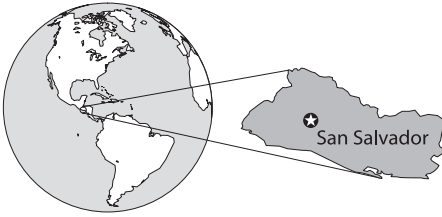


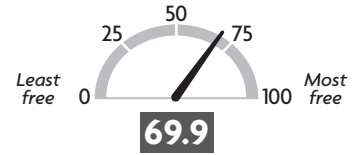
# EL SALVADOR



World Rank: **32**

Regional Rank: **3**

## Economic Freedom Score



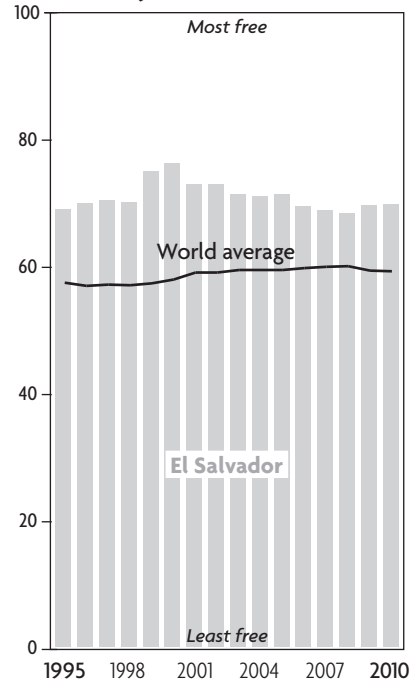
**E**l Salvador's economic freedom score is 69.9, making its economy the 32nd freest in the 2010 *Index*. Its overall score is 0.1 point higher than last year, with only small movements in any of the 10 economic freedoms. El Salvador is ranked 3rd out of 29 countries in the South and Central America/Caribbean region, and its overall score is well above the world average.

El Salvador has a solid record of economic and structural reform, and its economy has become more modern and service-based. General openness to international commerce, privatizations of state-owned enterprises, and a moderate tax regime have contributed to progress toward greater economic freedom. The economy performs well in many of the 10 economic freedoms, particularly trade freedom, fiscal freedom, and investment freedom.

El Salvador's overall economic freedom remains diluted by two institutional weaknesses. Property rights are moderately well protected, but the relatively weak and inefficient judicial system remains a critical area in need of reform. Freedom from corruption is the only economic freedom indicator where El Salvador scores below the world average.

**BACKGROUND:** An estimated 75,000 Salvadorans died in the 1980–1992 civil war. Since the 1992 peace accord, political parties have cooperated on political and economic reforms, the restoration of civil liberties, and respect for human rights. Steady economic growth and poverty reduction are due in part to the National Republican Alliance (ARENA) party's free-market policies in the mid and late 1990s. Coffee exports remain significant, but much growth has come from *maquila* industries and the services sector. Annual emigrants' remittances of roughly \$3 billion are also vital. El Salvador participates in the Central America–Dominican Republic–United States Free Trade Agreement. In March 2009, Farabundo Marti Liberation Front (FMLN) leader Mauricio Funes became El Salvador's first leftist president. A poor government education system and increasing gang violence are major problems.

## Country's Score Over Time



## Quick Facts

**Population:** 6.1 million

**GDP (PPP):** \$41.7 billion

2.5% growth in 2008

3.6% 5-year compound annual growth

\$6,794 per capita

**Unemployment:** 6.3%

**Inflation (CPI):** 7.3%

**FDI Inflow:** \$784 million

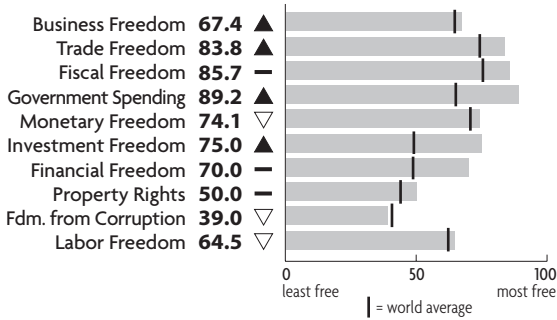
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## EL SALVADOR'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 67.4

The overall freedom to conduct a business is relatively well protected under El Salvador's regulatory environment. Starting a business takes about half the world average of 35 days. Obtaining a business license takes less than the world average of 218 days. Bankruptcy is somewhat lengthy but not costly.

### TRADE FREEDOM — 83.8

El Salvador's weighted average tariff rate was 3.1 percent in 2008. Import restrictions and bans, services market access barriers, restrictive sanitary and phytosanitary regulations, export subsidies, and a few other discriminatory applications of standards add to the cost of trade. Ten points were deducted from El Salvador's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 85.7

El Salvador has average tax rates. The top personal and corporate income tax rates are 25 percent. Other taxes include a value-added tax (VAT), a tax on insurance contracts, and excise taxes. In the most recent year, overall tax revenue as a percentage of GDP was 13.4 percent.

### GOVERNMENT SPENDING — 89.2

Total government expenditures, including consumption and transfer payments, are low. In the most recent year, government spending equaled 19 percent of GDP. The economy is largely privatized, but monopolies persist in transportation, banking, and electricity distribution.

### MONETARY FREEDOM — 74.1

Although the economy is fully dollarized, inflation has risen, averaging 6.3 percent between 2006 and 2008. The government controls the price of some goods and services, including liquid propane gas, public transport, and electricity. Government ministries directly subsidize water services and set the distribution-service price. The government subsidizes diesel, petroleum, and liquid propane gas. Ten points were deducted from El Salvador's monetary freedom score to adjust for measures that distort domestic prices.

### INVESTMENT FREEDOM — 75

The law grants equal treatment to foreign and domestic

investors. Investors who begin operations with 10 or fewer employees must present plans to increase employment to the Ministry of Economy. Small-business concerns and investment in certain sectors face additional regulation or restriction. Laws and regulations are relatively transparent and generally foster competition. Bureaucratic procedures are relatively streamlined, although commercial law enforcement remains inefficient and inconsistent. Regulatory agencies are often understaffed and inexperienced. There are no controls or requirements on current transfers, access to foreign exchange, or most capital transactions. El Salvador's 1983 constitution allows the government to expropriate private property for reasons of public utility or social interest, and indemnification can take place either before or after the fact. No single domestic or foreign entity can own more than 245 hectares of land. Rural lands may not be acquired by foreigners from countries where Salvadorans do not enjoy the same right.

### FINANCIAL FREEDOM — 70

El Salvador's financial sector is one of Central America's most advanced. Banking is sound and relatively well managed, and credit is easily accessible. Following a decade of liberalization and consolidation, there has been robust growth in deposits and domestic assets. Banks are now largely foreign-owned, but two of the 12 operating in the country are state-owned. The four largest banks account for over 80 percent of total assets. A wide range of financial services are available, and non-performing loans, which have climbed since 2006, account for about 3 percent of the total. Banking regulations are open and transparent. Non-bank financial institutions are limited by the lack of personal savings and low disposable income. El Salvador's well-capitalized banking sector has not been adversely affected by the global financial turmoil.

### PROPERTY RIGHTS — 50

Private property rights are moderately well protected. Lawsuits move very slowly and can be costly and unproductive. The legal system is subject to manipulation by private interests, and final rulings may not be enforced. Judicial inefficiency and crime are among the main constraints on business. There have been credible complaints about judicial corruption.

### FREEDOM FROM CORRUPTION — 39

Corruption is perceived as significant. El Salvador ranks 67th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. It is against the law to solicit, offer, or accept a bribe. Most government corruption occurs at lower levels of the bureaucracy.

### LABOR FREEDOM — 64.5

Relatively flexible labor regulations enhance employment opportunities and productivity growth. Restrictions on work hours are not rigid. The non-salary cost of employing a worker is low, but dismissing an employee is difficult.