MOODY'S
INVESTORS SERVICE

ISSUER IN-DEPTH
31 May 2019

Rate this Research

RATINGS

El Salvador

	Foreign Currency	Local Currency
Gov. Bond Rating	B3/STA	--
Country Ceiling	B1	--
Bank Deposit Ceiling	B1	--

TABLE OF CONTENTS

Contacts

Ariane Ortiz-Bollin +1.212.553.4872
AVP-Analyst
ariane.ortiz-bollin@moodys.com

Gabriel Agostini +1.212.553.8882
Associate Analyst
gabriel.agostini@moodys.com

Mauro Leos +1.212.553.1947
VP-Sr Credit Officer/Manager
mauro.leos@moodys.com

Government of El Salvador – B3 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of El Salvador (B3 stable) is supported by the economy's improved growth prospects. Despite low average annual growth of just 2.1% over the last decade, the small Latin American economy has grown at around 2.4% annually since 2015, driven by strong consumption and an ongoing recovery in the US (Aaa stable), a key source of remittances and El Salvador's largest export destination. While dollarization leaves the government without monetary tools to ease economic cycles, it has resulted in low and stable inflation, low interest rates and no currency risk.

Key credit weakness for El Salvador include an elevated debt burden, large debt servicing needs in 2019, and chronically low levels of public and private investment. Recurring fiscal deficits driven by a rigid expenditure structure have brought debt to historical highs despite significant cuts to public subsidies since 2012. While the 2017 pension reform will provide fiscal relief, we expect annual fiscal deficits to hover around 2% of GDP. The end of a prolonged political impasse in the legislature has materially reduced government liquidity risks, but political risks remain as it is unclear how the incoming administration will work with the Legislative Assembly given that the President-elect's party has a minority representation in the Assembly.

Upward pressure on the credit profile could emerge from continued fiscal restraint that leads to an improvement in debt metrics. Sustained economic growth, above El Salvador's potential growth of 2.2%, would also be supportive. A track record of political agreements in the Legislative Assembly and a working relationship between the executive and the legislative would also add positive pressure to the credit profile, particularly if related to the approval of debt issuance to refinance upcoming debt payments, further easing liquidity risks.

Conversely, downward pressure on the credit profile could emerge from a return of political confrontations that constrain government access to long-term financing, potentially compromising the refinancing of upcoming debt maturities. Signs that fiscal trends are deteriorating and debt metrics are continuing their rise would also add negative pressure.

This credit analysis elaborates on El Salvador's credit profile in terms of economic strength, institutional strength, fiscal strength and susceptibility to event risk, which are the four main analytic factors in Moody's Sovereign Bond Rating Methodology.

CREDIT PROFILE

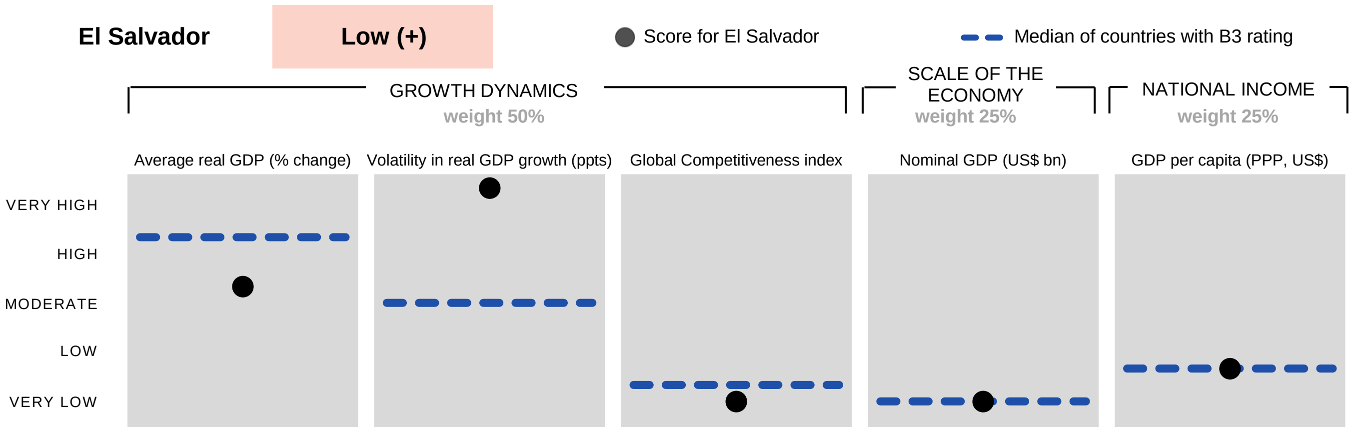
Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: economic strength, institutional strength, fiscal strength and susceptibility to event risk. When a direct and imminent threat becomes a constraint, that can only lower the preliminary rating range. For more information please see our Sovereign Bond Rating Methodology.

Economic strength: Low (+)

Factor 1: Overall score

Scale		VH+	VH	VH-	H+	H	H-	M+	M	M-	L+	L	L-	VL+	VL	VL-	
	+										Final						-

Factor 1: Sub-scores



Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Economic strength is adjusted in case excessive credit growth is present and the risks of a boom-bust cycle are building. This 'credit boom' adjustment factor can only lower the overall score of economic strength.

Note: In case the Indicative and Final scores are the same, only the Final score will appear in the table above.

El Salvador's "Low (+)" economic strength reflects the economy's relatively weak growth rate over the last years, averaging just 2.1% from 2009 to 2018, with a slight acceleration to about around 2.4% since 2015. The score also reflects the small and relatively undiversified economy ($26.1 billion in 2018) and high dependence on the US for its exports and remittances. Although El Salvador's economy is in line with the "Low (+)" median in terms of its economic size, it grows at a slower rate; we estimate that real growth will average 2.3% from 2012 to 2021. And although El Salvador scores near the "Low (+)" median in terms of the World Economic Forum's Global Competitiveness Index, its wealth lags that of factor peers, with GDP per capita of $7,738 slightly below the median of $10,215.

Peer comparison table factor 1: Economic strength

	El Salvador B3/STA	L+ Median	Angola B3/STA	Bosnia and Herzegovina B3/STA	Ecuador B3/NEG	Ghana B3/STA	Jamaica B3/POS	Mongolia B3/STA
Final score	L+		L+	L+	L+	L+	L+	L+
Indicative score	L+		L	M-	L	L+	L+	M-
Nominal GDP (US$ bn)	24.9	24.0	122.1	18.1	104.3	59.0	14.8	11.4
GDP per capita (PPP, US$)	7,738.1	10,215.1	6,987.9	12,784.2	11,506.8	6,099.3	9,161.4	12,529.3
Average real GDP (% change)	2.3	3.4	1.8	3.0	1.5	5.5	1.4	6.1
Volatility in real GDP growth (ppts)	1.4	2.6	4.1	2.4	2.9	4.3	1.5	5.8
Global Competitiveness Index	3.8	3.9	--	3.9	3.9	3.7	4.3	3.9

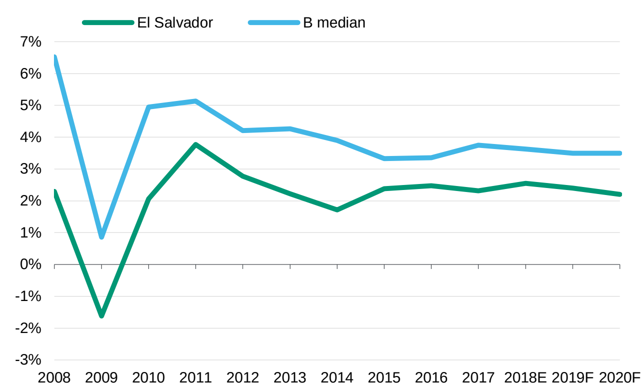
Source: Moody's Investors Service

GDP growth is among the lowest of emerging economies

El Salvador's economy is small and relatively open with limited economic diversification. Geographically, it is the smallest country in Central America and its population is just 6.6 million. According to the International Organization for Migration, an additional 2.5 million Salvadorans live in the US. Its 2018 nominal GDP of $26 billion is in line with the $27 billion B median. While GDP per capita on a PPP basis is slightly below the B median ($8,041 vs. $8,271 in 2018), income inequality as measured by the Gini Index (0% to 100%, with 100% being the most unequal) is less pronounced in El Salvador than in other Central American countries (El Salvador: 38, Honduras (B1 stable): 51, Guatemala (Ba1 stable): 48, Costa Rica (B1 negative): 48).

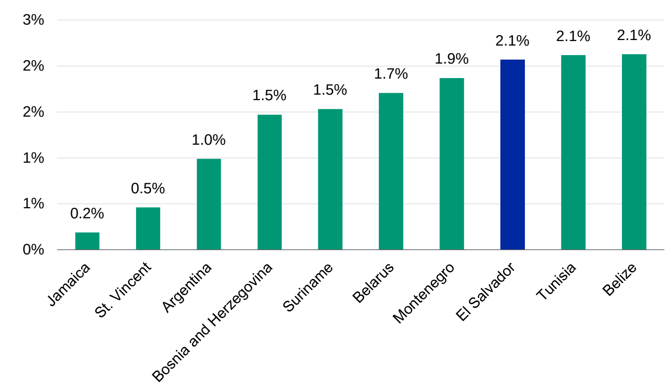
Average annual real GDP growth in El Salvador was 2.1% over the past 10 years, compared to the 3.7% median among rated peers over the same period. The country's growth performance is among the lowest of all the emerging economies that we rate, with only seven B-rated peers growing at a slower rate over the same period (see Exhibits 2 and 3).

Exhibit 2
El Salvador's economy grows slower than the B median...
(Annual real GDP growth, %)



Source: Moody's Investors Service

Exhibit 3
...and ranks among the lowest of its B-rated peers in average growth over the last ten years
(Average annual real GDP growth, 2009-18E, %)



Source: Moody's Investors Service

Nonetheless, growth dynamics have improved in the last three years. Strong remittance flows have boosted private consumption and, coupled with improved manufacturing and agricultural exports, have modestly lifted growth in El Salvador. The economy grew around 2.4% in 2015-18, which is low on a global comparative basis but 0.3 percentage points higher than El Salvador's historical average.

Although lower oil prices were paramount in boosting domestic disposable income between 2014 and 2016, upticks in the price of petroleum increased oil import values by roughly 23.2% in 2018, when compared to the same period a year earlier. While foreign demand will continue to support El Salvador's economic activity, we expect growth to slow to its potential of around 2.2% by 2020, as external demand wanes in the context of a slowdown in US and global growth over the next one to two years.

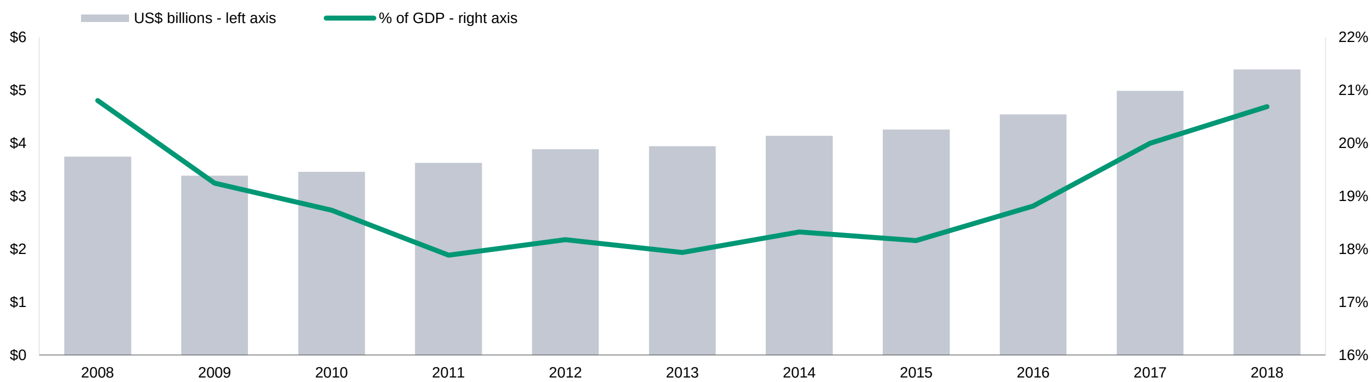
El Salvador's credit profile is also exposed to climate change risks because of its small size, relatively low income level and the important role agriculture plays in the economy (about 17.8% of total employment). These features, in addition to the prevalence of climate-related events – on average two per year over the past decade – can affect growth volatility and agricultural output, hurting economic strength and exports, as identified in our report on environmental risks and their impact on sovereigns.

Workers' remittances have increased significantly since 2016...

El Salvador's private consumption will continue to benefit from and be driven primarily by workers' remittances. In 2018, the ongoing US economic recovery coupled with Salvadoran concerns over the US administration's immigration policy boosted remittance inflows by a robust 8.1%, down from 9.7% in 2017, but above the average annual growth of 4.3% in the 2010-16 period. Remittances grew to represent 20.7% of GDP in 2018 (see Exhibit 4), fueling domestic consumption. In addition to a declining Latino unemployment rate in the US, we believe above-average growth in remittances since 2017 reflects the increased uncertainty regarding US immigration policy (discussed further below).

Both government officials and bank representatives report that remittances have been increasingly channeled through the financial system into deposits in addition to direct consumption, suggesting that Salvadoran immigrants are using remittances and the Salvadoran financial system as a safe haven in the event that immigration policy becomes more restrictive. We expect remittances to continue to approximate around 22% of GDP in 2019-20, as remittances slow in the context of a slowing US economy.

Exhibit 4
Growth in workers' remittances accelerates in 2017-18, returning to pre-2008 crisis levels
(Remittance inflows, US$ billions and % of GDP)



Sources: Central Reserve Bank of El Salvador and Moody's Investors Service

...but US immigration policy introduces risk

On 1 March, the US Department of Homeland Security (DHS) announced that it would extend Temporary Protected Status (TPS) designations[1] for about 200,000 foreign nationals from El Salvador until 2 January 2020. The extension follows the October 2018 federal court order halting the US government's termination of a handful of countries' TPS designations. El Salvador's TPS designation was originally set to expire in September 2019.

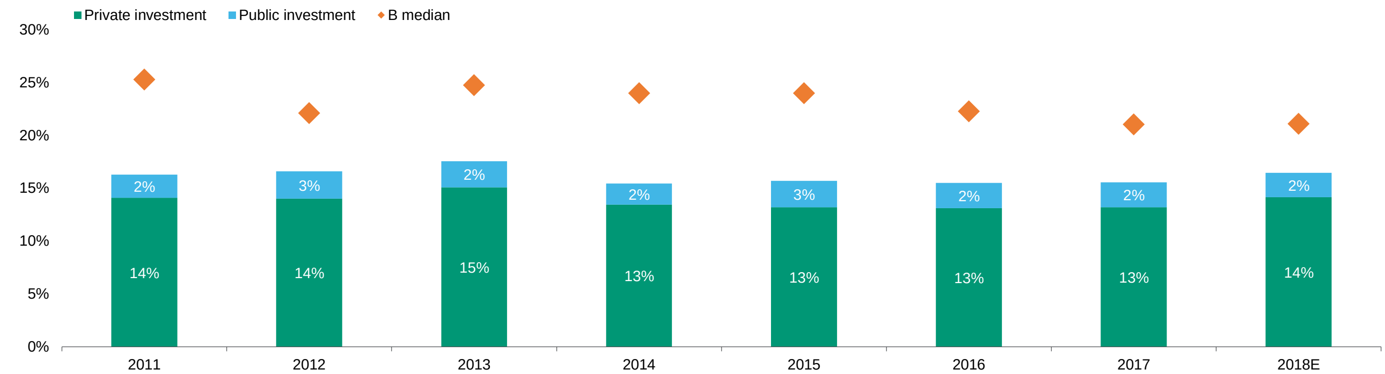
The potential termination of TPS status is a risk for El Salvador's economy given its reliance on remittances from its large diaspora in the US, almost 15% of which are TPS holders. According to a May 2017 survey conducted by the University of Kansas' Center for Migration Research[2], nearly 90% of Salvadoran and Honduran TPS holders are employed and three-quarters of them remit regularly, with the typical TPS holder sending around 10% of their monthly earnings back to family members in their country of origin.

Although we believe the policy change is a risk for El Salvador's economy, we see the risk of massive deportations as low. That said, remittance inflows could slow down in the next two years if Salvadorans with TPS are not able to gain permanent status in the US, either choosing to return to El Salvador or remain in the US as undocumented if their TPS designation were to permanently expire, the latter of which would adversely affect access to formal employment and earning power.

Limited investment, low productivity and security challenges underpin persistently weak economic growth

Relatively low public and private investment levels continue to pose a major constraint to economic growth. El Salvador's investment levels averaged just 16% of GDP annually in 2010-18, below the 23% B median over the same period. Underexecuted budgets and fiscal restraint has resulted in a marginal fall in public investment to around 2.3% of GDP in 2018, down from 2.4% in 2016-17, stabilizing at a very low level. Private investment levels, however, have begun to rebound, reaching 14.1% of GDP in 2018, up from an average of 13.2% in the three years prior, as reduced political brinkmanship helped to calm investor uncertainty (see Exhibit 5). We expect both public and private investment levels to remain relatively low when compared to B-rated peers despite slight improvements in private investment levels over the last two years and a stabilization of the government's finances.

Exhibit 5
Public and private investment levels are low and have fallen
(% of GDP)



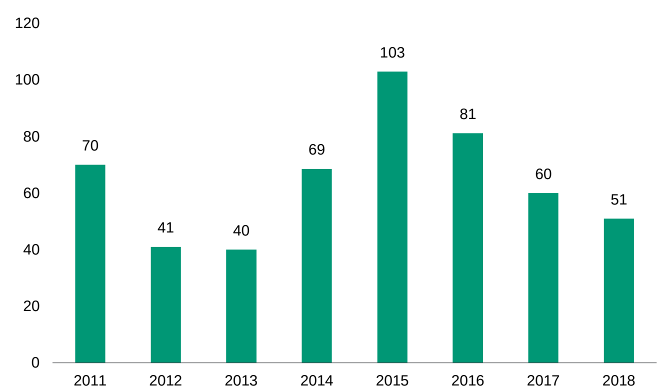
Sources: Ministry of Finance of El Salvador and Moody's Investors Service

Two additional factors constraining economic growth and investment are low productivity levels and security challenges. Regarding low productivity, El Salvador performs poorly in the World Economic Forum's (WEF) Global Competitiveness Index, ranking 98 out of 140 countries in the 2018 report. Labor market efficiency (ranked 104 out of 137 countries), institutions (ranked 131 out of 144 countries) and higher education and training (ranked 107 out of 137 countries) are among the country's weakest indicators.

With respect to security challenges, the central bank report estimated that the "shadow cost" of crime is between 4.8%-10.8% of GDP with small businesses being the hardest-hit in terms of the financial cost of security. The WEF lists crime and theft as the most problematic factor for doing business in the country.

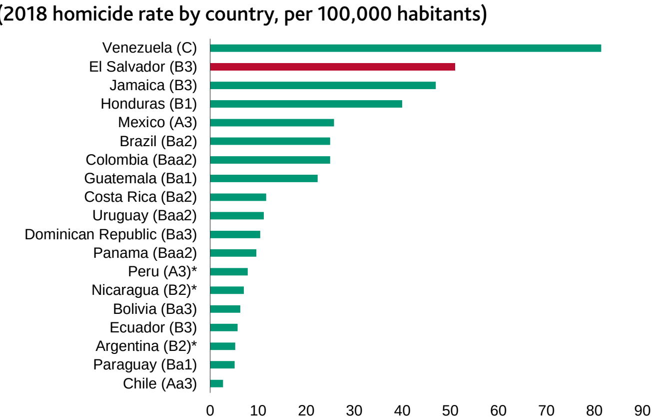
El Salvador also has one of the highest homicide rates in the Western Hemisphere. According to the UN Office on Drugs and Crime, most of the violence is related to confrontations among gangs that control certain areas of the country. In addition, local businesses are regularly subjected to extortion and racketeering by gangs, with gang members recruiting children in primary schools. In 2014, a breakdown in a government-negotiated truce between warring gangs drove El Salvador to its deadliest period since its civil war in 1992, with the homicide rate peaking at 103 homicides per 100,000 habitants in 2015 (see Exhibit 6). Since then, the government has increased security-related spending in an effort to expand the state's presence in violent towns and decrease communication between incarcerated gang leaders and their non-incarcerated counterparts. The situation has improved as a result of increased government intervention, with the homicide rate falling by over 50% between 2015 and 2018. However, the challenge remains endemic and El Salvador retains the second-highest homicide rate in the region, surpassed only by Venezuela (C stable) (see Exhibit 7).

Exhibit 6
El Salvador's homicide rate has declined since 2015...
(Homicide rate per 100,000 habitants)



Source: InsightCrime

Exhibit 7
...but it remains among the highest in the region
(2018 homicide rate by country, per 100,000 habitants)

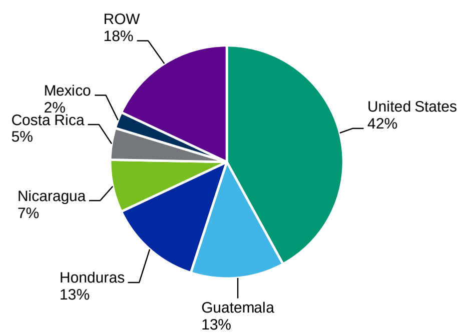


*2017 figures
Source: InsightCrime

Limited export diversification; foreign direct investment remains low

As noted earlier, private consumption is the main growth driver (accounting for 83% of GDP in 2018), with exports a distant second (29%). Exports are undiversified both geographically (mostly going to the US and Central America, see Exhibit 8) and in composition: exports are concentrated in textiles and other low value-added sectors. Plant maquila production involving textiles represents 46% of total exports, almost half of the total, while sugar and coffee represent a combined 6%. The remaining export product matrix is composed of food (raw sugar, processed fish and baked goods, among others), plastic (mostly houseware plastics and lids) and machines (mostly electrical capacitors).

Exhibit 8
The US and Central America absorb most of El Salvador's exports
(Export destination by country, % of total exports, 2018)



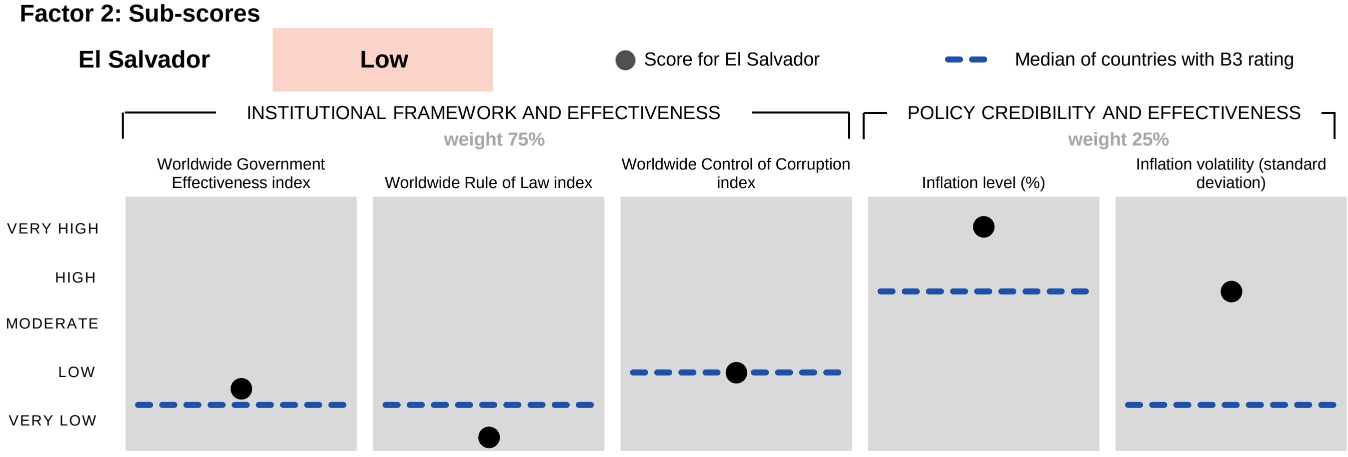
Sources: Central Reserve Bank of El Salvador and Moody's Investors Service

Institutional strength: Low

Factor 2: Overall score

Scale	VH+	VH	VH-	H+	H	H-	M+	M	M-	L+	L	L-	VL+	VL	VL-	
+											Final					-

Factor 2: Sub-scores



Institutional strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect of institutional strength is the capacity of the government to conduct sound economic policies that foster economic growth and prosperity. Institutional strength is adjusted for the track record of default. This adjustment can only lower the overall score of institutional strength.
Note: In case the Indicative and Final scores are the same, only the Final score will appear in the table above.

We assess El Salvador's institutional strength as "Low." Our assessment reflects a recent history of weak fiscal outcomes and the low policy effectiveness derived from occasional political confrontations that prevent legislative agreements, the latter of which resulted in a missed payment on pension-related debt in 2017. It also incorporates low scores in the Worldwide Governance Indicators, particularly with regards to the 'Rule of Law'. The sovereign benefits from low inflation levels and volatility, primarily a reflection of its fully dollarized economy.

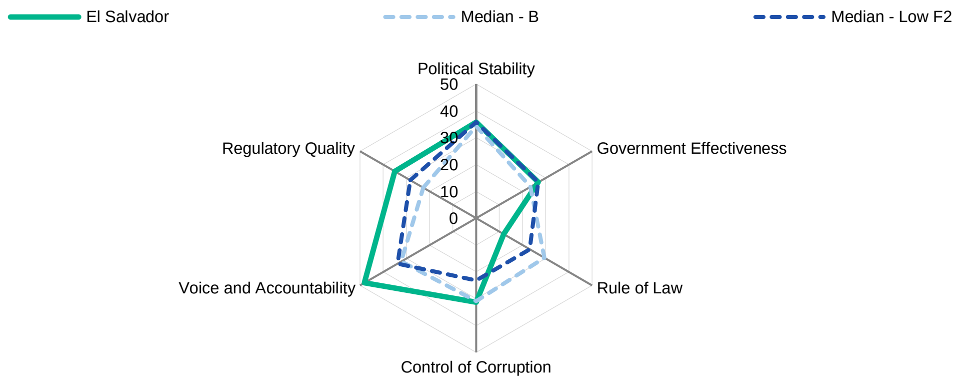
Peer comparison table factor 2: Institutional strength

	El Salvador B3/STA	L Median	Belarus B3/STA	Bolivia Ba3/STA	Egypt B2/STA	Paraguay Ba1/STA	St. Vincent and the Grenadines B3/STA	Turkey Ba3/NEG
Final score	L		L	L	L	L	L	L
Indicative score	L		L	L-	L-	VL+	H	M-
Gov. Effectiveness, percentile [1]	26.8	26.8	28.3	26.1	17.1	8.2	58.2	46.2
Rule of Law, percentile [1]	11.9	20.8	14.1	2.9	23.8	19.4	63.4	38.0
Control of Corruption, percentile [1]	31.3	31.3	42.5	23.1	26.8	21.6	71.6	46.2
Average inflation (%)	1.2	3.8	9.6	3.9	12.5	3.8	1.4	11.4
Volatility in inflation (ppts)	2.4	3.0	18.7	3.6	4.7	2.5	3.0	1.6

[1] Moody's calculations. Percentiles based on our rated universe.

El Salvador fares well compared to its peers in the "Low" category in key Worldwide Governance Indicator scores (see peer comparison table above). A comparison with B-rated peers also shows that El Salvador fares better than the median for the B category in terms of regulatory quality, government effectiveness and voice and accountability. However, it ranks poorly with respect to the rule of law (see Exhibit 9).

Exhibit 9
El Salvador fares better than B-rated peers on most governance indicators
(Worldwide Governance Indicators, 2017)



Sources: Worldwide Governance Indicators and Moody's Investors Service

In Transparency International's Corruption Perceptions Index, El Salvador ranks 105th out of 180 countries. Still, its ranking is better than most of its Central American peers – with the exception of Costa Rica (48) and Panama (Baa2 positive, 93).

Inflation remains low because of official dollarization

Inflation has averaged 1.2% over the past decade, with a standard deviation of just 1.5. In general, we view inflation as a proxy for policy credibility and effectiveness because the credibility of a central bank is a key element in ensuring economic and financial stability. However, in this particular case, low and relatively stable inflation is largely a reflection of official dollarization rather than the result of the policies of El Salvador's central bank. We do not see a threat to El Salvador's dollarization regime regardless of which party is in power. According to policymakers, the benefits of dollarization – low and stable inflation, low interest rates, no currency risk – outweigh costs associated with the absence of monetary and exchange rate policy tools.

We note that the technical capacity of the Central Bank and Ministry of Finance is strong and that the quality, as well as the availability and timeliness, of official data is adequate. Regarding policy management, the monetary authorities took proactive measures to protect the banking system in the lead-up to presidential elections or periods of financial turmoil. These measures included a temporary increase in banks' reserve requirements as well as requesting a $100 million contingent line of credit from the Central American Bank of Economic Integration (CABEI, A1 positive) to provide support to the banks in the event of unexpected deposit withdrawals. The contingent line has been renewed every year since 2013 when it was first contracted.

Disagreements over fiscal policy and debt management have compromised policy effectiveness

Over the years, governments have implemented several structural reforms, including fiscal reforms, pension reform, and privatizations in the telecommunications and electricity distribution sectors. However, although the two main parties, the left-wing Frente Farabundo Martí para la Liberación Nacional (FMLN) and the right-wing opposition party, Alianza Republicana Nacionalista (ARENA), agree in general on the need for fiscal consolidation to preserve macroeconomic stability, they disagree about how best to achieve this objective. Over the last decade, these disputes have repeatedly led to delays in decisions that have prevented prompt and sufficient fiscal consolidation to arrest a rising debt trend. They have also led to the government's inability to issue long-term debt in a timely manner, leading to periods of elevated liquidity risks. Polarization in the Legislative Assembly led to the government liquidity crisis in 2016-17.

A new administration will take office on 1 June and even though the incoming president won with a high percentage of the electoral vote, commanding a strong mandate, his political party has a minority representation in the Legislative Assembly. President-elect Nayib Bukele's capacity to govern will therefore depend on his ability to forge ties with other political parties and negotiate with the opposition, in particular ARENA, which holds the plurality of votes in the Legislative Assembly, to reach the qualified majority needed to approve debt issuance and changes to the constitution (see the political risk section below for more detail).

Change in GDP methodology represents an institutional improvement but reveals a smaller economy

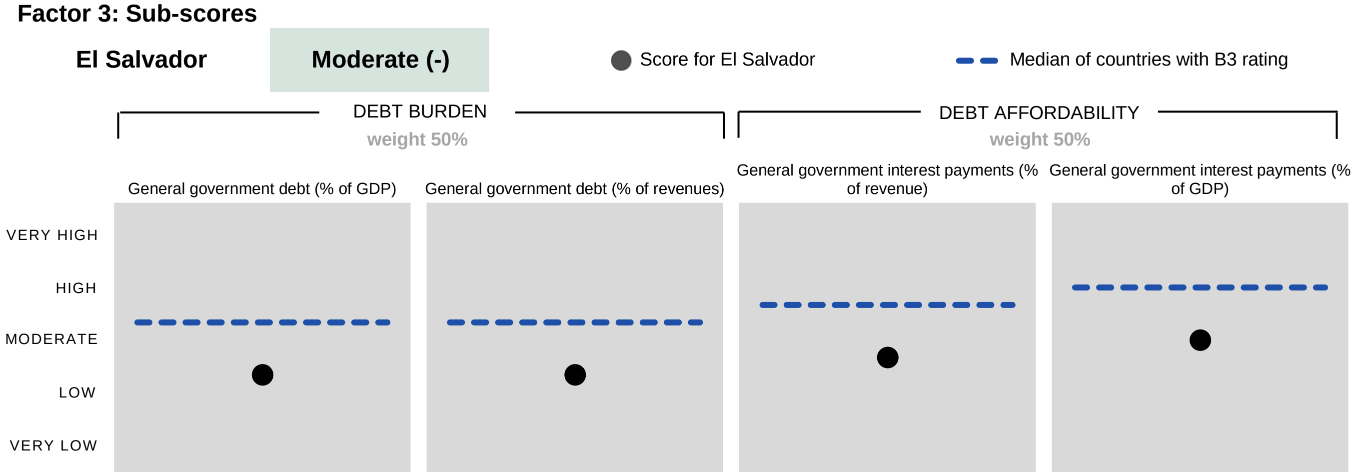
In March 2018, the Central Bank published the results of its new national accounting system. The publication of the new GDP methodology represents an institutional improvement in government data and provides a more up-to-date picture of the economy's size and structure (see New GDP methodology reveals smaller economy and results in higher debt ratios, but stabilizing debt trend unchanged). That said, updating the base year from 1990 to 2005 resulted in a smaller economy in nominal terms – El Salvador's nominal GDP at $24.8 billion in 2017 was 11.2% smaller compared to the old accounting system. A smaller economy in nominal terms has a negative effect on fiscal and debt metrics when measured as a percentage of GDP. Using the new GDP base, the debt burden increased by almost 7 percentage points of GDP compared to the old standard.

Fiscal strength: Moderate (-)

Factor 3: Overall score

Scale	VH+	VH	VH-	H+	H	H-	M+	M	M-	L+	L	L-	VL+	VL	VL-	
+									Final							-

Factor 3: Sub-scores



Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor the overall score of fiscal strength can be lowered or increased.

Note: In case the Indicative and Final scores are the same, only the Final score will appear in the table above.

El Salvador's "Moderate (-)" fiscal strength reflects the government's elevated, albeit stabilizing, debt and interest burdens. The recent end to a prolonged political impasse in the Legislative Assembly has restored access to long-term financing for the government through the rest of the year, a development that has materially reduced liquidity risks.

Relative to peers, El Salvador's debt burden is above the "Moderate (-)" median, both in terms of GDP and revenue, the latter of which reflects the sovereign's lower revenue-generating capacity. The government's interest burden is also above the "Moderate (-)" median when compared to revenue and is reflective of the relatively high coupons that the government bonds and notes carry.

Peer comparison table factor 3: Fiscal strength

	El Salvador	M- Median	Belarus	Honduras	Maldives	Papua New Guinea	Bangladesh	Vietnam
	B3/STA		B3/STA	B1/STA	B2/NEG	B2/STA	Ba3/STA	Ba3/STA
Final score	M-		M-	M-	M-	M-	M-	M-
Indicative score	M-		M-	M-	H-	M+	M	M
Gen. gov. debt/GDP	70.7	50.5	53.2	40.2	58.6	31.2	27.0	51.8
Gen. gov. debt/revenue	299.3	206.8	137.3	151.8	216.4	204.4	264.2	209.2
Gen. gov. interest payments/GDP	3.2	2.1	1.8	2.2	1.5	2.0	1.8	2.0
Gen. gov. int. payments/revenue	13.6	10.7	4.6	8.3	5.4	13.2	17.6	8.0

Despite rigid public expenditure structure, pension reform and subsidy cuts have produced savings…

The government's expenditure structure is relatively rigid because of the prominence of public salaries, pension outlays and subsidies. That said, the government reduced total transfers and subsidies to 3.1% of GDP in 2018, down from a high of 4.3% in 2011, primarily through the rationalization of gas, electricity and transportation subsidies.

Energy and transportation subsidies amounted to just 0.6% of GDP in 2018, down from a high of 1.9% in 2012 as a result of subsidy reform. People that consume between 100kW and 200kW in electricity no longer receive a subsidy, and transportation subsidies were also reduced. We believe the current level of subsidies, which averaged 0.7% of GDP over the last three years, are likely to remain in place for the foreseeable future.

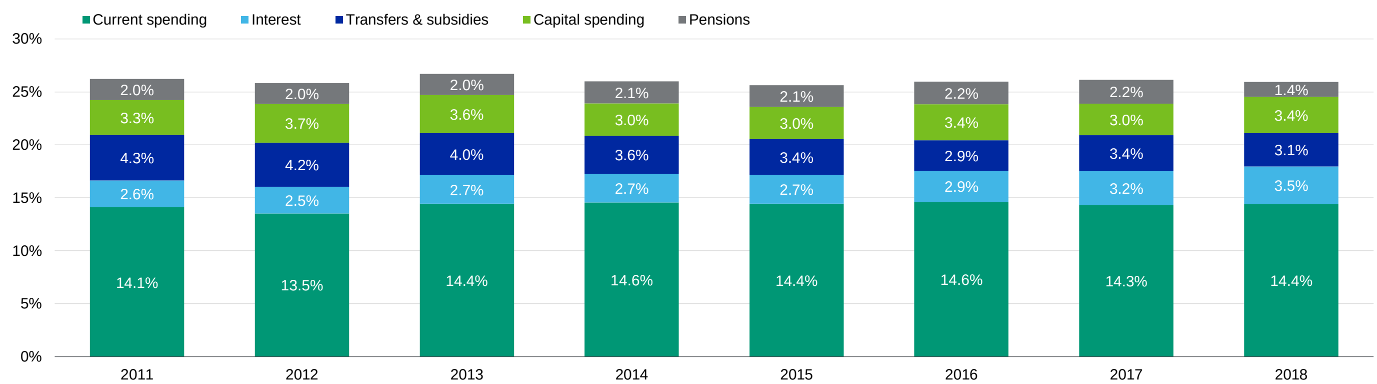
Landmark pension reform, passed in late 2017, has also begun to yield savings for the government's public finances. After years of growth, pension outlays fell to 1.4% of GDP in 2018, down from a recent high of 2.2% in 2017, largely the result of increases in worker and employee contributions and lower management fees for private pension funds, as well as an extension of maturities for pension-related obligations.

...but much of the higher savings have been offset by a growing interest bill

The composition of spending has changed, with most of the savings from subsidy cuts and pension reform being offset by a growing interest bill. Increased credit and liquidity risk led to a rise in interest risk premia, particularly for the short-term bills (LETES) that the government relies on to finance its daily operations. At the same time, although pension reform included a 5-year grace period for some pension-related debt instruments, the interest rates on those refinanced under the reform will increase to 4% from 2.5%, while new pension bonds will be issued at 6%, further contributing to upward pressure on the government's interest bill. While non-interest current spending (70% of which is spent on salaries) has remained relatively flat at 14.5% of GDP over the last five years, interest outlays grew to 3.5% of GDP in 2018 from 2.7% five years prior (see Exhibit 10).

Exhibit 10

The composition of government expenditure has shifted to interest from pensions and subsidies
(Government expenditure by function, % of GDP)



Sources: Ministry of Finance and Moody's Investors Service

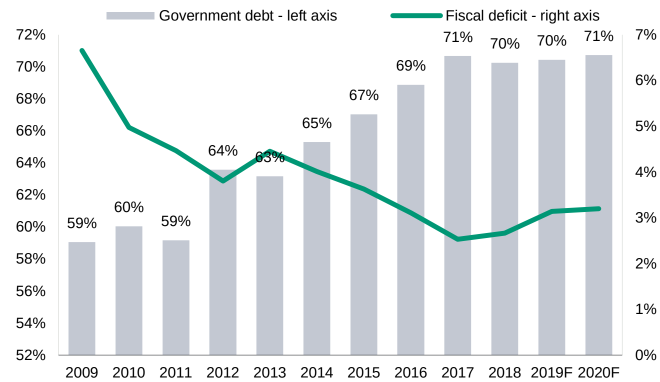
Government debt ratios will remain high but relatively stable as a result of fiscal consolidation

El Salvador's debt burden fell marginally to 70.3% of GDP in 2018 from 70.7% the year prior, following years of large deficits, fiscal rigidities and low economic growth. While the government's fiscal deficit has gradually narrowed since 2009 and its financial situation has improved relative to the recent past, other adverse fiscal trends do not support a downward trend in debt metrics. In particular, the government's interest bill has risen considerably as a result of a growing debt stock, increased reliance on high-yield, short-term instruments (LETES), and an increase in El Salvador's risk premia, all in the context of rising global interest rates.

El Salvador posted fiscal deficits that averaged 3.2% between 2014-18, down from an annual average of 4.9% over the previous five years. However, we expect moderating growth and slightly larger deficits over the next one to two years to marginally increase debt to 71% of GDP by 2020 (see Exhibit 11).

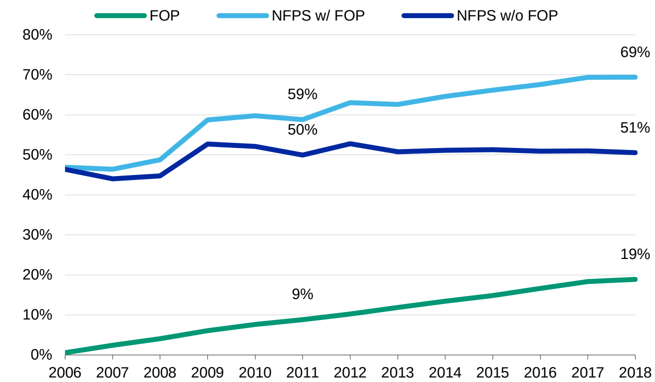
We estimate the fiscal deficit ticked up to 2.7% of GDP in 2018 from 2.5% in 2017, almost entirely due to the government's growing interest bill. This is evidenced by the government's growing primary surplus, which rose to 0.9% of GDP last year from 0.7% of GDP in 2017. Improvement in the primary surplus (its second since 2007) was supported by healthy growth in tax receipts (up 6.3%) and material savings in pension outlays (down about 0.8 percentage points of GDP compared to 2017). Solid revenue growth and savings on pension outlays allowed the government space to increase its capital expenditure to 3.4% of GDP in 2018 from 3.0% in 2017, following a period of significant underexecution of its capital budget. The divergence in the government's primary and fiscal balances highlights the challenging nature of the government's interest burden (see Exhibit 12).

Exhibit 11
Lower fiscal deficits will likely reverse marginally through 2020
(% of GDP)



Sources: Ministry of Finance and Moody's Investors Service

Exhibit 12
Rising government debt partly driven by pension bonds
(Nonfinancial public sector (NFPS) debt with and w/o pension bonds (FOP), % of GDP)

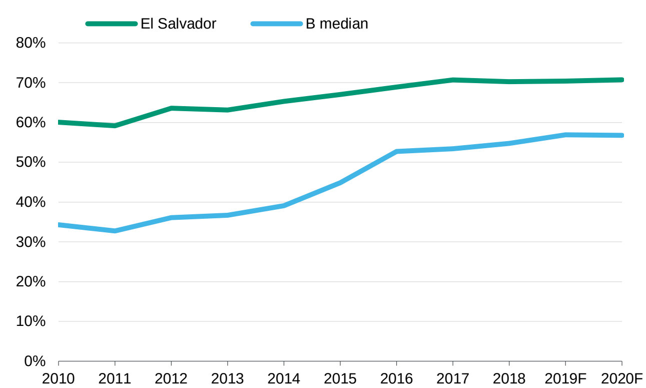


Sources: Ministry of Finance and Moody's Investors Service

We expect pension reform to continue to partially alleviate pressure in the coming years as the government saves about 0.7% of GDP in 2019 and 0.9% annually thereafter on pension costs, reducing the fiscal deficit by that amount (see next section for information on pension reform). At the same time, access to long-term financing and improving political dynamics should allow the government to reduce its exposure to high-cost LETES, which carry high interest rates (averaging 7.25% in 2017).

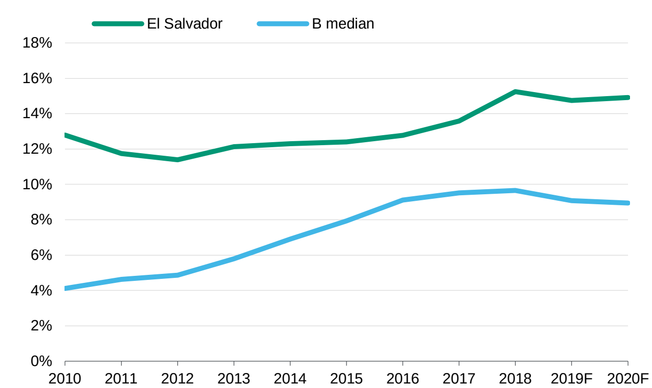
Despite the relative improvement in El Salvador's public finances in recent years, the sovereign's debt metrics are and will likely remain at the lower end of the B rating category over the next two to three years. Given the adverse fiscal trends outlined above, we expect the government's debt burden to slowly inch upward, reaching close 71% in 2020, above the B median of 57% and up from 65% in 2014. At the same time, we estimate interest payments will consume about 15% of revenue, above the B median of 9% and up from 12% in 2014 (see Exhibits 13 and 14).

Exhibit 13
Government debt has risen with B median
(Government debt, % of GDP)



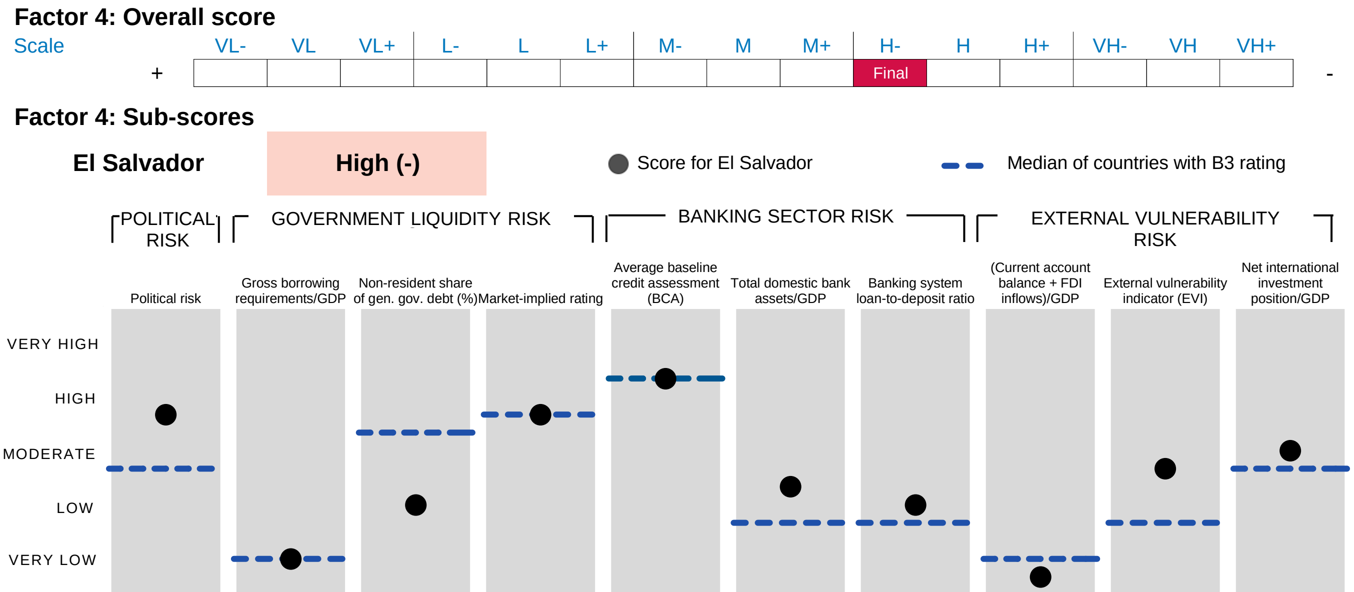
Sources: National sources and Moody's Investors Service

Exhibit 14
El Salvador's interest burden exceeds average of B-rated peers
(Interest payments, % of government revenue)



Sources: National sources and Moody's Investors Service

Susceptibility to event risk: High (-)



Susceptibility to event risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility of event risk is a constraint which can only lower the preliminary rating range as given by combining the first three factors.

Note: In case the Indicative and Final scores are the same, only the Final score will appear in the table above.

Political risk: High (-)

Peer comparison table factor 4a: Political risk

	El Salvador B3/STA		Democratic Republic of the Congo B3/NEG	Pakistan B3/NEG	Ethiopia B1/STA	Russia Baa3/STA	Rwanda B2/STA	Argentina B2/STA
Final score	H-		H-	H-	H-	H-	H-	M+
Geopolitical risk	VL	--	L	H-	M+	H-	H-	VL
Domestic political risk	H-	--	H-	H-	H-	M	H-	M+

We assess El Salvador's political risk as "High (-)," reflecting a recent history of political brinkmanship that compromised debt repayment and the country's relatively nascent period of compromise on key legislation. Nonetheless, we note that political polarization, while still significant, has waned since the country's 2017 pension reform and 2019's timely budget approval. However, political risk will remain elevated until a track record of improved political relations among key stakeholders and legislative agreements is further solidified. Evidence of a working relationship between the incoming administration and the Legislative Assembly will be particularly important given that the new president's party will have limited representation in the Assembly.

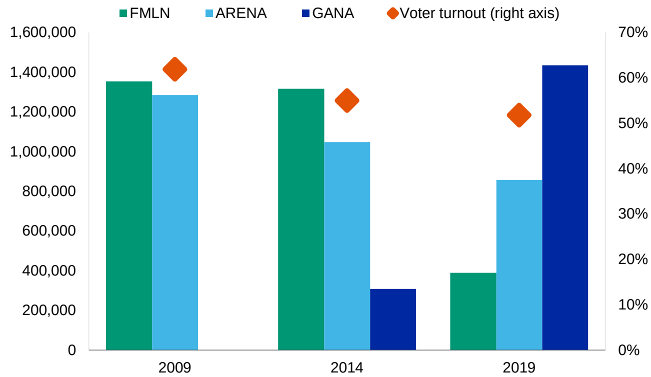
On 3 February, Nayib Bukele, an anti-establishment candidate running on the Grand Alliance for National Unity (GANA) ticket, was elected president with 53% of the votes in the first round. The result marks the first time since the country's transition to democracy in 1992 that the government will not be controlled by one of the two main political parties — the left-wing FMLN or the right-wing ARENA. Both saw a major drop in their vote shares, continuing a long-term trend of declining voter turnout and voter disillusionment (see Exhibit 15).

The landslide victory grants President-elect Bukele strong popular support to push forward his campaign promises, which include anticorruption and public works initiatives. However, a small representation in the Legislative Assembly (see Exhibit 16), combined with weak public finances and restricted access to external financing, will constrain the incoming administration's policy execution capacity. President-elect Bukele will be inaugurated on 1 June.

Exhibit 15

Voter turnout has declined as well as support for traditional political parties

(Voters by party and voter turnout during presidential election cycles)

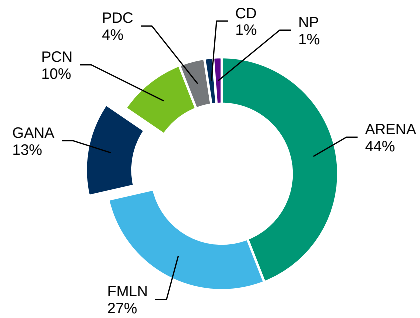


First round votes only. GANA ran under the coalition party Unity Movement in 2014.
Sources: Tribunal Supremo Electoral and Moody's Investors Service

Exhibit 16

Widespread voter discontent leaves FMLN and ARENA with less support but still holding plurality

(Share or total seats in El Salvador's Legislative Assembly by party)



El Salvador's unicameral congress has 84 seats total
Sources: Tribunal Supremo Electoral and Moody's Investors Service

During the transition period, Mr. Bukele appears to be more pragmatic than ideological. He has shown interest in improving cooperation with the US administration, has criticized Venezuela's President Nicolas Maduro and has emphasized private-sector based approaches to address the country's challenges, in contrast with some of the positions of the FMLN, his former party. However, he has also been critical of, and at times confrontational with, the right-wing party ARENA. Concerns about the qualifications and expertise of future cabinet members have not dissipated, as key cabinet members remain unnamed and his transition team is relatively small and unknown.

Ultimately, Mr. Bukele's capacity to govern will depend on his ability to forge ties with other political parties and negotiate with the opposition, in particular with ARENA, which holds 37 seats in the Legislative Assembly. That is because even if he were to forge alliances with the other, smaller parties, Mr. Bukele's party would only have up to 24 votes in the Legislative Assembly, short of the 43 needed for a simple majority and the 56 needed for a qualified majority, which is required to approve debt issuance and make changes to the constitution.

Government liquidity risk: Moderate (-)

Peer comparison table factor 4b: Government liquidity risk

	El Salvador B3/STA	M- Median	Belarus B3/STA	Moldova B3/STA	Solomon Islands B3/STA	Tajikistan B3/NEG	Rwanda B2/STA	Suriname B2/STA
Final score	M-		M-	M-	M-	M-	M-	M-
Indicative score	L+		L+	VL+	VL-	VL	VL	H-
Gross borrowing req./GDP	7.5	8.9	5.8	10.8	4.1	5.0	9.8	15.0
Gen. gov. ext. debt/gen. gov. debt	49.5	70.5	68.1	56.2	79.4	73.8	77.6	70.0
Market funding stress indicator	B1	Ba3	Ba3	--	--	--	--	Caa2

We assess government liquidity risk as "Moderate (-)," above its scorecard-indicated outcome of "Low (+)," to reflect the upcoming uncertainty about financing plans for a large $1.3 billion (4.8% of GDP) needed to cover the $800 million Eurobond coming due in December 2019 as well as the 2019 fiscal deficit. The December amortization represents the largest refinancing the sovereign will have to confront since its missed pension-related debt payment in April 2017 – an event that significantly increased funding costs. Nonetheless, we note that short-term LETES have remained relatively stable at just over $800 million, below the $1 billion average experienced during 2017, highlighting the government's reduced rollover risk since the default.

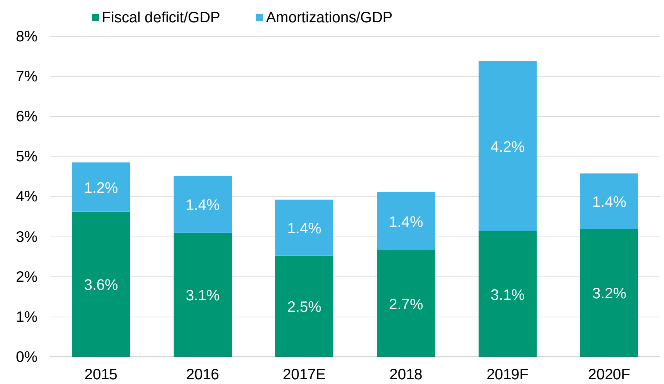
Although the Legislative Assembly approved long-term financing last December, reducing refinancing risk, the government has yet to access the markets. While spreads have fallen significantly, lack of detail on how campaign promises will translate into policies by the incoming administration and adverse investor sentiment toward emerging market sovereigns with weak credit profiles could complicate El Salvador's refinancing efforts.

It is possible, although unlikely at this time, that investors will exercise a put option on the 2034 bond on 17 September of this year, for up to $286.7 million. Investors should notify the government 60 to 30 days in advance if they decide to exercise this right. Even though the 2019 budget includes a commitment to repay investors in the event the put option is exercised, the government has not yet secured funds for this purpose. The government would have to seek approval from the Legislative Assembly to contract additional long-term debt if the put option is exercised. We believe the Legislative Assembly would likely grant this approval and the government would likely contract a bridge loan to cover the payment.

The large 2019 maturity is the reason for this year's high 7.4% of GDP financing needs, up from 4.4% in 2018. However, debt servicing needs will likely be more manageable thereafter, at least until the next large Eurobond payment comes due in 2023 (see Exhibits 17 and 18).

Exhibit 17

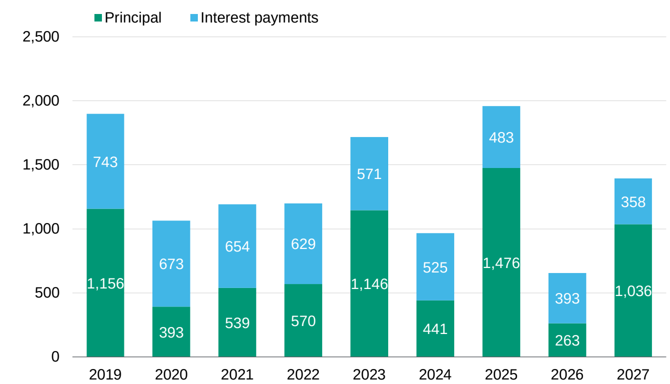
Gross financing needs spike in 2019...
(Gross borrowing requirements, % of GDP)



Sources: Ministry of Finance and Moody's Investors Service

Exhibit 18

...but amortizations are manageable thereafter
(Debt amortization schedule, US$ millions)



Sources: Ministry of Finance and Moody's Investors Service

External vulnerability risk: Low (+)

Peer comparison table factor 4d: External vulnerability risk

	El Salvador B3/STA	L+ Median	Albania B1/STA	Armenia B1/POS	Costa Rica B1/NEG	Ethiopia B1/STA	Honduras B1/STA	Dominican Republic Ba3/STA
Final score	L+		L+	L+	L+	L+	L+	L+
Indicative score	L		L-	M-	L+	L	VL	VL
(Curr. acc. bal. + FDI inflows)/GDP	0.2	2.6	0.3	-0.3	1.8	-3.1	3.4	4.6
External vulnerability indicator (EVI)	108.5	89.7	89.7	123.4	122.5	86.5	48.8	28.4

We set external vulnerability at "Low (+)," above the scorecard-indicated outcome of "Low," to account for our expectation of larger external imbalances as current account deficits widen. Current account deficits had been narrowing since 2013 but reversed sharply last year as rising energy prices increased the country's oil imports and strong growth in remittances fueled consumer goods imports. Although FDI inflows improved in 2017-18, averaging 3.4% of GDP, FDI flows over the last year have average just half that amount, leading El Salvador to rely on external debt to cover its current account deficit. We estimate external debt stood at 64% of GDP in 2018, above the B median of 51%.

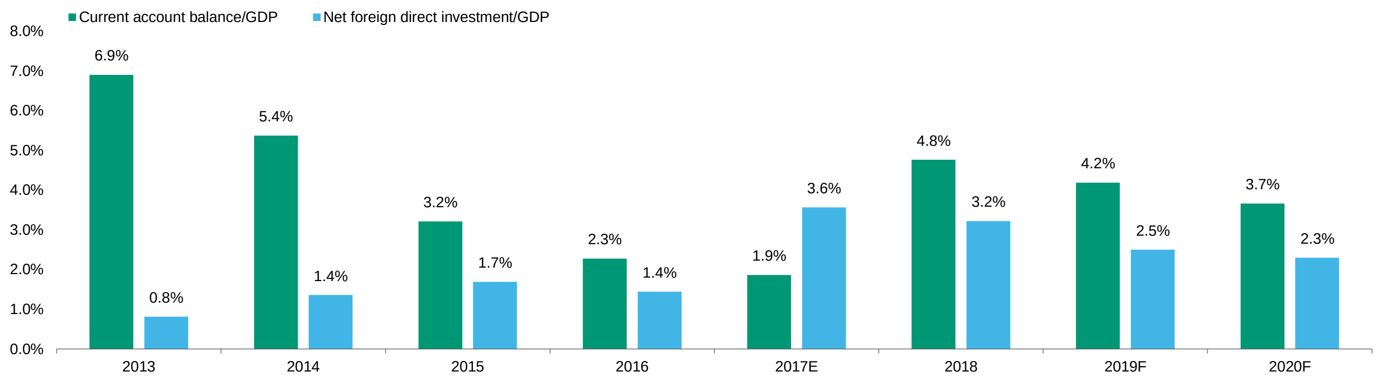
In terms of the external sector, the country is most vulnerable to US-related economic shocks. El Salvador's high exposure to the US is a structural feature since it is El Salvador's largest export market (% of total), the source of almost all workers' remittances (93%), and a significant source of FDI (38% share in 2018).

Net foreign direct investment (FDI) inflows amounted to $840 million in 2018 (3.2% of GDP), down from $889 billion in 2017 (3.6% of GDP), but over twice the amount of inflows received in 2016 ($347 million, 1.5% of GDP) and above the average amount of net FDI inflows received over the last five years (2.3% of GDP). The greatest source of FDI inflows in 2018 were provided by the US (38% of total) and El Salvador's Latin American neighbors, who comprised almost half of total FDI (led by Panama (Baa1 stable) at 21% of total). In 2019-20, we expect a stable macroeconomic environment and reduced political risk to sustain levels of FDI at around 2.5% of GDP, close to its five-year average.

External vulnerabilities are also related to the country's dependence on imported commodities (food and oil), which in the past led to high and recurrent current account deficits.

After narrowing between 2013-17, an uptick in global energy prices in 2018 led to a material deterioration in the current account deficit. A 23% increase in the oil bill offset continued strong growth in remittances, widening the current account deficit to 4.8% last year, up from 1.9% in 2017. Although we expect the recent upticks in oil prices to moderate, we also expect remittance growth to decelerate over the next two years, causing the current account deficit to widen slightly in 2018 and 2019, to 2.2% and 2.5%, respectively (see Exhibit 19).

Exhibit 19
Financing gap will widen slightly as oil prices rise and remittance growth decelerates
(% of GDP)



Sources: Central Bank of El Salvador and Moody's Investors Service

Banking sector risk: Low

Peer comparison table factor 4c: Banking sector risk

	El Salvador B3/STA	L Median	Angola B3/STA	Jamaica B3/POS	Cote d Ivoire Ba3/STA	Fiji Ba3/STA	Senegal Ba3/STA	Uzbekistan B1/STA
Final score	L		L	L	L	L	L	L
Indicative score	L+		VL+	L-	L-	L	L	L+
Baseline credit assessment	b3	baa2	b3	--	--	--	--	b3
Total dom. bank assets/GDP	70.5	158.3	53.9	78.7	38.6	97.4	40.0	55.1
Loan-to-deposit ratio	88.2	93.7	62.0	77.0	77.4	85.1	88.1	203.9

We view banking sector risk as "Low," below the scorecard-indicated outcome of "Low (+)," given the significant amount of foreign ownership (90% of total assets) of domestic banks. This, combined with the system's moderate size (70% of GDP) and primarily deposit-based funding model, reduces the risk of liabilities crystallizing on the sovereign's balance sheet in the event of a crisis. The presence of the state in the banking system is limited, with three government-owned banks accounting for about 10% of the system's assets (7% of GDP).

The three largest banks account for about half of total assets: Bancolombia's Banco Agricola (B1 stable, b3), Banco de Bogota's (Baa2 stable, ba1) BAC and Davivienda, as well as Scotiabank.

Salvadoran banks' asset quality will remain strained by their sizeable and growing exposure to the inherently risky consumer sector, which could deteriorate if the recent pick-up in economic growth reverses or interest rates rapidly increase. Consumer lending accounts for 34% of all loans and 36% of total credit growth since the end of 2015, having expanded by about 1.5 times the rate of nominal GDP growth, indicating that household indebtedness has risen significantly. Consequently, as recently originated consumer loans season, we expect nonperforming loans to gradually increase from still low levels of 1.9% of gross loans.

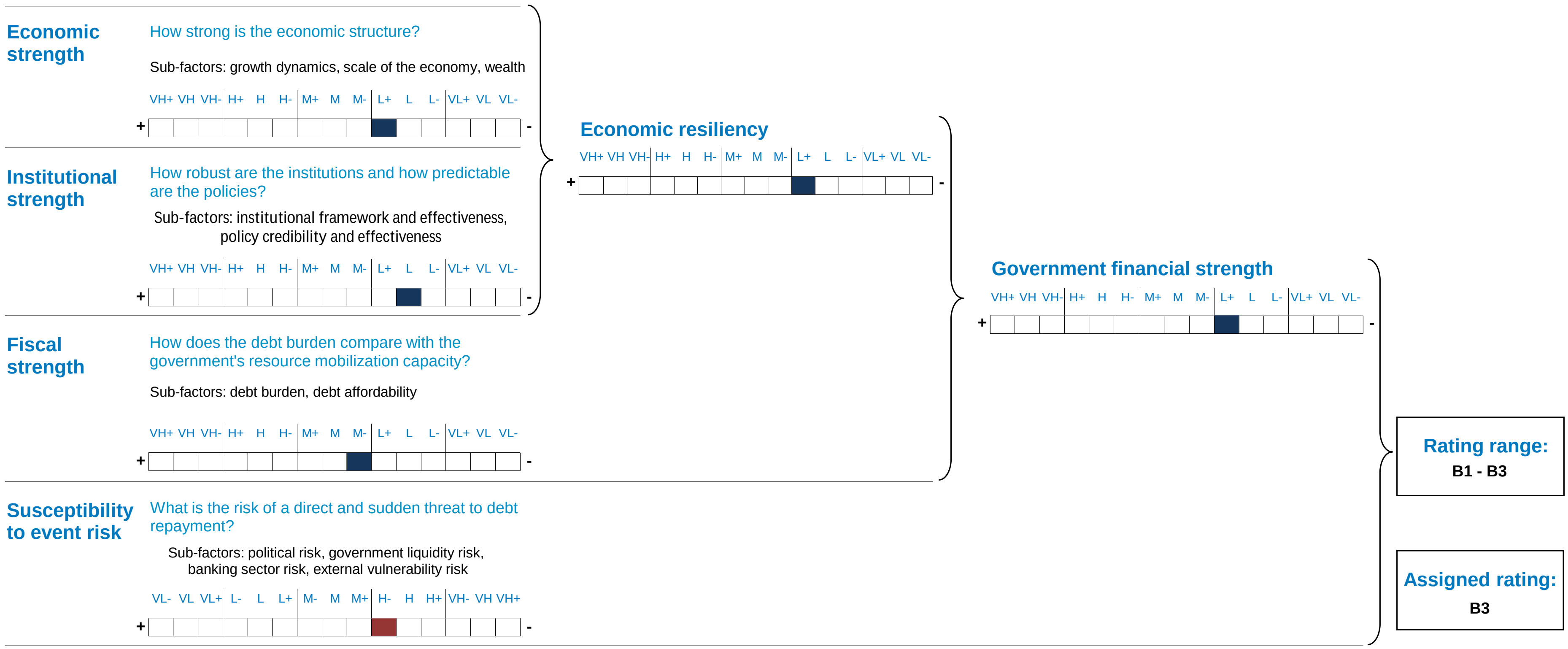
Notwithstanding a recent decline, investment portfolios at Salvadoran banks remained a very high 48% of shareholders' equity as recently as January 2019. These investments, while boosting liquidity, generally entail significant holdings of government securities, exposing lenders to any potential deterioration of the sovereign's credit profile.

Deposits continue to comprise the lion's share of funding, totaling 68% of total assets as of January 2019. While the slow economy and the high level of informality have limited deposit growth in recent years, reliance on market funding has remained relatively stable at about 17% of total assets, pointing to manageable refinancing risks

Rating range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our Sovereign Bond Rating Methodology.

Exhibit 20
Sovereign rating metrics: El Salvador



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding El Salvador with other sovereigns that we rate. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores.

While El Salvador's economic size and development is on par with similarly rated sovereigns, low growth dynamics, partially attributed to low investment levels, explain the "Low (+)" economic strength factor score. Growth averaged 2.1% in the last decade, below selected peers and less than half the 3.7% median of the B-rating category. "Low" institutional strength compares favorably to most selected peers, with relatively low WGI scores partially offset by low inflation levels, a benefit of the country's dollarized economy. "Moderate (-)" fiscal strength is driven by a recent upward trajectory of the debt level – which we expect will continue to hover around 71% of GDP – above most selected peers, Belize (B3 stable) being the exception. A "High (-)" susceptibility to event risk is above most selected peers driven primarily by "High (-)" political risk, reflecting a recent history of political impasse in the Legislative Assembly that ultimately resulted in a missed debt payment on pension bonds. Although the political brinkmanship has subsided after important legislative agreements and political risks have diminished, risks will likely remain high until a longer track record of improved political relations among key stakeholders and legislative agreements is established.

Exhibit 21

El Salvador key peers

	Year	El Salvador	Ecuador	Nicaragua	Solomon Islands	Tunisia	Belize	B3 Median	Latin America and Caribbean Median
Rating/Outlook		B3/STA	B3/NEG	B2/NEG	B3/STA	B2/NEG	B3/STA	B3	Ba3
Rating Range		B1 - B3	B1 - B3	B1 - B3	B1 - B3	B2 - Caa1	B3 - Caa2	B2 - Caa1	Ba2 - B1
Factor 1		**L+**	**L+**	**L**	**VL**	**L+**	**L**	**L+**	**M-**
Nominal GDP (US$ bn)	2017	24.9	104.3	13.8	1.3	40.0	1.9	18.1	48.6
GDP per capita (PPP, US$)	2017	7738.1	11506.8	5854.6	2167.4	11936.2	8280.2	7738.1	14392.2
Avg. real GDP (% change)	2013-2022	2.3	1.5	2.3	3.2	2.5	2.0	3.0	2.2
Volatility in real GDP growth (ppts)	2008-2017	1.4	2.9	2.7	4.5	1.8	1.5	2.4	2.4
Global Competitiveness index	2017	3.8	3.9	4.0	--	3.9	--	3.9	4.1
Factor 2		**L**	**VL**	**VL**	**VL+**	**M-**	**VL+**	**VL+**	**L**
Government Effectiveness, percentile [1]	2017	26.8	29.1	14.1	4.4	40.2	14.9	23.8	37.3
Rule of Law, percentile [1]	2017	11.9	17.1	20.1	41.0	52.9	9.7	17.1	32.0
Control of Corruption, percentile [1]	2017	31.3	23.8	13.4	56.7	51.4	41.0	31.3	38.0
Average inflation (% change)	2013-2022	1.2	1.5	5.4	2.7	5.4	1.1	5.7	3.2
Volatility in inflation (ppts)	2008-2017	2.4	2.2	4.8	5.3	0.9	2.0	4.4	2.5
Factor 3		**M-**	**M**	**M**	**H+**	**VL+**	**VL-**	**L+**	**M-**
Gen. gov. debt/GDP	2017	70.7	41.3	34.0	9.0	70.4	95.4	55.5	48.5
Gen. gov. debt/revenue	2017	299.3	237.1	136.7	21.0	284.9	318.4	237.1	213.3
Gen. gov. interest payments/revenue	2017	13.6	13.7	4.4	0.3	9.5	10.1	10.1	10.7
Gen. gov. interest payments/GDP	2017	3.2	2.4	1.1	0.1	2.3	3.0	2.4	2.3
Gen. gov. financial balance/GDP	2017	-2.5	-5.9	-2.2	-3.8	-6.2	-1.7	-2.5	-2.8
Factor 4		**H-**	**M+**	**M**	**M-**	**H**	**M+**	**M+**	**M-**
Current account balance/GDP	2017	-1.9	-0.5	-4.9	-4.6	-10.2	-7.1	-3.4	-1.8
Gen. gov. external debt/gen. gov. debt	2017	49.5	65.7	85.7	79.4	63.4	71.0	66.2	54.3
External vulnerability indicator (EVI)	2019F	108.5	558.4	111.0	8.6	231.2	19.4	74.2	59.1

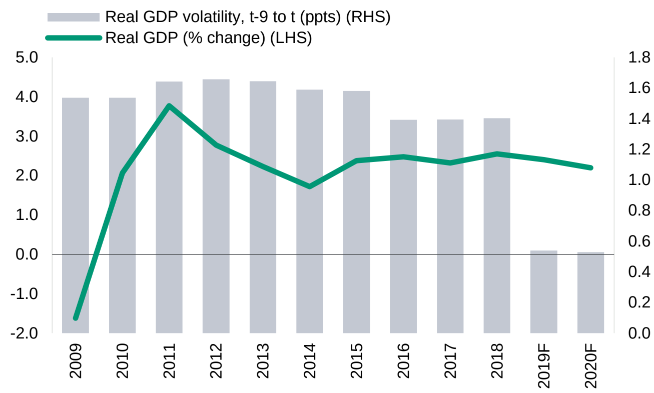
[1] Moody's calculations. Percentiles based on our rated universe.
Source: Moody's Investors Service

DATA, CHARTS AND REFERENCES

Chart pack: El Salvador

Exhibit 22

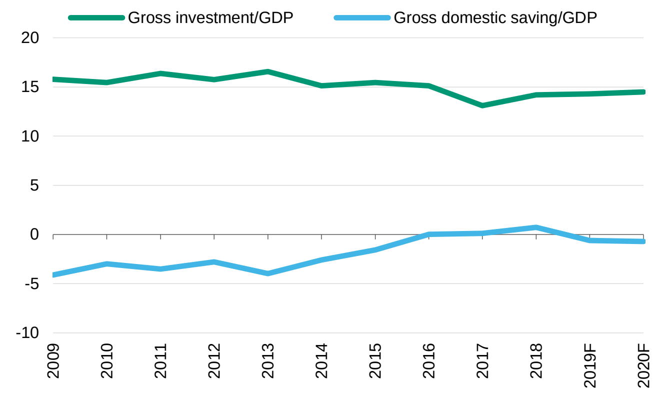
Economic growth



Note: Official figures differ from private sector estimates
Source: Moody's Investors Service

Exhibit 23

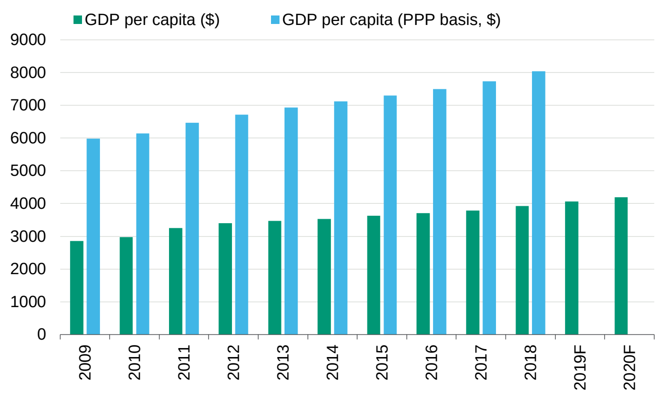
Investment and saving



Source: Moody's Investors Service

Exhibit 24

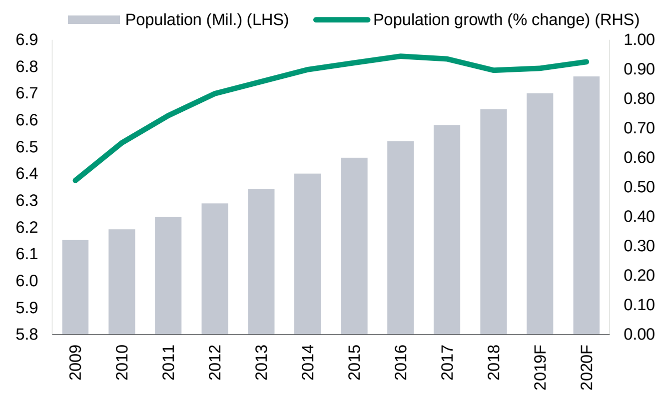
National income



Sources: Moody's Investors Service, IMF, INEC

Exhibit 25

Population

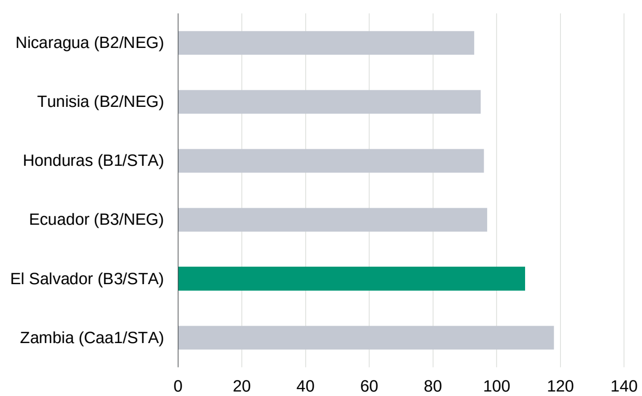


Sources: Moody's Investors Service, IMF

Exhibit 26

Global Competitiveness Index

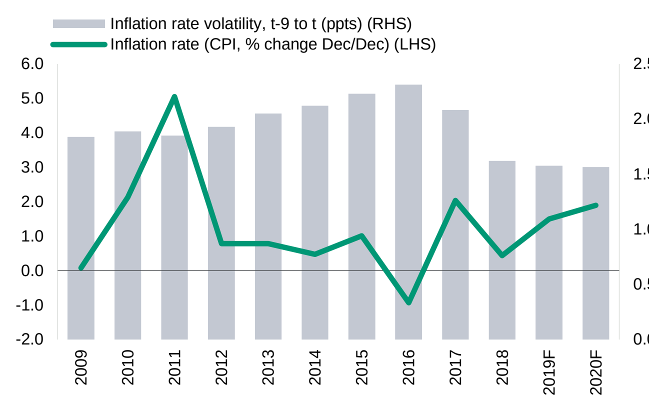
Rank 109 out of 138 countries



Source: World Economic Forum

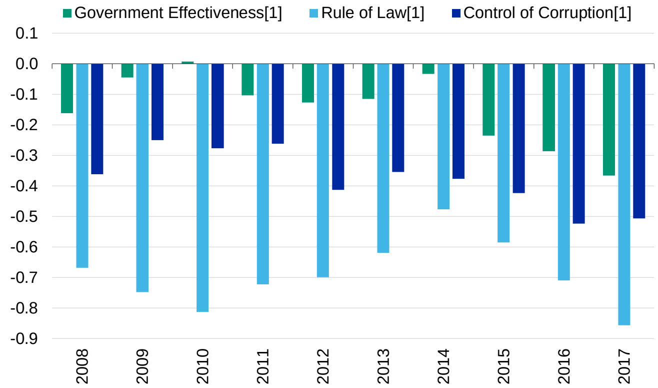
Exhibit 27

Inflation and inflation volatility



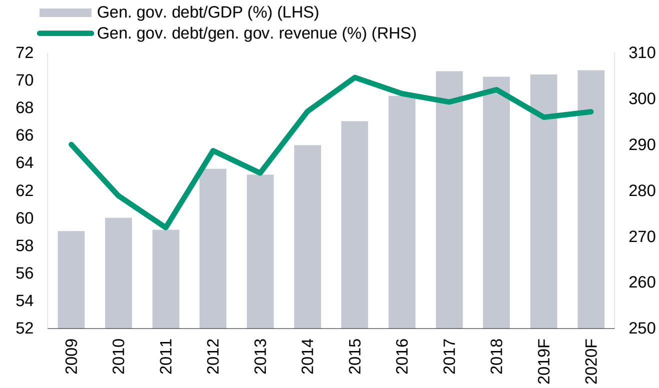
Note: Official figures differ from private sector estimates
Source: Moody's Investors Service

Exhibit 28
Institutional framework and effectiveness



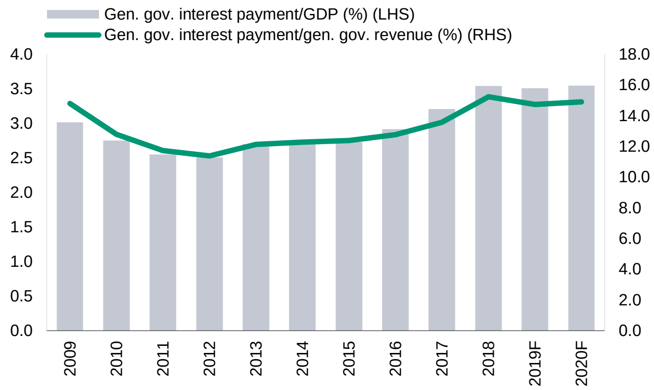
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Source: Worldwide Governance Indicators

Exhibit 29
Debt burden



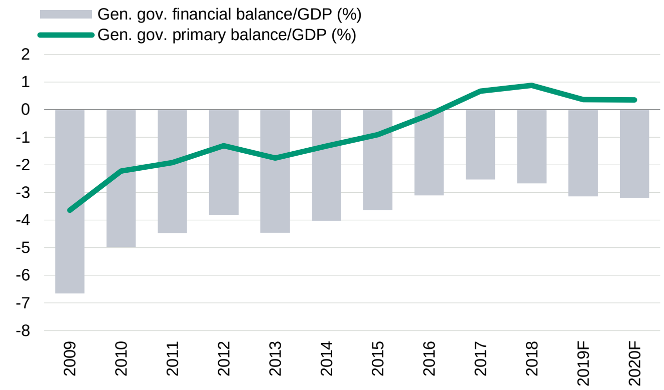
Sources: Ministerio de Economía y Producción and Moody's Investors Service

Exhibit 30
Debt affordability



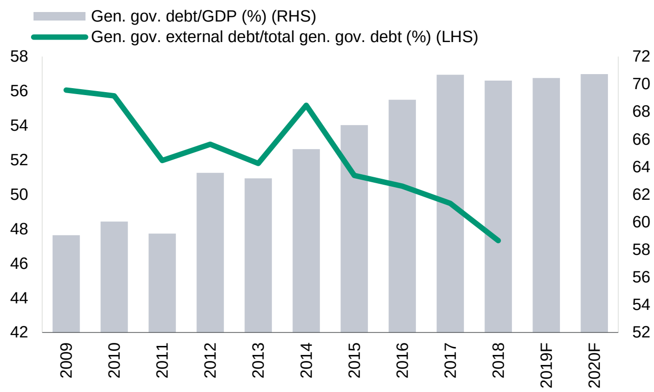
Sources: Min de Economía y Obras y Servicios Públicos and Moody's Investors Service

Exhibit 31
Financial balance



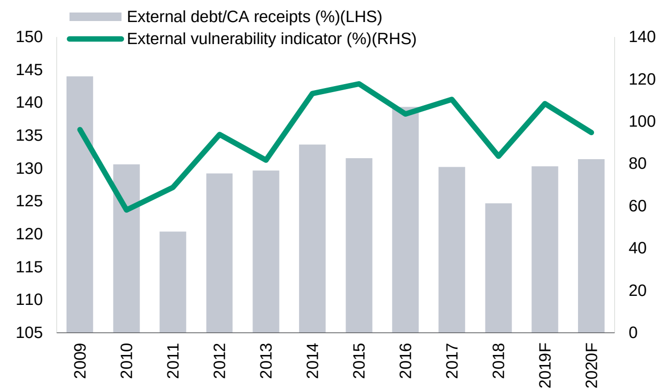
Sources: Min de Economía y Obras y Servicios Públicos and Moody's Investors Service

Exhibit 32
Government liquidity risk



Sources: Ministerio de Economía y Producción and Moody's Investors Service

Exhibit 33
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 34

El Salvador [1]

	Government Bonds			Foreign Currency Ceilings				
				Bonds & Notes		Bank Deposit		
	Foreign Currency	Local Currency	Outlook	Long-term	Short-term	Long-term	Short-term	Date
Rating Raised	B3	--	Stable	B1		B1		Feb-18
Rating Lowered/Outlook Changed	Caa1	--	Stable	B2	--	B2	--	Apr-17
Rating Lowered/Outlook Changed	B3	--	Negative	B1	--	B1	--	Nov-16
Rating Lowered/Review for Downgrade	B1	--	RUR-	Ba2	--	Ba1	--	Aug-16
Outlook Changed	--	--	Negative	--	--	--	--	Nov-15
Rating Lowered	Ba3	--	Stable	Ba1	NP	Ba1	--	Nov-12
Rating Lowered	Ba2	--	Stable	--	--	Baa3	--	Mar-11
Outlook Changed	Ba1	--	Negative	--	--	--	--	Nov-09
Rating Lowered	Ba1	--	--	--	--	Ba1	NP	Nov-09
Rating Withdrawn	--	WR	--	--	--	--	--	Sep-09
Review for Downgrade	--	--	RUR-	--	--	--	--	Sep-09
Rating Confirmed	Baa3	--	Stable	--	--	--	--	Dec-03
Review for Downgrade	Baa3	Baa2	RUR-	--	--	--	--	Oct-03
Outlook Changed	--	--	Negative	--	--	--	--	May-03
Rating Assigned	--	Baa2	--	--	--	--	--	Nov-98
Rating Assigned	Baa3	--	Stable	Baa3	P-3	Baa3	P-3	Jul-97

Notes: [1] Table excludes rating affirmations. Please visit the issuer page for El Salvador for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 36

	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019F	2020F
Economic structure and performance												
Nominal GDP (US$ bil.)	17.6	18.4	20.3	21.4	22.0	22.6	23.4	24.2	24.9	26.1	27.2	28.4
Population (Mil.)	6.2	6.2	6.2	6.3	6.3	6.4	6.5	6.5	6.6	6.6	6.7	6.8
GDP per capita (US$)	2,861	2,979	3,251	3,400	3,466	3,530	3,628	3,704	3,787	3,924	4,060	4,195
GDP per capita (PPP basis, US$)	5,986	6,143	6,463	6,718	6,929	7,116	7,297	7,492	7,738	8,041	--	--
Nominal GDP (% change, local currency)	-2.1	4.8	10.0	5.4	2.8	2.7	3.7	3.1	3.2	4.5	4.4	4.3
Real GDP (% change)	-1.6	2.1	3.8	2.8	2.2	1.7	2.4	2.5	2.3	2.5	2.4	2.2
Inflation (CPI, % change Dec/Dec)	0.1	2.1	5.1	0.8	0.8	0.5	1.0	-0.9	2.0	0.4	1.5	1.9
Gross investment/GDP	15.8	15.5	16.4	15.7	16.6	15.1	15.4	15.1	13.1	14.2	14.3	14.5
Gross domestic saving/GDP	-4.1	-3.0	-3.5	-2.8	-4.0	-2.6	-1.6	0.0	0.1	0.7	-0.6	-0.7
Nominal exports of G & S (% change, US$ basis)	-12.3	17.9	18.3	3.9	7.0	2.1	3.5	-0.4	4.9	4.3	3.0	2.5
Nominal imports of G & S (% change, US$ basis)	-23.6	15.9	18.7	2.9	6.3	-1.7	0.6	-2.7	5.6	11.8	4.0	3.0
Openness of the economy[1]	66.1	73.5	79.3	77.6	80.5	78.1	76.6	72.9	74.5	77.5	77.0	75.9
Government Effectiveness[2]	0.0	0.0	-0.1	-0.1	-0.1	0.0	-0.2	-0.3	-0.4	--	--	--
Government finance												
Gen. gov. revenue/GDP[3]	20.4	21.5	21.8	22.0	22.3	22.0	22.0	22.9	23.6	23.3	23.8	23.8
Gen. gov. expenditures/GDP[3]	27.0	26.5	26.2	25.8	26.7	26.0	25.6	26.0	26.1	25.9	26.9	27.0
Gen. gov. financial balance/GDP[3]	-6.7	-5.0	-4.5	-3.8	-4.5	-4.0	-3.6	-3.1	-2.5	-2.7	-3.1	-3.2
Gen. gov. primary balance/GDP[3]	-3.6	-2.2	-1.9	-1.3	-1.8	-1.3	-0.9	-0.2	0.7	0.9	0.4	0.3
Gen. gov. debt (US$ bil.)[3]	10.4	11.1	12.0	13.6	13.9	14.8	15.7	16.6	17.6	18.3	19.2	20.1
Gen. gov. debt/GDP[3]	59.1	60.0	59.2	63.6	63.2	65.3	67.0	68.9	70.7	70.3	70.4	70.7
Gen. gov. debt/gen. gov. revenue[3]	290.1	278.9	272.0	288.7	283.9	297.2	304.6	301.1	299.3	302.0	295.9	297.2
Gen. gov. interest payments/gen. gov. revenue[3]	14.8	12.8	11.7	11.4	12.1	12.3	12.4	12.8	13.6	15.2	14.7	14.9
Gen. gov. FC & FC-indexed debt/gen. gov. debt[3]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Moody's Investors Service

Exhibit 37

	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019F	2020F
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)[4]	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real eff. exchange rate (% change)	--	--	--	--	--	--	--	--	--	--	--	--
Current account balance (US$ bil.)	-0.3	-0.5	-1.1	-1.2	-1.5	-1.2	-0.8	-0.6	-0.5	-1.2	-1.1	-1.0
Current account balance/GDP	-1.8	-2.9	-5.5	-5.8	-6.9	-5.4	-3.2	-2.3	-1.9	-4.8	-4.2	-3.7
External debt (US$ bil.)	11.3	11.4	11.9	13.4	14.0	14.8	15.2	16.4	16.5	16.7	17.9	18.5
Public external debt/total external debt	57.9	59.9	60.2	60.3	57.5	60.5	57.8	56.9	58.7	56.8	56.7	56.8
Short-term external debt/total external debt	8.1	7.3	9.7	11.4	13.0	13.2	12.5	15.8	12.4	12.4	14.0	14.0
External debt/GDP	64.2	61.8	58.5	62.4	63.8	65.5	64.9	67.8	66.1	63.9	65.9	65.3
External debt/CA receipts[5]	144.0	130.6	120.4	129.2	129.7	133.6	131.6	139.4	130.2	124.7	130.3	131.4
Interest paid on external debt (US$ bil.)	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.9	0.8
Amortization paid on external debt (US$ bil.)	0.7	0.6	0.8	0.6	0.6	0.7	0.6	0.7	0.7	0.7	1.5	0.7
Net foreign direct investment/GDP	2.1	-1.2	1.1	2.2	0.8	1.4	1.7	1.4	3.6	3.2	2.5	2.3
Net international investment position/GDP	-57.4	-59.3	-58.7	-64.2	-66.6	-65.1	-62.7	-65.8	-66.1	-62.3	--	--
Official forex reserves (US$ bil.)	2.6	2.3	1.9	2.6	2.2	2.2	2.5	3.0	3.3	3.3	3.4	3.5
Net foreign assets of domestic banks (US$ bil.)	0.4	0.7	0.3	-0.1	-0.4	-0.7	-1.0	-1.0	-0.7	-0.7	--	--
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)	2.9	4.3	-0.7	1.8	3.1	-0.4	6.3	3.4	10.4	5.8	--	--
Monetary policy rate (% per annum, Dec 31)	4.5	2.9	1.8	2.5	3.4	3.8	4.2	4.4	4.4	4.2	--	--
Domestic credit (% change Dec/Dec)	-5.6	1.7	6.3	-2.9	12.8	3.4	8.3	3.2	3.7	6.7	--	--
Domestic credit/GDP	56.8	55.2	53.4	49.2	53.9	54.3	56.7	56.8	57.0	58.2	--	--
M2/official forex reserves (X)	3.6	4.2	5.1	3.9	4.6	4.6	4.3	3.8	3.8	4.0	--	--
Total external debt/official forex reserves	433.1	492.2	624.1	523.2	631.9	675.7	606.1	552.3	503.1	507.7	530.7	532.3
Debt service ratio[6]	15.0	12.8	13.4	11.5	10.6	11.7	11.3	11.9	11.8	10.8	17.0	10.3
External vulnerability indicator (EVI)[7]	96.1	58.1	68.8	93.9	81.8	113.3	117.8	103.5	110.5	83.5	108.5	94.7
Liquidity ratio[8]	68.8	76.9	69.8	104.3	129.2	127.1	122.3	86.6	64.9	86.1	--	--
Total liabilities due BIS banks/total assets held in BIS banks	111.5	122.8	137.1	199.0	228.0	221.0	248.7	227.1	186.1	219.0	--	--
"Dollarization" ratio[9][4]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	--	--
"Dollarization" vulnerability indicator[10]	268.4	301.3	386.4	312.3	349.7	342.2	331.3	295.9	296.7	314.7	--	--

[1] Sum of Exports and Imports of Goods and Services/GDP
[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[3] Non-financial public sector
[4] US Dollar adopted on January 1, 2001
[5] Current Account Receipts
[6] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[7] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[8] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[9] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[10] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

Source: Moody's Investors Service

Moody's related publications

» **Credit Opinion:** Government of El Salvador - B3 stable: Regular update, 24 April 2019

» **Sector Comment:** Sovereigns - Latin America: El Salvador and Honduras most exposed to changes in US Temporary Protected Status, 8 March 2019

» **Issuer Comment:** Government of El Salvador: Structural constraints will restrict incoming administration's capacity to push forward electoral campaign promises, 6 February 2019

» **Issuer Comment:** Government of El Salvador: Legislative approval of 2019 budget and debt financing reduces refinancing risk, a credit positive, 4 January 2019

» **Issuer Comment:** Government of El Salvador: 2019 budget proposal indicates improved political dynamics intact, but fiscal challenges remain, 10 October 2018

» **Issuer Comment:**Government of El Salvador: El Salvador's expanded trade and financing opportunities with China are credit positive, 27 August 2018

» **Outlook:** Sovereigns – Latin America and the Caribbean: 2019 outlook stable as growth, debt structure still favorable; political risks rising, 9 January 2019

» **Country Statistics:** El Salvador, Government of, 28 November 2018

» **Rating Methodology**: Sovereign Bond Ratings, 27 November 2018

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related websites and information sources

» Sovereign Risk Group Webpage

» Sovereign Ratings List

Authors
Ariane Ortiz-Bollin
AVP - Analyst

Gabriel Agostini
Associate Analyst

Endnotes

1 TPS is a temporary legal status granted by the DHS to immigrants from certain countries fleeing natural disasters, civil wars or other extraordinary circumstances that may jeopardize the immigrant's safety.

2 Menjívar, Cecilia. 2017. Temporary Protected Status in the United States: The Experiences of Honduran and Salvadoran Immigrants. Center for Migration Research, The University of Kansas.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

REPORT NUMBER 1174155

MOODY'S
INVESTORS SERVICE