



Decide with Confidence

D&B Country RiskLine Report

EL SALVADOR

Region : The Americas

Edition : September 2012

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	6.2m
Surface area (sq km):	21,040
Capital:	San Salvador
Timezone:	GMT -06:00
Official language:	Spanish
Head of state:	President Mauricio Funes
GDP (USD):	21.8bn
GDP per capita (USD):	3,516
Life expectancy (years):	71
Urban population (% of total):	59.8

Country Overview:

The small, mountainous and densely populated country of El Salvador is located along the Pacific coast of Central America. Situated within the tropics and containing 20 volcanoes, the country remains vulnerable to natural disasters including hurricanes, earthquakes and volcanic eruptions.

The 1992 peace accords ended 12 years of civil war between the government and leftist guerrillas, establishing a competitive party system (albeit one fraught with strong partisan rivalries and deep ideological divisions). After the war, the government pushed forward far-reaching trade and investment liberalisation reforms, while promoting the development of a manufacturing export industry (mainly targeting the US market).

Strong economic ties to the US have been entrenched by the adoption of the US dollar as the official currency (2001), El Salvador's dependence on remittances from expatriate Salvadorians in the US, and, more recently, the enactment of a free-trade accord between a number of Central American countries (including El Salvador) and the US.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	LC
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	CLC
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	30-45 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	1-2 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	0-1 month
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The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

Net FX reserves declined to just USD2.5bn as of end-July 2012 (and to USD1.9bn, excluding gold and IMF Special Drawing Rights), down from USD2.9bn in the same period of 2011; this is now well below the IMF's recommended minimum level of 3.0 months of goods and services imports. Indeed, if this declining trend is maintained into the second half of 2012 there will eventually be potential problems in accessing FX on the part of importers, and this drain will only be exacerbated by current political problems. D&B recommends CLCs when dealing with Salvadoran businesses, and exporters should be aware of the potential risk of rising payment delays in line with lower FX levels.

Export Credit Agencies

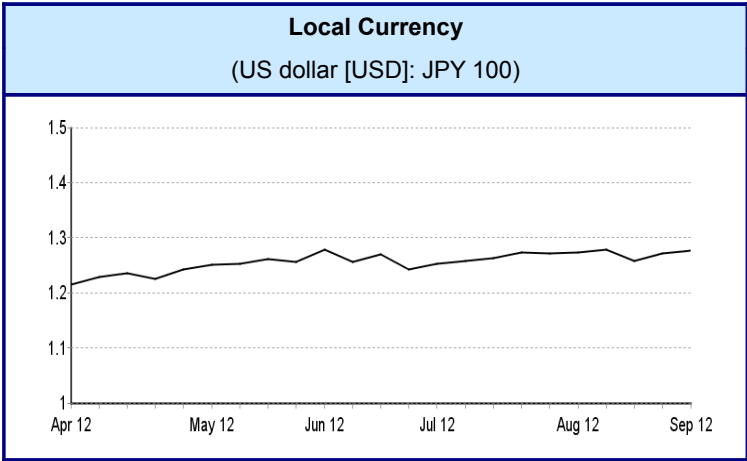
US Eximbank	Full cover available
Atradius	ST cover available, no discretionary limits
ECGD	Full cover available
Euler Hermes UK	ST cover available, restrictions may apply

Economic Indicators

	2009	2010	2011	2012f	2013f
Real GDP growth, %	-3.1	1.4	1.5	2.2	2.7
Inflation, annual ave, %	0.6	1.2	5.3	4.5	4.6
Govt balance, % GDP	-4.0	-3.2	-2.8	-2.5	-2.0
Foreign debt, % GDP	39.5	37.0	40.3	41.5	42.3
C/A balance, % GDP	-1.8	-2.2	-5.3	-5.8	-6.9

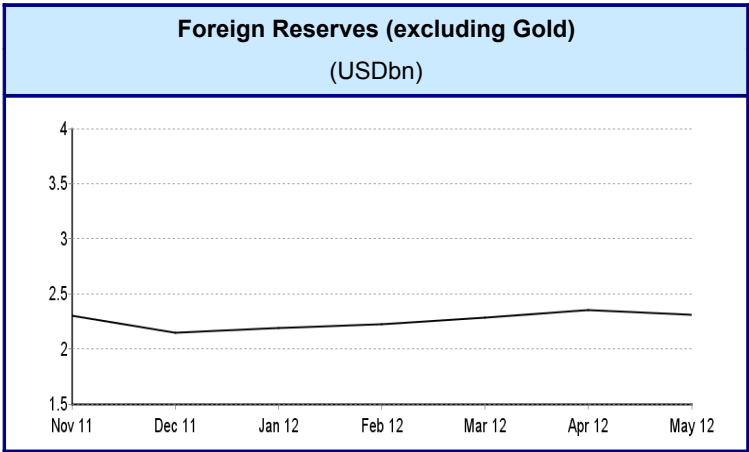
Currency Information

Exchange Rates (London, 20 Aug 12)	
EUR	1.2517
GBP	1.5815
JPY*	1.2715
*(x 100)	



Local Currency (US dollar [USD]: JPY 100)						
	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12
Week 1	1.215	1.251	1.278	1.253	1.272	1.277
Week 2	1.229	1.252	1.256	1.257	1.279	
Week 3	1.235	1.262	1.270	1.262	1.258	
Week 4	1.225	1.256	1.242	1.273	1.272	
Week 5	1.243			1.272		

Foreign Reserves (excluding Gold)



Data Table						
Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12
2.3	2.15	2.19	2.22	2.28	2.35	2.31

Risk Factor

A truce between warring gangs has brought renewed hope that crime levels, which are a significant determinant of El Salvador's country risk rating, will be reduced. Gang leaders have recently agreed to extend the March 2012 100-day truce, causing a rally in government debt. The government has adopted a much tougher stance on gangs in recent years, with police powers extended to include rights such as to arrest people displaying gang insignia or tattoos. According to a national address by President Funes, the average daily number of homicides has dropped 70% since the truce began. El Salvador's homicide rate is the second highest in the world (according to a 2011 UN study), and a lasting fall in crime rates would bring large benefits in both societal and economic terms. However, the truce is fragile as it depends on the goodwill of imprisoned gang leaders and the willingness of the government to offer them concessions.

Meanwhile, a further concern is that the ruling left-wing Farabundo Marti National Liberation Front (FMLN) has dumped incumbent President Funes as its candidate for the 2014 presidential elections. The moderate Funes has always had an uncomfortable relationship with the party, with a background as a TV journalist, not a freedom-fighter, and there have been regular policy stand-offs between him and the party. Tellingly, the FMLN have opted for current Vice President Salvador Sanchez as its next candidate. Sanchez is a former Marxist guerrilla with a policy stance closer to Hugo Chavez of Venezuela than the de-facto social-democrat Funes. Naturally, this move is likely to lose the party the support of much of the middle ground at the next poll, increasing the chances of the right-wing Nationalist Republican Alliance (ARENA) returning to power.

Elsewhere, economic activity continues to be very sluggish. In May the central bank's key monthly economic activity (IVAE) rose just 1.0% year on year (y/y), although there was a marked differentiation between sectors. Agriculture experienced only 2.8% growth and manufacturing 1.6%; however, mining activity was up 9.1%. Construction and transport and communication recorded y/y decreases of 1.0% and 5.2% respectively. More importantly, as of July 2012 cumulative export growth was negative, -1.5% y/y. Traditional exports (such as coffee and sugar) were down by 20.2%, and the critical *maquila* sector saw shipments down by 4.9%. At the same time, however, cumulative import growth was 3.0% y/y, and the trade deficit widened from USD2.7bn in July 2011 to USD3.0bn in July 2012, which, if sustained over the course of the year, will put further downward pressure on already-low FX reserve levels. Positively for external sustainability, remittances (mostly from workers in the US) increased in July, by 7.7% y/y (to USD2.3bn).

Glossary & Definitions

DEFINITIONS

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Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

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F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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