El Salvador

**CRT-4**

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**Region:** Latin America

**Country Risk Criteria Procedures**

- El Salvador, a CRT-4 country, has high levels of economic, political, and financial system risk.
- GDP grew 2.5% in 2018, driven by strength in the service and construction sectors. Domestic demand has also contributed to the economy’s expansion.
- The map depicts the countries in Central America, South America, and the Caribbean that AM Best evaluates. The majority of Latin American countries are categorized as CRT-4 or CRT-5, with the exceptions of Chile, Mexico, and Peru.

**Regional Summary: Latin America**

- Economic growth has slowed in Argentina, Mexico and Brazil—some of the region’s major economies—due to escalating trade tensions and volatile currency and commodity markets. The impact of these factors will be amplified by country-specific vulnerabilities. Additionally, the potential for stricter trade protectionist policies brings uncertainty to the growth outlook.
- Modest growth and tame inflation levels has allowed several of the region’s central banks to hold interest rates at relatively low levels—the notable exception being Mexico’s central bank, which has kept interest rates elevated on concerns over inflation and currency weakness.
- Structural reforms are needed to diminish reliance on unsustainable social programs and the resulting higher levels of public debt. Debt reform is also needed, to address growing corruption and its effects on economic potential.
- The ongoing humanitarian crisis in Venezuela has seen a significant outflow of refugees seeking asylum in neighboring countries, which has the potential to strain resources in neighboring host countries.
Economic Risk: High

- The economy is vulnerable to climate change, shifts in global demand, rising trade protectionism policies, and downturns in the US economy.
- El Salvador’s economy is predominantly service-based, driven by trade, manufacturing, and financial services. Environmental concerns have limited the development of the mining sector. Heightened security concerns have also hindered government efforts to attract foreign direct investment.
- El Salvador is heavily influenced by conditions in the US because of a reliance on the country for remittance inflows. The US is also El Salvador’s largest trading partner.
- The Central American Free Trade Agreement helps protect business operations and has pushed bureaucratic reform in El Salvador.
- The country ranks 85th out of 190 countries in the World Bank’s Ease of Doing Business survey. Improvements are needed in protecting minority investors and getting a permit for construction.

Political Risk: High

- Nayib Bukele, of the Grand Alliance for National Unity (GANA), won the presidency in 2019 and will be in office until 2024. The new administration took office on June 1, 2019.
- The National Assembly is fragmented and controlled by the opposition, which will delay the passage of legislation. Bukele is expected to focus on infrastructure and implementing austerity measures to lower the country’s high debt levels. The National Assembly passed a revised Fiscal Responsibility Law.
- President Bukele plans to impose a property tax on property values above a certain threshold, apply a separate value added tax on luxury items, and progressively lower tax incentives while severely penalizing tax evasion.
- The violent crime rate remains high. El Salvador has the highest concentration of gang activity in the region. The government has used the military to combat crime.
- El Salvador’s relationships with neighboring states are positive. However, the US has threatened to cut aid due to persistent migration flows.

Financial System Risk: High

- The insurance market regulator is Superintendency of the Financial System.
- El Salvador uses the US dollar as its currency, which has helped inflation expectations, but limits the country’s monetary and exchange rate policies.
- The dollarization of the economy and the appreciation of the US dollar have had negative effects on El Salvador’s competitiveness, compared to non-dollarized neighboring countries.