Best's Country Risk Report

El Salvador

CRT-4

August 22, 2018

Region: Latin America

Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- El Salvador, a CRT-4 country, has high levels of economic, political, and financial system risk. Real GDP growth is expected to be stable, slowly decelerating towards 2% over the next five years. The economy is vulnerable to climate change, shifts in global demand, and downturns in the US economy.
- The map depicts the countries in Central America, South America, and the Caribbean that A.M. Best evaluates. The majority of Latin American countries are categorized as CRT-4 or CRT-5, with the exceptions of Chile, Mexico, and Peru.

Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk

Country Risk Tier 2 (CRT-2) Low Level of Country Risk

Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk

Country Risk Tier 4 (CRT-4) High Level of Country Risk

Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

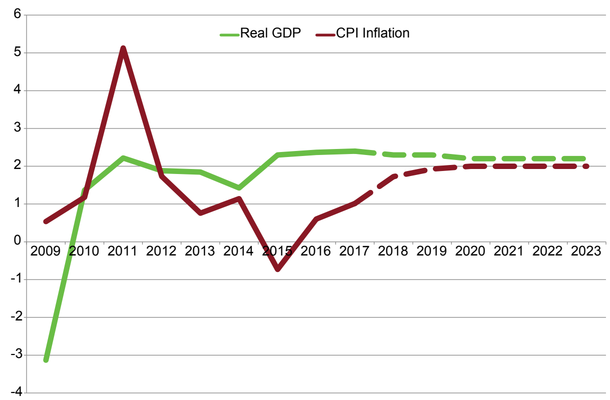
Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

Vital Statistics 2017		
Nominal GDP	USD bn	28.02
Population	mil	6.4
GDP Per Capita	USD	4,400
Real GDP Growth	%	2.4
Inflation Rate	%	1.0
United Nations Estimates		
Literacy Rate	%	88.0
Urbanization	%	67.6
Dependency Ratio	%	56.8
Life Expectancy	Years	74.9
Median Age	Years	27.1
Insurance Statistics		
Insurance Regulator	Superintendency of the Financial System	
Premiums Written (Life)	USD mil	215
Premiums Written (Non-Life)	USD mil	401
Premiums Growth (2016 - 2017)	%	-0.8
Regional Comparison		
	Country Risk Tier	
El Salvador	CRT-4	
Costa Rica	CRT-4	
Guatemala	CRT-4	
Honduras	CRT-5	
Nicaragua	CRT-5	
Panama	CRT-4	

Source: IMF, UN, Swiss Re, Axco and A.M. Best

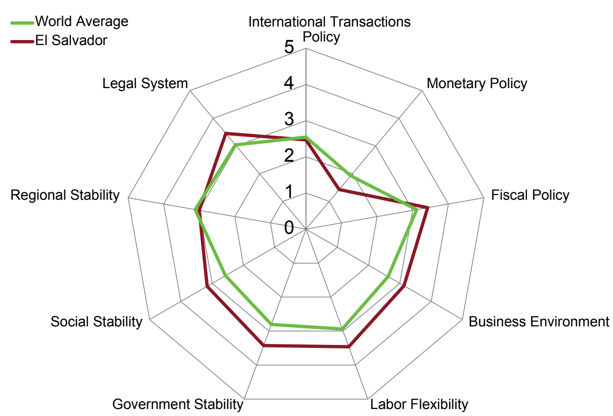
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

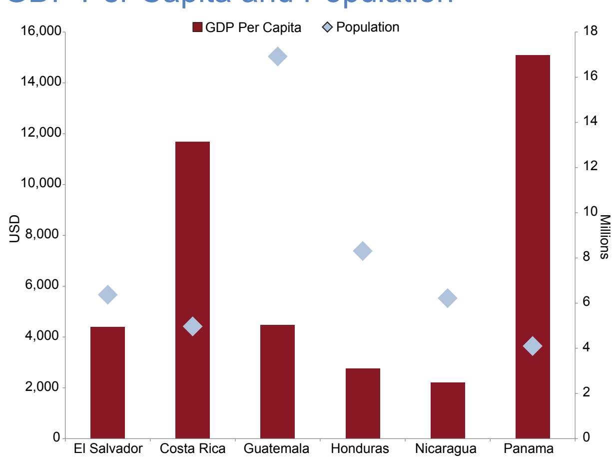
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- 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.
- The Central American Free Trade Agreement helps protect business operations and has pushed bureaucratic reform in the country.
- The economy is hindered by inadequate infrastructure and a lack of skilled labor.
- El Salvador's economy is closely influenced by that of the US, because of a reliance on remittance inflows. Recent growth in the US will be supportive, but the rising risk of the deportation of Salvadorans in the US exposes economic vulnerability.

Political Risk: High

- Salvador Sánchez Cerén, a member of the Farabundo Martí National Liberation Front (FMLN) and a former rebel commander, was elected president in 2014.
- Political polarization in the government has become increasingly elevated since the major opposition party the Nationalist Republican Alliance (ARENA) strengthened its power in the Legislative Assembly in the March 2018 elections.
- The government may miss making additional debt payments owing to legislative gridlock. The passage of legislation also faces increased delays owing to the division.
- The judicial system is underdeveloped with a weak framework. Legal processes are long and contract enforcement is poor. Judicial independence is ranked 98 out of 137 countries by the World Economic Forum.
- The violent crime rate remains high. The concentration of gang activity in El Salvador is the highest in the region. The government has used the military to combat crime.
- El Salvador's relationships with neighboring states are positive. They work together to reinforce security and promote investments.

Financial System Risk: High

- El Salvador's current account deficit, payment delays, slow economic growth, and imbalances in the banking sector are partly mitigated by foreign direct inflows and the country's ample liquidity. However, other sources of income are required.
- The IMF has recommended fiscal consolidation and pension reform to lower public debt and enhance sustainability.
- 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.