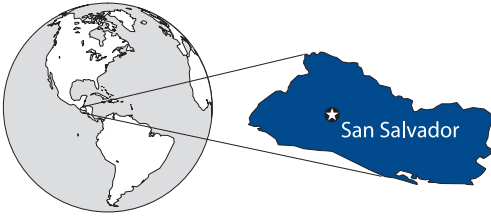
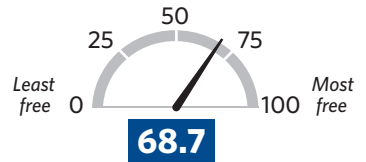


# EL SALVADOR



World Rank: **41** Regional Rank: **5**

## Economic Freedom Score



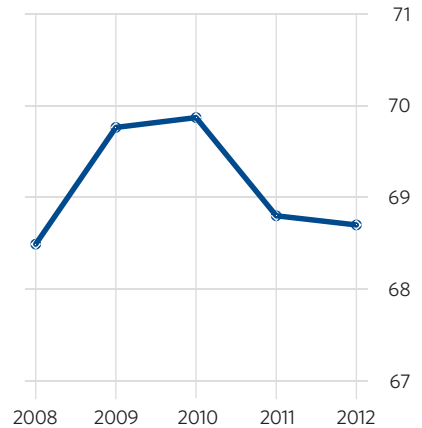
**E**l Salvador's economic freedom score is 68.7, making its economy the 41st freest in the 2012 *Index*. Its overall score is about the same as last year, with declines in business freedom and trade freedom largely offset by improvements in four of the 10 freedoms. El Salvador is ranked 5th out of 29 countries in the South and Central America/Caribbean region, and its overall score remains well above the world average.

The Salvadoran economy remains one of the most economically free in the region. Overall competitiveness is promoted and sustained by a restrained and sensible regulatory environment and open-market policies that support trade and investment. The financial sector is fairly well developed and stable, providing entrepreneurs with good access to credit. Freedom from corruption is the only indicator on which the country scores significantly below the world average, but some improvement has been noted this year.

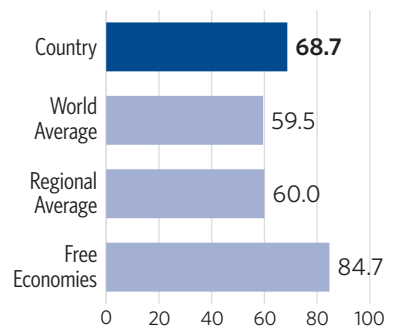
Lingering institutional weaknesses continue to slow El Salvador's transition toward greater economic freedom. Property rights are only moderately well protected, and the judicial system is relatively inefficient. Improved public finance management is needed to eliminate chronic fiscal deficits.

**BACKGROUND:** After the long civil war ended in 1992, El Salvador's political parties advanced reforms and restored civil liberties. Poverty reduction and moderate economic growth from *maquila* industries and the services sector were due in part to the National Republican Alliance (ARENA) party's free-market policies and sizeable emigrants' remittances. Mauricio Funes, elected in 2009 as El Salvador's first avowedly leftist president, has backtracked on many of ARENA's economic reforms. Government spending and debt are up sharply, and arbitrary harassment of the private sector and Funes' anti-business rhetoric have created a hostile environment for entrepreneurs. A poor education system and increasing criminal violence are major concerns. El Salvador participates in the Central America–Dominican Republic–United States Free Trade Agreement.

## Freedom Trend



## Country Comparisons



## Quick Facts

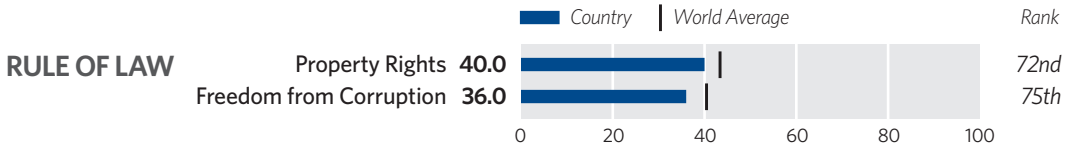
**Population:** 5.9 million  
**GDP (PPP):** \$43.6 billion  
 0.7% growth in 2010  
 5-year compound annual growth 1.6%  
 \$7,430 per capita  
**Unemployment:** 7.0%  
**Inflation (CPI):** 1.2%  
**FDI Inflow:** \$78 million  
**Public Debt:** 50.3% of GDP

### How Do We Measure Economic Freedom?

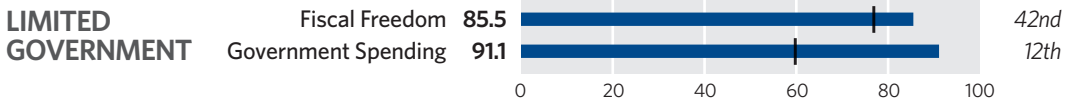
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
 Data compiled as of September 2011.

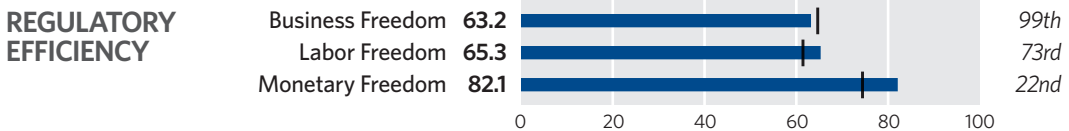
**THE TEN ECONOMIC FREEDOMS**



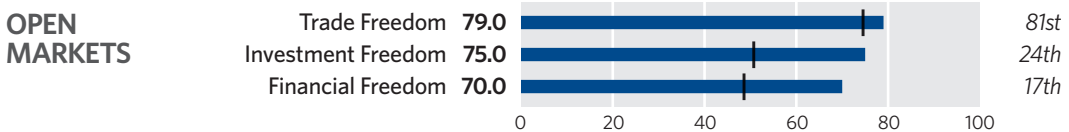
Property rights are not strongly respected, and law enforcement is inefficient and uneven. The judicial system is not fully independent and remains vulnerable to political influence and corruption. In the absence of effective measures to protect intellectual property rights, the market for pirated goods has been expanding. The perception of corruption dropped slightly this year.



The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and excise taxes, with the overall tax burden corresponding to 14 percent of total domestic income. Government spending amounts to 17.2 percent of total domestic output. The government budget is chronically in deficit, and public debt has increased to over 50 percent of GDP from 38 percent in 2007.



A new commercial code was implemented to simplify the business start-up process by significantly reducing the minimum capital requirement. However, overall progress in easing constraints on business has lagged behind improvements in other countries. The labor market lacks flexibility, and imbalances persist in the demand and supply of skilled workers. Price controls are imposed on a range of goods and services.



The trade weighted average tariff rate is 5.5 percent, and burdensome non-tariff barriers raise the cost of trade. The investment regime is relatively open and transparent. The law grants equal treatment to foreign and domestic investors. The stable banking sector provides easy access to credit. There are two state-owned banks, and the highly concentrated banking sector is dominated by four private banks that account for over 70 percent of total assets.

**Score Changes**

| RULE OF LAW             |      | LIMITED GOVERNMENT  |      | REGULATORY EFFICIENCY |      | OPEN MARKETS       |      |
|-------------------------|------|---------------------|------|-----------------------|------|--------------------|------|
| Property Rights         | 0    | Fiscal Freedom      | -0.3 | Business Freedom      | -2.3 | Trade Freedom      | -6.0 |
| Freedom from Corruption | +2.0 | Government Spending | +3.1 | Labor Freedom         | +0.4 | Investment Freedom | 0    |
|                         |      |                     |      | Monetary Freedom      | +2.2 | Financial Freedom  | 0    |