SUMMARY

1. El Salvador is a lower-middle income country with a per capita GDP of US$4,000 in 2015. It's economy suffered considerably from the global financial crisis, and in spite of its reform efforts and its increasing integration in the world economy, its recovery remained sluggish in the years that followed. As a dollarized economy, El Salvador has been losing its competitiveness against other countries of the region. Real GDP grew at an average annual rate of barely 1% during the period 2009-2015, well below its potential growth rate which is estimated at about 2%. Indeed, Growth was too slow to improve the population's standard of living or raise the levels of formal employment in any sustainable manner. GDP growth accelerated to 2.5% in 2015 thanks to stronger external demand coupled with solid domestic demand, private consumption in particular. The latter benefited from an increase in real salaries and family remittances from abroad, both important sources of financing of domestic demand. In 2015, foreign remittances totalled US$4,235 million, equivalent to about 16% of GDP.

2. The Central Government deficit shrank during the review period, from 3.7% of GDP in 2009 to 1.1% in 2015. However, the augmented deficit, including pensions and pension trusts, was 3% of GDP in 2015, partly reflecting the low tax ratio which was insufficient to offset expenditures. Fiscal policy and annual budgets during the review period sought to gradually correct the structural factors responsible for the imbalance in public finances. Accordingly, measures were implemented to improve tax collection, and these measures, coupled with a policy of holding down non-productive expenditure, were aimed at generating a primary surplus and setting the budget deficit and public debt (equivalent to 64% of GDP in 2015) on a downward trend. At the same time a public sector austerity policy was adopted in order to reduce current expenditure with low social content.

3. The balance-of-payments current account ran a swelling deficit between 2009 and 2013, but the gap began to narrow in 2014. In 2015, the deficit totalled US$920 million, or about 3.6% of GDP. The current account balance largely reflects the trend in the merchandise trade balance, which deteriorated sharply between 2009 and 2013, recovering somewhat in 2014 and in 2015, when it totalled US$4,940 million, i.e. 19.1% of GDP. Both in 2014 and 2015, the value of merchandise imports declined, while the value of exports, which had declined in 2014, recovered in 2015. Goods exports grew by almost 50% between 2009 and 2015, totalling US$4,381 million, while imports grew by 45%, reaching US$9,321 million. Meanwhile, the balance of services was increasingly in surplus over the review period, partly reflecting the inclusion of the value added from maquila activities. The current account deficit was offset by the high level of remittances from Salvadorans living abroad.

4. The structure of El Salvador's exports changed between 2009 and 2015: the percentage share of textiles and made-up textile articles increased from 28.2% of GDP in 2009 to 37.4% in 2015, excluding maquila-related exports. Food industry products remained the second largest non-maquila export category, followed by plastics, paper and chemicals. Coffee is the leading commodity export, although its percentage share of exports fell. In the case of the maquila industry, textiles and made-up textile articles remain by far the most important items, accounting for 80.2% of the total exported in 2015. The period under review saw a loss of importance of maquila exports within total exports. The United States and the other members of the Central American Common Market (CACM) continue to be El Salvador's main export markets, together accounting for almost 90% of the country's exports. In the case of imports, in 2015 manufactured products accounted for some 75% of the total, in particular machinery, transport equipment, textiles, plastics and chemicals. Fuel imports saw their share of total imports decline, mainly owing to the fall in oil prices. The United States remains El Salvador's main supplier country, accounting for almost 40% of imports in 2015. Guatemala was the next most important supplier in 2015, followed by China and Mexico.

5. El Salvador has continued to play an active role in the WTO. During the review period, it was party to a dispute settlement procedure for the first time and continued to participate as a third party in other disputes. It also submitted further notifications under the various provisions of the WTO Agreements.

6. Since the previous review, there have been significant reforms to the institutional environment and legal framework for foreign investment. Under the new Investment Law, foreign investors, once they have registered, have the same rights and obligations as domestic investors,

and are entitled to transfer the entirety of their investment funds abroad. During the review period, an amendment to the Investment Law was adopted in replacement of the provision on the settlement of disputes between private Salvadoran or foreign investors and the State regarding investments made in El Salvador. In April 2014 the Law establishing the Export and Investment Promotion Agency of El Salvador (PROESA) was enacted with a view to promoting and attracting domestic and foreign private investment and promoting goods and services exports.

7. Preferential agreements have become an increasingly important component of El Salvador's trade policy. The country is a member of the CACM (together with Costa Rica, Guatemala, Honduras, Nicaragua and, since 2013, Panama). It is also a member of DR-CAFTA and the Association Agreement with the European Union. Together with the original members of the CACM, El Salvador negotiated a preferential agreement with Mexico in 2012. It also has agreements with Chile, Colombia and Chinese Taipei. El Salvador is currently negotiating, jointly with the rest of Central America, an FTA with the Republic of Korea, and is to begin negotiations with Ecuador. According to information from the Central Reserve Bank, El Salvador's 2015 trade flows with trading partners with which it has concluded preferential agreements accounted for 94.4% of its total exports and 77.3% of its total imports.

8. Since 2009, El Salvador has pursued its customs modernization efforts, *inter alia* through the gradual implementation of a single window for imports, the use of non-intrusive inspection equipment, the strengthening of risk management, and the progressive migration to ASYCUDA World. Together with its Central American partners, El Salvador has moved forward on the electronic exchange of data among customs authorities, and has introduced measures to simplify formalities and facilitate the flow of goods at the border posts. However, the limited physical infrastructure and problems of congestion at customs continue to pose a challenge. El Salvador's Legislative Assembly ratified the WTO Trade Facilitation Agreement in February 2016. At the time of writing of this report, El Salvador had not yet deposited its instrument of ratification with the WTO.

9. El Salvador applies the Central American Import Tariff (ACI), with a few exceptions. All the eleven rates applied, which range from 0% to 164%, are *ad valorem*. Some 47.8% of the lines carry a 0% tariff, while 20.7% have a rate of 15%, and 15.5% a rate of 10%. The simple average MFN applied rate remained at 6.3% in 2015, the same level as in 2009. The simple average MFN tariff applied to agricultural products (WTO definition) was 13%. The highest rate, 164%, applies to imports of poultry meat, while cigarettes are still subject to a 55% tariff. A rate of 40% applies to products such as sausages, dairy produce, rice, sugar, rum and ethyl alcohol. The average rate applied to non-agricultural products in 2015 was 5.2%.

10. The import and domestic sale of most goods, as well as the supply of services, is subject to payment of the property transfer and services tax (known as VAT) at a rate of 13%. In the case of imports, the tax base is the customs value plus tariffs and other applicable taxes, and for domestic goods it is the selling price plus the corresponding taxes. Specific taxes have to be paid on some domestically-produced or imported products, such as alcoholic beverages, alcohol, tobacco products, firearms, pyrotechnical products, aerated beverages, juices and soft drinks.

11. El Salvador prohibits the import of certain goods, and restricts the import of a considerable number of products for reasons of national security, public health, animal or plant health, or environmental protection. Permits, authorizations, certificates and/or approval must be obtained for their import. In April 2016, El Salvador submitted a notification to the WTO relating to the Agreement on Import Licensing Procedures.

12. During the period under review, El Salvador did not apply any anti-dumping, countervailing or safeguard measures or initiate any related investigations. In January 2016, it published the Special Law on trade defence which combines the provisions on dumping, subsidies and safeguard measures in a single legislative instrument; specifies the procedures for conducting related investigations and the functions of the investigating authority; and creates the National Trade Defence System, a platform for dialogue between the public and private sectors to ensure the trade defence of El Salvador's production sector.

13. The institutional framework for the implementation of technical regulations and sanitary and phytosanitary (SPS) measures was reinforced with the adoption of the Law creating the

Salvadoran Quality System (2011), which established, *inter alia*, the Salvadoran Technical Regulation Agency and the Salvadoran Standardization Agency. The Law specifies that technical regulations must comply with the provisions of the WTO TBT and SPS Agreements. At the same time, a handbook of good technical regulation practices was drawn up. The procedure for drafting and adopting SPS measures is the same as that used for technical regulations. WTO notifications of both kinds of measures provide for a period of 60 days in which to forward comments (except in the case of emergency notifications). Around 70% of technical regulations are based on international standards.

14. El Salvador prohibits or restricts the export of some products, mainly for environmental or public health reasons or to comply with international commitments. Exports of sugar, natural gas and certain agrochemical inputs are restricted in order to ensure an adequate domestic supply. No taxes or other levies are imposed on exports.

15. El Salvador has substantially modified its export incentives regime. In 2010, it repealed the Export Recovery Law and in 2013 it amended the Law on industrial and marketing free zones (LZFIC) in order to comply with its commitments under the Agreement on Subsidies and Countervailing Measures. The amended LZFIC introduced a fiscal incentives scheme based on investment and employment requirements and the site of the business, and eliminated export performance and local content requirements. The law on international services, for its part, grants tariff and fiscal incentives to domestic and foreign businesses that export services and meet the minimum investment and employment requirements. The institutional framework for the promotion of exports was also amended, and greater powers given to the Export and Investment Promotion Agency of El Salvador. Finally, the Development Bank of El Salvador (BANDESAL), created in 2012, grants credits and guarantees to exporters, although the amounts involved remain modest.

16. In addition to the programmes to promote exports, the incentives given by El Salvador to its production sector mainly focus on programmes in support of micro, small and medium-sized enterprises (MSMEs), transfer of technology, and programmes to attract investment. Since the last review, changes have been made to the institutional and legal framework to stimulate production with a view to boosting economic growth and creating jobs. BANDESAL, which may act as a first-tier or second-tier bank and can give guarantees, was set up with a view to financing viable and profitable investment projects. It finances, either directly or through financial institutions, projects for increasing working capital, technical training, the purchase of machinery and equipment, and the building of facilities and physical infrastructure.

17. During the period under review, the Supervisory Authority for Competition remained extremely active, conducting market investigations of telephony services and wholesale distribution of white sugar in bulk, among others. The practices sanctioned concerned agreements among competitors (price fixing and collusion between bidders in public bidding procedures) and abuse of a dominant position (obstacles to the entry of competitors, restricting sales or determining different prices to the detriment of certain economic operators). The Supervisory Authority also analysed mergers, and during the period 2010-2014 refused one economic merger and imposed terms on the mode of operation of four others. In 2013, for the first time, the Supervisory Authority imposed a fine on an economic operator for failure to notify an economic merger. A draft reform of the Competition Law proposing to broaden the scope of the Law was put before the Legislative Assembly.

18. El Salvador does not have observer status in the WTO Committee on Government Procurement and does not plan to accede to the Plurilateral Agreement. The legislation on government procurement was the subject of reforms in 2011 and 2015. These included streamlining procurement methods; modifying and differentiating the thresholds; introducing new exemptions to the Law; measures to promote participation by MSMEs; and creating an integrated procurement and contracting system (SIAC). New implementing Regulations came into force in 2013 to make it easier to apply the amendments to the Law. Government procurement is open to both national and foreign suppliers, who can participate in all modes of procurement. Although there are no preferences for domestic suppliers, except where the bids are seen to be equivalent, government agencies are obliged to award contracts to MSMEs amounting to at least 12% of their annual procurement and contracting budgets.

19. The main change to the regime for protection of intellectual property rights (IPRs) during the review period was the amendment to the Law on trademarks and other distinctive signs. This amendment reinforced the status of protection of geographical indications. In the absence of any specific domestic legislation, new varieties of plants are protected by patents, whereas the provisions of the TRIPS Agreement are applied directly to layout designs of integrated circuits. Control and compliance with intellectual property regulations are the joint responsibility of several government agencies. The Salvadoran courts with jurisdiction in civil and commercial affairs are the competent courts for proceedings initiated by owners of IPRs. The civil penalties laid down in the Law include: immediate cessation of the unlawful activity; prohibition of import, preventive seizure, withholding or deposit of the infringing goods; and damages. There is no provision for the application of fines for infringing IPRs. The Directorate-General of Customs (DGA) has the competence to apply border measures for the enforcement and protection of industrial property rights, copyright and related rights. The DGA may act *ex officio* where applicable.

20. The agricultural sector expanded at an average annual rate of barely 0.5% between 2009 and 2015. Although it accounts for about 12% of GDP, it employs almost 20% of the country's active labour force, and accounts for a quarter of the country's exports. Agricultural production is relatively diversified. Staple grains (maize, sorghum, beans and rice) are the leading products, followed by coffee, sugar cane and poultry. There has been a distinct decline in coffee production since 2012 owing to the presence of *roya* (coffee rust). At 12.5% in 2015, tariff protection on agricultural products (WTO definition) was higher than on non-agricultural products (5.2%). During the review period, El Salvador applied an annual tariff quota for cheddar-type cheese in blocks or slabs. It also used a "scarcity quotas" mechanism as a provisional measure for alleviating shortages of some agricultural products, resulting mainly from the drought in 2014 and 2015. Domestic support to the sector is relatively limited and consists above all of credit support, the supply of seeds, seedlings and fertilizers, and technical support.

21. The electricity sector is open to private participation, both domestic and foreign. A concession is required only in order to generate electricity from hydraulic or geothermal sources. Most electricity generation and all distribution is in the hands of private companies, while transmission is in the hands of a state-owned operator. During the review period, El Salvador extended and relaxed its tax incentives regime for investment in renewable energy projects. The subsidy for industrial electricity consumption was abolished in 2009, and the subsidy for low residential electricity consumption was suspended in 2015. El Salvador imports almost all its fuel. There are no limits on the participation of foreign capital in activities linked with hydrocarbons. Maximum prices are fixed for LPG and a subsidy is provided for domestic consumption by the most vulnerable segment of the population.

22. The manufacturing sector grew at an average annual rate of about 2.5% between 2009 and 2015, driven by the increase in the value added of production and in exports from the manufacturing industry operating outside the free zones. The main products concerned are food and beverages, chemicals, and sugar. The principal activity in the free zones is the assembly of textile products and articles of clothing. Between 2009 and 2015, exports from the free zones as a percentage of total merchandise exports decreased from 24.4% to 20.3%.

23. The Salvadoran banking system is characterized by good solvency and risk indicators but relatively high indebtedness. More than a third of bank credits are for consumption. Commercial presence of foreign banks may be established through branches or representative offices; there is no limit on the presence of foreign banks provided they have a prime rating. At December 2015, 10 of the 11 private banks had foreign equity, and accounted for more than 90% of total assets. Foreign insurers may exercise a commercial presence only by setting up companies in El Salvador. The establishment of branches is not permitted, although the branch of one foreign company is still operating under earlier legislation.

24. In the telecommunications sector, a concession is needed in order to provide fixed and mobile telephony services and to exploit the regulated-use spectrum. There are no restrictions on the origin of the capital of telecommunications operators except in the case of free-to-air or subscription radio and television broadcasting services, which are reserved for Salvadoran nationals. During the period under review, El Salvador reformed the sector's legal framework by adopting Regulations implementing the Law on Telecommunications, which govern, among other things, the granting of concessions and interconnection between operators. Another amendment allows the regulator to conduct an annual review of the maximum tariffs for fixed and mobile

telephony services and charges for interconnection; and finally, a number portability regulation was issued. In 2011, the Supervisory Authority for Competition conducted an *ex officio* investigation and fined a number of telecommunications operators for reaching price agreements.

25. El Salvador has two seaports and two airports managed by a state entity. The port of Acajutla handles almost all of El Salvador's maritime cargo, and Monseñor Romero International Airport handles all air freight services. El Salvador does not have its own merchant fleet, and foreign vessels may carry out domestic cabotage operations. Domestic and foreign enterprises may participate in the operation of ports under concessions, and in the provision of ancillary port services such as cargo handling and warehousing. El Salvador does not have any cargo sharing agreements with other countries. There are no limitations on foreign investment for establishing airlines in El Salvador, nor on the participation of foreign capital in Salvadoran airlines. Air cabotage is restricted to Salvadoran firms unless otherwise stipulated in an international agreement. The law stipulates that the Salvadoran State must practice an "open skies" policy subject to the principle of reciprocity. El Salvador has ten bilateral air transport agreements. Land transport is vital, since some 42% of the country's foreign trade is transported by land. El Salvador participates in the Mesoamerican Procedure for the International Transit of Goods, the objective of which is to reduce the costs associated with goods traffic by modernizing, simplifying and harmonizing customs procedures.

26. Tourism is a sector of increasing importance for the Salvadoran economy, and the Plan for Tourism 2014-2019 is seeking to turn tourism into a vehicle for sustainable development and social inclusion. Tariff and tax exemptions are granted for investments in the sector. There are no restrictions on foreign investment through commercial presence in hotels and restaurants, travel agencies and tour operator services.