall tax burden equals 20.8 percent of total domestic income. Government spending has amounted to 29.1 percent of total output (GDP) over the past three years, and budget deficits have averaged 4.6 percent of GDP. Public debt is equivalent to 88.2 percent of GDP.



Nontransparent and contradictory emergency decrees in response to COVID-19 exacerbated an already murky regulatory environment that traditionally has made the conduct of business in El Salvador complicated. Laws and regulations are not applied uniformly. Some labor laws are enforced more than others. The government continues to subsidize state-owned enterprises in energy production, water supply and sanitation, ports, and airports.



El Salvador has 13 preferential trade agreements in force. The trade-weighted average tariff rate is 7.8 percent, and 12 nontariff measures are in effect. Cumbersome bureaucracy and institutional weaknesses continue to undercut investment flows. The financial sector is dominated by mostly foreign-owned banks. Two state-owned banks focus on mortgages and agricultural-sector financial services, respectively.