SUMMARY

1. For most of the period under review (2016-22), the Salvadoran economy continued to show positive real GDP growth rates, with an annual average of 2.4% between 2016 and 2019. The Salvadoran economy was hit hard by the COVID-19 pandemic, which not only caused a drop in domestic activity, but also led to a substantial decline in foreign remittance inflows, a predominant source of financing for domestic demand. Salvadoran real GDP shrank by 8.2%. The pandemic caused both exports and imports of goods and services to fall sharply, by 21% and 10.6% in real terms, respectively. The Salvadoran economy recovered from the crisis caused by the pandemic in 2021, when real GDP growth reached 10.3%. This substantial growth is the result of a recovery in domestic demand, stronger external demand and an increase in remittances, which accounted for 26.1% of GDP in 2021. Exports and imports of goods and services recovered steadily, up by more than 26% in real terms from 2020 levels in both cases. The Salvadoran economy grew by 2.2% in the first three months of 2022 and the real growth rate for the whole year is expected to reach 2.8%.

2. The composition of GDP expenditure in El Salvador is still characterized by a high level of both private and public consumption. Total consumption was equivalent to 103.2% of GDP in 2021, with private household consumption accounting for 83.4% and public expenditure for 19.7%. Remittances from abroad bankroll a large part of private consumption.

3. The Fiscal Responsibility Law for the Sustainability of Public Finances and Social Development (LRF) introduced, as of November 2016, a series of measures to achieve the consolidation and stability of public finances, such as increasing the tax burden and limiting consumer spending. The LRF seeks to ensure long-term fiscal balance by setting primary balance targets, initially to reduce the debt-to-GDP ratio and then to keep it stable. As a result of these policies, the central government deficit remained relatively stable between 2016 and 2019, ranging from 1.9% to 3.7% of GDP. However, the deficit rose to 10.4% of GDP in 2020, in the wake of the higher expenditure resulting from the implementation of measures to deal with the pandemic. In 2021, while still reeling from the negative effects of the pandemic, the deficit was equivalent to 5.9% of GDP.

4. In an effort to cope with the COVID-19 pandemic, in April 2020, the Ministry of Finance was authorized to raise up to USD 2 billion, and in May 2020, a further authorization was issued for an additional USD 1 billion. The principal fiscal and expenditure-related measures to counter the effects of the pandemic included, *inter alia*, a one-time subsidy of USD 300 to approximately 75% of all households; the distribution of food baskets to affected families; a three-month deferral of utility payments; a three-month exemption from the special tourism tax for companies operating in the tourism sector; and the temporary elimination of duty on imports of essential medical and food products (medical textiles, disinfectants, flour, rice and beans). A series of measures were also implemented to facilitate access to credit and ease the financial burden on individuals and businesses, such as reducing banks' reserve requirements and modifying provisions for bad loans. Moreover, a USD 650 million trust fund was set up to support workers and SMEs.

5. The United States dollar is legal tender and the unit of account of the Salvadoran financial system. As a dollarized economy El Salvador cannot conduct an independent monetary policy, and therefore the activities of the Central Reserve Bank of El Salvador are chiefly limited to managing the liquidity reserve. El Salvador was the first country to introduce bitcoin as legal tender, in June 2021. According to the authorities, the aim of this initiative is to foster financial inclusion. To support bitcoin operations and assume part of the risk thereof, the Bitcoin Trust was set up, with a capital of USD 150 million, and the digital wallet, Chivo Wallet, was created. Separate statistics regarding the use of bitcoin are not kept, as according to the Bitcoin Law the USD is the unit of account. It is therefore difficult to quantify its use. An estimated 4 million users avail themselves of the Chivo e-wallet.

6. The balance-of-payments current account of El Salvador ran a growing deficit between 2016 and 2018, which reached 3.3% of GDP. In 2019, the deficit narrowed to 0.4% of GDP. In 2020, as an effect of the pandemic, both exports and imports of goods and services dropped, but imports fell by a larger proportion, resulting in a current account surplus equivalent to 0.8% of GDP. In 2021, as the economy recovered, the current account deteriorated, running at a deficit equivalent to 5.1% of GPD; this situation worsened in 2022. The deficit in the balance of trade in goods grew between 2016 and 2019, before improving in 2020 as a result of the pandemic. However, it widened substantially in 2021, when it totalled USD 7,263 million, a trend that continued in 2022. Meanwhile, the services balance has been in surplus during the period under review. The current account deficit

has continued to be offset by the high level of current transfers, mainly in the form of remittances from Salvadorans living abroad. Remittances from abroad reached USD 7,465 million in 2021, equivalent to 26% of GDP. The balance-of-payments financial account has run a deficit during the entire period under review, reflecting the rise in net borrowing. At 31 December 2021, the total foreign debt stock amounted to USD 21,280 million (74% of GDP). Net foreign direct investment (FDI) flows have averaged 2% of GDP. The level of net international reserves was USD 2,941 million as of September 2022.

7. Merchandise trade continued to increase during the period under review. Although it contracted in 2020 due to the pandemic, 2021 saw a strong recovery in both *maquila* imports and exports relative to the respective totals. Total trade (including *maquila*) reached USD 21,704.7 million in 2021, equivalent to just over two thirds of GDP. Cumulative Salvadoran exports reached USD 5,688.9 million by September 2022, exceeding the same period in 2021 by 15.4%. Merchandise imports as of September 2022 totalled USD 13,488.2 million, exceeding the same period in 2021 by 24.4%. The structure of El Salvador's exports did not change substantially between 2016 and 2021, as textiles and apparel continued to account for the largest share, equivalent to around one third of total exports, excluding *maquila* exports, and almost 70% in the case of *maquila* exports. Regarding imports, manufactured products account for one third of the total, and consist primarily of machinery, transport equipment, textiles, plastics and chemicals. El Salvador's main export markets (excluding *maquila* exports) continue to be the other members of the Central American Common Market (CACM) and the United States. The United States continues to be El Salvador's main supplier of imported goods, followed by China, Guatemala and Mexico.

8. The surplus in the balance of the trade in goods increased gradually during the period under review, reaching 4.8% of GDP in 2019. The largest surpluses were under the "travel" item and in the value added of *maquila* activities. After shrinking in 2020, the surplus grew again in 2021, mainly due to an increase in loans to the *maquila* industry. The stock of foreign investment in El Salvador reached USD 10,378.3 million by the end of 2021. Net flows of FDI during the review period were, on average, USD 548.8 million per year.

9. El Salvador has been a Member of the WTO since 7 May1995 and grants at least most-favoured-nation (MFN) treatment to all its trading partners. This is its fifth trade policy review. El Salvador ratified the WTO Trade Facilitation Agreement (TFA) in February 2016 and deposited its instrument of acceptance with the WTO on 4 July 2016. In September 2006, accepted the Protocol amending the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), with a view to making a decision on patents and public health permanent. El Salvador is a participant in the Information Technology Agreement (TIA), but does not participate in the ITA extension agreed at the 2015 Nairobi Ministerial Conference. At the 2022 Ministerial Conference, held in Geneva, El Salvador expressed support for efforts to improve the functioning of the WTO and emphasized the importance of concluding the multilateral agenda in areas such as fisheries subsidies and agriculture. It also underlined the importance of a robust multilateral system and of continuing to promote the interests of small economies. During the review period, El Salvador has submitted several notifications under the various WTO Agreements. Nonetheless, the country has a number of outstanding notifications, mainly in the areas of agriculture and quantitative restrictions. Since its last review, El Salvador has not been involved in any cases as a complainant or respondent under the WTO dispute settlement mechanism, although it has participated as a third party in six cases.

10. El Salvador is participating in the process of establishing a customs union, the Central American Common Market (CACM). In 2017, El Salvador began negotiations to join the deep integration process that Honduras and Guatemala had launched in 2015. On 16 August 2018, El Salvador deposited with the Secretariat for Central American Integration (SICA) the Protocol of Accession to the Enabling Protocol for the process of deep integration initiated by Guatemala and Honduras. After a hiatus, negotiations resumed in July 2021.

11. Since El Salvador's last trade policy review in 2016, trade agreements - jointly negotiated with other Central American partners - entered into force with the Republic of Korea and the United Kingdom, and a bilateral partial scope agreement with Ecuador. As such, in addition to the CACM, El Salvador has Free Trade Agreements (FTAs) and/or partial scope agreements with Chile, Colombia, Cuba, Ecuador, the United States (CAFTA-DR), Mexico, Panama, the United Kingdom, the Republic of Korea, the Dominican Republic (CAFTA-DR and Central America-DR), and the European Union.

12. The fundamental principles of El Salvador's trade policy continue to be to deepen Central American integration, promote access to foreign markets and improve the country's integration into the international economy. Drafted in 2019, the Government Plan (*Plan Cuscatlán*) sets out, *inter alia*, the following foreign policy objectives: (i) further Central American integration, based on a holistic approach, (ii) promote FDI through institutional strengthening and increased regional economic integration, and (iii) boost foreign trade by making use of existing trade treaties and multilateral agreements, promoting local MSMEs' exports and facilitating customs transit.

13. During the review period, El Salvador developed a long-term strategy, the Trade and Investment Policy 2020-50, published in 2021. One of the objectives of this Policy is to attract FDI in order to boost the development of the most technologically advanced industries and services and ensure synergies with the local economy. The Investment Law provides that foreign investors have the same rights and obligations as Salvadoran investors and may transfer abroad all funds related to their investment. In accordance with the investment protection agreements and free trade agreements to which it is party, El Salvador accepts that investment disputes between the Salvadoran State and investors of other signatory parties be submitted to international arbitration. Under the Law on Legal Stability for Investments, foreign investors who invest in specific economic sectors enjoy legal certainty through contracts with the State. During the review period, El Salvador adopted several laws, such as the Law on Regulatory Improvement and the Law on Administrative Procedures, the implementation of which could help improve the transparency of the investment environment. Foreign companies are subject to the same tax regime as domestic companies. During the review period, El Salvador also developed a National Digital Agenda 2020-30, which brings together a set of actions aimed at strengthening a national digital ecosystem to boost the country's sustainable development and social well-being.

14. The customs legal framework has not undergone fundamental changes. At the Central American level, the Central American Single Declaration (DUCA) entered into force in 2019, which brings together the main documents needed for regional trade in goods. El Salvador pursued its customs modernization efforts during the review period, through, among other things, the adoption of ASYCUDA World, the electronic submission of advance declarations (with Guatemala, and soon with Honduras) enhancements to the risk-management system, the digitization and automation of customs services, the installation of radio-frequency identification technology at customs facilities, and improvements to the physical infrastructure of border. Pursuant to the Trade Facilitation Agreement, El Salvador has honoured its category C commitments concerning the trusted operator programme and transit, leaving only the complete implementation of the single window pending. The National Trade Facilitation Committee has implemented several action plans, which include measures such as the simplification of trade processes, the digitization of processes and the upgrading of the information systems of Import and Export Processing Centre (CIEX) and its interconnection with other institutions.

15. As a member of the CACM, El Salvador applies the Central American Import Tariff, which comprises 11 tariff rates, all *ad valorem*, ranging from 0% to 164%. As at 1 January 2022, 47.8% of tariff lines were duty-free. The arithmetic average of applied MFN tariff rates remained 6.3% in 2022 (as it was in 2015), with an average rate for agricultural products (WTO definition) of 12.4% and for non-agricultural products of 5.3%. The highest tariff rate (164%) is applied to meat, edible offal and prepared or preserved poultry meat. In March 2022, in an effort to tackle inflation, El Salvador temporarily reduced tariffs to 0% on 49 tariff lines comprising basic foodstuffs and agricultural inputs. El Salvador has bound its entire tariff schedule in the WTO. The property transfer and services tax (VAT) is levied at a rate of 13% on the domestic sale and import of most goods, as well as the provision of services. Specific and *ad valorem* taxes are imposed on the consumption of certain products, both domestic and imported, such as alcohol and alcoholic beverages, tobacco products and their substitutes, arms and explosives, and aerated beverages and energy drinks

16. El Salvador bans the import of some products, reserves the import of others to the State alone and restricts the import of a number of products for reasons of public health, public safety, environmental protection and plant or animal health, and to comply with international agreements. Permits, authorizations, certificates and/or approval for the import of such products must be obtained from various regulatory institutions. At the end of 2022, El Salvador updated its WTO notification on import licensing.

17. The Special Law on trade defence, which came into force and was notified to the WTO in 2016, specifies the requirements, time-limits and procedures for conducting dumping, subsidy and

safeguard investigations, and empowers the competent authority to conduct such investigations and enforce trade defence measures. The Implementing Regulations for the Special Law on trade defence were issued in 2017, and a notification of these Regulations to the WTO is currently in preparation. El Salvador does not frequently make use of trade defence measures and has never initiated an investigation in relation to countervailing measures or safeguards. During the review period, El Salvador initiated two anti-dumping investigations and the review of one measure.

18. Exporters can carry out their export procedures and obtain the relevant sanitary, phytosanitary and origin certificates through the CIEX. There are no export taxes, and VAT is applied at a rate of 0%. The export of some products is prohibited or restricted, generally for environmental, health, public safety and quality control reasons or to comply with international commitments. El Salvador controls the export of some products such as cane sugar, agricultural chemicals, veterinary medicines, coffee, machinery, arms and explosives, and cultural assets. During the review period, El Salvador temporarily restricted the export of red beans with a view to ensuring an adequate domestic supply.

19. There have been no substantial changes to the export incentives regime. The Law on Industrial and Commercial Free Zones (LZFIC), amended in 2013, establishes a fiscal incentives scheme based on minimum investment and employment requirements and enterprise location. The benefits consist of exemptions from income tax, tax on dividends, municipal taxes and tax on the transfer of real estate. In 2021, free-zone exports amounted to USD 1,252 million, almost 19% of the total value of merchandise exports. The Law on International Services (LSI) provides tariff and tax incentives to service-exporting domestic and foreign businesses that meet minimum investment and employment requirements. In 2019, specialized aircraft services were recognized as activities encouraged by the Law. Amendments to the LZFIC and LSI are being considered with a view to increasing the number of eligible sectors and activities, relaxing investment and employment requirements and expanding benefits.

20. The Export and Investment Promotion Agency (PROESA) remains in charge of promoting exports. In addition to its traditional services (export advisory services, strategic information and trade promotion), PROESA offers new lines of support through programmes such as *Mujer Exporta*, *Innovación para la Exportación* (focusing on the export of a high value-added and differentiated supply of food and beverages) and the *Programa de Gerentes*, which seeks to increase business competitiveness. The Development Bank of El Salvador (BANDESAL) provides loans and guarantees, albeit in modest amounts, to support exports.

21. In addition, El Salvador provides incentives to the production sector that focus on financial and technical support for micro, small and medium-sized enterprises (MSMEs) and on promoting competitiveness, and attracting investment. In recent years, support has also been directed towards efforts to facilitate the recovery of enterprises affected by the pandemic, to assist women entrepreneurs and to encourage investment in renewable energy and green technology. BANDESAL provides financing, directly or through financial institutions, for, *inter alia*, capital formation, industrial park expansion and conversion, machinery and equipment modernization, and energy efficiency projects. The National Commission for Micro and Small Enterprises (CONAMYPE), attached to the Ministry of Economic Affairs, is responsible for implementing policies to boost the development and competitiveness of these enterprises, and conducts numerous activities in this respect. There are also a number of development funds through which Salvadoran enterprises receive financial support.

22. During the review period, there were no substantial changes to the legal and institutional framework for the drafting and application of technical regulations and sanitary and phytosanitary (SPS) measures. The Law creating the Salvadoran Quality System provides that Salvadoran Technical Regulations (RTS) must comply with the WTO Agreement on Technical Barriers to Trade and the WTO Agreement on the Application of Sanitary and Phytosanitary Measures. El Salvador's notifications for both types of measure provide for a comment period of 60 days. According to the authorities, the majority of RTS, including their conformity assessment procedures, are based on international standards. The drafting and adoption of RTS are based on the Handbook of Good Technical Regulation Practices, and the same procedure is followed for SPS measures. For certain products, El Salvador recognizes the sanitary registration certificates issued by the authorities of CACM member countries, as well as the registration certificates and sanitary inspection systems of other trading partners under the corresponding free trade agreements.

23. El Salvador's legal framework regarding competition policy has undergone changes since the previous review. The Competition Law was amended in 2017 and 2021. Since the amendment in 2017, it has been possible to challenge the decisions of the Supervisory Authority for Competition (SC) before the administrative courts. Under the 2021 amendment, a number of procedures were modernized and the use of electronic and technological means of conducting SC proceedings was enabled. The leniency programme was also expanded. Between 2016 and 2021, the SC initiated 29 investigations, the majority of which were launched following a complaint, and penalized five unlawful practices. In addition, 16 applications for mergers, mainly from the financial, beverage and telecommunications sectors, were accepted for consideration.

24. El Salvador is not a signatory to the WTO Agreement on Government Procurement and does not participate as an observer in the respective Committee. Salvadoran legislation does not distinguish between Salvadoran and foreign suppliers in their participation in public procurement. However, if there is no difference between two bids in terms of conditions, preference is given to the Salvadoran bid (except in the case of procurement under trade agreements). Under an amendment made to the legislation in 2019, the share of the annual procurement budget that each government entity must allocate to MSMEs was increased to 25%. In 2021, new legislation was passed for procurement by municipalities in respect of certain infrastructure projects.

25. The amendment of the Intellectual Property Law (LPI) was approved in 2017. The amendment to the LPI allows holders of copyright and related rights to manage the use of their works. The LPI gives the holder of copyright the right to import or export, or authorize the import or export of, copies of their lawfully manufactured works, and the right to prevent the import or export of unlawfully manufactured copies; similar rights are regulated in the LPI for holders of industrial property rights. El Salvador allows the granting of compulsory licences solely in order to supply the domestic market. Compulsory licensing to work a patent may be granted for declared reasons of emergency or national security and for as long as these persist, provided that this is necessary to satisfy the population's basic needs. Until 2022, El Salvador had not issued any compulsory licences. On 17 June 2022, the exceptional circumstances of the COVID-19 pandemic led El Salvador to adopt the Ministerial Decision on the TRIPS Agreement for the production and supply of vaccines. The Directorate-General of Customs (DGA) may intervene and apply border measures on the basis of resolutions by the competent authority; *ex officio* where applicable; or following a complaint from the owner of the duly accredited right.

26. The agricultural sector recorded uneven performance during the review period, with a growth rate that fell from 8.3% in 2016 to 2.1% in 2021. The sector's share of GDP stood at 4.9% in 2021, while its contribution to employment amounted to 15.7%. The main agricultural products are staple grains, other crops, cattle, poultry products and sugar cane. The coffee subsector has continued its downward trend. El Salvador is a net importer of agricultural products, which is why the sector's trade balance deficit increased during the review period. Agricultural products (WTO definition) have a higher level of tariff protection (12.4%) than non-agricultural products (5.3%). During the period under review, El Salvador used scarcity quotas to deal with shortages of some products caused by adverse weather events, and adopted various support measures for the sector in the context of COVID-19. El Salvador supports the agricultural sector with the primary objective of achieving food sovereignty. Its most recent domestic support notification to the WTO refers to the year 2015/2016; the support is modest and includes mainly loans, the delivery of inputs and technical assistance.

27. Metal mining was banned in El Salvador for environmental reasons in 2017. The law prohibits metal mining in the soil and subsoil. The ban on metal mining includes exploration, extraction, exploitation and processing, whether opencast or underground. While El Salvador has no discovered oil resources and remains an importer of oil derivatives, petroleum products accounted for approximately 67% of total energy supply in 2021. During the review period, renewable electricity generation was boosted, with a marked increase in the installed capacity of solar photovoltaic power, and the introduction of the first wind power plant. In addition, El Salvador developed a new strategy, the National Energy Policy 2020-50, which sets out guidelines for achieving an efficient and competitive energy system that is committed to protecting the environment.

28. El Salvador's services sector remains substantially open to foreign participation. The financial services sector accounted for 6.6% of GDP in 2021. Most banks in El Salvador are foreign-owned, and there are no restrictions on their operations. For foreign banks, commercial presence in El Salvador can take the form of a branch office or a representative office. The only exception to national treatment pertains to assets that a foreign financial institution may own in El Salvador. In

cases of that kind, the Banks Law provides that depositors and creditors domiciled in El Salvador enjoy preferential rights over those domiciled abroad. Financial conglomerates are also subject to consolidated oversight. To operate in El Salvador, foreign insurers must secure a commercial presence by legally establishing a subsidiary in the country. The establishment of new branches has not been permitted since 1997. The last remaining branch of a foreign insurer closed in 2021. The cross-border supply of insurance services is not permitted, but there are no restrictions on the use of insurance services abroad.

29. The telecommunications sector legal framework allows for foreign investment without capital restrictions, except in connection with radio and television broadcasting services, which are reserved to Salvadorans. Pursuant to the Law on Telecommunications, a concession is required to provide fixed and mobile telephony services, and to use the regulated radio spectrum. The Law was subject to a number of amendments during the review period, *inter alia*, to regulate the allocation of radio frequencies, establish alternative mechanisms to public auction, protect user rights, reinforce the obligations of telecommunications operators, and adapt regulations to technological developments. During the review period, the Supervisory Authority for Competition investigated and sanctioned one case of anti-competitive practices in the national and international calls termination market.

30. The transport sector's average annual share of GDP was 4.5% during the review period. FDI in the sector increased by 425.7%, reflecting the liberalization policies and buoyancy of the sector. Steps were also taken to launch major infrastructure projects, including the bicentennial ferry route, the construction of the new Pacific International Airport and the Pacific Train, and existing infrastructure was upgraded. With regard to maritime and port matters, there are no restrictions on the provision of cabotage services by foreign vessels, and foreign companies are allowed to operate ports under concessions and provide ancillary port services, such as cargo handling and warehousing. Turning to air transport, there are no restrictions on foreign investment for the purposes of establishing a commercial presence in the country, nor on foreign ownership of Salvadoran airlines, although air cabotage is reserved exclusively to domestic companies. El Salvador applies an open skies policy and has 17 air services agreements. Land transport is the main means of transporting freight and carried Salvadoran foreign trade goods to the tune of USD 14,053 million in 2021.

31. Tourism is of increasing importance for El Salvador given its ability to create jobs, attract investment and boost the economy. The sector developed positively until 2019, but was then affected by the COVID-19 pandemic. Since 2021, tourism has rebounded significantly. There are no restrictions on foreign investment in the sector