OFFERING CIRCULAR

The Republic of El Salvador

US$1,097,000,000
7.1246% Notes due 2050

The Republic of El Salvador (the "Republic" or "El Salvador") is offering US$1,097,000,000 aggregate principal amount of its 7.1246% Notes due 2050 (the "2050 Notes"). Interest on the Notes will be payable semi-annually in arrears on January 20 and July 20 of each year commencing on January 20, 2020. The Notes will mature on January 20, 2050. This Offering Circular constitutes a prospectus for the purpose of Part IV of the Luxembourg law on prospectus securities dated July 16, 2019.

The Notes will contain "collective action clauses". Under these provisions, which differ from the terms of the Republic's Public External Indebtedness issued prior to February 28, 2017, the Republic may amend the payment provisions of the Notes and other reserved matters listed in the indenture with the consent of the holders of: (1) with respect to a single series of notes, more than 75% of the aggregate principal amount of the outstanding notes of such series; (2) with respect to two or more series of notes, if certain "uniformly applicable" requirements are met, more than 75% of the aggregate principal amount of the outstanding notes of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of notes, more than 66 2/3% of the aggregate principal amount of the outstanding notes of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the aggregate principal amount of the notes of each series affected by the proposed modification, taken individually.

Except as described herein, payments on the Notes will be made without deduction for or on account of withholding taxes imposed by the Republic. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. Application will also be made to list the Notes on the El Salvador Stock Exchange.

See "Risk Factors" beginning on page 12 regarding certain risk factors you should consider before investing in the Notes.

Price: 100.000%
plus accrued interest, if any, from August 6, 2019.

Delivery of the Notes will be made on or about August 6, 2019.

The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"). The Notes may not be offered or sold within the United States or to U.S. persons except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

Joint Book-Running Managers

Citigroup **Scotiabank**

The date of this Offering Circular is July 30, 2019.

El Salvador

GUATEMALA
HONDURAS
Chalatenango
Santa Ana
Ahuachapán
Sensuntepeque
Sonsonate
Santa Tecla
SAN SALVADOR
San Vicente
Acajutla
La Libertad
San Miguel
La Unión
Puerto Cutuco
Puerto
El Triunfo
Golfo
de
Fonseca
North Pacific Ocean
EL SALVADOR

TABLE OF CONTENTS

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND THE RISKS INVOLVED.

You should rely only on the information contained in this Offering Circular or to which we have referred you. We have not, and the Joint Book-Running Managers have not, authorized anyone to provide you with information that is different from the information contained in this Offering Circular. This Offering Circular may only be used where it is legal to sell these securities. The information in this Offering Circular may only be accurate on the date of this Offering Circular.

ANY OFFER OR SALE OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED PROSPECTUS REGULATION 2017/1129 (THE "PROSPECTUS REGULATION") MUST BE ADDRESSED TO QUALIFIED INVESTORS (AS DFINED IN THE PROSPECTUS REGULATION).

This Offering Circular may only be used for the purposes for which it has been published.

The Notes will be direct, general and unconditional, unsubordinated and unsecured obligations of the Republic. The Notes rank and will rank without any preference among themselves and equally with all other unsecured and unsubordinated Public External Indebtedness (as defined under "Description of the Notes—Definitions") of the Republic. It is understood that this provision shall not be construed so as to require the Republic to make payments under the Notes ratably with payments being made under any other Public External Indebtedness. The Republic has pledged its full faith and credit for the due and punctual payment of all amounts due in respect of the Notes.

The Notes will be issued in registered form only. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Regulation S Global Note") deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC") for the respective accounts at DTC as such subscribers may direct. Notes sold in the United States to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes") deposited with a custodian for, and registered in the name of a nominee of, DTC for the respective accounts at DTC as such subscribers may direct. Beneficial interests of DTC participants (as defined under "Book-Entry Settlement and Clearance") in the Global Notes will be shown on, and transfers thereof between DTC participants will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"), if applicable. See "Book-Entry Settlement and Clearance". Except as described herein, definitive Notes will not be issued in exchange for beneficial interests in the Global Notes. See "Description of the Notes — Form, Denomination and Title". For restrictions on transfer applicable to the Notes, see "Transfer Restrictions" and "Subscription and Sale".

The Republic has taken reasonable care to ensure that the information contained in this Offering Circular is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Notes, would make this Offering Circular as a whole or any such information misleading in any material respect. The Republic accepts responsibility accordingly.

This Offering Circular does not constitute an offer by, or an invitation by or on behalf of, the Republic or the Joint Book-Running Managers to subscribe for or purchase any of the Notes. Each recipient shall be deemed to have made its own investigation and appraisal of the financial condition of the Republic. The distribution of this Offering Circular or any part of it and the offering, possession, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Joint Book-Running Managers to inform themselves about and to observe any such restrictions. See "Transfer Restrictions" and "Subscription and Sale" for a description of further restrictions on the offer, sale and delivery of Notes and on distribution of this Offering Circular and other offering material relating to the Notes.

Each person purchasing Notes pursuant to Rule 144A will be deemed to:

- represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it or such account is a qualified institutional buyer (as defined in Rule 144A); and

- acknowledge that the Notes have not been and will not be registered under the Securities Act or any State securities laws and may not be reoffered, resold, pledged or otherwise transferred except as described under "Transfer Restrictions".

Each purchaser of Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing Notes with a view to distribution thereof in the United States. Each person purchasing Notes also acknowledges that:

- it has been afforded an opportunity to request from the Republic and to review, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein;

- it has not relied on the Joint Book-Running Managers or any person affiliated with the Joint Book-Running Managers in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and

- no person has been authorized to give any information or to make any representation concerning the Republic or the Notes other than those contained in this Offering Circular and, if given or made, such information or representation should not be relied upon as having been authorized by the Republic or the Joint Book-Running Managers.

IN CONNECTION WITH THIS ISSUANCE OF THE NOTES, EACH JOINT BOOK-RUNNING MANAGER AND JOINT BOOKRUNNER MAY, ITSELF OR THROUGH ITS AFFILIATES, OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET, TO THE EXTENT PERMITTED BY APPLICABLE LAWS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PRESENTATION OF INFORMATION

Unless otherwise specified or the context requires, references to "US dollars", "$" and "US$" are to United States dollars, references to the *"colón", "colones"* and "¢" are to Salvadoran *colones*, and references to "*euros*" and "€" are to Euros.

References to the "Republic" and "El Salvador" are to the Republic of El Salvador.

References to "FOB" are to exports free on board and to "CIF" are to imports including cost, insurance and freight charges.

Data identified as "preliminary" in the tables included in this Offering Circular reflects an interim calculation and are subject to change.

References to *"maquila"* are to the assembly of imported goods for re-export.

References to "Central America" and "Central American countries" are to El Salvador, Costa Rica, Guatemala, Honduras and Nicaragua.

Certain economic and financial data in this Offering Circular are derived from information previously published by *Banco Central de Reserva de El Salvador* (the "Central Bank") and other Governmental entities of El Salvador. These data are subject to updates and change in subsequent publications. As of March 2018, the Central Bank updated the base year of the National Account Statistics from 1990 to 2005 and adopted the main recommendations of the United Nations System of National Accounts ("SNA2008"). The disclosure of the SNA2008 figures for El Salvador will be made public subject to the dissemination process of the Government.

Certain other information in this Offering Circular is derived from information made publicly available by the United Nations, the International Monetary Fund and the World Bank.

References to "net international reserves" are to foreign currency reserves. The term "current account surplus (deficit)" as applied to the balance of payments includes foreign aid, unless otherwise specified.

Certain amounts included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements (as such term is defined in the Securities Act) concerning the Republic. These statements are based upon beliefs of certain Government officials and others as well as a number of assumptions and estimates which are inherently subject to significant uncertainties, many of which are beyond the control of the Republic. Future events may differ materially from those expressed or implied by such forward-looking statements. Such forward- looking statements are principally contained in the sections "Offering Circular Summary", "The Republic of El Salvador", "The Salvadoran Economy", "Foreign Trade and Balance of Payments", "Monetary System", "Public Sector Finances" and "Public Debt". In addition, in those and other portions of this Offering Circular, the words "anticipates", "believes", "contemplates", "estimates", "expects", "plans", "intends", "projections" and similar expressions, as they relate to the Republic, are intended to identify forward-looking statements. Such statements reflect the current views of the Republic with respect to future events and are subject to certain risks, uncertainties and assumptions. The Republic undertakes no obligation to update or revise any forward- looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, there can be no assurances that the events described or implied in the forward-looking statements contained in this Offering Circular will in fact occur.

ARBITRATION AND ENFORCEABILITY

The Republic is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments in the courts of the United States. Under its Constitution, the Republic is not permitted to consent to jurisdiction of the courts of any foreign jurisdiction. The Republic has not consented to the jurisdiction of any court outside El Salvador in connection with actions arising out of or based on the Notes or in connection with the enforcement of any judgment arising out of such actions, nor has the Republic appointed an agent for service of process outside El Salvador. The Republic has agreed to the following arbitration provisions as part of the terms and conditions of the Notes:

> Any dispute, controversy or claim arising out of or relating to the Notes (other than any action arising out of or based on the United States federal or state securities laws), including the performance, interpretation, construction, breach, termination or invalidity thereof, shall be finally settled by arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (excluding Article 26 thereof) as in effect on the date of the Indenture (the "UNCITRAL Arbitration Rules"). The number of arbitrators shall be three, to be appointed in accordance with Section II of the UNCITRAL Arbitration Rules. The appointing authority shall be the Chairman of the International Court of Arbitration of the International Chamber of Commerce. The third arbitrator may be (but need not be) of the same nationality as any of the parties to the arbitration. The place of arbitration shall be New York, New York. The language to be used in the arbitration proceedings shall be English. Any arbitral tribunal constituted under this paragraph shall make its decisions entirely on the basis of the substantive law of the State of New York.
>
> The decision of any arbitral tribunal shall be final to the fullest extent permitted by law, and a court judgment may be entered thereon by any Salvadoran court lawfully entitled to enter such judgment. In any arbitration or related legal proceedings for the conversion of an arbitral award into a judgment, the Republic will not raise any defense that it could not raise but for the fact that it is a sovereign state. The Republic has not consented to the jurisdiction of any court outside El Salvador in connection with actions arising out of or based on the Notes or in connection with the enforcement of any judgment arising out of such actions, nor has the Republic appointed an agent for service of process outside El Salvador. The Republic waives any *forum non conveniens* defense in any proceeding in El Salvador.
>
> No arbitration proceedings hereunder shall be binding upon or in any way affect the right or interest of any person other than the claimant or respondent with respect to such arbitration.
>
> The Republic's consent to arbitration shall not preclude a holder of any Note from instituting legal proceedings against the Republic in the courts of El Salvador.

The Republic has represented that it has no right to immunity on the grounds of sovereignty or otherwise, from the execution of any judgment in El Salvador, or from the execution or enforcement in El Salvador of any arbitral award (except, in each case, for the limitation on alienation of public property) in respect of any proceeding or any other matter arising out of or relating to its obligations contained in the Notes. The enforcement by a Salvadoran court of a foreign arbitral award is subject to recognition by the *Corte Suprema de Justicia* (the "Supreme Court") of the Republic, which will recognize such award if all of the required formalities are observed and the award does not contravene Salvadoran national sovereignty, constitutional rights or public policy and compliance with the obligations stated in the award is lawful in El Salvador. Under the laws of the Republic, public property *(bienes de uso público)* of the Republic located in El Salvador is not subject to execution or attachment, either prior to or after judgment. The execution of a judgment against the Republic in El Salvador is only available in accordance with Article 182 ordinal 4 of the Constitution of the Republic of El Salvador and the procedures set forth in Articles 555 to 558 and 590 *et seq*. of the Salvadoran Civil and Business Procedure Code; pursuant to Article 590, if the budget of the fiscal year in which a final judgment is issued is not adjusted to provide for payment of the judgment, registration of the judgment for inclusion in the budget of a subsequent fiscal year of the Republic is required for payment.

EXCHANGE RATE INFORMATION

On November 30, 2000, the Legislative Assembly approved the *Ley de Integración Monetaria* (the "Monetary Integration Act"), which fixed the *colón* to the US dollar at ¢8.75 to US$1.00, effective January 1, 2001. Since January 1, 2001, the colón/US dollar exchange rate has been fixed at ¢8.75/US$1.00 pursuant to the Monetary Integration Act. The Monetary Integration Act allows free circulation of the US dollar in the Salvadoran economy and makes the US dollar the unit of account for the financial system in El Salvador.

Currency conversions contained in this Offering Circular should not be construed as representations that colones have been, could have been or could be converted into US dollars at the indicated or any other rate of exchange.

SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.

The Republic of El Salvador

General

El Salvador is geographically the smallest and the most densely populated of the five Central American countries, encompassing 8,127.37 square miles (21,040.79 square kilometers). El Salvador is bounded on the south by 210 miles of Pacific Ocean coastline, on the northwest by Guatemala and on the northeast and east by Honduras. In the north, the Sierra Madre mountains rise to over 9,000 feet above sea level. There are 23 volcanoes in the country, most of which are dormant. The most recent major volcanic eruption was in 1946. Minor volcanic eruptions occurred in 2005, 2013, 2014, 2015 and 2016.

The population of El Salvador in 2018 was estimated at 6.6 million according to the *Dirección General de Estadística y Censos* (the "National Bureau of Statistics and Census"), a division of the Ministry of Economy. In 2018, approximately 61.7% of the population resided in urban areas and 38.3% resided in rural areas. In addition, more than 1.5 million Salvadorans are believed to be living and working outside of the country, principally in the United States.

According to the most recent National Bureau of Statistics Census, in 2007, over 72.3% of the population is mestizo of mixed European and indigenous descent. San Salvador, the capital and country's largest city, had a population of approximately 340,686 in 2018. The average annual population growth rate for the Republic was projected to be approximately 0.9% for the period between 2014 and 2018. Most of the population is Roman Catholic.

El Salvador is a republic and representative democracy and its form of Government is a presidential system with a unicameral legislature, with powers divided among executive, legislative and judicial branches. On February 3, 2019, presidential elections were held and Nayib Armando Bukele Ortez of the *Gran Alianza por la Unidad Nacional* ("GANA") party was elected president with approximately 53.1% of the vote.

President Bukele Ortez's campaign platform was based on the *Plan Cuscatlán*, which encompasses his administration's action plans for his five year-term. *Plan Cuscatlán*, focuses on eight main platforms: social welfare, security, emigration and labor, international relations, industry and production, economy and finance, public works and territorial development.

The Salvadoran Economy

The Salvadoran economy relies heavily on the service sector, which totaled US$16,669.5 million and accounted for 64.0% of nominal GDP in 2018. The service sector generated on average 63.8% of the country's nominal GDP annually during the period 2014 to 2018 and grew at an average rate of 2.4% during the same period in real terms. The service sector is composed of sixteen economic activities: electricity, gas, steam and air conditioning supply; water supply, sewerage and waste management; wholesale and retail trade, repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities; information and communication; financial and insurance activities; real estate activities; professional, scientific and technical activities; administrative and support service activities; public administration and defense; compulsory social security; education; human health and social work activities; arts, entertainment and recreation; other service activities; and domestic services activities.

The industrial sector has been a significant factor in El Salvador's growth in recent years. In 2018, the industrial sector contributed US$5,585.0 million to nominal GDP, and accounted for 21.4% of El Salvador's nominal GDP, compared to approximately US$5,337.9 million, or approximately 21.4% in 2017. The sector has expanded from 2014 to 2018 at a 2.2% annual average growth rate. Real GDP growth for the industrial sector increased by 1.5%, 2.2%, 1.5%, 2.5% and 3.4% in 2014, 2015, 2016, 2017 and 2018, respectively. The industrial sector is composed of the manufacturing and construction activities.

On average, during the period 2014-2018, the primary sector represented 5.7% of nominal GDP and grew at a real rate of 0.5%. In 2018, the primary sector accounted for 5.2% of nominal GDP, approximately US$1,344.3 million. The primary sector is composed of agriculture, livestock farming, forestry and fishing and mining and quarrying activities.

Coffee is an important source of employment in El Salvador. According to the Salvadoran Coffee Council ("Consejo Salvadoreño del Café"), the coffee industry generated approximately 35,001 jobs during the 2013/2014 harvest; 46,258 jobs during the 2014/2015 harvest; 39,237 jobs during the 2015/2016 harvest; 42,280 jobs during the 2016/2017 harvest; 45,271 jobs during the 2017/2018 harvest; and preliminarily 47,351 jobs during the 2018/2019 harvest. Coffee production decreased 59.5% in the 2013/2014 harvest, increased 32.2% in the 2014/2015 harvest, decreased 15.2% in the 2015/2016 harvest, increased 7.8% in the 2016/2017 harvest, increased 7.1% in the 2017/2018 harvest, and increased

4.6% in the 2018/2019 harvest. According to the Central Bank, coffee exports accounted for 62.6%, 69.6%, 67.6%, 68.6%, and 66.5% of agricultural exports in 2014, 2015, 2016, 2017 and 2018, respectively. In 2014, 2015, 2016, 2017 and 2018, coffee exports accounted for 2.1%, 2.7%, 2.0%, 2.1%, and 1.9% of total exports, respectively.

The unemployment rate averaged 6.9% during the period 2014-2018. From 2014 to 2017, the unemployment rate was steady at 7.0%, while in 2018, the rate decreased to 6.4%.

Economic growth has led to a decrease in the level of poverty in El Salvador. From 2008 to 2018, the number of households living below the poverty line decreased from 40.0% to 26.3%. As of December 31, 2018, 24.1% of households in urban areas and 30.0% of households in rural areas lived below the poverty line. The percentage of households living in extreme poverty decreased from 12.4% in 2008 to 5.7% in 2018.

Foreign Trade and Balance of Payments

In 2018, merchandise imports accounted for 45.4% of nominal GDP, mainly in the form of intermediate goods (42.1% of total imports) and consumer goods (37.0% of total imports). Imports have grown at an average annual rate of 2.1% from 2014 to 2018. During this period, exports have grown at an average rate of 1.4%.

El Salvador has benefited from regional trade initiatives that have opened up the markets of Central American nations to other nations in the region. Regional integration has been especially beneficial to manufacturing activity. Increased access to international markets and liberalization of trade barriers are components of El Salvador's plan to increase international competitiveness, improve export revenues and encourage foreign investment. Before 2004, El Salvador entered into trade agreements with Chile, Panama, and the Dominican Republic. Since 2004, El Salvador has intensified its efforts to strengthen its trade arrangements with its primary trading partners including:

- participating in free trade agreements with various Latin American countries;
- entering into a free trade agreement with Colombia that became effective in February 2010;
- entering into a free trade agreement with Mexico that became effective in September 2012;
- entering into a partial scope trade agreement with Cuba effective in July 2012;
- entering into an association agreement with the European Union that became effective in October 2013;
- entering into a partial scope agreement with Ecuador which entered into force in November 2017; and
- entering into the free trade agreement with South Korea which was signed in February 2018, and is awaiting ratification.

On December 13, 2018, El Salvador delivered a termination notice to Taiwan related to the bilateral free trade agreement which had entered into force in March of 2008. The termination notice was delivered due to the severing of diplomatic ties between El Salvador and Taiwan. See "Foreign Trade and Balance of Payments—Regional Integration and Free Trade."

The current account deficit in the balance of payments decreased from 5.4% of nominal GDP in 2014 to 4.8% of nominal GDP in 2018, offset by an increase in the trade deficit as a result of a 14.8% increase in imports, compared to a 13.8% increase in exports.

FDI totaled US$8,461.7 million, US$8,971.8 million, US$9,046.7 million, US$9,384.1 million and US$9,704.5 million in 2014, 2015, 2016, 2017 and 2018, respectively. The main FDI activities measured as the average share of FDI in the period 2014-2018 were: financial and insurance with 34.7%; manufacturing with 26.7%, and information and communications with 13.8%. FDI totaled US$177.3 million during the three-month period ended March 31, 2019, compared to US$401.4 million during the three-month period ended March 31, 2018.

As of December 31, 2018, the Central Bank had international reserves equivalent to 3.2 months of imports of goods, excluding maquila. In 2014, 2015, 2016 and 2017, the Central Bank maintained reserves equivalent to 2.9, 2.9, 3.3 and 3.5 months, respectively, of imports of goods, excluding maquila. As of December 31, 2018, the balance of net international reserves totaled US$3,353.6 million, representing an increase of 2.5% compared to 2017. As of June 2019, net international reserves totaled US$3,757 million compared to US$3,457.4 million as of June 2018.

Remittances totaled US$4,139.2 million in 2014, US$4,256.6 million in 2015, US$4,543.8 million in 2016, US$4,977.7 million in 2017 and US$5,369.8 million in 2018, representing 18.3%, 18.2%, 18.8%, 20.0% and 20.6% of GDP, respectively. Remittances totaled US$1,293.0 million during the three-month period ended March 31, 2019, compared to US$1,218.2 million during the three-month period ended March 31,

2018. See "Foreign Trade and Balance of Payments — Current Account."

The impact of remittances on the country's balance of payments has been two-fold. First, by increasing national income, remittances generally increase private consumption of foreign and domestic goods and services, which could create inflationary pressures. Second, by partially funding the increased demand for imports, the inflow of remittances has reduced the current account deficit. There can be no assurances as to the levels of remittances in the future, as the level of remittances is subject to various social and economic factors, such as the return to El Salvador of some of the workers currently in the United States, changes in U.S. immigration policy (including the possibility of a future withdrawal of the temporary protected status afforded to Salvadoran immigrants in the United States), the deaths of older recipients of remittances, the eventual employment of younger recipients of remittances and the establishment of families outside of El Salvador by Salvadorans who remain abroad.

In 2017 and 2018, remittances to El Salvador increased significantly due to fears of changes in U.S. immigration policy, including the cancellation or restriction of the Temporary Protection Status Program ("TPS") as it applied to El Salvador. In January 2018, the Department of Homeland Security ("DHS") announced it would terminate TPS for El Salvador. On October 3, 2018 the U.S. District Court for the Northern District of California enjoined DHS from implementing and enforcing the decision to terminate TPS for several countries including El Salvador, pending final resolution of the case. The court's preliminary injunction prohibits DHS from terminating TPS for El Salvador while the order remains in effect. The order also requires DHS to continue the validity of documentation showing lawful status and work authorizations for affected, eligible TPS beneficiaries. DHS and U.S. Citizenship and Immigration Services ("USCIS") have filed an appeal of the preliminary injunction to the U.S. Court of Appeals for the Ninth Circuit. TPS beneficiaries will maintain their status during the appeal process provided they continue to meet all individual requirements for TPS eligibility. If the appeals court were to reverse the preliminary injunction and that decision was upheld, the terminations of the TPS designations for El Salvador will take effect unless other limitations are placed on the terminations. If one or more of the termination decisions is permitted to take effect, DHS and USCIS have stated that they plan to allow for an orderly transition period of at least 120 days from the final ruling lifting the injunction before implementing and enforcing the TPS termination determinations. The 120-day period will not start automatically if there is a decision reversing the preliminary injunction, and USCIS has said that it will inform TPS beneficiaries when the 120-day transition period will begin. During the transition period, current TPS beneficiaries who do not have another lawful immigration status or authorization to remain in the United States will have to leave the United States, or they will be subject to removal. This uncertainty about the future of TPS for El Salvador has led many Salvadorans to have significant concerns about their ability to remain in the United States.

Monetary System

Created in 1934, the Central Bank was reorganized in 1991 with the objectives of controlling inflation, preserving the internal and external value of the national currency and maintaining adequate levels of liquidity in the financial system. The Central Bank is prohibited from financing, directly or indirectly, the Government or any state-owned entities, or from investing in securities issued by any of them. In February 2011, the Central Bank's governing law was amended to grant it the responsibility of acting as lender of last resort to extend credit to banks in the case of extraordinary withdrawals from the banking system.

The entities participating in the financial system in El Salvador include commercial banks (including three state-owned banks), insurance companies, broker/dealers, one security depository, five operating rating agencies, bonded warehouses, financial leasing companies, the El Salvador Stock Exchange and the Deposit Guaranty Institute (DGI), pension fund administrators, investment fund managers and securitization companies.

Effective January 1, 2001, pursuant to the Monetary Integration Act, the U.S. dollar is the legal tender and is permitted to circulate freely in El Salvador. Colones in circulation rapidly decreased after that time. Currently all circulating cash in El Salvador is U.S. dollars. Further, pursuant to the Monetary Integration Act, all colón-denominated deposits were converted into U.S. dollars effective January 1, 2001, and the U.S. dollar became the unit of account in the financial system. As a result, U.S. dollar deposits that in prior periods were classified as deposits in foreign currency are for periods from and after January 1, 2001 classified as demand deposits, savings or term deposits, as applicable.

El Salvador has experienced moderate levels of inflation, even during episodes of unfavorable economic conditions. The highest rate of inflation registered in El Salvador was 31.9%, which occurred in 1985. The establishment of an independent Central Bank caused this rate to decline substantially, and from 1991 to 2000 the rate of inflation continued to decline. The enactment of the Monetary Integration Act initially caused El Salvador's inflation to approach the inflation levels of the United States, although in 2003 it began to diverge and in recent years has been driven by variations in international prices of food, oil and other commodities, in addition to certain internal factors such as natural disasters, economic policy measures and adjustments to public utilities' prices.

In 2013 and 2014, the inflation rate decreased to 0.8% and 0.5%, respectively, mainly due to a decrease in the price of food, clothes and footwear and oil-derived products. In 2015, the inflation rate increased to 1.0% mainly due to an increase in the prices of housing, water, electricity and oil-derived products of 11.7%, offset by a reduction in prices of transportation services of 5.1%. In 2016, the inflation rate decreased to negative 0.9%, mainly due to a decrease in the price of food and beverages, housing, water, electricity and oil-derived products and clothes and footwear. In 2017, the inflation rate increased to 2.0%, mainly due to an increase in the prices of housing, water, electricity and other fuels of

5.2%, non-alcoholic food and beverages of 2.5%, transportation and storage 3.6%, restaurants and hotels of 1.6%, miscellaneous goods and services of 1.5% and education of 1.0%. In 2018, the inflation rate decreased to 0.4% mainly due to a decrease in the prices of housing, water, electricity, gas and other fuels of 0.4%, restaurants and hotels of 0.2% and non-alcoholic food and beverages of 0.04% which was mitigated by the reduction of prices in activities such as transportation and storage, clothing and footwear, furniture and household items. The inflation rate totaled 0.5% in June 2019, below the inflation level of 0.9% in June 2018.

Public Sector Finances

In 2018, the non-financial public sector, including foreign aid but excluding pensions, registered a deficit of US$328.4 million, equal to 1.3% of GDP, an increase of 1.0% compared to 2017. The decrease was mainly due to an increase in expenditures of US$555.4 million. In 2018, including pension obligations, the fiscal deficit increased to US$694.4 million, equivalent to 2.7% of GDP, compared to 2017.

During the three-month period ended March 31, 2019, the non-financial public sector, including foreign aid but excluding pensions, registered a deficit of US$41.9 million, equal to 0.2% of GDP, a decrease of 0.2%, compared to the three-month period ended March 31, 2018. The decrease was mainly due to an increase in revenues of US$73.2 million. During the three-month period ended March 31, 2019, including pension obligations, the fiscal deficit decreased to US$124.0 million, equivalent to 0.5%, compared to the three-month period ended March 31, 2018.

The Government has been implementing fiscal policies designed to increase its overall tax revenues, while allocating expenditures in order to further its economic and social policies, principally combating poverty, improving the education system, enhancing security throughout the country, increasing the availability of healthcare and providing opportunities for job creation in the private sector.

As part of *Plan Cuscatlán*, the Government has proposed tax reform aimed at creating a more progressive tax revenue system, mainly by creating separate VAT rates for luxury assets, basic goods and medical items. *Plan Cuscatlán* also contemplates amendments to fiscal benefits and incentives, reduction in healthcare and education tax deductions, implementation of a universal income tax and a simplification in the filing process of tax returns. Additionally, the Government aims to reduce tax evasion, improve tax planning, encourage production and employment and increasing transparency in the fiscal system.

The main pillars on which the Salvadoran tax system is based are the VAT, income tax, import duties and consumption taxes. The Salvadoran tax system relies more on the collection of indirect taxes, such as the VAT, than on direct taxes. The Constitution authorizes the levy and collection of taxes by tax authorities at the national level. The central Government collects taxes on personal and corporate income and on transfers of real estate. In addition, it collects import duties and a 13% VAT on tangible assets and services.

2019 Budget

The 2019 budget for the Central Government was presented to the Legislative Assembly on September 28, 2018 and enacted on December 21, 2018 for a total amount of US$6,713.2 million, an increase of US$1,245.7 million, or 22.8% compared to the 2018 budget.

The 2019 budget contemplates revenues of US$4,850.6 million (75.3% of total revenues) from current revenues, which include revenues from tax and Government fees for certain services such as passport and national identity documents, among others, US$40.1 million from capital revenues (0.6% of total revenues), which include donations and US$1,502.5 million from financing (22.4% of total revenues) and US$320.0 million (4.8% of total revenues) from revenues from the highway fund, sugar fund, tourism promotion fund, public transportation fund and public safety fund ("Special Contributions").

The 2019 budget contemplates expenditures of US$4,170.1 million (62.1% of total expenditures) for current costs, which include salaries and benefits, goods and services, certain financial costs and current transfers, US$806.5 million for capital costs (12.0% of total expenditures), which include public investment programs and other capital costs, and US$1,090.5 million for financial expenditures (16.3% of total expenditures), which include interest amortization payments on internal and external debt.

The principal assumptions on which the 2019 budget is based are real GDP growth of 2.6%, an inflation rate of 2.0% and a nominal GDP of US$27,011.9 million. The 2019 budget contemplates total revenues in the amount of US$6,713.2 million, which includes US$1,297 million of expected income from various financing sources, and total expenditures for US$6,713.2 million.

Public Sector Debt

The Republic's ratio of public external debt to GDP was 45.2% in 2014 and decreased to 41.7% in 2018.

Public sector debt, including internal and external debt of the financial and non-financial public sector and the net external Central Bank debt, was US$18,742.6 million as of December 31, 2018, compared to US$18,072.1 million at December 31, 2017, US$17,192.1 million at December 31, 2016, US$16,323.4 million at December 31, 2015, and US$15,466.1 million at December 31, 2014. The increase in public sector debt in 2018 was mainly due to the increase in *Letras del Tesoro* (treasury bills or "LETES") issued by the Government, the issuance of "*Certificados de Inversión Previsional*" (Pension Investment Certificates, or "CIPs"), and the disbursement of a loan of US$350.0 million from the Interamerican-Development Bank ("IADB").

2017 Domestic Debt Default

The budget for fiscal year 2017 presented by the Government to the Legislative Assembly on September 30, 2016 did not include payment of US$38.4 million in interest or US$18.3 million in principal with respect to CIPs Series A and Series B, maturing between April 7 and April 20, 2017. The opposition parties in the Legislative Assembly and the Government did not reach consensus on a budget allocation to pay the aforementioned amounts until April 21, 2017, and as a result, these payments were only made on April 28, 2017. The foregoing default did not result in acceleration of the CIPs, the exercise of any remedies by the trustee on behalf of holders of the CIPs, nor any cross-default or acceleration under any other indebtedness of the Republic. Since April 28, 2017, the Republic has timely met all of its payment obligations under the CIPs and other indebtedness. See "Risk Factors - Inability to reach an agreement among the several political parties in El Salvador could have a material adverse effect on the economy and on the ability of the Republic to make payments on the Notes."

Recent Litigation

The issuance of the Notes was authorized under Legislative Decree No. 217 (as published in the *Diario Oficial* on December 21, 2018) of the Republic's Legislative Assembly. On January 4, 2019, a citizen of El Salvador filed claim No. 3-2019 ("Claim No. 3-2019") challenging the constitutionality of Decree No. 217 before the Constitutional Chamber of the Supreme Court of Justice of El Salvador. Under Article 183 of the Constitution, any citizen of El Salvador may file a claim challenging the constitutionality of a legislative decree, legislation or regulation. The Claim No. 3-2019 claimant argues that Article 2 of Legislative Decree No. 217 violates Article 148 subsection 3 of the Constitution, since Article 2 of Legislative Decree No. 217 permits the use of the proceeds of the issuance for general budgetary purposes, rather than specifying specific uses, and therefore requests that the Constitutional Chamber declare the Decree unconstitutional. As of the date of this Offering Circular, the Constitutional Chamber of the Supreme Court of Justice has not admitted or rejected the claim.

Article 148, subsection 3 of the Constitution requires that "the Legislative Decree authorizing the issuance or contracting of a Loan must clearly state the purpose for which the proceeds will be used and in general, all of the essential conditions to the operation." Article 2 of Legislative Decree No. 217 states that the proceeds of the issuance will be used to finance the budget for the year 2019, which financing could not be covered by the current ordinary revenues of the Republic.

If Claim No. 3-2019 is accepted and the Constitutional Chamber of the Supreme Court of Justice declares Legislative Decree No. 217 unconstitutional, it is not clear that this would affect the authorization and validity of Notes that are sold and held by investors. On June 26, 2000, the Constitutional Chamber issued a judgement on a claim to declare the unconstitutionality of the 1999 Bond Law on the basis that the 1999 Bond Law did not comply with the procedural requirements of Article 148 of the Constitution, since it was approved by a majority and not two-thirds of the votes of the Legislative Assembly. In its judgement on the 1999 Bond Law, the Constitutional Chamber of the Supreme Court of Justice declared the 1999 Bond Law unconstitutional on the basis that it was not approved by the requisite vote; however, the Constitutional Chamber held that the judgement would not invalidate bonds that had been already issued and sold and acquired by third-party investors in good faith before the official publication of the judgment of unconstitutionality in the *Diario Oficial*.

SELECTED ECONOMIC INDICATORS

(in millions of US dollars, except percentages and where noted)

	For the Year Ended December 31,				
	2014	**2015**	**2016[1]**	**2017[1]**	**2018[2]**
The Economy					
Nominal GDP	$22,593.5	$23,438.2	$24,154.1	$24,928.0	$26,056.9
Real GDP growth	1.7%	2.4%	2.5%	2.3%	2.5%
Annual inflation[(3)]	0.5%	1.0%	(0.9%)	2.0%	0.4%
Unemployment	7.0%	7.0%	7.0%	7.0%	6.4%
Balance of Payments					
Exports (FOB goods and services)	$6,620.2	$6,914.1	$6,871.2	$7,224.7	$7,532.6
Imports (FOB goods and services)	$11,038.8	$10,925.1	$10,717.3	$11,336.2	$12,668.4
Trade and services balance	($4,418.6)	($4,011.)	($3,846.1)	($4,111.5)	($5,135.8)
Current account surplus (deficit) of the balance of payments	($1,213.6)	($753.8)	($550.1)	($464.6)	($1,241.8)
As % of GDP[(4)]	(5.4)	(3.2)	(2.3)	(1.9)	(4.8)
Net international reserves	$2,661.2	$2,670.2	$2,923.0	$3,273.2	$3,353.6
Non-Financial Public Sector					
Total revenues	$4,956.2	$5,122.2	$5,343.7	$5,697.9	$5,996.8
Total expenditures	$5,396.2	$5,488.3	$5,574.2	$5,769.8	$6,325.2
Primary balance deficit	($296.6)	($211.5)	($45.0)	$167.6	$229.6
As % of GDP	(1.3%)	(0.9%)	(0.2%)	0.7%	0.9%
Deficit[(7)]	($907.0)	($851.2)	($750.3)	($632.2)	($694.4)
As % of GDP	(4.0%)	(3.6%)	(3.1%)	(2.5%)	(2.7%)
Public Sector Debt(5)					
Total public debt.	$15,466.1	$16,323.4	$17,192.1	$18,072.1	$18,742.6
Internal debt	$5,253.2	$6,226.9	$7,036.9	$7,368.2	$7,876.1
External debt	$10,212.9	$10,096.5	$10,155.2	$10,703.9	$10,866.5
Total public debt (as % of GDP)	68.5%	69.6%	71.2%	72.5%	71.9%
Public internal debt (as % of GDP)	23.3%	26.6%	29.1%	29.6%	30.2%
Public external debt (as % of GDP)	45.2%	43.1%	42.0%	42.9%	41.7%
External debt service (as % of exports of goods and services)[(6)]	11.1%	10.7%	10.7%	10.2%	9.8%

(1) Preliminary GDP Figures
(2) Estimated GDP Figures
(3) As measured by the variation in the *Índice de Precios al Consumidor* (Consumer Price Index or the "CPI") published by the *Dirección General de Estadística*. December 2009 = 100 base index.
(4) Including foreign aid.
(5) Including debt of the Central Bank.
(6) Exports (FOB goods and services). Calculation does not include Central Bank debt service.
(7) Including Pensions

Sources: *Banco Central de Reserva de El Salvador, Dirección General de Estadística and Ministerio de Hacienda.*

THE OFFERING

Issuer..	The Republic of El Salvador.
Issue Amount	US$1,097,000,000 aggregate principal amount.
Issue Price	100.000% of the principal amount of the bonds, plus accrued interest, if any, from August 6, 2019
Issue Date..	August 6, 2019
Maturity Date	January 20, 2050
Interest	The Notes will bear interest from August 6, 2019 at the rate of 7.1246% per annum payable semi-annually in arrears on January 20 and July 20 of each year, commencing on January 20, 2020.
Withholding Tax, Additional Amounts......................	Principal of and interest on the Notes are payable by the Republic without withholding or deduction for or on account of taxes imposed by El Salvador to the extent described herein. In the event that the Republic is required by law to deduct or withhold taxes, duties, assessments or governmental charges, the Republic will pay Additional Amounts (as defined herein) as necessary to enable holders of Notes to receive such amounts after such deduction or withholding as they would have received absent such deduction or withholding, subject to certain exceptions. See "Description of the Notes — Additional Amounts".
Status..	The Notes will constitute general, direct, unconditional, unsubordinated and unsecured Public External Indebtedness (as defined herein) of the Republic for which the full faith and credit of the Republic is pledged. The Notes rank and will rank without any preference among themselves and equally with all other unsecured and unsubordinated Public External Indebtedness of the Republic. It is understood that this provision shall not be construed so as to require the Republic to make payments under the Notes ratably with payments being made under any other Public External Indebtedness. See "Description of the Notes—Ranking."
Negative Pledge and Certain Covenants	The Notes contain certain covenants and restrictions on the creation or subsistence of any Lien (as defined herein) securing Public External Indebtedness, with certain exceptions. See "Description of the Notes — Certain Covenants of the Republic".
Use of Proceeds	Pursuant to Legislative Decree No. 217 (as published in the *Diario Oficial* on December 21, 2018), the cash proceeds from the issuance and sale of the Notes will be US$1,097,000,000 and will be used by the Republic for general budgetary purposes which includes amortization of the Republic's 7.375% notes due

2019.

Collective Action Clauses	The Notes will contain "collective action clauses". Under these provisions, which differ from the terms of the Republic's Public External Indebtedness issued prior to February 28, 2017, the Republic may amend the payment provisions of the Notes and other reserved matters listed in the indenture with the consent of the holders of: (1) with respect to a single series of debt securities, more than 75% of the aggregate principal amount of the outstanding debt securities of such series; (2) with respect to two or more series of debt securities, if certain "uniformly applicable" requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, more than 66 2/3% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the aggregate principal amount of the debt securities of each series affected by the proposed modification, taken individually.
Form of Notes	The Notes will be issued in the form of registered global notes without coupons, registered in the name of a nominee of The Depository Trust Company and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.
Denominations	Each Note will be issued in minimum denominations of US$150,000 and integral multiples of US$1,000 in excess thereof.
Further Issues	The Republic may, without the consent of the holders of the Notes, create and issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Notes (or the same except for the amount of the first interest payment and the issue price), so that such further notes may be consolidated and form a single series with the Notes, provided that such additional notes do not have, for purposes of U.S. federal income taxation (regardless of whether any holders of such notes are subject to U.S. federal laws), a greater amount of original issue discount than the Notes have as of the date of issuance of such additional notes.
Optional Redemption	The Republic may redeem the Notes, in whole at any time or in part from time to time, prior to July 20, 2049 (the date that is six months prior to the Maturity Date, the "Par Call Date"), by paying the greater of (1) 100% of the outstanding principal amount of such Notes and (2) the sum of the present value of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year comprised of twelve 30-day months) at the Treasury Rate plus 50 basis points, plus, in each case, accrued and unpaid interest to, but excluding, the redemption

date. On or after the Notes Par Call Date, the Republic may, at its option, redeem the Notes, in whole at any time or in part from time to time, at a redemption price equal to 100% of the outstanding principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. See “Description of the Notes—Optional Redemption”.

Listing .... Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. Application will also be made to list the Notes on the *Bolsa de Valores de El Salvador* (the “El Salvador Stock Exchange”).

CUSIP, ISIN and Common Code .... The Notes have the CUSIP, ISIN and Common Codes indicated herein below:

Notes Offered	**CUSIP Number**	**ISIN Number**	**Common Codes**
Rule 144A	283875BZ4	US283875BZ44	203733224
Regulation S	P01012CA2	USP01012CA29	203717911

Governing Law .... The Notes shall be governed by, and construed in accordance with, the laws of the State of New York, United States of America, except that all matters concerning authorization by the Republic, as well as the bringing of any actions and the enforcement of any judgment against the Republic in the courts of the Republic, will be governed by the laws of the Republic.

Arbitration .... Any dispute, controversy or claim arising out of or relating to the Notes, including the performance, interpretation, construction, breach, termination or invalidity thereof, will be finally settled by arbitration in New York, New York, in accordance with the UNCITRAL Arbitration Rules. Any arbitral tribunal constituted under the terms of the Notes will be required to make its decisions entirely on the basis of the substantive law of the State of New York as provided above.

The Republic’s consent to arbitration will not preclude a holder of any Note from instituting legal proceedings against the Republic in the courts of El Salvador. The Republic has represented that it has no right to immunity on the grounds of sovereignty or otherwise from the execution of any judgment in El Salvador, or from the execution or enforcement in El Salvador of any arbitral award in El Salvador (except for the limitation on alienation of public property). The enforcement by a Salvadoran court of a foreign arbitral award is subject to

	recognition by the Supreme Court of Justice of the Republic and the execution of any judgment against the Republic in El Salvador is only available in accordance with Article 182 ordinal 4 of the Constitution of the Republic of El Salvador and the procedures set forth in Articles 555 to 558 and 590 et seq. of the Salvadoran Civil and Business Procedure Code; pursuant to Article 590, if the budget of the fiscal year in which a final judgment is issued is not adjusted to provide for payment of the judgment, registration of the judgment for inclusion in the budget of a subsequent fiscal year of the Republic is required for payment.
Indenture Trustee, Principal Paying Agent, Registrar and Transfer Agent......................................	The Bank of New York Mellon
Luxembourg Paying Agent...	The Bank of New York Mellon S.A./N.V., Luxembourg Branch
Risk Factors...	An investment in the Notes involves certain risks. Before deciding to purchase the Notes, you should read carefully all the information contained in this offering circular, including, in particular, the “Risk Factors” section beginning on page 12 of this offering circular.

..

RISK FACTORS

This section describes certain risks associated with investing in the Notes. You should consult your financial and legal advisors about the risk of investing in the Notes. El Salvador disclaims any responsibility for advising you on these matters.

Risk Factors Relating to El Salvador

Certain economic risks are inherent in any investment in an emerging market country such as El Salvador.

Investing in an emerging market country such as El Salvador carries economic risks. These risks include many different factors that may affect El Salvador's economic results, including the following:

- financial regulation in the United States;
- changes in economic or tax policies in El Salvador;
- the ability of El Salvador to effect key economic reforms;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy;
- internal security issues relating to crime and violence; and
- low GDP growth rate in El Salvador;

Any of these factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the liquidity of, and trading markets for, the Notes. See "Forward-Looking Statements" in this Offering Circular.

El Salvador's economy remains vulnerable to external shocks, including global economic crises that could be caused by future significant economic difficulties of its major regional trading partners or by more general "contagion" effects, which could have a material adverse effect on El Salvador's economic growth and its ability to service its public debt.

Emerging-market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments.

A significant decline in the economic growth of any of El Salvador's major trading partners could adversely affect El Salvador's economic growth. In particular, a decline in economic growth in the United States could affect the level of remittances received in El Salvador, which in turn could affect El Salvador's balance of payments and domestic demand. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, El Salvador could be adversely affected by negative economic or financial developments in other emerging market countries.

There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including El Salvador. In addition, there can be no assurance that these events will not adversely affect El Salvador's economy, its ability to raise capital in the external debt markets in the future or its ability to service its public debt.

The ratings of El Salvador may be lowered or withdrawn.

Any downgrade or withdrawal of El Salvador's credit ratings could have a material adverse effect on the market value and trading price of the Notes. On August 11, 2016, Moody's Investors Service downgraded El Salvador's ratings to B1 from Ba3 and placed the ratings on review for further downgrade. Later, on November 7, 2016, Moody's Investors Service changed El Salvador's issuer and long-term debt ratings to B3 from B1 and assigned a negative outlook to the ratings, concluding the previously initiated review for possible downgrade. Moody's Investors Service stated that the downgrade to B3 was based on a significant increase in liquidity risks and a political impasse in the Legislative Assembly. On April 13, 2017, El Salvador's ratings were downgraded to Caa1 stable from B3. On February 23, 2018, Moody's upgraded the ratings to B3 from Caa1 and maintained a stable outlook. On May 31, 2019, Moody's Investors Services confirmed El Salvador's B3 rating with stable outlook.

On October 13, 2016, Standard & Poor's Global Ratings ("S&P") lowered its long-term sovereign credit ratings on the Republic of El Salvador to B from B+. The ratings on El Salvador remained on CreditWatch with negative implications. On December 8, 2016, S&P issued a Ratings Direct research update indicating it lowered its long-term foreign and local currency sovereign credit ratings on El Salvador to B- from B. On April 11, 2017, S&P lowered its long-term sovereign credit ratings to CCC-. Further, on April 20, 2017, the ratings were further lowered to Selective Default for the non-payment of interest on CIPs. On May 5, 2017, the ratings were upgraded to CC, in part due to the payment of the outstanding default. On October 2, 2017, the ratings were downgraded to SD, mainly due to a restructuring of outstanding debt related to the CIPs. Subsequently, on October 3, 2017 the ratings were upgraded to CCC+, again in relation to the restructuring of the CIPs. On December 14, 2017, S&P improved the outlook from stable to positive. On December 28, 2018, S&P improved the credit rating to B- and a stable outlook.

On July 9, 2015, Fitch downgraded El Salvador to B+ from BB- with a stable outlook. On February 1, 2017, El Salvador was downgraded to B from B+ with a negative outlook. On April 10, 2017, Fitch downgraded El Salvador's local currency credit from B to Restricted Default and its external credit was downgraded to CCC from B. On May 3, 2017, Fitch upgraded El Salvador's local currency debt to CCC from Restricted Default. On October 6, 2017, Fitch downgraded El Salvador's local currency credit to Restricted Default from CCC and on that same day both the local and external credit of El Salvador were upgraded to B- with a stable outlook. On June 13, 2018, the B- rating was confirmed.

A significant decrease in remittances from Salvadorans living abroad could have a material adverse effect on our ability to make payments on our outstanding public debt, including the Notes.

Remittances from Salvadorans living abroad, which are primarily in US dollars, are one of the Republic's most important sources of foreign currency. See "Foreign Trade and Balance of Payments—Balance of Payments." Remittances totaled US$4,139.2 million in 2014, US$4,256.6 million in 2015, US$4,543.8 million in 2016, US$4,977.7 million in 2017 and US$5,369.8 million in 2018, representing 18.3%, 18.2%, 18.8%, 20.0% and 20.6% of GDP, respectively. Remittances totaled US$1,293.0 million during the three-month period ended March 31, 2019, compared to US$1,218.2 million during the three-month period ended March 31, 2018. The current president of the United States, Donald J. Trump, has implemented and promoted policies that could potentially reduce the inflow of remittances to El Salvador, including deportation of undocumented immigrants living in the United States, including immigrants from El Salvador, and proposed a tax on outgoing remittances. The implementation of these and/or other similar policies could reduce the flow of remittances to El Salvador. A significant decrease in remittances could adversely affect El Salvador's balance of payments, which could have an adverse effect on the Salvadoran economy and on the Republic's ability to make payments on its outstanding public debt, including the Notes. In January 2018, DHS announced it would terminate TPS for El Salvador. On October 3, 2018, the U.S. District Court for the Northern District of California enjoined DHS from implementing and enforcing the decision to terminate TPS for several countries including El Salvador, pending final resolution of the case. The uncertainty about the future of TPS for El Salvador has led many Salvadorans to have significant concerns about their ability to remain in the United States.

Any attempt by United States President Donald J. Trump to withdraw from or materially modify DR-CAFTA and certain other international trade agreements could adversely affect El Salvador's economy.

United States President Donald J. Trump has made comments suggesting that he was not supportive of existing multilateral international trade agreements. President Trump has renegotiated NAFTA, imposed steal tariffs, imposed tariffs on China and threatened tariffs on the European Union, Mexico and other trading partners. At this time, it remains unclear what President Trump would or would not do with respect to other such international trade agreements. If President Trump takes action to withdraw from or materially modify DR-CAFTA or certain other international trade agreements, El Salvador's economy could be adversely affected, which could adversely affect El Salvador's ability to service its debt, including the Notes.

Failure to adequately address actual and perceived corruption may adversely affect El Salvador.

El Salvador ranked 105 out of 180 countries in the Corruption Perceptions Index of 2018 produced by Transparency International. Currently there are several ongoing investigations against current and former Government officials. If the Government's policies fail to address corruption effectively, such failure could lead to political instability, impair El Salvador's international standing and adversely affect foreign investment.

Former Salvadoran President Antonio Saca, who was in office from 2004 to 2009, is currently serving a 10 year prison sentence after pleading guilty to diverting more than US$300 million in Government funds. Mr. Saca's wife, former first lady Ana Ligia Mixco de Saca, has pled guilty to corruption and money laundering charges stemming from her husband's presidential term. Mr. Saca's successor, former President Mauricio Funes (2009-2014), is accused of diverting US$350 million in Government funds and is currently a fugitive residing in Nicaragua. Mr. Funes' wife, former first lady Vanda Pignato has been charged in connection with the foregoing allegations.

El Salvador continues to be challenged by internal security issues which may adversely affect El Salvador economy

El Salvador has from time to time experienced internal security concerns related to crime and narcotrafficking. El Salvador experiences one of the highest per capita incidences of homicide in the world. Additionally, El Salvador has several active gangs that engage in narcotrafficking and acts of violence with thousands of known gang members**.** In the past these gangs have been suspected of targeting public transportation, hotels and Government agencies through the use of explosive devices, including grenades. In July 2015, two buses were burned and eight drivers killed from transportation companies that continued to operate after a threat was made in order to halt public transport. In the same month, there was a grenade attack near the Sheraton hotel in San Salvador. In August 2015, an improvised explosive device was found in a vehicle near the Ministry of Justice and Public Security. In September 2015, an improvised explosive device detonated inside a car in front of the Ministry of Finance.

If the level of crime and violence and the instability that it causes increases in the future, the economic performance of the country may suffer, including by affecting commerce, transportation and foreign investment and thus may potentially adversely affect El Salvador's ability to service its debt, including the Notes.

Natural disasters and extreme weather conditions could adversely affect El Salvador and its financial condition

El Salvador is located on the Pacific Coast of Central America, which may be affected by meteorological events and extreme weather conditions from time to time. The location of El Salvador often puts the country in the path of tropical storms, that sweep the region typically between the months of May and November, and have the potential to cause extensive physical and economic damage. Since 2009, El Salvador has suffered three major tropical cyclones. On November 6, 2009, Hurricane Ida produced mudslides, flooding and wind damage in thirteen departments of El Salvador. In May 2010, Hurricane Agatha caused further damage to the El Salvador's infrastructure and crops. In October 2011, tropical depression 12E dropped heavy rainfall across large portions of El Salvador. El Salvador is also located in a geographical area that has experienced earthquakes. Between 2011 and 2018, El Salvador experienced severe drought, which was exacerbated by the *El Niño* weather phenomenon during 2014 and 2015. Additionally, in 2018, the agricultural productive system was affected by droughts during the months of June and July. According to estimates and information from the Ministry of Agriculture and Livestock, approximately 98,783 of the basic grains producers from 12 departments of the country were affected by the droughts. The economic losses were estimated at US$42.4 million, equal to 0.2% of the estimated GDP for 2018.

Meteorological catastrophes, other extreme weather events and natural disasters could, among other things, limit access to, damage or destroy one or more of El Salvador's infrastructure, including roads and bridges. Such conditions and/or events may also result in disruption to the local economy, and may cause labor, fuel and other resource shortages. For example, the Government estimated that storm systems referred in the previous paragraph caused approximately US$1,329.3 million, in damages and losses in the affected areas and at least 244 fatalities. The impact of tropical depression 12E alone was estimated to be at 1% of GDP. Furthermore, adverse weather conditions such as droughts, caused coffee exports to decrease in 2013, which declined to 2010 export levels.

An October 2017 report issued by the Ministry of the Environment and Natural Resources identified that 63% of El Salvador's territory is exposed to high or very high seismic threat; 35% of El Salvador's territory is susceptible to high risk droughts; 38% of El Salvador's territory has a high susceptibility to landslides and 15% of El Salvador's territory is at a high or very high risk of flooding. Additionally, there are a total of 23 volcanoes, eight of which have experienced recent eruptions of ash and gas.

In 2018, El Salvador suffered from prolonged periods of drought. According to estimates and information from the Ministry of Agriculture and Livestock, approximately 98,783 of the basic grains producers from 12 departments of the country were affected by the droughts. The economic losses were estimated at US$42.4 million, equal to 0.2% of estimated 2018 GDP.

El Salvador's U.S. dollar monetary arrangements impose constraints on fiscal and monetary policies.

Public finance in El Salvador is heavily influenced by the U.S. dollar-based monetary system in place since January 2001. Currently all circulating cash in El Salvador is U.S. dollars. Moreover, the ongoing strengthening of the US dollar within the last years has negatively impacted the competitiveness of El Salvador, due to an increase in the price of the country's exports.

These circumstances impose constraints on fiscal and monetary policy particularly when responding to external shocks, not present in countries where the government issues its currency and the central bank acts as lender of last resort. The U.S. dollar-based monetary arrangement along with the lack of a national currency makes El Salvador subject to the U.S. Federal Reserve policy and dependent on U.S. dollars to pay for internal obligations. An additional risk to the financial system is imposed by the reduced ability of the Central Bank to act as lender of last resort. Further, dollarization causes El Salvador to lack monetary flexibility and leaves fiscal policy as the main tool for economic policy.

El Salvador may be unable to obtain financing on satisfactory terms in the future, which could adversely affect its ability to service its public debt.

El Salvador's future fiscal results may be insufficient to meet its debt service obligations and it may have to rely in part on additional financing from domestic and international capital markets in order to meet future debt service obligations. In the future, El Salvador may not be able or willing to access international or domestic capital markets, and El Salvador's ability to service its public debt may be adversely affected.

El Salvador relies on multilateral lenders for financing certain projects and for budget support, including the IADB and the World Bank. In particular, El Salvador is budgeting support from both the IADB and the World Bank in 2018 to finance its fiscal deficit. Further, the inability of reaching an agreement with the IMF in the future could also adversely affect its ability to service its public debt.

El Salvador's economy remains vulnerable to external shocks, which could have a material adverse effect on economic growth and the ability of the country to make payments on its debt.

A decline in the economic growth of any of El Salvador's major trading partners, including the United States, could have a material adverse effect on El Salvador's balance of trade and adversely affect its economic growth. In addition, because international investors' reactions to the events occurring in one emerging market economy sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, El Salvador could be adversely affected by negative economic or financial developments in other emerging market countries. Further, the imposition of trade barriers on goods from El Salvador could materially adversely affect the performance of the economy.

El Salvador's high emigration levels could have a material adverse effect in economic growth and competitiveness.

High emigration levels of Salvadorans since the civil war, including more recently triggered emigration partly due to security issues and unemployment rates, particularly among the more flexible and potentially productive young workers, could have a negative impact on economic growth and competitiveness of El Salvador.

Inability to reach an agreement among the several political parties in El Salvador could have a material adverse effect on the economy.

El Salvador is a presidential republic with power divided between the executive, legislative, and judicial branches of Government. The legislative branch is composed of the Legislative Assembly, an unicameral body with 84 seats directly elected by the people in a single nationwide election for a term of three years. Political disagreement within the Legislative Assembly could reduce the ability of the Government to pass legislation and in turn negatively affect the economy.

The budget for fiscal year 2017 presented by the Government to the Legislative Assembly on September 30, 2016 did not include payment of US$38.4 million in interest or US$18.3 million in principal with respect to CIPs Series A and Series B, maturing between April 7 and April 20, 2017. The opposition parties in the Legislative Assembly and the Government did not reach consensus on a budget allocation to pay the aforementioned amounts until April 21, 2017, and as a result, these payments were only made on April 28, 2017. The foregoing default did not result in acceleration of the CIPs, the exercise of any remedies by the trustee on behalf of holders of the CIPs, nor any cross-default or acceleration under any other indebtedness of the Republic. Since April 28, 2017, the Republic has timely met all of its payment obligations under the CIPs and other indebtedness.

Any revision to our official financial or economic data resulting from any subsequent review of such data by the Central Bank or other Government entities could or could not have a material adverse effect on the final results for that period.

Certain financial and economic information presented in this Offering Circular may be subject to routine revision and subsequently be materially adjusted or revised to reflect new or more accurate data as a result of the periodic review of our official financial and economic statistics. Such revisions could reveal that our economic and financial conditions as of any particular date are materially different from those described in this Offering Circular.

We can offer no assurance that such adjustments or revisions will not have a material adverse effect on the interests of our creditors, including any purchasers of the Notes.

A significant reduction in foreign aid could negatively affect the performance of the economy and the ability of the Government to pay back its debt including the Notes.

A significant portion of public investment is financed with funds received as foreign aid and external cooperation. These funds are in most cases loans from multilateral lending institutions. In case of a reduction of such funding, public investment would be negatively affected, impacting the development of projects which would benefit the most vulnerable sectors of the population. Reduction of funding for these projects could negatively affect the performance of the economy and the ability of El Salvador to pay back its debts, including the Notes. The United States has pledged a total of US$2 billion in aid for El Salvador, Guatemala and Honduras (the "Northern Triangle") countries. Per statistics from the United States Agency for International Development ("USAID"), El Salvador has received total U.S. foreign aid in the amount of US$84 million, US$332 million, US$75 million, US$118 million and US$88 million in 2014, 2015, 2016, 2017 and 2018, respectively. As of June 2019, USAID estimated that a total of US$56 million had been received by El Salvador in U.S. foreign aid during the calendar year. These funds are intended for institutional development, security, productive development and education. Recently, President Donald J. Trump has suggested that aid to the Northern Triangle countries could be cancelled or suspended, which could adversely affect El Salvador's ability to service its debt, including the Notes.

Risk Factors Relating to the Notes

A citizen of El Salvador has filed a claim with the Constitutional Chamber of the Supreme Court of Justice of El Salvador, which if successful, could have a material adverse effect on the ability of the Republic to perform its obligations under the Notes and on the ability of the holders to prevail in legal proceedings

On January 4, 2019, a citizen of El Salvador filed claim No. 3-2019 ("Claim No. 3-2019") challenging the constitutionality of Decree No. 217 before the Constitutional Chamber of the Supreme Court of Justice of El Salvador. See "Summary—Recent Litigation." The Claim No. 3-2019 claimant argues that Article 2 of Legislative Decree No. 217 violates Article 148 subsection 3 of the Constitution, since Article 2 of Legislative Decree No. 217 permits the use of the proceeds of the issuance for general budgetary purposes, rather than specifying specific uses, and therefore requests that the Constitutional Chamber declare the Decree unconstitutional. As of the date of this Offering Circular, the Supreme Court has not admitted or rejected the claim. It is difficult to predict whether the Supreme Court will admit or reject the claim.

If Claim No. 3-2019 is admitted, the Constitutional Chamber of the Supreme Court of Justice could impose interim measures prior to ruling on the merits of the claim, such as prohibiting the Republic from issuing the Notes. There can be no assurance that the Supreme Court will not impose interim measures and prohibit the issuance prior to settlement of the Notes.

Once the Notes have been issued and settled, assuming Claim No. 3-2019 is admitted, the Supreme Court could rule that Article 2 of Legislative Decree is unconstitutional which could make it difficult for holders to enforce the Notes against the Republic in legal proceedings. There is past precedent of the Supreme Court which, if applied to Claim No. 3-2019, could limit the retroactive effect on Notes that have issued and settled of any ruling that declares Legislative Decree No. 217 unconstitutional. On June 26, 2000, the Supreme Court issued a judgement on a claim to declare the unconstitutionality of the 1999 Bond Law on the basis that the 1999 Bond Law did not comply with the procedural requirements of Article 148 of the Constitution, since it was approved by a majority and not two-thirds of the votes of the Legislative Assembly. In its judgement on the 1999 Bond Law, the Supreme Court declared the 1999 Bond Law unconstitutional on the basis that it was not approved by the requisite vote; however, the Constitutional Chamber held that the judgement would not invalidate bonds that had been already issued and sold and acquired by third-party investors in good faith before the official publication of the judgment of unconstitutionality in the *Diario Oficial*. There can be no assurance that the Supreme Court will not declare Legislative Decree No. 217 unconstitutional, and if it does so after the issuance and settlement of the Notes, there can be no assurance that the Supreme Court will follow the 1999 Bond Law precedent and limit the retroactive application of its judgement so as not to invalidate the Notes.

If Legislative Decree No. 217 is declared unconstitutional and its retroactive effect is not limited, an arbitral tribunal could refuse to enforce the Notes against the Republic on the grounds that the issuance was not properly authorized. In addition, even if holders were successful in an arbitral proceeding against the Republic, a court could refuse to enforce the award against El Salvador on similar grounds. We can offer no assurance that in the event that Legislative Decree No. 217 is declared unconstitutional and its retroactive effect is not limited, that an arbitral tribunal will not refuse to enforce the Notes or a court will not refuse to enforce the arbitral award.

El Salvador is a foreign sovereign state and accordingly it may be difficult to obtain or enforce judgments against it.

El Salvador is a foreign sovereign state. As a result, it may be difficult or impossible for investors to obtain or enforce judgments against El Salvador, whether in an investor's own jurisdiction or elsewhere. See "Arbitration and Enforceability".

The price at which the Notes will trade in the secondary market is uncertain.

El Salvador has been advised by the Joint Book-Running Managers that they intend to make a market in the Notes but are not obligated to do so and may discontinue market making at any time without notice. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. No assurance can be given as to the liquidity of the trading market for the Notes. The price at which the Notes will trade in the secondary market is uncertain.

The Notes will contain provisions that permit El Salvador to amend the payment terms without the consent of all holders.

The Notes will contain provisions, commonly known as "collective action clauses", regarding acceleration and voting on future amendments, modifications and waivers that differ from those applicable to certain of the Republic of El Salvador's outstanding Public External Indebtedness (as defined herein). Under these provisions, which are described in the sections entitled "Description of the Notes — Events of Default" and "— Modifications, Amendments and Waivers", the Republic of El Salvador may amend the payment provisions of the Notes and certain other terms without the consent of all holders.

The Republic could redeem the Notes before maturity.

The Republic may redeem the Notes, in whole or in part, under certain circumstances described under "Description of the Notes—Optional Redemption." An investor may not be able to reinvest the redemption proceeds in other securities with yields similar to those of the Notes redeemed.

USE OF PROCEEDS

The cash proceeds from the issuance of the Notes will be US$1,097,000,000 and, in accordance with Legislative Decree No. 217 (as published in the *Diario Oficial* on December 21, 2018) will be used by the Republic for general budgetary purposes which includes amortization of the Republic's 7.375 % notes due 2019.

THE REPUBLIC OF EL SALVADOR

Territory, Population and Society

El Salvador is geographically the smallest and the most densely populated of the five Central American countries, encompassing 8,127.37 square miles (21,040.79 square kilometers). El Salvador is bounded on the south by 210 miles of Pacific Ocean coastline, on the northwest by Guatemala and on the northeast and east by Honduras. In the north, the Sierra Madre mountains rise to over 9,000 feet above sea level. There are 23 volcanoes in the country, most of which are dormant. The most recent major volcanic eruption was in 1946. Minor volcanic eruptions occurred in 2005, 2013, 2014, 2015 and 2016.

El Salvador enjoys two seasons, rainy and dry. The rainy season lasts from early May through October, while the dry season lasts from November through April. Hurricanes in the Atlantic Ocean can exacerbate the rainy season in El Salvador.

In September 1992, the International Court of Justice resolved a border dispute between El Salvador and Honduras and awarded most of the disputed territories to Honduras. The border demarcation process, in which both parties were involved in accordance with the decision of the International Court of Justice, was completed in 2008. The governments of Honduras and El Salvador have reached an agreement on the definitive borders between both countries, pending legislative approval.

Since 2009, El Salvador has suffered three major tropical cyclones. On November 6, 2009, Hurricane Ida produced mudslides, flooding and wind damage in thirteen departments of El Salvador. In May 2010, Hurricane Agatha caused further damage to the Republic's infrastructure and crops. In October 2011, tropical depression 12E dropped heavy rainfall across large portions of El Salvador. The Government estimated that these storm systems had caused approximately US$1,329.3 million in damages and losses to the affected areas, and at least 244 fatalities. The impact of tropical depression 12E alone was estimated at 1% of GDP.

In 2018, El Salvador suffered from prolonged periods of drought. According to the Ministry of Agriculture and Livestock, approximately 98,783 of the basic grains producers from 12 departments of the country were affected by the droughts. The economic losses were estimated at US$42.4 million, equal to 0.2% of the estimated 2018 GDP.

The Government contemplated the effects of these natural disasters in the 2014-2019 five-year development plan by including as one of its specific goals reversing environmental degradation and addressing the country's vulnerability to catastrophes. All environmental programs now include climate change adaptation measures. In addition, *Unidades de Adaptación al Cambio Climático* ("Climate Change Adaptation Units") have been created as key agencies of the central Government. In August 2012, the Ministry of Finance created the *Unidad de Riesgos Fiscales* ("Fiscal Risks Unit"), which is responsible for quantifying the short- and mid-term economic impact on public finances and planning for contingencies related to natural disasters. The Fiscal Risks Unit began operations in June 2014. *Plan Cuscatlán* incorporates a comprehensive initiative aimed at protecting the environment and mitigating the effects of climate change. The Government's initiative includes plans to supply clean drinking water and reduce pollution and contamination from agricultural and industrial activities. As of June 2019, the Government plans to improve early warning systems and increase national and regional monitoring.

The population of El Salvador was estimated at 6.6 million according to the *Dirección General de Estadística y Censos* (the "National Bureau of Statistics and Census"), a division of the Ministry of Economy. In 2018, approximately 61.7% of the population resided in urban areas and 38.3% resided in rural areas. In addition, more than 1.5 million Salvadorans are believed to be living and working outside of the country, principally in the United States.

Salvadorans abroad make a significant contribution to the Republic's economy through remittances to their families in El Salvador. The IMF, in its 2016 Article IV consultation ("2016 Report"), asserted that the high emigration levels of Salvadorans was due in part to insecurity and fewer employment opportunities for young workers. In its 2016 Report, the IMF also asserted that while El Salvador is demographically stable, emigration of the young population restrains investment and, due to reduced labor supply among the more flexible and potentially productive young workers, growth, and may contribute to macroeconomic instability and increase fiscal burdens in the future. In its 2018 Article IV consultation, the IMF stated that the high and sustained emigration levels of Salvadorans is due in part to remaining effects of the civil war and that emigration has a net benefit for El Salvador's economy by increasing the income of migrants. Moreover, emigration reduces the labor supply and increases the wages of those remaining in the country. The IMF also highlighted the importance of remittances and their significant macro-stabilizing and poverty-alleviating benefits for El Salvador. In 2018, remittances increased to U.S.$5,369.8 million, representing 20.6% of GDP. In its 2019 Article IV consultation, the IMF stated that remittances would continue to grow in 2019 but at a decreased rate closer to the IMF's long-term projected average of 4%.

According to the National Bureau of Statistics Census 2007, over 72.3% of the population is mestizo of mixed European and indigenous descent. San Salvador, the capital and country's largest city, had a population of approximately 340,686 in 2018. The average annual population growth rate for the Republic was projected to be approximately 0.9% for the period between 2014 and 2018. Most of the population is Roman Catholic.

Under *Plan Cuscatlán*, the Government has emphasized basic human rights and plans to promote increased political participation, reduce poverty and protect the family. The Government plans to improve protection for the rights of both legal and undocumented Salvadoran migrants. See "The Salvadoran Economy - Plan Cuscatlán"

The following table sets forth information on per capita gross national income, average life expectancy, adult literacy rates and enrollment education ratios in certain countries:

Selected Comparative Social Statistics

	El Salvador	Nicaragua	Honduras	Guatemala	Costa Rica	Panama	United States
Per Capita GNI(1)	$ 6,868	$ 5,157	$ 4,215	$ 7,278	$ 14,636	$ 19,178	$ 54,941
Average life expectancy(2)	73.8	75.7	73.8	73.7	80.0	78.2	79.5
Adult literacy rate(3)	88.0%	N/A	89.0%	81.3%	97.4%	94.1%	N/A
Mean years of schooling(4)	6.9	6.7	6.5	6.5	8.8	10.2	13.4
Expected years of schooling(4)	12.6	12.1	10.2	10.8	15.4	12.7	16.5

(1) Gross National Income in 2017, adjusted for 2011 purchasing power parity.
(2) In years, at 2017
(3) Percentage of people's ages 15 years and older. Data refer to the most recent year available during the 2006-2016 period.
(4) Data refer to 2017 or the most recent year available.

Source: *Human Development Report 2018, United Nations.*

Historical Background

Prior to the Spanish conquest in the early 16th century, various indigenous tribes occupied the area that is now El Salvador. The Spanish conquest began in 1524 with the arrival of an expedition from Guatemala led by Pedro de Alvarado. A Spanish settlement was permanently established in San Salvador in 1528 and became the agricultural center of the Captaincy General of Guatemala. Under the Spanish government, the area became a center for the production of several commercial crops including cocoa, indigo and balsam wood.

Following independence from Spain in 1821, El Salvador became a member of the Central American Federation, which was dissolved in 1838 after a military coup in Honduras. Thereafter, as an independent republic, El Salvador slowly shifted its economy from its earlier dependence on indigo, cocoa and balsam wood to one based on coffee.

During the end of the nineteenth century and the first quarter of the twentieth century, coffee cultivation on extensive plantations contributed to the establishment of a wealthy landholding minority. Social tensions came to a head in 1932, when an uprising of the landless peasantry led by the nascent Communist Party was quashed by General Maximiliano Hernández Martinez after the loss of 30,000 lives. From 1932 to 1979, El Salvador was governed by a succession of military leaders.

On October 15, 1979, a revolutionary *junta* composed of civilians and members of the military assumed control of the country. Early in 1980, the *Partido Demócrata Cristiano* ("PDC") joined the *junta* and imposed a program of economic reforms that included the nationalization of the banking system, agrarian reform aimed at the re-distribution of land ownership, and the granting of exclusive monopolies to state-owned entities for the international sale of coffee and sugar. In 1982, a popularly elected Constitutional Assembly began drafting a new constitution that became effective in 1983 which continues to be in force, as amended from time to time. In 1984, in the first presidential election under the new Constitution, the PDC leader, José Napoleón Duarte, was elected president.

During the period of the revolutionary *junta*, several guerrilla organizations unified to form the FMLN. From 1980 until the signing of the peace agreement (the "Peace Accord") in 1992, the Republic faced internal political and military conflicts which caused the loss of approximately 75,000 lives, triggering extensive emigration, displacing hundreds of thousands of persons within the country and causing widespread destruction to the country's infrastructure and economic development.

Former President Duarte was succeeded in the 1989 presidential election by Alfredo Cristiani of ARENA. The Cristiani administration implemented a number of changes designed to foster economic development.

The benefits of these measures were evidenced by real GDP growth of 4.8% and 3.6% in 1990 and 1991, respectively, compared to decreases or minimal growth in the period from 1985 through 1989 which averaged 1.2% growth. Nonetheless, the real benefits for the economy were limited due to the ongoing military conflict.

On January 16, 1992, after 12 years of conflict, the Government and the FMLN signed the Peace Accord in Mexico City. The Peace Accord: (i) established the specific requirements for ending the armed conflict, (ii) addressed certain root causes of the conflict by instituting commitments from the parties to follow democratic principles, and (iii) placed specific emphasis on the process of reconstruction as part of the economic and social development of the Republic. Since the signing of the Peace Accord, the Republic has implemented constitutional reforms as well as a series of initiatives designed to promote social, economic and democratic reforms establishing a lasting foundation for peace. In December 1996, as a result of the implementation of many of these initiatives, the General Assembly of the United Nations adopted a resolution to withdraw its on-site observers and continue the United Nations verification responsibilities through periodic visits. The General Assembly noted the commitment of the Republic and other parties to the full implementation of the Peace Accord. On January 6, 2003, the United Nations declared that the objectives of the Peace Accord had been completed, thus ending the United Nations peace verification process. On January 16, 2019, El Salvador commemorated 27 years of the signing of the Peace Accord.

Form of Government

El Salvador is a republic and its form of government is a representative democracy, with powers divided among executive, legislative and judicial branches. Elections are held every five years for president and vice president and every three years for members of the single house of the legislative assembly (the "Legislative Assembly") and local governments. All Salvadoran citizens 18 years or older are entitled to vote. As part of the implementation of democratic reforms under the Peace Accord, there has been a major effort to improve voter identification and registration.

Executive authority is vested in the president and vice president and 14 cabinet ministers. Cabinet ministers are appointed, and may be removed at will, by the president. The president may propose legislation to the Legislative Assembly through his or her cabinet members and has veto power over legislation, which may be overridden by a two-thirds vote of the Legislative Assembly. On February 3, 2019, presidential elections were held and Nayib Armando Bukele Ortez of the GANA party was elected president with approximately 53.1% of the vote, avoiding a runoff and taking office on June 1, 2019. President Bukele has announced plans to create the Ministry of Housing and the Ministry of Local Development. Creation of ministries requires the approval of the Legislative Assembly, due to budgetary restrictions.

Legislative authority is vested in the Legislative Assembly, which is comprised of a single house of 84 elected members. The Legislative Assembly has the power to enact legislation, ratify treaties and approve the annual budget. A majority of the Legislative Assembly must approve a bill for it to become a law. Constitutional amendments require approval by two different and consecutive terms of the Legislative Assembly, the first by a majority and the second by a two-thirds majority.

As of the last legislative election held in March 2018, the Legislative Assembly is composed as follows: ARENA 37 seats, FMLN 23 seats, GANA 10 seats, PCN 9 seats, PDC 3 seat, CD 1 seat and 1 independent seat. ARENA, holds the most seats in the Legislative Assembly. GANA is the party of the Government. The next congressional elections are scheduled to be held in March 2021. Since the 2015 legislative elections, ARENA used its majority in the Legislative Assembly to block certain reforms and laws proposed by the administration of former president Sanchez Cerén. The newly elected government of President Bukele Ortez took office on June 1, 2019, and no assurances can be made as to the alignment of the various parties in the Legislative Assembly.

El Salvador is administratively divided into 14 departments. In each department, executive power is exercised by a governor who is appointed by the President. Departments do not have their own legislative or judicial bodies or independent budgets. Departments are subdivided into 262 municipalities, each one with a mayor who exercises executive power. Mayors are elected by direct, universal suffrage for three-year terms. Municipal council elections were held at the same time and date as elections for the Legislative Assembly. ARENA won 140 municipalities, FMLN 64 municipalities, GANA 27, PCN 25, PDC 4, PSD 1 and FPS 1 municipalities each.

The following chart shows the composition of the Legislative Assembly and municipalities by political party, as of May 2018.

Legislative Assembly
Composition by Political Party

Political Party	Number of Members	Number of Mayors
ARENA	37	140
FMLN	23	64
GANA	10	27
PCN	9	25
PDC	3	4
Cambio Democrático ("CD")	1	0
Independent	1	0
Partido Social Demócrata ("PSD")	0	1
Fraternidad Patriota Salvadoreña ("FPS")	0	1
Total	84	262

Source: TSE

Since 2011, pursuant to amendments to the Electoral Code and a decision issued by the Supreme Court, candidates for the Legislative Assembly may run as independents unaffiliated with any party.

National judicial authority is vested in the Supreme Court and several lower courts. The Supreme Court, the highest judicial authority in the Republic, is composed of 15 justices appointed by the Legislative Assembly from two different lists of nominees separately and independently prepared by the National Council of the Judiciary and the Salvadoran Bar Association. Each Supreme Court justice serves a nine-year term and may be re-appointed. The terms of the Supreme Court justices are staggered such that one-third of the justices are appointed every three years. Judges serving on courts of appeal, certain first-instance tribunals and justices of the peace are appointed by the Supreme Court, also from lists prepared by the National Council of the Judiciary. The Constitution provides that the annual national budget must include appropriations for the judiciary totaling at least 6.0% of the central government's current revenues.

In June 2012, the Supreme Court found that the appointment of six Supreme Court justices by the outgoing Legislative Assembly in April 2012 was unconstitutional because the Legislative Assembly had previously named one-third of the members of the Court. In August 2012, the then new Legislative Assembly filled the vacancies, but in October 2013 the Supreme Court found that the appointment of one of the Supreme Court Justices by the then new Legislative Assembly was unconstitutional because he was found to be affiliated with the FMLN. In July 2014, the Legislative Assembly filled the vacancy with a candidate that met all legal and constitutional requirements.

Memberships in International Organizations

El Salvador is a member of the United Nations and the Organization of American States and many of their respective specialized agencies, as well as the IMF, the World Bank, the World Trade Organization ("WTO"), the IADB, *Banco Centro Americano de Integración Económica* ("CABEI"), among other international organizations.

El Salvador maintains diplomatic relations with 137 United Nations member states.

Diplomatic Relations with China

On August 21, 2018, El Salvador established diplomatic relations with China. Additionally, El Salvador adhered to Resolution 2758 of the UN General Assembly that recognizes the existence of one single China.

Former president Sánchez Cerén, carried out a state visit to China from October 29, to November 7, 2018. During the visit, China approved an assistance program in the amount of US$150 million. The funds are destined for projects in the areas of health, education, technology, clean water supply, among others. Other cooperation agreements were also signed. Both countries have exchanged diplomatic envoys. On December 13, 2018, El Salvador delivered a termination notice to Taiwan related to the bilateral free trade agreement which entered into force in March 2008. The termination notice was delivered due to the severing of diplomatic ties between El Salvador and Taiwan. See "Foreign Trade and Balance of Payments - Regional Integration and Free Trade." President Bukele has ratified diplomatic relations with China.

International Relations under Plan Cuscatlán

Under *Plan Cuscatlán*, the Government has proposed a strategy of improving El Salvador's image abroad by utilizing marketing campaigns as well as modernizing and improving the diplomatic and consular career services. *Plan Cuscatlán* also proposes to increase integration with other Central American countries. Further, the plan calls for an increase in foreign investment into El Salvador as well as increasing exports and promoting tourism. The Government also plans to increase support services for Salvadorans living abroad. See "The Salvadoran Economy - Plan Cuscatlán"

Partnership for Prosperity Plan of the Northern Triangle of El Salvador, Guatemala, and Honduras

In 2014, Northern Triangle agreed to a five-year initiative, titled the Partnership for Prosperity Plan of the Northern Triangle, as a response to the increased flow of unaccompanied minors from the Northern Triangle into the United States.

In 2015, the three countries agreed on the Plan's guidelines that address the conditions that encourage migration out of the Northern Triangle. In particular, the Plan contains four strategic lines of action: revitalizing the economies of the participating countries to promote economic opportunity, developing opportunities for human capital, improving public safety and access to the legal system, and strengthening institutions to increase the trust of the population towards the state.

In 2015 and 2016, efforts were made to reduce irregular immigration, especially that of unaccompanied minors. These measures and actions include awareness campaigns through media and social networks regarding the risks of irregular immigration, the strengthening of consular networks and migrant welcome centers, increased measures against human trafficking and social and economic inclusion of returning migrants.

The United States has pledged a total of US$2 billion in aid for the Northern Triangle countries. According to USAID, El Salvador has received total U.S. foreign aid of US$84 million, US$332 million, US$75 million, US$118 million and US$88 million in 2014, 2015, 2016, 2017 and 2018, respectively. As of June 2019, USAID estimated that a total of US$56 million had been received by El Salvador in U.S. foreign aid in 2019. These funds are intended for institutional development, security, economic development, job creation and education. Recently, President Donald J. Trump has suggested that this assistance program could be cancelled or suspended.

THE SALVADORAN ECONOMY

Economic and Social Policies

On February 3, 2019, Nayib Armando Bukele Ortez was elected president and on June 1, 2019, president Bukele Ortez began a five year term. *Plan Cuscatlán* lays out the new government's main objectives for improving economic growth, reducing poverty and increasing equality.

Plan Cuscatlán

President Bukele Ortez's campaign platform was based on the *Plan Cuscatlán*, which encompasses his administration's action plans for his five-year term. *Plan Cuscatlán*, focuses on eight main platforms: social welfare, security, emigration and labor, international relations, industry and production, economy and finance, public works and territorial development.

1. The social welfare platform aims to improve the quality of life of all Salvadorans, present and future. The Government proposes a great bargain between a responsible and efficient state and the people.

2. The security platform seeks to find a balance between crime prevention, enforcement and rehabilitation.

3. The emigration and labor platform aims to improve consular and embassy services to documented and undocumented Salvadorans living abroad.

4. The international relations platform's objective is to increase international investment, cooperation, strategic alliances and exchanges with El Salvador, and promote El Salvador as an attractive tourist destination.

5. The industry and production platform will grant support to public and private producers by creating local and regional trade networks. The networks will include the exchange of services, agricultural products and technology.

6. The economy and finance platform aims to improve the proper administration of subsidies to women, the elderly, individuals with disabilities, vulnerable populations and those who have been historically discriminated against, and small and medium size entrepreneurs.

7. The public works platform seeks to plan and execute investments in public infrastructure including transportation, urban renewal and increased access to utilities.

8. The territorial development platform aims to properly plan and organize the development and organization of several local jurisdictions and bureaucracies.

Additionally, *Plan Cuscatlán* has 18 different sub-platforms, as described below:

Economy

The economic growth plan of the Government has the objective of converting El Salvador into a prosperous, dynamic, modern and inclusive nation. To accomplish these objectives, the Government has proposed three different programs. The first program promotes economic growth, development and sustainability. The second program promotes competitive advantages in the economy as well as innovation and diversification. The third and final program within the economic sub-platform promotes the decentralization and modernization of government.

Infrastructure

The infrastructure plan of the Government aims to increase connectivity throughout the country. This sub-platform promotes the construction of new highway infrastructure projects as well as the maintenance of existing ones. Airports and maritime ports are also part of the Government's infrastructure plan. The Government will also promote the construction of other types of infrastructure, including hospitals, multifamily housing, schools, entertainment venues and renewable energy plants, including solar power plants.

Agriculture

The agricultural plan of the Government aims to promote and increase productivity and employment, and diversify and expand the varieties of agricultural products produced in El Salvador, including grains, sugar, coffee, fish, aviary and cattle. This sub-platform also seeks to empower agricultural entrepreneurs through Government subsidies and assistance.

Tourism

The Government aims to make El Salvador an attractive and safe tourism destination. The plan will seek an increase in the number of tourists from North America and Europe. In order to accomplish this goal, the Government plans to implement six different strategies, including emphasizing El Salvador's local culture, construction of hotels and resorts, as well as training of hospitality personnel.

Innovation and Technology

The Government intends to implement a communications platform that will connect private citizens with the Government. The communications platform will also allow private citizens to access a wide range of governmental services online. Another aspect of the plan includes the training of individuals in basic, intermediate and complex technologies. The Government also plans to create the first ever virtual library in El Salvador.

State Modernization

The Government plans to modernize every aspect and agency of the State in order to increase transparency and efficiency, reduce corruption and promote dialogue with the citizenry. The executive branch will be reorganized and a thorough analysis of the Executive branch will be performed.

Taxation

The Government plans to implement a tax reform which will increase revenues, reduce tax evasion, increase the taxation base and promote equality. The plan will also provide transparency to the public on the manner the funds are being used. The reform will also allow for taxpayers to make their tax filings and payments electronically.

Education

The Government considers education a basic right and plans to increase access to high quality and affordable education to all Salvadorans. The plan contemplates the construction of additional schools and education centers in urban and rural areas. The Government will identify areas throughout the country that require increased assistance and support.

Healthcare

The Government considers healthcare a basic human right and plans to provide free universal healthcare to all residents of El Salvador. The plan would improve the national health system, provide additional health centers throughout the country, increase research, increase funding and increase prevention programs, among other initiatives. Further, the plan will also focus on providing mental health services.

Environment

The Government plans to protect the environment by investing in multiple areas, including drinkable water resources, reduction of carbon emissions, protection of wildlife reserves, reduction of pollution and protection of endangered and at risk species, among others. Further, the plan provides for El Salvador becoming a carbon neutral country by 2029.

Transparency and Anti-corruption

The Government plans to increase public accountability and reduce corruption. As part of the plan, the Government has proposed to eliminate the statute of limitations for corruption related crimes, create an anti-corruption commission and appoint an anticorruption czar. Further, the plan emphasizes prevention of corruption-related crimes by empowering public servants and inculcating a sense of pride and nation.

Public Safety

The Government plans to decrease violence and criminality by preventing children from entering criminal gangs and increasing investment in safety and security programs. Further, the plan calls for increased prosecution as well as rehabilitation and reinsertion of former criminals into society.

Foreign Relations

The Government plans to increase El Salvador's standing in the international community and strengthen diplomatic ties with the United States, as well as relations with the Salvadoran diaspora. The plan calls for a modernization of the diplomatic and consular service, increased integration with Central America, and improvement of services to Salvadorans living abroad. Further, the plan aims to increase investment and promote commercial ties with other countries.

Human Rights

The Government plans to guarantee the protection of the human rights of all Salvadorans, including marginalized and historically discriminated against populations. The plan would promote basic human rights such as life, liberty, health, education, the environment, housing, utilities, food and work, among others. Further, the plan places special emphasis on reparations to the victims of the armed conflict as well as to the reduction of extreme poverty.

Culture

The Government plans to recognize cultural activities and access to cultural events as a basic human right. The plan will emphasize the introduction of arts and culture into the academic curriculum of schools and investing in the development of the arts. Further, the plan seeks to re-vitalize urban spaces and open them to cultural activities. Additionally, the Government plans to assist in the construction of museums and libraries as well as promoting locally produced cinema.

Women

The Government's plan aims to promote gender equality throughout a wide range of policies. The plan seeks to prevent gender violence and gender discrimination as well as promote equal pay for women. Further, the Government plans on developing a strategy aimed at helping women and families with sexual and reproductive health issues.

Youth

The Government plans to promote and empower Salvadoran youth in multiple aspects of Salvadoran society. The plan aims to increase youth employment, reduce school dropout rates, provide appropriate healthcare and medical attention, and provide basic through graduate education, among others.

Sports

The Government plans to promote sports and recreational activities as a means to improve physical and mental health. The plan aims to increase the country's athletic competitiveness by providing physical education at school and improving the quality of life for athletes. The plan also aims to use sports as a way of reducing dropout rates and preventing Salvadoran's youth from joining organized crime gangs.

Fiscal Agreement

A Framework Agreement for Fiscal Sustainability, Economic Development and Bolstering Financial Liquidity for El Salvador ("the Framework") was signed on November 10, 2016, by the Government of former president Sánchez Cerén, FMLN and ARENA, in consultation with the minority parties, in order to set an agenda to guarantee fiscal sustainability and inclusive growth, increase economic and social development and offer financial stability in the short, medium and long terms.

As part of the Framework, the Government and the Legislative Assembly have taken the following actions:

1. Authorization to issue debt securities in the local and/or international markets, with proceeds being used to refinance US$307.0 million of short-term debt and US$243.0 million to cover Government expenses carried over from fiscal year 2016. The expenses include transfer payments made by the *Fondo de Desarrollo Economico y Social de los Municipios de El Salvador* ("FODES"), outstanding payments to suppliers and payment of subsidies. As a result, the Republic issued US$601,085,000 of its 8.625% Notes due 2029 on February 28, 2017.

2. On November 10, 2016, the *Ley de Responsabilidad Fiscal para la Sostenibilidad de las Finanzas Públicas y el Desarrollo Social* (Fiscal Responsibility Law) was enacted.

The purpose of the law is to promote policies that will guarantee the fiscal sustainability of public finances in the medium and long term which will contribute to the macroeconomic stability of the country. The Fiscal Responsibility Law (i) establishes limits on the deficit and public indebtedness, (ii) provides for consistency between the budget and the goals established by the Fiscal Responsibility Law, (iii) guarantees budget allocations for social programs, and (iv) promotes greater transparency and accountability. The law also provides for public finance consolidation measures to be implemented over a five year period after its enactment requiring an adjustment of 3.0% of GDP through spending cuts and increased revenues. On November 28, 2018, Legislative Decree No. 188 implemented several reforms to the Fiscal Responsibility Law. As part of the reform, certain fiscal indicators were modified to reflect the adoption of SNA2008.

3. Pensions and Savings Reform of 2017

On September 28, 2017, the Pension Savings System Act, the Pension Obligations Trust Law and the Substitution of Pension Plan Investment Certificate Act were approved. The goal of these laws includes reducing the pension deficit and the actuarial pension deficit, implementing a cap on pensions, guaranteeing a minimum pension income, increasing budgetary appropriation for pensions, reducing the issuance of CIPs and increasing the long term profitability of pension plan investments. These laws also created the *Cuenta de Garantia Solidaria* ("CGS") which provides pensions to senior citizens over the age of 80. The CGS receives 33% of the monthly pension plan contributions as well as 5% of active workers' and retirees' monthly income and monthly pensions.

Additionally, the 2017 reforms created a financial mechanism for the payment of benefits to *Sistema de Ahorro para Pensiones* ("Pensions Savings System" or "SAP") participants. Further, it created a guarantee of coverage of existing minimum income pensions as well as for the CGS system. This coverage is aimed at stabilizing the pensions of SAP participants and to account for increased life expectancy. The CGS system will be financed by current and future participants. With these reforms, mandatory contributions were increased by two percentage points, increasing to 15% from 13%. The contributions will be credited to the Individual Savings Account ("CIAP"), starting at 8.05% in 2019 and increasing gradually to 11.1% in 2050; the CGS at 5% in 2019 and gradually decreasing to 2% in 2050; and contributions to the private pension companies (the "*Administradoras de Fondos de Pensiones*" or "AFPs") starting at 1.95% in 2019 and decreasing to 1.90% in 2020.

4. Fiscal Work Group

A group composed of Government officials from multiple agencies, including the Ministry of Finance, and representatives of several political parties, including FMLN and ARENA (the "Fiscal Work Group") is responsible for several initiatives related to fiscal sustainability including: review of budgetary support loans, review of the law providing pensions for the armed forces, review of the wage mechanism that provides for public service payroll increases, consideration of reforms to the law regulating the *Fideicomiso de Obligaciones Previsionales* ("FOP") for purposes of financing of the private pension system, review of the special budget for the *Tribunal Supremo Electoral* ("TSE") and compliance with the *Fuerza Armada de El Salvador* ("FAES") and FMLN Veterans Law. Additionally, on December 20, 2018, the Legislative Assembly approved a law aimed at regulating the pension plans and social benefits for veterans, ex-combatants and their families. The 2019 budget includes an appropriation of US$31.3 million aimed at covering the needs of the veterans of the armed forces and former FMLN combatants.

Former president Sánchez Cerén's administration continued to implement the development strategies initiated by the prior administration, including the following:

- The Public-Private Partnership Act ("PPP Act"), enacted in May 2013. The Act was amended in May 2014 so that public works may be pursued through private partnerships without the need for prior legislative approval. Initially, all projects with private partnerships had to be approved by the Legislative Assembly. On December 2017, the Legislative Assembly approved an amendment to the PPP Act, which streamlines the PPP process and excludes certain projects from requiring legislative approval, including health services, education, water supply and public safety.

- An amendment to the Domain Extinction Law of November 2013, which permits money and goods acquired in an illicit manner to be confiscated by the Government (i.e., civil forfeiture). It also establishes the procedure through which such assets are distributed.

- Legislative Decree No. 663 of April 9, 2014, which created the *Organismo Promotor de Exportaciones e Inversiones de El Salvador* ("PROESA"), an institution created to promote exports and investment in the country.

Security Measures

On June 20, 2019, the Government announced a comprehensive security plan aimed at reducing violence and crime. First, the plan aims to improve security conditions in the prison system, a source of for hire homicides and extortion. Second, the plan aims to cut off sources of illegal financing to organized crime. Third, President Bukele announced additional resources and increased funding and training for the police and the armed forces to be provided by the United States. Additionally, the armed forces in coordination with the police the Ministry of Justice and Public Security and the Attorney General's office, are exercising territorial control operations to dismantle criminal gangs in 17 municipalities highly affected by criminality. The previous government's security plan was partially endorsed by President Bukele.

Other Recent Legislation Affecting the Salvadoran Economy

Other legislation and its amendments enacted or amended since 2014 include the following:

- The *Ley de Zonas Francas Industriales y de Comercialización* ("Industrial Free Zone and Commercialization Act") which was amended in February 2013 to provide current and future stakeholders of the tax free zones with legal certainty and security to comply with WTO requirements, and to establish a competitive incentive system to attract investment in the tax free zone. The law provides for the regulation and the operation of tax-free zones. The law also provides enhanced benefits to businesses that install facilities outside the San Salvador metropolitan area to promote investment activity in areas of the country and to promote the development of the nation as a whole. In January 2018, the Government issued regulations pertaining to entry and exit of samples of no commercial value in the Customs Procedures for Temporary Admission for the Inward Processing and Free Zone Regimes.

- The *Ley Especial de Agilización de Trámites para el Fomento de Proyectos de Construcción* ("Special Law to Expedite Legal Procedures to Promote Construction Projects") was enacted in October 2013. The purpose of this law is to foster the economic and social development of the country by streamlining the legal and administrative procedures of the national Government, autonomous entities and municipalities for construction and development projects and land partitioning.

- The *Ley de Fomento, Protección y Desarrollo para la Micro y Pequeña Empresa* ("Fostering, Protection and Development for Micro and Small Enterprise Law") was enacted in April 2014. This law fosters the creation, protection, development and strengthening of micro and small enterprises and improves the existing competitiveness process of such enterprises, with the purpose of improving their capability for generating jobs, adding value to the production process and promoting greater access to women in business. In November 2017, this law was amended to grant the National Commission For Micro And Small Enterprises increased autonomy.

- The *Ley de Fondos de Inversión* ("Investment Funds Law") was enacted in August 2014, which permits the establishment of investment funds in El Salvador and marketing of funds created abroad, increasing investment options and encouraging investment by retail and institutional investors in the local market. Additionally, the law provides for a supervisory framework for investment funds, their participants, their administrative entities and other relevant participants. As of April 2019, there are five active investment funds with US$65 million in aggregate assets under management.

- A temporary provision of the *Ley de Turismo* ("Tourism Law") was enacted in August 2015, extending its effect by a period of five years, starting, from January 1, 2016. The provision ensures that all new investments in tourism are classified as national tourism interest projects. Such investments are regulated pursuant to the Tourism Law and are eligible to receive fiscal incentives.

- The *Ley para Facilitar la Inclusion Financiera* ("Law to Facilitate Financial Inclusion") was enacted in August 2015 and entered into force on September 11, 2015 with the main objective to promote financial inclusion, increase competition in the financial sector, and reduce costs. This law was amended in January of 2017, to increase transparency in electronic financial operations.

- Reforms to the *Ley de Incentivos Fiscales para el Fomento de las Energías Renovables en la Generación de Electricidad* ("Law of Fiscal Incentives for the Development of Renewable Energy and Generation of Electricity") was amended in October 2015 to promote renewable energy including new energy sources (marine and biogas) by expanding fiscal incentives, including a total exemption of income tax payments for a period of five years on projects generating more than 10MW and for a period of ten years for projects generating 10 MW or less.

- The *Ley de Firma Electronica* ("Electronic Signature Law") enacted in October 2015 provides for the use of simple and certified electronic signatures and regulates the operation of companies providing these type of services.

- Reforms to the *Ley Contra la Usura* ("Law Against Usury") were enacted April and August 2016 and aim to strengthen the supervision against usury. The reforms also regulate the mechanisms for establishing a cap on interests rates and appoints the Central Bank with the task of determining an effective rate for microcredits.

- Reforms to the Assets Securitization Law, which was enacted in December 2007, and regulates the securitization process. This law was amended in April 2016 and July 2018 with the objective of encouraging more competition and expanding the types of financial products available. As of April 2019, approximately US$1,049 million in assets had been securitized.

- The *Ley de Eliminación de Barreras Burocráticas* ("Law to Eliminate Bureaucratic Barriers"), was enacted by the Legislative Assembly in December 2018, to prevent and eliminate unnecessary bureaucratic requirements.

- The *Ley de Mejora Regulatoria* ("Law for Regulatory Improvement"), was enacted by the Legislative Assembly in December 2018. The purpose of this law is to limit unnecessary and inconvenient regulations.

Gross Domestic Product

Real GDP growth in El Salvador averaged 2.3% per year from 2014 to 2018. Total consumption increased in real terms by an average of 1.7% per year for the same period, mainly due to an average increase of 1.9% in private consumption and an average increase of 0.5% in public consumption from 2014 to 2018. Gross fixed capital formation increased in real terms by an average of 2.5% per year from 2014-2018, mainly due to an increase of 2.5% per year in private investment and 3.6% per year in public investment for the same period.

Real GDP increased by 1.7% in 2014, driven mainly by growth in exports of goods and services of 3.2%, mainly due to a decrease of 2.5% in imports of goods and services. The rate of growth in consumption decreased by 0.3%, compared to an increase of 10.6% in 2013. Decreased consumption in 2014 was mainly due to a decrease in public consumption of 1.1%, compared to an increase of 2.8% in 2013. Gross fixed capital formation decreased by 9.6%, mainly due to a decrease in private and public investment of 15.9% and 8.5%, respectively.

In 2014, nominal GDP was approximately US$22.6 billion. The highest growth rates by economic activity were 7.0% in electricity, gas, steam, and air conditioning supply, 6.6% in other services, 5.1% in professional, scientific and technical and 4.5% in financial and insurance. The main activities to register a contraction were water supply, sewerage and waste management (10.6%), transportation and storage (7.1%) and mining and quarrying (4.2%).

Real GDP increased by 2.4% in 2015, driven mainly by growth in public and private consumption of 2.8%. Gross fixed capital formation increased by 9.0%, mainly due to an increase in private and public investment of 5.3% and 34.1% respectively. Public investment growth was mainly due to the increased investment in airport and port infrastructure.

In 2015, nominal GDP was approximately US$23.4 billion. The highest growth rates by economic activity were 13.3% in transportation and storage, 9.0% in arts, entertainment and recreation and 4.7% in public administration and defense; compulsory social security. The main activities to register a contraction were professional, scientific and technical (7.4%), agriculture, livestock farming, forestry and fishing (5.5%) and mining and quarrying (5.4%).

Real GDP increased by 2.5% in 2016, driven mainly by an increase in consumption of 1.5% and an increase in gross fixed capital formation of 3.6%. Growth in fixed capital formation was mainly due to an increase in private investment of 4.2%. Additionally, imports decreased by 0.5%, in part due to a lower cost of oil.

In 2016, preliminary nominal GDP was approximately US$24.2 billion. The highest growth rates by economic activity were 11.8% in transportation and storage, 6.8% in agriculture, livestock farming and forestry and fishing and 5.0% in real estate. The main activities to register a contraction were water supply, sewerage and waste management (7.7%) and electricity, gas, steam and air conditioning supply (0.2%).

Real GDP increased by 2.3% in 2017, driven mainly by an increase in public and private consumption of 2.1% and an increase in gross fixed capital formation of 2.9%. Exports of goods and services increased by 4.7% and imports of goods and services decreased by 0.8%.

In 2017, preliminary nominal GDP was approximately US$24.9 billion. The highest growth rates by economic activity were 4.5% in transportation and storage and 4.0% in human health and social work and administrative and support service. The main activities to register a contraction were electricity, gas, steam and air conditioning supply (0.5%) and arts, entertainment and recreation (0.5%).

Real GDP increased by 2.5% in 2018, driven mainly by an increase in public and private consumption of 2.4%. Gross fixed capital formation increased by 6.8%, mainly due to an increase in private investment of 8.3%. Exports of goods and services increased by 2.9%, and imports of goods and services increased by 5.2%.

In 2018, estimated nominal GDP was approximately US$26.1 billion. The highest growth rates by economic activity were 6.8% in mining and quarrying, 6.6% in construction, 4.8% in administrative and support services, 4.2% in accommodation and food service and 3.4% in professional, scientific and technical. The main activities to register a contraction were electricity, gas, steam and air conditioning supply (0.4%) and water supply, sewerage and waste management (0.3%).

During the three-month period ended March 31, 2019, estimated real GDP grew by approximately 1.8%, compared to 3.3% during the three-month period ended March 31, 2018. The activities that experienced the greatest real growth during this period were electricity, gas, steam and air conditioning supply (5.9%), financial and insurance (5.4%), professional, scientific and technical (4.8%), human health and social work (3.8%), and construction (3.8%). The activities that experienced the greatest real decrease during this period were agriculture, livestock farming, forestry and fishing (1.1%) and arts, entertainment and recreation (3.9%).

The following tables set forth the Republic's real GDP growth and evolution by expenditure for the periods presented:

Real GDP and Real GDP Growth by Economic Activity

	For the Year Ended December 31,				
	2014	**2015**	**2016[1]**	**2017[1]**	**2018[2]**
			Growth rate		
Real GDP growth	1.7%	2.4%	2.5%	2.3%	2.5%
Real GDP growth by activity:					
Mining and quarrying	(4.2)%	(5.4)%	1.5%	1.6%	6.8%
Construction	(1.5)%	(0.5)%	3.6%	2.9%	6.6%
Administrative and support service activities	4.4%	4.6%	3.0%	4.0%	4.8%
Accommodation and food service activities	2.7%	1.0%	4.5%	2.5%	4.2%
Professional, scientific and technical activities	5.1%	(7.4)%	1.9%	(0.2)%	3.4%
Human health and social work activities	(0.6)%	4.2%	2.6%	4.1%	3.2%
Wholesale and retail trade, repair of motor vehicles and motorcycles	4.0%	1.0%	1.3%	2.9%	3.0%
Information and communication	(0.5)%	2.7%	4.7%	0.8%	2.6%
Manufacturing	2.5%	3.1%	0.8%	2.4%	2.4%
Financial and insurance activities	4.5%	4.7%	2.0%	3.3%	2.2%
Transportation and storage	(7.1)%	13.3%	11.8%	4.5%	2.0%
Public administration and defense; compulsory Social Security	(2.9)%	4.7%	0.9%	2.8%	1.8%
Other service activities	6.6%	1.8%	0.4%	93.5%	1.7%
Real estate activities	3.5%	3.6%	5.0%	1.9%	1.4%
Education	(2.5)%	(1.0)%	2.3%	0.8%	0.9%
Arts, entertainment and recreation	(1.1)%	9.0%	0.3%	(0.5)%	0.8%
Agriculture, livestock farming, forestry and fishing	0.9%	(5.5)%	6.8%	0.2%	0.0%
Water supply, sewerage and waste management	(10.6)%	(4.5)%	(7.7)%	0.5%	(0.3)%
Electricity, gas, steam and air conditioning supply	7.0%	(0.3)%	(0.2)%	(0.5)%	(0.4)%

(1) Preliminary.
(2) Estimated.
Source: *Banco Central de Reserva de El Salvador.*

The following table sets forth the Chained Volume Indexes of the GDP, by expenditure for the periods presented:

	Chained Volume Indexes of GDP by Expenditure For the Year Ended December 31,				
	2014	**2015**	**2016[1]**	**2017[1]**	**2018[2]**
			(reference year 2014)		
Consumption					
Public Sector Consumption	100.0	102.1	101.1	103.0	103.8
Private Consumption	100.0	102.8	104.9	107.3	110.2
Total Consumption..................................	**100.0**	**102.8**	**104.4**	**106.6**	**109.1**
Gross Investment....................................	**100.0**	**104.8**	**109.3**	**99.0**	**108.8**
Public Sector	100.0	134.1	134.6	135.9	134.0
Private Sector	100.0	105.3	109.7	113.2	122.5
Fixed Capital Formation.......................	100.0	109.0	112.9	116.1	124.0
Exports of goods and services[3].....................	**100.0**	**103.3**	**103.5**	**108.4**	**111.5**
Imports of goods and services[3].....................	**100.0**	**104.7**	**104.1**	**103.3**	**108.7**
Real GDP..	**100.0**	**102.4**	**105.0**	**107.4**	**110.1**

(1) Preliminary.
(2) Estimated
(3) The exports and imports series of the National Accounts for the years 2014-2017 still need to include the Balance of Payments Current Account adjustments which were published in the 2018 first quarter Balance of Payments.
Source: *Banco Central de Reserva de El Salvador.*

The following table sets forth El Salvador's real contributions of the expenditure to GDP for the periods presented:

	Real Contribution of the Expenditure to GDP For the Year Ended December 31,				
	2014	**2015**	**2016[1]**	**2017[1]**	**2018[2]**
			(percentages)		
Consumption Expenditure	(0.3)	2.9	1.5	2.1	2.4
Gross Fixed Capital Formation	(1.7)	1.4	0.6	0.4	1.1
Variation of Inventory	1.5	(0.6)	0.1	(1.9)	0.6
Exports of Goods and Services	1.0	1.0	0.1	1.3	0.8
Imports of Goods and Services	1.3	(2.3)	0.2	0.3	(2.4)
Real GDP	1.7	2.4	2.5	2.3	2.5

(1) Preliminary
(2) Estimated

Source*: Banco Central de Reserva de El Salvador.*

The following table sets forth El Salvador's nominal GDP by economic activity for the periods presented:

Nominal GDP by Economic Activity
For the Year Ended December 31,

	2014	% of GDP	2015	% of GDP	2016[1]	% of GDP	2017[1]	% of GDP	2018[2]	% of GDP
	(in millions of US dollars, except percentages)									
Manufacturing	$3,632.2	16.1%	$3,840.9	16.4%	$3,919.7	16.2%	$4,057.2	16.3%	$4,216.8	16.2%
Wholesale and retail trade, repair of motor vehicles and motorcycles	$2,709.0	12.0%	$2,775.3	11.8%	$2,841.1	11.8%	$2,948.2	11.8%	$3,065.3	11.8%
Public administration and defense; compulsory social security	$1,554.2	6.9%	$1,731.4	7.4%	$1,776.4	7.4%	$1,869.8	7.5%	$1,949.4	7.5%
Real estate activities	$1,612.4	7.1%	$1,692.4	7.2%	$1,795.7	7.4%	$1,850.7	7.4%	$1,913.2	7.3%
Financial and insurance activities	$1,404.5	6.2%	$1,479.2	6.3%	$1,480.8	6.1%	$1,534.8	6.2%	$1,584.0	6.1%
Construction	$1,206.5	5.3%	$1,186.9	5.1%	$1,231.3	5.1%	$1,280.7	5.1%	$1,368.2	5.3%
Agriculture, livestock farming, forestry and fishing	$1,325.5	5.9%	$1,296.1	5.5%	$1,360.1	5.6%	$1,256.9	5.0%	$1,270.8	4.9%
Transportation and storage	$927.4	4.1%	$1,050.9	4.5%	$1,181.5	4.9%	$1,210.3	4.9%	$1,264.4	4.9%
Education	$1,071.0	4.7%	$1,095.2	4.7%	$1,139.6	4.7%	$1,170.3	4.7%	$1,218.2	4.7%
Administrative and support service activities	$788.7	3.5%	$819.0	3.5%	$846.8	3.5%	$892.5	3.6%	$946.6	3.6%
Information and communication	$805.0	3.6%	$809.2	3.5%	$825.2	3.4%	$843.6	3.4%	$861.3	3.3%
Human health and social work activities	$668.3	3.0%	$712.3	3.0%	$741.9	3.1%	$769.0	3.1%	$806.4	3.1%
Electricity, gas, steam and air conditioning supply	$832.1	3.7%	$687.1	2.9%	$587.8	2.4%	$689.1	2.8%	$770.5	3.0%
Accommodation and food service activities	$630.7	2.8%	$646.1	2.8%	$685.8	2.8%	$713.2	2.9%	$754.6	2.9%
Other service activities	$336.2	1.5%	$343.6	1.5%	$348.3	1.4%	$676.8	2.7%	$687.8	2.6%
Professional, scientific and technical activities	$571.3	2.5%	$535.8	2.3%	$545.9	2.3%	$549.0	2.2%	$572.4	2.2%
Water supply, sewerage and waste management	$148.0	0.7%	$156.4	0.7%	$188.2	0.8%	$180.3	0.7%	$175.9	0.7%
Arts, entertainment and recreation	$85.9	0.4%	$94.4	0.4%	$94.8	0.4%	$94.5	0.4%	$99.8	0.4%
Mining and quarrying	$58.6	0.3%	$56.0	0.2%	$62.7	0.3%	$66.0	0.3%	$73.5	0.3%
Domestic Services Activities	$260.4	1.2%	$281.5	1.2%	$299.1	1.2%	$0.0	0.0%	$0.0	0.0%
Net Taxes	$1,965.8	8.7%	$2,148.9	9.2%	$2,201.6	9.1%	$2,275.3	9.1%	$2,458.2	9.4%
Total Nominal GDP	**$22,593.5**	**100.0%**	**$23,438.2**	**100.0%**	**$24,154.1**	**100.0%**	**$24,928.0**	**100.0%**	**$26,056.9**	**100.0%**

(1) Preliminary.

(2) Estimated.

(3) Between 2015 and 2017, domestic services activities included other service activities.

Source**:** *Banco Central de Reserva de El Salvador.*

Principal Sectors of the Economy

The Salvadoran economy relies heavily on the service sector, which totaled US$16,669.5 million and accounted for 64.0% of nominal GDP in 2018. The service sector generated on average 63.8% of the country's nominal GDP annually during the period 2014 to 2018 and grew at an average rate of 2.4% during the same period in real terms. The service sector is composed of sixteen economic activities: electricity, gas, steam and air conditioning supply; water supply, sewerage and waste management; wholesale and retail trade, repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities; information and communication; financial and insurance activities; real estate activities; professional, scientific and technical activities; administrative and support service activities; public administration and defense; compulsory social security; education; human health and social work activities; arts, entertainment and recreation; other service activities; and domestic services activities.

The industrial sector has been a significant factor in El Salvador's growth in recent years. In 2018, the industrial sector contributed US$5,585.0 million to nominal GDP, and accounted for 21.4% of El Salvador's nominal GDP, compared to approximately US$5,337.9 million, or approximately 21.4% in 2017. The sector has expanded from 2014 to 2018 at a 2.2% annual average growth rate. Real GDP growth for the industrial sector increased by 1.5%, 2.2%, 1.5%, 2.5% and 3.4% in 2014, 2015, 2016, 2017 and 2018, respectively. The industrial sector is composed by the manufacturing and construction activities.

On average, during the period 2014-2018, the primary sector represented 5.7% of nominal GDP and grew at a real rate of 0.5%. In 2018, the primary sector accounted for 5.2% of nominal GDP, approximately US$1,344.3 million. The primary sector is composed of agriculture, livestock farming, forestry and fishing and mining and quarrying activities

El Salvador has implemented structural reforms that have increased competitiveness. The IMF, in its 2019 Article IV consultation, highlights the following structural reforms: the implementation of the productive transformation strategy, efforts to increase financial inclusion, improving the platform to register a new enterprise and obtain construction permits, measures to reduce violence and crime, and introducing several regulatory improvements to complete the Northern Triangle Customs Union with Honduras and Guatemala, among other measures. El Salvador has improved its ease of doing business score, as measured by the World Bank, from 61.2 in 2015, to 62.8 in 2016, 63.2 in 2017, 65.2 in 2018 and 65.4 in 2019. These reforms have largely focused on increasing financial inclusion, including facilitating the creation of new businesses and eliminating unnecessary bureaucracy and red tape. In its 2019 Doing Business report, the World Bank ranked El Salvador above regional peers such as Guatemala and Honduras and with an average score above the Latin American and Caribbean average.

Manufacturing

On average, manufacturing represented 16.2% of nominal GDP during the period 2014-2018 and grew, on average, at an annual rate of 2.2% during the same period in real terms.

In 2014, manufacturing increased at a real annual rate of 2.5%, mainly due to an increase in the manufacturing of spirits, soft drinks, and mineral waters; leather and footwear; chemicals and chemical products and rubber and plastic products.

In 2015, manufacturing increased at a real annual rate of 3.1%, mainly due to an increase in the manufacturing of spirits, soft drinks, and mineral waters; other non-metallic mineral products; and chemicals and chemical products.

In 2016, manufacturing increased at a real annual rate of 0.8%, mainly due to a reduced growth in the manufacturing of textiles; processing and preserving of meat; and grain mill products, starches, and starch products.

In 2017, manufacturing increased at a real annual rate of 2.4%, mainly due to an increase in demand of other non-metallic mineral products and basic metals.

In 2018, manufacturing increased at a real annual rate of 2.3%, mainly due to an increase in demand of other non-metallic mineral products and basic metals.

During the three-month period ended March 31, 2019, manufacturing increased by an estimated 0.4%, compared to an increase of 3.8% for the three-month period end March 31, 2018.

The net inflow of Foreign Direct Investment ("FDI") directed to manufacturing activity was US$83.2 million, US$290.3 million, US$266.6 million, US$450.8 million and US$579.5 million in 2014, 2015, 2016, 2017 and 2018, respectively.

Companies that operate in a free trade zone are exempt from import and export duties and enjoy an exemption from income taxes provided that the goods they manufacture are exported outside Central America. According to the Ministry of Economy, there are a total of 208 companies that benefited from the free trade zones law, of which 116 were located in free trade zones, with the remaining 92 operating outside free trade zone boundaries. Out of the 208 beneficiaries, 152 produce apparel and linens, 72 of them are maquila plants.

Agriculture, Livestock Farming, Forestry, and Fishing

Agriculture, livestock farming, forestry and fishing activity accounted for US$1,270.8 million of nominal GDP in 2018 and represented 5.4% of El Salvador's average nominal GDP from 2014 to 2018. This activity is composed of eleven sub-activities. The most significant of these sub-activities are: growing of cereals, harvesting of fruits; raising of cattle and production of raw milk; raising of poultry and production of eggs; growing of sugar cane; and growing of other crops.

This activity has grown at irregular rates during the past five years, affected by periods of drought, floods and coffee rust. Agriculture, livestock farming, forestry and fishing activity increased by 0.9%, 6.8% and 0.2% in 2014, 2016 and 2017, respectively, and decreased by 5.5% in 2015. In 2018, this activity increased at an annual rate of 0.04%.

In 2014, agriculture, livestock farming, forestry and fishing activity increased by 0.9%. Agriculture, livestock farming, forestry and fishing activity was affected by "El Niño" which generated estimated losses in production of grains of 3.9 million quintals of which 3.6 million quintals corresponded to corn. Coffee production was also affected by the coffee rust which led to a decrease in coffee production.

In 2015, agriculture, livestock farming, forestry and fishing activity decreased by 5.5%, mainly due to drought periods in June and July, that resulted in losses of 4.7 million quintals of corn and 60.2 thousand quintals of beans. Additionally, the drought generated losses of 739,805 tons of sugar cane.

In 2016, agriculture, livestock farming, forestry and fishing activity increased by 6.8%, mainly due to an increase in the production of corn equivalent to 5.3 million quintals. Production of sugar cane increased as well from 6.8 million in 2015 to 7.5 million tons in 2016.

In 2017, agriculture, livestock farming, forestry and fishing activity increased by 0.2%, mainly due to a period of intense rains which affected the production of 423.9 thousand quintals of corn, 577.5 thousand quintals of beans, and 562.5 thousand quintals of sorghum. Additionally, the country was affected by high winds which damaged plantations of sugar cane and reduced the production of sugar cane by 300 thousand tons.

In 2018, agriculture, livestock farming, forestry and fishing activity increased by 0.04%, mainly due to three drought periods and one flooding period which limited growth in the activity. The climate condition reduced the production of grains by 2.8 million quintals, especially the production of corn and bean. Sugar cane and cattle farming also experienced decreases.

During the three-month period ended March 31, 2019, agriculture, livestock farming, forestry and fishing activity decreased by an estimated 1.1% compared to an increase of 6.3% for the three-month period ended March 31, 2018.

Public Administration and Defense; Compulsory Social Security

Public administration and defense; compulsory social security activity contributed US$1,949.4 million of nominal GDP in 2018 and accounted for an average of 7.3% of El Salvador's nominal GDP from 2014 to 2018. In real terms, the sector grew on average 1.5% during the same period.

In 2014, public administration and defense; compulsory social security activity decreased by 2.9%, mainly due to a decrease in public consumption and investment of 1.1% and 15.9%, respectively.

In 2015, public administration and defense; compulsory social security activity increased by 4.7%, mainly due to a substantial increase in public investment of 34.1% and an increase of 2.1% in consumption of goods, services, and wages.

In 2016, public administration and defense; compulsory social security activity increased by 0.9%, mainly due to a decrease in public consumption and a slight increase in public investment.

In 2017, public administration and defense; compulsory social security activity increased by 2.8%, mainly due to an increase in public consumption and investment of 1.9% and 1.0%, respectively.

In 2018, public administration and defense; compulsory social security activity growth decreased to 1.8%, mainly due to a decrease in consumption of goods and services and a reduction in public investment of 1.4%.

During the three-month period ended March 31, 2019, public administration and defense; compulsory social security activity increased by an estimated 2.3% compared to a decrease of 0.8% for the three-month period ended March 31, 2018.

Transportation and Storage

Transportation and storage activity accounted for US$1,264.4 million of nominal GDP in 2018 and an average of 4.6% of El Salvador's nominal GDP from 2014 to 2018. In real terms, the activity presented an annual growth rate of 4.9% in the period 2014 to 2018.

In 2014, transportation and storage activity decreased by 7.1%, mainly due to a decrease in transport of air cargo and entry of passengers of 3.6% and 4.0%, respectively.

In 2015, transportation and storage activity increased by 13.3%, mainly due to an increase of 11.3% in entry of passengers and an 8.3% increase in the transportation of maritime cargo.

In 2016, transportation and storage activity increased by 11.8%, mainly due to an increase of 17.1% in the entry of passengers and a 2.3% increase in the transportation of maritime cargo.

In 2017, transportation and storage activity increased by 4.5%, mainly due to an increase in transportation of air cargo of 8.2% and entry of passengers of 5.9%.

In 2018, transportation and storage activity increased by 2.0%, mainly due to an increase of 16.3% in entry of passengers and 4.8% in the transportation of maritime cargo.

During the three-month period ended March 31, 2019, transportation and storage activity increased by an estimated 2.1% compared to an increase of 5.1% during the three-month period ended March 31, 2018.

As of December 2018, El Salvador had approximately 3,753.4 kilometers of paved roads (which included primary, secondary and tertiary roads, among others). Two main highway cross the country: the Panamerican Highway that links El Salvador with Guatemala on the west and with Honduras on the East and the Coast Highway that runs to the south of the Panamerican Highway and links Sonsonate with the west and *Zacatecoluca* and *Usulután* on the east and forms part of the Mexico-Central America regional plan to link the Central American countries to Mexico and South America.

El Salvador has two operating seaports: Puerto de Acajutla, a cargo seaport located west of San Salvador, and a second major seaport at La Unión, located east of San Salvador. The *Comisión Ejecutiva Portuaria Autónoma* ("Autonomous Executive Ports Commission" or "CEPA") administers these ports and the international airport. The Government has contracted with private companies owned by former port facility employees for loading and unloading services at port facilities.

The El Salvador International Airport, *Monseñor Oscar Arnulfo Romero y Galdámez International Airport*, is located 50 kilometers south of San Salvador. As of December 2018, 22 different international carriers fly to El Salvador International Airport, 17 of which are passenger airlines and five of which are cargo planes. Before 2009, the main air carrier operating in El Salvador was TACA, which merged with Avianca Airlines from Colombia in 2009 and now operates as Avianca, one of the leading air carriers in the region.

The passenger terminal extension of the International *Monseñor Oscar Arnulfo Romero y Galdámez* Airport, has increased the annual capacity of passengers from 1.6 million to approximately 2.5 million as a result of the construction and operation of four new departure gates.

Financial and Insurance Activity

Financial and insurance activity accounted for US$1,584 million of nominal GDP in 2018 and represented on average 6.2% of nominal GDP from 2014 to 2018. In real terms, the financial and insurance activity has grown at an average rate of 3.3% during the period 2014-2018.

In 2014, financial and insurance activity increased by 4.5%, mainly due to an increase of 5.6% in loans.

In 2015, financial and insurance activity increased by 4.7%, mainly due to an increase in loans of 4.7% and an increase in the financial spread across the sector from 2.5% to 2.7%. Additionally, *Banco Azul* entered into operations.

In 2016, financial and insurance activity increased by 2.0%, mainly due to an increase in loans of 5.4% and the entry into operations of the *Banco Cuscatlán de El Salvador* (formerly *Banco Citibank de El Salvador, S.A.*).

In 2017, financial and insurance activity increased by 3.3%, mainly due to an increase in loans of 4.7% in 2017 and the entry into operation of one additional bank and two new insurance companies.

In 2018, financial and insurance activity increased by 2.2%, mainly due to an increase in the loan portfolio of 5.9%, and an increase in profitability of banks of 9.5%.

During the three-month period ended March 31, 2019, the financial and insurance activity increased by an estimated 5.4%, compared to an increase of 1.7% during the three-month period ended March 31, 2018.

Construction

Construction activity accounted for US$1,368.2 million of nominal GDP in 2018 and represented on average 5.2% of nominal GDP from 2014 to 2018. Construction activity increased by 2.2% on average during the period 2014-2018.

In 2014, construction activity decreased by 1.5%, mainly due to a decrease in investment during the presidential elections and a decrease in loans for construction activity.

In 2015, construction activity decreased by 0.5%, mainly due to a decrease in loans for construction activities.

In 2016, construction activity increased by 3.6%, mainly due the increased development in projects commenced during 2015.

In 2017, construction activity increased by 2.9%, mainly due to an increase in private and public investment as well as an increase in private construction. Public projects, such as the construction of the El Chaparral hydro-electrical power plant, the La Libertad's by-pass construction and the expansion of the international airport, also contributed to an increase in the construction activity.

In 2018, construction activity increased by 6.6%, mainly due to an increase in private and public investment as well as an increase in private construction. The continuation of public projects, such as the construction of the El Chaparral hydro-electrical power plant, the La Libertad's by-pass construction and the expansion of the international airport, also increased the construction activity.

During the three-month period ended March 31, 2019, construction activity increased by an estimated 3.8% compared to an increase of 11.6% during the three-month period ended March 31, 2018.

Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles

Wholesale and retail trade, repair of motor vehicles and motorcycles activity contributed US$3,065.3 million of nominal GDP in 2018 and accounted for an average of 11.8% of El Salvador's nominal GDP from 2014 to 2018.

In 2014, wholesale and retail trade, repair of motor vehicles and motorcycles activity increased by 4.0% in real terms, mainly due to an increase in consumer and household demand.

In 2015, wholesale and retail trade, repair of motor vehicles and motorcycles activity increased by 1.0% in real terms, mainly due to an increase in consumer and household demand as well as in local e-commerce.

In 2016, wholesale and retail trade, repair of motor vehicles and motorcycles activity increased by 1.3% in real terms, mainly due to a an increase in consumer and household demand as well as a decrease in oil prices.

In 2017, wholesale and retail trade, repair of motor vehicles and motorcycles activity increased by 2.9% in real terms, mainly due to an increase in consumer and household demand.

In 2018, wholesale and retail trade, repair of motor vehicles and motorcycles activity increased by 3.0% in real terms, mainly due to an increase in consumer and household demand.

During the three-month period ended March 31, 2019, wholesale and retail trade, repair of motor vehicles and motorcycles activity increased by an estimated 2.5% compared to an increase of 3.1% during the three-month period ended March 31, 2018.

Electricity, Gas, Steam and Air Conditioning Supply

Electricity, gas, steam and air conditioning supply activity contributed US$770.5 million of nominal GDP in 2018 and represented an average of 1.1% of nominal GDP from 2014 to 2018. The electricity, gas, steam and air conditioning supply activity increased by 7.0% in 2014 and decreased by 0.3%, 0.2%, 0.5%, and 0.4% in 2015, 2016, 2017 and 2018, respectively.

During the three-month period ended March 31, 2019, the electricity, gas, steam and air conditioning activity increased by an estimated 5.9% compared to an increase of 0.3% during the three-month period ended March 31, 2018.

As of December 2018, El Salvador had installed capacity to generate electric energy in the amount of 2,056 MW. Generation is distributed as follows: 756.6 MW thermal, 552.0 MW hydroelectric, 298.3 MW biomass, 204.4 MW geothermal, and 215.8 MW solar. El Salvador has the largest geothermal energy production in Central America. The largest proportion of generating capacity comes from the private sector. The country's electric generation installed capacity has doubled in the last 20 years.

As of June 30, 2018, 16 companies were participating in the energy generation wholesale market. These included the *Comisión Ejecutiva Hidroeléctrica del Río Lempa* ("CEL"), LaGeo, Duke Energy International, Nejapa Power Company, among others. Additionally, there are other companies in the energy distribution sector such as: CAESS, DELSUR, AES-CLESA, DEUSEM, and EEO.

The Government undertook the construction the El Chaparral project, which, consists of the construction of a hydroelectric plant with two main generating units with a total installed capacity of 66 MW and an additional 1.43 MW unit, which could increase the annual energy supply by 232 GWh. As of December 2018, US$301.6 million had been invested in the project. Construction began in 2008 but was affected in late 2009 by Hurricane Ida and in 2010 by Hurricane Agatha, which required new geological studies and engineering work to be conducted for purposes of continuing the construction. Initially, the Italian company Astaldi, S.p.A was awarded the contract in 2008. Subsequently, the Government, through CEL, awarded contracts to Tyazhmash, a Russian company for the design and construction of the operations facility, including the installation of turbines and generators. As of December 2018, *Dycsa S.A. de C.V.*, and *Holcim S.A. de C.V.*, both Mexican companies, were the main construction and development companies working on the project. In the past, due to multiple reasons including complex geological conditions, the project has experienced delays.

Employment and Wages

The unemployment rate averaged 6.9% during the period 2014-2018. From 2014 to 2017, the unemployment rate was steady at 7.0%, while in 2018, the rate decreased to 6.4%.

According to the *Instituto Salvadoreño del Seguro Social* (the "Salvadoran Social Security Institute") the economic sectors with greatest job creation during the period 2016-2018 were manufacturing (10,293 jobs) and accommodation and food service activities (8,471 jobs). The economic sector that registered job losses during the same period was information and communications (2,079 jobs). In 2018, employment in the private sector increased by 3.2% equivalent to 21,065 new workers.

El Salvador's labor law sets a daily minimum wage. A council composed of representatives from the Government, the private sector and labor organizations sets minimum wages. Minimum wages for each major sector of the economy are set taking into account the evolution of real wages and overall economic conditions. The legal workday is eight hours and the legal workweek is 44 hours. The law prohibits employment of minors under the age of 14 unless such employment is necessary for family sustenance and does not interfere with schooling.

The following table sets forth daily minimum wages by economic activity in effect for the periods presented.

Daily Minimum Wages by Economic Activity

	Agriculture, Livestock and Fishing[1]	Maquila	Industry	Commerce and Services	Construction[2]
	(in US dollars)				
2014[3]	3.79	6.76	7.90	8.08	10.62
2015[3]	3.94	7.03	8.22	8.39	10.94
2016	3.94	7.03	8.22	8.39	11.25
2017	6.67	9.84	10.00	10.00	11.25
2018	6.67	9.84	10.00	10.00	11.95

(1) Excluding seasonal workers who are guaranteed a minimum wage at different levels for coffee, sugar and cotton.

(2) Daily minimum wage for auxiliary workers based on an arbitral award between construction firms and construction unions.

(3) Official Gazette of El Salvador Executive Decree Numbers 103,104,105 and 106 (01/07/2013).

Source: *Diario Oficial* (Official Gazette of El Salvador).

In 2001, the Legislative Assembly made several reforms to the Constitution, including allowing public workers to form unions. In 2009, the Legislative Assembly ratified a constitutional amendment providing public employees with labor union rights and the right to strike under certain circumstances in an effort to promote worker's rights and in order to comply with International Labor Organization conventions previously ratified by the Republic.

Poverty

Economic growth has led to a decrease in the level of poverty in El Salvador. From 2008 to 2018, the number of households living below the poverty line decreased from 40.0% to 26.3%. As of December 31, 2018, 24.1% of households in urban areas and 30.0% of households in rural areas lived below the poverty line. The percentage of households living in extreme poverty decreased from 12.4% in 2008 to 5.7% in 2018.

The following table sets forth the percentage of households in poverty by the degree of poverty and location of the household for the periods presented:

Percentage of Households in Poverty

	Extreme poverty[1]			**Relative poverty[2]**			**Total poverty**		
	Urban	**Rural**	**Total**	**Urban**	**Rural**	**Total**	**Urban**	**Rural**	**Total**
2014.....................	5.7%	10.9%	7.6%	22.8%	27.0%	24.3%	28.5%	37.9%	31.8%
2015.....................	7.0%	10.1%	8.1%	25.7%	28.7%	26.8%	32.6%	38.8%	34.8%
2016.....................	6.4%	10.4%	7.9%	23.5%	27.2%	24.8%	29.9%	37.5%	32.7%
2017.....................	5.3%	7.7%	6.2%	22.2%	24.4%	23.0%	27.4%	32.1%	29.2%
2018.....................	4.9%	7.1%	5.7%	19.2%	22.9%	20.6%	24.1%	30.0%	26.3%

Source: *Encuesta de Hogares de Propósitos Múltiples, EHPM, Dirección General de Estadística y Censos (DIGESTYC).*
(1) Households with per capita income below the per capita cost of the *Canasta Basica Alimentaria* ("CBA").
(2) Households with per capita income below two times the cost of the CBA.

Figures prior to 2015 are based only on a financial measure of poverty. As of 2015, El Salvador added a multidimensional measure of poverty in addition to the financial measure of poverty. Under this additional approach, a household is considered poor if it suffers from deprivation in 7 out of 20 indicators, which consider five categories: education; housing conditions; labor opportunities and social security; health, basic services and food security; and habitat quality. In 2015, 35.2% of total households were multidimensionally poor while in 2018 the percentage decreased to 28.8%.

According to the World Bank, El Salvador's GINI coefficient has decreased from 43.4 in 2013 to 38.0 in 2017, reflecting gradual improvements in social equality. El Salvador has a better GINI coefficient than other regional peers such as Honduras (50.5 in 2017), Nicaragua (46.2 in 2017), Guatemala (48.3 in 2014) and Costa Rica (48.3 in 2017).

Social Security

El Salvador's Constitution guarantees social security benefits to workers and their families. Social security benefits provide assistance in case of accident, illness, maternity, disability, retirement or death. Participation in the social security system for coverage for accidents, illness, maternity and disability is mandatory for all individuals, except for teachers in the public sector and self-employed individuals. The Salvadoran Social Security Institute administers these benefits for employees contributing to such program.

Retirement and death benefits for public and private sector workers who remained in the public pension system after the pension reform in 1998 are provided by the *Instituto Nacional de Pensiones de los Empleados Públicos* (the "National Public Pension Institute") and the Salvadoran Social Security Institute through a separate state-run system. The Government provides medical services to the population not covered by the Salvadoran Social Security Institute or the National Public Pension Institute through a network of 30 hospitals and 753 health facilities across the country.

The social security system is financed by a combination of contributions from workers and employers. Since January 1, 2003, all employees, except for teachers in the public sector and self-employed individuals, contribute 3.0% of their salary and employers contribute 7.5% of their total payroll for accident, illness, maternity and disability benefits. Teachers in the public sector contribute the same percentage to the *Instituto Salvadoreño de Bienestar Magisterial* (the "National Education Professionals Social Security"), created in 2007, for the same benefits provided by the Salvadoran Social Security Institute. As of January 2017, for retirement and death benefits, private sector employees contribute 6.25% of their salary and employers contribute 6.75% of their total payroll to the Pension Savings System These contributions added up to 13%. The recent reform to the pension system which went into effect in October 2017 increased the contribution rates by 2.0% to 7.25% by the employee and 7.75% by the employer.

The following table sets forth the number and distribution of workers in the private sector by economic activity and as a percentage of the labor force in the private sector contributing to the Salvadoran Social Security Institute for the periods presented. No comparable information is available for workers in the informal sector of the economy.

Contributing Workers in the Private Sector
As of December 31,

Economic Activity	2016 Number	2016 %	2017 Number	2017 %	2018 Number	2018 %
Agriculture, hunting, forestry and fishing	13,950	2.1	13,523	2.0	15,022	2.2
Manufacturing industries, mining and other industrial activities	183,498	27.8	190,453	28.5	193,791	28.7
Construction	23,414	3.6	22,686	3.4	23,507	3.5
Trade, restaurants and hotels, transport, storage, accommodation activities and food services	189,897	28.8	194,967	29.2	198,368	29.2
Information and communications	20,327	3.1	22,170	3.3	18,248	2.7
Finance and insurance	29,801	4.5	30,949	4.6	30,757	4.5
Real estate	5,595	0.8	5,714	0.9	6,551	1.0
Professional, scientific, technical and administrative support services	122,219	18.5	116,042	17.4	122,417	18.0
Services	68,910	10.5	69,136	10.4	69,842	10.3
Domestic services	1,659	0.3	1,749	0.3	1,799	0.3
Salvadorans abroad (SALEX)		0.0	12	0.0	33	0.0
Independent workers					917	0.0
Private Sector	**659,269**	**100**	**667,401**	**100**	**680,334**	**100**

Source: *Salvadoran Social Security Institute.*

An aggregate amount of US$1,551.0 million was invested in social programs during the period 2009-2018. The program focuses on different sectors including health, education, senior citizens, food, women and agriculture. According to preliminary figures, US$169.6 million, US$164.5 million and US$175.7 was invested in social programs, with an emphasis on educational programs in 2016, 2017 and 2018, respectively. Of the total 2018 investment, US$73.5 million were invested in school supplies and US$14.8 million in food for schoolchildren.

The *Fondo Solidario para la Salud* ("FOSALUD") provides assistance at the institutions of the Integral and Integrated Health Networks ("RIIS") in 161 Family Health Community Facilities ("UCSF") throughout the country; 19 maternal waiting homes, five prevention and addiction treatment centers, ten international health offices, five care for victims of violence clinics, one maternal, child and nutrition care center, four operational bases of the medical emergency system, five mobile units and one medical emergency care center that total 211 care centers for special programs and also for first level of care.

FOSALUD offers first level of care services through 161 UCSFs with the extension of hourly coverage. The types of care include curative, preventive and emergency care. Curative consultations represent 89% of the total care that was offered during the period from June 2017 to May 2018. During this period, approximately 2,000,000 patients were benefited, with approximately 1,800,000 medical consultations, 205,000 dental practices, 191,000 preventive consultations; and 763,000 nursing procedures. Additionally, institutional efforts are aimed at keeping an ideal level of drug inventories to ensure proper drug availability to patients in need. Nearly all of the medical prescriptions issued by FOSALUD's medical staff were dispatched without delay from drugstores.

Between 2014 to 2018, US$151.6 million was invested in the health services network and in infrastructure works at 243 health facilities. The RIISs are made up by 819 health institutions divided into three third tier care hospitals for high-complexity care, 27 second tier hospitals and 789 first tier centers. As of December 31, 2018, there were 753 UCSFs operating at different resolution levels providing free of charge health services in different areas.

As a result of the Government's efforts to strengthen comprehensive health care services, as of December 31, 2018, there are 577 Community Health Teams (ECOS), 538 family health teams and 39 specialized health teams that offer health services in 187 municipalities, of which 126 are completely monitored and 60 partially monitored. The family and specialized ECOS teams at the UCSFs develop an integral health care model that addresses the families and communities and is based on the Integral Health Primary Care Strategy with a comprehensive approach on the individuals, during the course of their lives. As a result, the Government believes that the ECOS have resulted in a significant improvement in the management and use of medical records, to analyze the vulnerability and evaluate the health risks of the individuals, families and communities served by the system.

Pension Reform

On December 20, 1996, the Legislative Assembly enacted the Pension Savings System Law, creating a private pension system for eligible workers (including both public sector employees and private sector employees) in El Salvador modeled after the then existing Chilean system. The *Superintendencia de Pensiones* (the "Superintendency of Pensions") was responsible for overseeing both the public pension system and the private pension system. AFPs were authorized to operate pursuant to the pension system law of April 15, 1998. As of September 30, 2018, 1.9 million workers, or 94.7% of the Salvadoran workforce, were affiliated with this private pension system, including 1.8 million active workers.

When employees who transferred to the private pension system retire, the Government issues *Certificados de Traspaso* ("CTs") to the relevant private pension fund in order to credit the employees for their prior contributions to the public pension system. Beginning in January 2002, due to reforms to the pension system law, CTs are payable over a 15-year period commencing upon the date of the relevant employee's retirement. CTs were previously payable in one lump sum. In addition, since July 2003, persons who have the option of continuing with the prior public pension system or switching to the new private pension system are eligible to receive a CT that would compensate them for any difference between the value of the monthly pensions they would have received had they stayed in the prior public pension system and the value of the monthly pension if they shifted to the new private pension system. CTs are included in calculating the pension costs of the Republic.

On October 2006, the Government began issuing CIPs to pension funds to finance the cost of its pension obligations to retired public employees and to holders of outstanding CTs and *Certificados de Traspaso Complementarios* ("CTCs"). CIPs amortize over a 25-year period and carry an interest rate calculated and updated every two years by the Central Bank in accordance with Legislative Decree 287 of 2016. The Government has reduced the burden of its pension liability due to the longer maturity and progressive amortization profile of CIPs compared with CTs and CTCs. CIPs are issued as Series A to pay pensions in the public pension system and as Series B to substitute CTs and CTCs.

According to the results from an actuarial valuation of the pension system performed between 2014 and 2015 with data as of December 31, 2013, the public pensions system is facing a significant financial imbalance where the current social assistance deficit amounts to US$24,077.8 million. Of the total deficit, 58.4% or US$14,068.3 million, is attributable to the SAP, the payment of CTCs, the second phase of the Legislative Decree No. 100 of 2006 and minimum mandatory pension payments. The remaining 42.6%, or US$10,009.5 million, is attributable to the *Unidad de Pensiones* of the *Instituto Salvadoreno del Seguro Social* ("UPISSS") and the *Instituto Nacional de Pensiones de los Empleados Públicos* ("INPEP") jointly known as the *Sistema Público de Pensiones* ("SPP").

The Government estimates that the difference between contributions to the public system benefits to retirees under the SPP plus partial benefits payable to retirees who switched to the private pension system for the time they were covered by the SPP was 1.9% of GDP in 2015. As of December 31, 2016, the accumulated deficit of the pension system was US$4,015.9 million, made up entirely of Series A CIPs.

Projections indicate that the obligations due from the current pensions system will continue to increase because the obligation of the Government to provide benefits will increase significantly during the next few years. According to the actuarial valuation from 2013, the nominal amount of such benefits will rise for the 2017-2020 period to US$3,528.7 million.

On September 28, 2017, the Pension Savings System Act, the Pension Obligations Trust Law and the Substitution of Pension Plan Investment Certificates Act were approved. These laws are aimed at reducing the pension deficit and the actuarial pension deficit, implementing a cap on pensions, guaranteeing a minimum pension income, increasing budgetary appropriation for pensions, reducing the issuance of CIPs and increasing the long term profitability of pension plan investments. These laws also created the CGS which receives 33% of the monthly pension plan contributions.

Additionally, the 2017 reforms created a financial mechanism for the payment of benefits to SAP participants. Furthermore, the 2017 reforms created a guarantee of coverage of existing minimum income pensions as well as of the CGS system. This coverage is aimed at stabilizing the pensions of SAP participants and to account for increased life expectancy. The CGS system will be financed by current and future participants. With these reforms, aggregate contributions were increased by two percentage points, increasing to 15% from 13%. The mandatory contributions will be credited to the CIAP, starting at 8.05% in 2019 and increasing gradually to 11.1% in 2050; the CGS at 5% in 2019 and gradually decreasing to 2% in 2050; and contributions to the private pension companies (the "*Administradoras de Fondos de Pensiones*" or "AFPs") starting at 1.95% in 2019 and decreasing to 1.90% in 2020.

Infrastructure Investments

Port at La Unión

In 2018, the CEPA opened a new bidding process for the operation of the *Port at la Unión*. The bidding process is pending a non-objection of the Japanese International Cooperation Agency, which has approval rights due to its financial participation in the project.

International Airport

CEPA began the modernization project for El Salvador International Airport in 2013, which is expected to be completed in 2032 at an estimated cost of US$490 million. The work began with two transitional projects, followed by four phases. The first transitional project was an increase in parking capacity for aircraft, which will expand the current capacity from a maximum of 18 to 22 aircraft. This project began in November 2014 and was completed in December 2016 at an estimated cost of US$6.9 million, increasing the capacity of passengers to 2.1 million from 1.6 million a year. The second transitional project was the construction of new passenger lounges, from 15 to 20 lounges which commenced in September 2014 and was completed in March 2015, at a cost of US$1.9 million. In May of 2018, an additional project, the construction of automobile parking garages was completed. increasing parking availability from 700 to 1,500. Total investment for the increase in automobile garage space was US$16.5 million. As of December 2018, total disbursements for the modernization project totaled US$76.7 million. Funding for this project comes from the operating revenue of the airport and the Government's general budget.

Work under the modernization project master plan will proceed in four phases. The first phase, a passenger capacity expansion, commenced in 2015 and was completed in 2017. The second phase, spanning 2018 to 2022, contemplates a transfer of the Avianca hub and an increase in flight and passenger volume at the airport, with a westward extension of the terminal. The third phase, scheduled through 2027, includes an eastward extension of the terminal and additional runways, with a doubling of the building space and increased use of existing space. The fourth phase is scheduled to conclude in 2032, with an increase in aircraft parking of up to 43 aircrafts. The master plan was conceived to proceed in a modular format in order to avoid interruptions to airport operations, and the airport continues to operate normally.

Bridges and Roads

The following infrastructure projects were completed and became operational between 2017 and 2018:

- the bridge over the Anguiatú River, near the Anguiatú land border with a total investment of US$3.5 million;
- the *El Progreso Bridge* over the Lempa River with a total investment of US$8.1 million;
- construction and maintenance of the *Poliedro - Sonsonate* Highway with a total investment of US$35.9 million; and
- construction of the International Airport - *Zacatecoluca* section of the *Litoral* highway for a total of US$71.2 million;

In 2017 and 2018, a total of US$76.2 million was invested in rural and tertiary roads. In 2018, the *Troncal del Norte* section highway and the *Amayo* detour was completed after an investment of US$3.0 million;

Power Generation

The Government undertook the construction of the El Chaparral project, which, consists of the construction of a hydroelectric plant with two main generating units with a total installed capacity of 66 MW and an additional 1.43 MW unit, which could increase the annual energy supply by 232 GWh. See "The Salvadoran Economy — Principal Sectors of the Economy".

The project to increase the installed capacity of the hydroelectric plant *5 de Noviembre* by up to 80 MW was completed at a cost of US$187.6 million, US$1.7 million under budget. The project was completed in 2016 and is supplying electric power to approximately 110,000 homes around the country.

On December 21, 2013, Asocio Quantum-GLU, a consortium including the Finnish company *Wartsila*, signed a contract with the Government after winning the bidding process for the construction of a natural gas plant, located in the municipality of Acajutla, department of Sonsonate, that once completed is expected to generate up to 355 MW. The project commenced construction in 2016, is expected to be completed in 2021, and to operate for 20 years. The estimated cost of the project is US$850.0 million, which is being funded by the consortium with the proceeds of a sale of its equity.

E*nergía del Pacífico, Ltda. de C.V.* ("EDP"), obtained approval for financing from the Overseas Private Investment Corporation ("OPIC"), for up to US$350 million, for the construction of a thermal power plant that EDP will operate in the city of Acajutla, in one of the largest investments in the history of El Salvador. The facility that will be built with private capital from Invenergy LLC, of the United States, and Quantum Energy, of El Salvador, plus loans from lenders such as OPIC. EDP is planned to consist of a maritime reception, storage and regasification terminal of LNG, a 378 MW energy generation plant and an electric transmission line that will unite Acajutla with Ahuachapán. The construction work began in January 2019 and the power plant is expected to supply approximately 30% of the national energy demand. The total investment will exceed US$1,000 million, and the plant is expected to generate approximately 1,500 temporary jobs during the construction phase and more than 80 jobs during the operating phase.

Fomilenio I and II

With a US$461.0 million grant from the United States Millennium Challenge Account enacted in 2006, the Government developed *Proyecto Fomilenio*. In September 2012, *Proyecto Fomilenio* ended, with investments in electrification, roads, bridges, water and sanitation, and workforce training that are expected to benefit more than 700,000 people over the next 20 years. Projects competed under *Proyecto Fomilenio I* included a 223 kilometer (140 miles) highway in the northern part of the country, connecting eastern and western El Salvador, that transformed the productivity and competitiveness of 94 municipalities, providing easier access to some of the poorest municipalities in the country. This east-west highway in the north stretches close to the borders with Guatemala and Honduras, and the improvements are expected to reduce travel time by 50%, from 12 to six hours. Other projects included electricity provision to rural parts of El Salvador, potable water plants, educational and community facilities and other social programs designed to develop El Salvador.

In December 2011, the MCC selected El Salvador as eligible to develop proposals for a second funding program through the United States Millennium Challenge Account. This second funding program, which the MCC calls a "compact," is contingent on continued good policy performance and the presentation of proposals that have significant potential to promote economic growth and reduce poverty. The first funding program of US$461.0 million supported *Proyecto Fomilenio*, which was completed in 2012 and included investments in infrastructure and work-force training.

In 2013, El Salvador prepared concept papers for the proposed investment of the Second Compact for El Salvador, which is referred to in El Salvador as *Proyecto Fomilenio II*. During 2013 and 2014, MCC financed activities necessary to assess the expected impact of the proposed investments, further designed activities and developed the implementation strategies of *Proyecto Fomilenio II*. In September 2013, the MCC's Board approved *Proyecto Fomilenio II*, in the amount of US$277 million.

Preliminary plans for the *Proyecto Fomilenio II* included an investment climate project, a human capital project, and a logistical infrastructure project, with each project having two components. The investment climate project has one component to prioritize and promote regulatory reforms that will increase El Salvador's competitiveness in international markets and to change the perception of the business climate in El Salvador. The second component is to encourage the government to develop partnerships with private enterprises for critical public services. The human capital project's first component is to improve education quality by reforming the laws, policies, and operations of the education system, including promotion of the full-time student model, curriculum improvements and teacher training in subject matter topics and pedagogy. The second component is to reform the technical and vocational education and training system ("TVET"), which includes the establishment of an institution to provide the legal and institutional framework and to establish curriculum development, career counseling, and standards for accreditation and certification. The logistical infrastructure project's first component is to relieve congestion on the most transited segment of El Salvador's coastal highway, which is one of the country's most important logistical corridors, by expanding the road to four lanes. The second component is aimed at reducing freight and passenger traffic congestion at the border with Honduras by constructing a new road to the border and by modernizing the border-crossing facilities.

El Salvador and the United States signed the *Proyecto Fomilenio II* on September 30, 2014. The objective of the program is the implementation of projects and public policies to increase productivity attracting investment, strengthening human capital and reducing costs of transportation and logistics. The project is funded with US$277.0 million donated by the United States through the Millennium Challenge Corporation and US$88.2 million provided by the Government. As of March 2019, the total cumulative disbursement of FOMILENIO II was US$79 million. Recently, President Donald J. Trump has suggested that assistance programs to El Salvador could be cancelled or suspended.

Other infrastructure projects

In 2018, the construction of the bypass in the city of San Miguel begun. The project is estimated to benefit approximately 245,000 people, require an aggregate investment of US$159.4 million and have a total length of 20.5 kms.

In 2017, the Jaguar highway interchange was completed at an estimated investment of US$20.9 million. The interchange is expected to ease traffic congestion between San Salvador and the International Airport.

As of December 31, 2018, sections II and III of CAO4S had construction advances of approximately 22.4 kms 31.9 kms respectively. Total investment for this project is expected to reach US$101.7 million, and to be concluded by 2019.

Social and Economic Infrastructure

In 2014, total public investment in the non-financial public sector was US$624.6 million, or 2.8% of GDP. Investments in economic development were made in an amount of US$226.3 million, with most of those resources (US$104.8 million) destined to the transportation and storage activity. Investment in social development totaled US$398.3 million, with urban and community development receiving US$249.8 million.

In 2015, total public investment in the non-financial public sector increased to US$650.7 million, or 2.8% of GDP. Investments in economic development were made in an amount of US$235.4 million with most of those resources (US$114.5 million) destined to the transportation and storage activity. Investment in social development totaled US$415.3 million with urban and community development receiving US$282.5 million.

In 2016, total public investment in the non-financial public sector increased to US$757.7 million, or 3.1% of GDP. Investments in economic development were made in an amount of US$384.9 million, with most of those resources (US$204.6 million) destined to the transportation and storage activity. Investment in social development increased to US$372.8 million, with urban and community development receiving US$195.6 million.

In 2017, total public investment in the non-financial public sector decreased to US$666.4 million or 3.1% of GDP. Investments in economic development were made in an amount of US$275.6 million, with most of those resources (US$208.4 million) destined to the transportation and storage activity. Investment in social development decreased to US$354.9 million, with urban and community development receiving US$195.6 million.

In 2018, total public investment in the non-financial public sector increased to US$821.1 million or 3.2% of GDP. Investments in economic development were made in an amount of US$390.4 million, with most of those resources (US$208.4 million) destined to the transportation and storage activity. Investment in social development increased to US$384.2 million with urban and community development receiving US$210.8 million. Additionally, US$46.5 million were allocated to the security and justice activity.

Development of the Tourism Sector

The Government believes that tourism represents a potential area of growth for the Salvadoran economy and has implemented measures designed to foster the development of the tourism sector. On December 15, 2005, the Legislative Assembly enacted a Tourism Law, which sets forth a framework for the development of the tourism sector. The tourism law imposes a special contribution levy of US$7.00 for each person leaving the country through the international airport and a special tax of 5.0% on lodging. In 2018, revenues from the tourism tax were US$11.4 million. These funds have been used in accordance with the Tourism Law to promote tourism in El Salvador. In 2018, El Salvador received 2,917 cruise passengers and a total of 2.5 million visitors, a 53.7% increase compared to 2009.

The Tourism Law also provides economic incentives for companies that engage in certain tourism sectors. The *Registro Nacional de Turismo* (National Tourism Registry), a branch of the *Corporación Salvadoreña de Turismo* (Salvadoran Tourism Corporation), facilitates access to the incentives and benefits available to businesses pursuant to the Tourism Law. The National Tourism Registry on December 31, 2018, recorded more than 255 companies classified as accommodation, restaurants, tourist operators, convention organizers, recreation (including golf courses and theme parks) and tourist transportation. Between May 2009 and December 2018, 42 companies have requested tax benefits under the Tourism Law, of which 30 were declared a National Tourist Interest Project.

Education Initiatives

The Social-Educational Plan 2009-2014, "Let's Go to School," featured the *Programa Escuela Inclusiva de Tiempo Pleno* (Inclusive Full Time School, "IFTS"), aims at improving education quality and inclusion of economically disadvantaged students. The program is the first phase of a comprehensive reform of the secondary school system. The IFTS model addresses dropout rates, grade repetition and insufficient learning outcomes among secondary students by providing stimulating and diverse learning experiences, a safe learning environment, teaching that is responsive to the social and developmental needs of adolescents from diverse backgrounds, and school accountability for student results. The program started operating as of January 2013.

The IFTS involves major changes at the school level and complementary governance reforms at the system level. First, at the school level, pedagogical reforms incorporate academic and extracurricular activities and extend schooling time from 25 hours per week to 40 hours per week for lower secondary education. Second, to complement the education reform, a new school governance model focuses on student outcomes and supports goals to improve student retention and quality and to achieve broader objectives of accountability, transparency and efficiency.

The implementation of the *Escuelas Inclusivas de Tiempo Pleno* ("EITP"), which consists of schools that follow certain curriculum and objectives aimed at increasing access to education and promoting democracy and development, has been carried out mainly with foreign funds and international aid from coordinated cooperation projects and loans that have facilitated technical and financial assistance and that allow staggering and strengthening the EITP in 3,237 schools working on the consolidation of the components of the model in 179 integrated systems. Between 2013 and 2018, an investment of US$200.7 million has been made, of which US$176.9 million come from foreign funds.

As of December 31, 2018, 36 fully operational schools have been constructed, and 46 more are under construction and are expected to be completed by 2020. These schools have been provided with specialized libraries. More than 100,000 students benefit from this model and 5,538 teachers have been certified as specialists in disciplinary areas, competence development, and life skills. Dropout rates have decreased and the enrollment of students has increased.

As part of *Plan Cuscatlán*, the Government's main objectives include reducing dropout rates, increasing education access in remote areas and development and construction of infrastructure dedicated to education.

Internal Security

The PNC and FAES have implemented a strategy to reduce violence nationwide. Incidents of homicide decreased from 5,280 in 2016 to 3,962 in 2017 and 3,346 in 2018. During the three-month period ended March 31, 2019, 1,432 homicides had been reported.

The "*El Salvador Seguro Plan*" was presented on January 15, 2015 as a supplement to other initiatives, (such as the five-year development plan, Fomilenio II and the Partnership for Prosperity of the Northern Triangle, among others.) The main commitments of the *El Salvador Seguro Plan* are for the prevention of violence, territory control, and criminal prosecution. Furthermore, the plan seeks to foster social rehabilitation and integration, increased support for victims of crime and strengthening of institutions. In 2017 and 2018, the Government continued its commitment to *El Salvador Seguro Plan* as well as to the prevention of violence, territory control, and criminal prosecution. In 2018, homicide rates had decreased by 50% compared to 2015. The El Salvador Seguro Plan is expected to be implemented in 50 municipalities by 2019.

In 2016, the Government's internal security efforts had a positive effect in diminishing drug trafficking and combating organized criminal gangs. The Government estimates that 60 criminal organizations and 20 drug cartels were neutralized and there have been seizures of 9,750 kilograms of illegal narcotics valued at US$240 million, 3,200 weapons, and 280 properties connected to money laundering operations.

In 2016, the *Contribucion Especial para la Seguridad Ciudadana* (CESC) provided financial resources for multiple projects aimed at preventing violence, under which 3,201 children have benefited from rehabilitation programs, internships and technical training. Further, 4,566 students returned to school and 76 out of 93 schools were repaired and their facilities improved with the goal of keeping students from turning to crime. Counseling assistance was provided to 7,782 students, 347 teachers and 3,002 parents.

The penitentiary system included rehabilitation programs for inmates and physical improvements to modernize their infrastructure. As of March 2019, 24,493 inmates, or 61.5% of the entire penitentiary population, have participated in the social rehabilitation program *Yo Cambio*, and 2,164 inmates are working in violence prevention programs.

On June 20, 2019, the Government announced a comprehensive security plan aimed at reducing violence and crime. First, the plan aims to improve security conditions in the prison system from where homicides and extortion are often ordered. Second, the plan aims to cut off sources of illegal financing to organized crime. Third, President Bukele announced additional resources and increased funding and training for the police and the armed forces to be provided by the United States. Additionally, the armed forces in coordination with the police, the Ministry of Justice and Public Security, and the Attorney General's office, are exercising territorial control operations in 17 municipalities highly affected by criminality.

FOREIGN TRADE AND BALANCE OF PAYMENTS

General

In 2018, merchandise imports accounted for 45.4% of nominal GDP, mainly in the form of intermediate goods (42.1% of total imports) and consumer goods (37.0% of total imports). Imports have grown at an average annual rate of 2.1% from 2014 to 2018. During this period, exports have grown at an average rate of 1.4%.

The current account deficit in the balance of payments decreased from 5.4% of nominal GDP in 2014 to 4.8% of nominal GDP in 2018, offset by an increase in the deficit of the balance of goods and services as a result of a 14.8% increase in imports, compared to a 13.8% increase in exports.

Tariffs and Other Trade Restrictions

Until the late 1980s, El Salvador used tariff barriers to protect its domestic industry against foreign competition. Import duties ranged from zero to 290.0%, with up to 25 different rates and the exports were largely controlled by the Government.

Since 1989, the Republic has significantly liberalized its foreign trade policy. The tariff structure has been simplified and currently 93.7% of goods are fully integrated within Central America. Import licenses have been eliminated for most goods and export license requirements have been replaced by reporting requirements primarily designed to ensure collection of data relating to foreign trade. The national coffee and sugar boards were dissolved in the early 1990s, eliminating Government involvement in the trade of these industries.

Regional Integration and Free Trade

El Salvador has benefited from regional trade initiatives that have opened up the markets of Central American nations to other nations in the region. Regional integration has been especially beneficial to the manufacturing activity. Increased access to international markets and liberalization of trade barriers are components of El Salvador's plan to increase international competitiveness, improve export revenues and encourage foreign investment. Before 2004, El Salvador entered into trade agreements with Chile, Panama, and the Dominican Republic. Since 2004, El Salvador has intensified its efforts to strengthen its trade arrangements with its primary trading partners including:

- participating in free trade agreements with various Latin American countries;
- entering into a free trade agreement with Colombia that became effective in February 2010;
- entering into a free trade agreement with Mexico that became effective in September 2012;
- entering into a partial scope trade agreement with Cuba that became effective in July 2012;
- entering into an association agreement with the European Union became effective in October 2013;
- entering into a partial scope agreement with Ecuador which entered into force in November 2017; and
- entering into the free trade agreement with South Korea which was signed in February 2018, and is awaiting ratification.

On December 13, 2018, El Salvador delivered a termination notice to Taiwan related to the bilateral free trade agreement which had entered into force in March of 2008. The termination notice was delivered due to the severing of diplomatic ties between El Salvador and Taiwan. A group of citizens challenged the constitutionality of the termination notice. On April 7, 2019, the Constitutional Chamber of the Supreme Court dismissed the suit. Nevertheless, the *Asociacion Azucarera de El Salvador* filed a suit challenging the constitutionality of the executive decision to terminate the free trade agreement with Taiwan.

Trade Initiatives Involving Central and Latin America

The opening of the markets of Central America began in 1960 when El Salvador, Guatemala, Honduras and Nicaragua (joined by Costa Rica in 1962) signed the General Treaty for Central American Economic Integration ("General Treaty"), which provided the framework for the *Mercado Común Centroamericano* (the Central American Common Market or "CACM"). The CACM envisioned the creation of a customs union as a temporary step towards the creation of a common market similar to the European Union. In

1995, the five members of the CACM agreed to reduce gradually their external tariff structures for goods produced outside the Central American region.

In early 1998, El Salvador and several Central American countries signed a free trade agreement with the Dominican Republic intended to create a free trade zone in accordance with WTO regulations. This agreement became effective on October 1, 2001. In October 1999, El Salvador, along with other Central American countries, entered into a free trade agreement with Chile that became effective on June 1, 2002. El Salvador, Guatemala and Honduras reached a free trade agreement with Mexico, which became effective for El Salvador on March 15, 2001. On March 6, 2002, El Salvador and Panama entered into a free trade agreement that became effective on April 11, 2003.

El Salvador, together with Honduras and Guatemala, signed a Free Trade Agreement with Colombia that entered into force in February 2010.

In September 2012, the free trade agreement between El Salvador and Mexico entered into force, essentially merging three prior different agreements.

El Salvador joined the Customs Union of Guatemala and Honduras in 2018, an effort that will allow the countries of the Northern Triangle to carry out a series of initiatives that will provide for the integration of border posts to expedite and facilitate foreign trade operations and coordinate improvements in migratory matters, sanitary and phytosanitary measures, among others.

Trade Initiatives Involving the United States and the European Union

El Salvador has been a beneficiary of the Caribbean Basin Initiative ("CBI") since 1983, when the United States Government established the CBI to aid Central American and Caribbean countries. The CBI provides duty-free access to the U.S. market for certain goods manufactured and processed in CBI member countries. Excluded from the original list of duty-free products were beef, textiles, clothing, oil and oil derivatives. Sugar remains subject to quotas. The CBI also contains rules of origin which require that products must have at least 35% CBI-country content in order to be eligible for duty-free treatment.

On October 2, 2000, the United States declared El Salvador eligible for enhanced CBI benefits available under the Caribbean Basin Trade Partnership Act of 2000 ("CBTPA"). The CBTPA significantly expands preferential treatment for apparel made in the Caribbean Basin region. Duty/quota-free treatment is provided for apparel made in the Caribbean Basin region from U.S. fabrics formed from U.S. yarns. Duty/quota-free treatment is also available for certain knit apparel made in CBTPA beneficiary countries from fabrics formed in the Caribbean Basin region, provided that U.S. yarns are used in forming the fabric. This "regional fabric" benefit for knit apparel is subject to an overall yearly limit, with a separate limit provided for t-shirts. Following the expiration in December 2004 of the Agreement on Textiles and Clothing, a multilateral transitional arrangement designed to progressively integrate the textile and clothing sector into the WTO regime, textile quotas have been eliminated.

Duty/quota-free treatment is also available for apparel made in the Caribbean Basin region from fabrics determined to be in "short supply" in the United States, and for designated "hand-loomed, handmade or folklore" articles. In addition to these apparel preferences, the CBTPA provides NAFTA-equivalent tariff treatment for certain items previously excluded from duty-free treatment under the CBI program (*e.g.*, footwear, canned tuna, oil products, watches and watch parts).

On August 1, 2002, the U.S. Congress passed the Trade Act of 2002, which granted Trade Promotion Authority to the President of the United States permitting him to have full authority to negotiate trade agreements. After several rounds of negotiations, the United States signed a free trade agreement with the five members of the Central America Economic Integration System (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) on May 28, 2004. Subsequently, the Dominican Republic became a party to the free trade agreement, now referred to as the U.S.-Dominican Republic-Central America Free Trade Agreement or the DR-CAFTA. On March 1, 2006, the DR-CAFTA became effective between the United States and El Salvador.

Under the DR-CAFTA, El Salvador agreed to lower duties on U.S. products over a period of 20 years in the case of agricultural products and over a period of 10 years in the case of industrial products. Over half of U.S. farm exports, including high quality cuts of beef, cotton, wheat, soybeans, key fruits and vegetables, processed food products and wine, are now duty free. Other products enjoying duty free access include information technology, agricultural and construction equipment, paper, chemicals and medical and scientific equipment.

The United States, on the other hand, has granted immediate duty free access to approximately 89% of El Salvador's agricultural products, including natural honey, certain fruit juices, carbonated drinks, beer, and other ethnic products such as *ajonjoli, loroco, queso duro, quesadillas, tamales,* and *pupusas.* Almost all of El Salvador's industrial products exported to the

United States now receive duty free access under the DR-CAFTA. These products include canned tuna, jewelry, textiles, ready-to-wear clothing, footwear, crates, hooks and other products made of steel or iron.

In May 2010, trade negotiators from the Central American countries and from the European Union agreed upon the framework of the Latin America-Caribbean and European Union Summit in Madrid, Spain. The European Union and Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama) signed the association agreement in Tegucigalpa, Honduras on June 29, 2012. The Legislative Assembly of El Salvador ratified the agreement on July 4, 2013 and the Council of Ministers of the European Union ratified the agreement on September 25, 2013. The association agreement became effective in El Salvador on October 1, 2013. The European Union is El Salvador’s third largest trade partner after the United States and Central American countries. The main objective of the trade agreement is to increase bilateral trade and strengthen regional integration between the region's countries and promoting the creation of a customs union and economic integration in Central America.

Composition of Foreign Trade

Exports

The Republic’s largest trading partners are the United States, Honduras and Guatemala. The following table sets forth the country of destination for the Republic’s exports for the years presented:

Merchandise Exports by Country of Destination

	For the Year Ended December 31 (in millions of US dollars, except percentages)					Percentage of Total Exports	
Country	**2014**	**2015**	**2016**	**2017**	**2018**	**2014**	**2018**
United States	$2,432.7	$2,564.4	$2,558.0	$2,564.4	$2,602.2	46%	44%
Honduras	756.8	770.3	766.3	796.9	905.7	14%	15%
Guatemala	718.6	749.9	743.6	792.2	847.9	14%	14%
Nicaragua	340.2	368.3	388.9	430.9	405.9	6%	7%
Costa Rica	243.0	249.0	248.3	261.8	259.2	5%	4%
Panama	142.5	132.3	125.4	121.8	122.5	3%	2%
Mexico	64.8	67.5	69.1	112.6	144.0	1%	2%
Dominican Republic	84.2	86.1	82.2	83.5	97.6	2%	2%
Spain	66.8	38.8	40.5	48.3	48.7	1%	1%
Canada	64.4	47.6	22.5	42.3	21.4	1%	0%
Taiwan	15.7	30.1	36.4	53.4	28.9	0%	0%
China	5.8	43.9	6.1	47.2	85.9	0%	1%
Germany	23.3	27.0	22.9	24.0	20.4	0%	0%
Italy	25.0	24.3	28.9	32.3	32.5	0%	1%
Netherlands	35.4	25.5	24.2	16.5	19.9	1%	0%
Japan	15.9	21.9	15.7	14.4	11.8	0%	0%
Puerto Rico	14.9	14.6	13.8	24.0	22.3	0%	0%
Jamaica	14.5	15.3	20.0	17.2	16.7	0%	0%
South Korea	41.1	10.1	10.0	13.2	12.5	1%	0%
Indonesia	0.2	0.2	23.3	33.2	0.4	0%	0%
United Kingdom	9.0	10.9	27.3	12.5	23.5	0%	0%
Venezuela	12.7	28.7	11.4	17.8	3.6	0%	0%
Belize	11.6	13.1	11.4	16.0	22.0	0%	0%
Colombia	12.8	12.6	13.2	13.1	10.3	0%	0%
Chile	13.0	6.4	7.1	8.2	6.3	0%	0%
Rest of countries	136.7	150.4	103.8	162.4	132.5	3%	2%
Total	**$5,301.5**	**$5,509.0**	**$5,420.1**	**$5,760.0**	**$5,904.6**	**100%**	**100%**

Source: *Central Bank of El Salvador.*

In 2018, 43.0% of total exports were directed to countries in Central America (including Panama), compared to 41.5% in 2014. The percentage of exports to the United States decreased from 45.9% in 2014 to 44.1% in 2018. The value of exports to the United States increased from US$2,432.7 million to US$2,602.2 million from 2014 to 2018.

According to the classification of products of the Central American Tariff System ("SAC"), the products that reported the highest increases in exports in the 2014-2018 five year period were: articles of apparel and clothing accessories, knitted or crocheted (US$179.9 million); electrical machinery and equipment and parts thereof sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (US$105.7 million); knitted or crocheted fabrics (US$74.1 million). As a percentage of total exports, the principal products exported to the United States correspond, according to the SAC, to articles of apparel and clothing accessories, knitted or crocheted (approximately 60% of the total exported products); articles of apparel and clothing accessories, not knitted or crocheted (approximately 10% of the total exported products); and electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (approximately 9% of the total exported products).

The following table shows the composition of the main exports of the Republic of El Salvador for the years presented:

Merchandise Exports (FOB) by Groups of Products

Group of Products	**For the Year Ended December 31**					**Percentage of Total Exports**	
	2014	**2015**	**2016**	**2017**	**2018**	**2014**	**2018**
	(in millions of US dollars, except percentages)						
Live animals and animal products	$53.6	$56.7	$54.9	$63.6	$59.4	1.0%	1.0%
Products of the vegetable	208.1	261.6	212.0	215.3	210.2	3.9%	3.6%
Coffee, even roasted or decaffeinated	*110.6*	*149.0*	*109.4*	*120.9*	*113.4*		
Others	*97.5*	*112.5*	*102.7*	*94.4*	*96.8*		
Animal and vegetable vats and oils	21.0	23.7	21.5	20.9	20.3	0.4%	0.3%
Products of the food industry, beverages, spirits, tobacco and its substitutes	752.3	762.9	720.0	803.3	772.9	14.2%	13.1%
Wood pulp, paper and cardboard and its waste	292.7	298.0	290.2	306.3	322.2	5.5%	5.5%
Mineral products	149.4	122.4	167.1	195.8	216.5	2.8%	3.7%
Products of the chemical industries	258.7	279.9	302.6	291.6	294.1	4.9%	5.0%
Plastics and rubber, and articles thereof	331.1	341.6	331.2	368.1	358.3	6.2%	6.1%
Skins, leather, saddlery and leatherwork	11.1	10.5	10.4	9.1	8.9	0.2%	0.2%
Textiles and their manufactures	1,619.8	1,689.6	1,646.5	1,813.9	1,874.9	30.6%	31.8%
Footwear and similar items	57.0	53.0	43.1	40.2	33.4	1.1%	0.6%
Pearls, stones and precious metals	23.6	13.6	11.3	11.5	13.8	0.4%	0.2%
Common metals and their manufactures	253.7	262.2	248.7	275.9	310.4	4.8%	5.3%
Machinery and appliances; electric equipment	94.5	86.9	82.6	78.7	76.1	1.8%	1.3%
The other products	158.9	166.5	174.3	167.3	154.7	3.0%	2.6%
Maquila	1,015.6	1,080.2	1,103.8	1,098.7	1,178.5	19.2%	20.0%
Total	**$5,301.5**	**$5,509.0**	**$5,420.1**	**$5,760.0**	**$5,904.6**	**100%**	**100%**

Source: *Central Bank of El Salvador.*

For the period 2014-2018, exports registered an average growth rate of 1.4%. In 2014 exports decreased by 3.9%, mainly due to a decrease of US$116.6 million in maquila exports and a decrease in coffee exports of US$123.3 million.

In 2015, exports increased by 3.9%, mainly due to an increase in exports of maquila of US$64.6 million, textiles of US$69.9 million and coffee of $38.5 million.

In 2016, exports decreased by 1.6%, mainly due to a decrease in exports of textiles of US$43.1 million, food industry products of US$42.9 million and coffee of US$39.7 million.

In 2017, exports increased by 6.3%, mainly due to an increase in exports of textiles of US$167.4 million, food industry products of US$83.8 million and plastics, rubber and their by-products of US$36.9 million.

In 2018 exports increased by 2.5%, mainly due to an increase in exports of maquila of US$78.8 million, textiles of US$60.9 million and common metals of US$34.4 million.

Exports of food industry products, beverages, spirits, tobacco and their substitutes recorded an average decrease of 0.6%, from US$752.3 million in 2014 to US$772.8 million in 2018. Coffee exports increased from US$110.4 million in 2014 to US$113.2 million in 2018.

Maquila exports increased in the period 2014-2018, with an average growth rate of 1.0%, increasing from US$1,015.6 million in 2014 to US$1,178.5 million in 2018. The two principal items of maquila exports are: textiles and their manufactures (77% of the total in 2014 and 70% in 2018, increasing from US$783.3 million in 2014 to US$821.5 million in 2018) and machinery and equipment, electrical equipment and parts thereof; sound recording or playback apparatus, recording or playback of images and sound on television, and the parts and accessories of these devices (21% of the total in 2014 and 28% at 2018, increasing from US$209.9 million in 2014 to US$334.6 million in 2018).

Exports of goods totaled US$3,033.9 million in the six-month period ended June 30, 2019, which represented a decrease of US$13.5 million, or (0.4%), compared to US$3,047.4 million during the six-month period ended June 30, 2018.

Imports

The United States is the main supplier of goods for the Salvadoran economy with 32.1% of total imports, followed by China with 14.0% and Guatemala with 9.9% of the total in 2018.

The following table presents imports according to the country of origin:

Merchandise Imports (CIF) by Country of Origin

	For the Year Ended December 31 (in millions of US dollars, except percentages)					**Percentage of Total Imports**	
Country	**2014**	**2015**	**2016**	**2017**	**2018**	**2014**	**2018**
United States	$3,821.2	$3,473.6	$3,170.1	$3,352.8	$3,793.4	36.3%	32.1%
China	1,280.6	1,397.1	1,401.9	1,443.8	1,657.7	12.2%	14.0%
Guatemala	1,024.3	1,021.6	994.2	1045.9	1,169.6	9.7%	9.9%
Mexico	714.8	752.2	738.8	877.1	929.6	6.8%	7.9%
Honduras	513.7	535.8	496.8	583.4	753.9	4.9%	6.4%
Costa Rica	259.8	253.6	242.8	250.0	264.4	2.5%	2.2%
Nicaragua	209.2	243.0	254.3	269.2	274.3	2.0%	2.3%
Japan	215.2	215.5	226.2	236.6	246.0	2.0%	2.1%
South Korea	192.1	196.4	172.5	235.0	232.0	1.8%	2.0%
Germany	178.0	203.9	175.1	183.2	185.8	1.7%	1.6%
Brazil	158.1	174.4	175.3	167.8	147.6	1.5%	1.2%
Taiwan	160.3	149.7	136.7	149.8	152.0	1.5%	1.3%
Spain	109.0	114.0	98.6	126.5	257.5	1.0%	2.2%
Colombia	99.7	104.7	122.6	136.2	136.6	0.9%	1.2%
India	114.4	117.4	109.7	108.4	128.5	1.1%	1.1%
Venezuela	184.5	87.5	70.8	37.6	11.5	1.8%	0.1%
Thailand	73.1	89.3	98.9	113.7	90.2	0.7%	0.8%
Italy	81.6	88.2	93.0	91.5	95.0	0.8%	0.8%
Canada	83.1	83.3	81.5	81.0	75.5	0.8%	0.6%
Chile	54.0	52.2	71.0	94.3	89.4	0.5%	0.8%

Merchandise Imports (CIF) by Country of Origin

Country	For the Year Ended December 31 (in millions of US dollars, except percentages)					Percentage of Total Imports	
	2014	2015	2016	2017	2018	2014	2018
France	63.8	59.9	56.6	61.4	56.9	0.6%	0.5%
Ecuador	48.1	16.3	42.0	55.9	117.3	0.5%	1.0%
Netherlands Antilles	79.2	69.3	27.9	0.0	0.0	0.8%	0.0%
Vietnam	37.0	56.1	59.0	72.9	55.8	0.4%	0.5%
Peru	80.3	61.9	50.6	39.9	41.7	0.8%	0.4%
Rest of countries	679.2	676.5	658.9	757.4	867.5	6.5%	7.3%
Total	**$10,514.2**	**$10,293.4**	**$9,825.8**	**$10,571.5**	**$11,829.8**	**100%**	**100%**

Source: *Central Bank of El Salvador.*

Between 2014 and 2018 total imports recorded an average growth rate of 2.1%, increasing from US$10,514.2 million in 2014 to US$11,829.8 million in 2018. Imports decreased by 2.2%, 2.1%, 4.5% in 2014, 2015 and 2016 respectively and increased by 7.6% and 11.9% in 2017 and 2018 respectively. Imports of consumer goods accounted for 37.8% of total imports in 2014 and 37.0% in 2018; imports of intermediate goods accounted for 43.1% in 2014 and 42.1% in 2018; capital imports were 13.5% of the total in 2014 and 15.1% in 2018; and maquila represented 5.6% in 2014 and 5.8% in 2018. The recovery in oil prices since late 2017 has driven the increase in imports in 2017 and 2018.

Imports of consumer goods increased by 2.2% between 2014 and 2018. Imports of non-durable goods (representing more than 85% of imports of consumer goods) increased from US$3,421.4 million in 2014 to US$3,728.7 million in 2018, while imports of durable goods (about 15% of total imports of consumer goods) increased US$553.5 million in 2014 to US$642.7 million in 2018.

Imports of intermediate goods increased by 1.8%, with manufacturing products and products related to the construction activity having the greatest weight in this type of import. Manufacturing products represented 81.5% of the intermediate imports in 2014, compared to 76.9% in 2018. Construction activity products increased by 10.5% in 2014 and 12.9% in 2018. Imports of intermediate goods contributed to total imports with 43.1% and 42.1% in 2014 and 2018 respectively.

Imports of capital goods have increased 3.9% between 2014-2018. This category highlights the participation of three types of capital goods: transport and communications which represented (as a percentage of total imported capital goods) 35.6% in 2014 and 38.5% in 2018; manufacturing which represented 34.4% in 2014 and 30.8% in 2018; and electricity, water and services which represented 8.4% in 2014 and 11.8% in 2018. Imports of capital goods as a whole accounted for 13.5% of total imports in 2014, while for 2018, they increased their share of up to 15.1% of total foreign purchases.

Maquila imports increased their share in the imported total, representing 5.6% in 2014 and 5.8% in 2018. The average growth rate during the years of 2014-2018 was 2.5%, higher than the growth rate of maquila exports in the same period (1.0%).

From 2014 to 2018, the annual growth rate of total imports was 2.1%. For the same period, consumer goods, intermediate goods, capital goods, and maquila grew at a rate of 2.2%, 1.8%, 3.9% and 2.5%, respectively.

From 2014 to 2018, El Salvador's trade deficit with the United States decreased from US$1,388.5 million in 2014 to US$1,191.2 million in 2018. The United States is the main source of El Salvador's imports.

Imports from the United States in 2018 consisted mainly of, among others, fuels, oils, and products of their distillation; bituminous materials; mineral waxes (38.5%), cotton (6.8%), cereals (6.2%) and plastics and their manufactures (4.7%).

Imports totaled US$5,975.7 million in the six-month period ended June 30, 2019, an increase of US$227.4 million, or 4.0%, compared to US$5,748.4 million in the six-month period ended June 30, 2018. For the six-month period ended June 30, 2019, El Salvador imported consumer goods in the amount of US$2,211.6 million, intermediary goods in the amount of US$2,562.0 million, and capital goods in the amount of US$856.5 million. Imports of consumption goods increased at an annual rate of 6.9% while imports of intermediary and capital goods increased by 1.2% and 4.7%, respectively.

..

The following table provides a list of merchandise imports (CIF) by type of good:

Merchandise Imports (CIF) by Type of Good
For the Year Ended December 31
(in millions of US dollars, except percentages)

Category	2014	2015	2016	2017	2018	Percentage of Total Imports 2014	Percentage of Total Imports 2018
I. Consumer Goods	**$3,974.9**	**$3,881.5**	**$3,848.7**	**$3,974.6**	**$4,371.3**		
A. Non Durable	3,421.4	3,294.4	3,264.1	3,358.8	3,728.7	32.5%	31.5%
B. Durable	553.5	587.1	584.6	615.8	642.7	5.3%	5.4%
II. Intermediate Goods	**4,533.9**	**4,344.1**	**3,942.6**	**4,356.5**	**4,986.2**		
A. Manufacturing	3,694.7	3,461.0	3,146.4	3,416.0	3,835.1	35.1%	32.4%
B. Agriculture	247.6	259.1	234.4	244.2	283.2	2.4%	2.4%
C. Construction	475.0	498.0	443.7	534.9	643.6	4.5%	5.4%
D. Other	116.6	126.1	118.1	161.4	224.4	1.1%	1.9%
III. Capital Goods	**1,419.7**	**1,577.5**	**1,600.0**	**1,633.0**	**1,786.7**		
A. Manufacturing	488.8	542.6	545.7	576.0	550.1	4.6%	4.6%
B. Transport and comunication	505.1	543.5	587.1	632.2	687.1	4.8%	5.8%
C. Agriculture	27.8	29.1	31.6	33.4	28.1	0.3%	0.2%
D. Construction	97.3	121.2	129.9	109.4	119.9	0.9%	1.0%
E. Commerce	123.9	134.6	127.2	107.1	130.0	1.2%	1.1%
F. Services	57.6	60.9	58.1	58.9	60.0	0.5%	0.5%
G. Electricity, Water and Services	118.7	145.2	120.0	115.3	211.1	1.1%	1.8%
H. Bank	0.5	0.5	0.5	0.8	0.4	0.0%	0.0%
IV. Maquila	**585.7**	**490.3**	**434.5**	**607.4**	**685.5**	5.6%	5.8%
TOTAL	**$10,514.2**	**$10,293.4**	**$9,825.8**	**$10,571.5**	**$11,829.8**	100.0%	100.0%

Source: *Central Bank of El Salvador.*

Balance of Payments

In 2014, the current account deficit decreased to US$1,213.6 million, mainly due to a decrease in imports of US$116.4 million, an increase in exports of US$83.4 million, and an increase in the flow of remittances of US$195.0 million.

In 2015, the current account deficit decreased to US$753.8 million, mainly due to a decrease in imports of US$113.7 million, an increase in exports of US$293.9 million, and an increase in remittances of US$117.4 million.

In 2016, the current account deficit decreased to US$550.1 million, mainly due to a decrease in imports of US$207.8 million and an increase of US$287.3 million in remittances, offset by a decrease in exports of US$42.9 million.

In 2017, the current account deficit decreased to US$464.6 million, mainly due to an increase in remittances of US$433.9 million and an increase in exports of US$353.5 million, offset by an increase in imports of US$618.9 million.

In 2018, the current account deficit increased to US$1,241.8 million, mainly due to an increase in imports of US$1,332.2 million, offset by an increase in remittances of US$392.1 million and an increase in exports of US$307.8 million. The increase in imports was mainly due to an increase in demand for construction machinery and materials as well as increased household demand supported by the increase in remittances.

The current account deficit for the three-month period ended March 31, 2019 increased to US$224.7 million compared to US$175.5 million, a 28.0% increase in the deficit, compared to the three-month period ended March 31, 2018. The increase was mainly due to a 17.1% increase in the deficit of goods.

The following table shows El Salvador's balance of payments for the years presented:

Balance of Payments
In millions of US dollars

	At December 31,				
	2014	**2015 (1)**	**2016(1)**	**2017(1)**	**2018(1)**
	(in millions of US dollars)				
Current Account	**(1,213.6)**	**(753.8)**	**(550.1)**	**(464.6)**	**(1,241.8)**
Trade and services balance	**(4,418.6)**	**(4,011.0)**	**(3,846.1)**	**(4,111.5)**	**(5,135.8)**
Exports (FOB goods and services)	6,620.2	6,914.1	6,871.2	7,224.7	7,532.6
Imports (FOB goods and services)	11,038.8	10,925.1	10,717.3	11,336.2	12,668.4
Primary Income	(1,035.4)	(1,091.9)	(1,246.4)	(1,387.6)	(1,471.8)
Secondary Income	4,240.4	4,349.1	4,542.4	5,034.5	5,365.8
Personal Transfers (Remittances)	4,139.2	4,256.6	4,543.8	4,977.7	5,369.8
Other Private Transfers	88.7	69.4	(11.8)	(38.4)	(28.0)
General Government (Public)	12.5	23.1	10.3	95.1	24.1
Capital Account	**63.6**	**64.8**	**69.9**	**85.1**	**203.0**
Net borrowing (from current and capital account)	**(1,150.0)**	**(688.9)**	**(480.2)**	**(379.5)**	**(1,038.7)**
Net borrowing (from financial account)	**(434.5)**	**(765.4)**	**(787.1)**	**(551.7)**	**(849.7)**
Financial account	(434.5)	(765.4)	(787.1)	(551.7)	(849.7)
Direct Investment	(306.4)	(396.4)	(347.9)	(888.8)	(839.6)
Net acquisition of financial assets	199.8	98.2	131.6	(385.0)	(412.8)
Net liabilities	506.3	494.5	479.5	503.8	426.8
Portfolio Investment	(794.2)	(58.8)	(365.0)	(321.5)	88.9
Net acquisition of financial assets	67.1	(57.9)	(123.9)	22.8	7.1
Net liabilities	861.3	0.9	241.1	344.3	(81.9)
Other Investment	699.0	(423.3)	(526.0)	350.6	(101.1)
Net acquisition of financial assets	356.6	(130.7)	322.6	360.9	(83.3)
Net liabilities	(342.4)	292.6	848.7	10.3	17.7
Reserve assets	(32.8)	113.0	451.8	308.0	2.0
Net acquisition of financial assets	(32.8)	113.0	451.8	308.0	2.0
Errors and omissions	**715.5**	**(76.5)**	**(306.9)**	**(172.1)**	**189.0**

(1) Preliminary.

Source: *Banco Central de Reserva de El Salvador.*

Current Account

The trade and services deficit increased from US$4,418.6 million in 2014 to US$5,135.8 million in 2018. Between 2014 and 2018, exports grew at an average rate of 2.9% compared to an average increase in imports of 2.7%. The trade and services deficit decreased from US$4,418.6 million in 2014 to US$4,011.0 million in 2015 and to US$3,846.1 million in 2016, increased to US$4,111.5 million in 2017 and US$5,135.8 million in 2018.

Due to the number of Salvadorans who emigrated to escape the civil war as well as those who left the country seeking improved economic conditions as well as peace and security, remittances have been a significant source of funds and an important factor in the composition of El Salvador's current account. Remittances totaled US$4,139.2 million in 2014, US$4,256.6 million in 2015, US$4,543.8 million in 2016, US$4,977.7 million in 2017 and US$5,369.8 million in 2018, representing 18.3%, 18.2%, 18.8%, 20.0% and 20.6% of GDP, respectively. Remittances totaled US$1,293.0 million during the three-month period ended March 31, 2019, compared to US$1,218.2 million during the three-month period ended March 31, 2018.

The impact of remittances on the country's balance of payments has been two-fold. First, by increasing national income, remittances generally increase private consumption of foreign and domestic goods and services, which could create inflationary pressures. Second, by partially funding the increased demand for imports, the inflow of remittances has reduced the current account deficit. There can be no assurances as to the levels of remittances in the future, as the level of remittances is subject to various social and economic factors, such as the return to El Salvador of some of the workers currently in the United States, changes in U.S. immigration policy (including the possibility of a future withdrawal of TPS afforded to Salvadoran immigrants in the United States), the deaths of older recipients of remittances, the eventual employment of younger recipients of remittances and the establishment of families outside of El Salvador by Salvadorans who remain abroad.

In 2017 and 2018, remittances to El Salvador increased significantly due to fears of changes in U.S. immigration policy, including the cancellation or restriction TPS as it applied to El Salvador. In January 2018, the DHS announced it would terminate TPS for El Salvador. On October 3, 2018 the U.S. District Court for the Northern District of California enjoined DHS from implementing and enforcing the decision to terminate TPS for several countries including El Salvador, pending final resolution of the case. The court's preliminary injunction prohibits DHS from terminating TPS for El Salvador while the order remains in effect. The order also requires DHS to continue the validity of documentation showing lawful status and work authorizations for affected, eligible TPS beneficiaries. DHS and USCIS have filed an appeal of the preliminary injunction to the U.S. Court of Appeals for the Ninth Circuit. TPS beneficiaries will maintain their status during the appeal process provided they continue to meet all individual requirements for TPS eligibility. If the appeals court were to reverse the preliminary injunction and that decision was upheld, the terminations of the TPS designations for El Salvador will take effect unless other limitations are placed on the terminations. If one or more of the termination decisions is permitted to take effect, DHS and USCIS have stated that they plan to allow for an orderly transition period of at least 120 days from the final ruling lifting the injunction before implementing and enforcing the TPS termination determinations. The 120-day period will not start automatically if there is a decision reversing the preliminary injunction, and USCIS has said that it will inform TPS beneficiaries when the 120-day transition period will begin. During the transition period, current TPS beneficiaries who do not have another lawful immigration status or authorization to remain in the United States will have to leave the United States, or they will be subject to removal. This uncertainty about the future of TPS for El Salvador has led many Salvadorans to have significant concerns about their ability to remain in the United States.

Capital and Financial Account

From 2014 to 2018, the capital account and the financial account registered a surplus trend, mainly due to FDI inflows, portfolio investments and Government issuances of external bonds and loans to private banks. The capital account reached on average US$70.9 million from 2014 to 2017. In 2018, the capital account increased to US$203.0 million from US$85.1 million in 2017.

From 2014 to 2018, the Salvadoran economy required external financing. At the end of 2018, the net debt of the economy increased to US$1,038.7 million.

As of December 31, 2018, the financial account recorded a negative balance of US$849.7 million, an increase in relative terms of 54.0% compared to 2017. External assets decreased US$487.1 million as a result of a decrease in direct investment. Liabilities increased US$362.7 million**,** mainly from an increase in liabilities of direct investment of US$426.8 million.

As of March 31, 2019, the financial account recorded a positive balance of US$141.2 million as a result of an increase of assets of US$436.0 million and liabilities of US$294.8 million, compared to a negative balance of US$248.4 million in March 2018 as a result of a decrease in assets of US$155.9 million and an increase in liabilities of US$92.5 million.

Foreign Direct Investment

	Net Foreign Direct Investment Flows				
	As of December 31,				
	2014	2015	2016	2017	2018
	(in millions of US dollars)				
	$306.3	$396.6	$347.4	$889.1	$839.6

Source: *Banco Central de Reserva*

FDI totaled US$8,461.7 million, US$8,971.8 million, US$9,046.7 million, US$9,384.1 million and US$9,704.5 million in 2014, 2015, 2016, 2017 and 2018, respectively. The main FDI activities measured as the average share of FDI in the period 2014-2018 were: financial and insurance with 34.7%; manufacturing with 26.7%, and information and communications with 13.8%. FDI totaled US$177.3 million during the three-month period ended March 31, 2019, compared to US$401.4 million during the three-month period ended March 31, 2018.

Foreign Currency Reserves

As of December 31, 2018, the Central Bank had international reserves equivalent to 3.6 months of imports of goods, excluding maquila. In 2014, 2015, 2016 and 2017, the Central Bank maintained reserves equivalent to 3.2, 3.3, 3.7 and 3.9 months, respectively, of imports of goods, excluding maquila. As of December 31, 2018, the balance of net international reserves totaled US$3,353.6 million, representing an increase of 2.5% compared to 2017. As of June 2019, net international reserves totaled US$3,757.0 million compared to US$3,457.4 million as of June 2018.

The following table shows the Central Bank's net international reserves for the periods presented:

	Net International Reserves				
	As of December 31,				
	2014	2015	2016	2017	2018
	(in millions of US dollars)				
Gold	263.0	46.8	50.5	56.9	56.4
Foreign currencies	2,190.4	2,510.4	2,965.1	3,274.0	3,281.4
Cash	90.2	70.5	76.9	30.6	54.0
Deposits abroad	27.5	27.5	2.3	1.4	42.5
Investments....................	2,072.7	2,412.4	2,885.9	3,241.9	3,184.9
Special drawing rights	239.8	229.4	222.6	235.8	230.3
Liabilities:...........................					
Total Liabilities	32.0	116.4	315.3	293.8	215.1
Net International Reserves:	2,661.2	2,670.2	2,923.0	3,273.2	3,353.6

Source: *Banco Central de Reserva.*

MONETARY SYSTEM

The Central Bank (*Banco Central de Reserva de El Salvador*)

Created in 1934, the Central Bank was reorganized in 1991 with the objectives of controlling inflation, preserving the internal and external value of the national currency and maintaining adequate levels of liquidity in the financial system. The Central Bank is prohibited from financing, directly or indirectly, the Government or any state-owned entities, or from investing in securities issued by any of them. In February 2011, the Central Bank's governing law was amended to grant it the responsibility of acting as lender of last resort to extend credit to banks in the case of extraordinary withdrawals from the banking system.

The Central Bank is an independent and autonomous institution led by a board of directors made up of the President and Vice-president of the Central Bank as well as five full term directors with their alternates, named for a period of five years and only removable for cause. Two of the directors are nominated by the Ministers of Finance and Economy, while the other three are nominated by the private sector, professional guilds and private universities. The President of the Republic appoints the directors from the list of nominees.

The Central Bank issues *Certificados Negociables de Liquidez* ("CENELIs"), which are short-term US dollar-denominated liquidity management, and US-dollar denominated medium-term instruments ("Bonos BCs") intended to provide greater stability and liquidity to the Central Bank. As of December 31, 2017 and as of December 31, 2018, a principal amount of US$65.0 million and US$80.5 million Bonos BCs were outstanding, respectively. As of December 31, 2018 no amount of CENELIS were outstanding and US$37.2 million were as of December 31, 2017.

Financial Sector

The entities participating in the financial system in El Salvador include commercial banks (including three state-owned banks), insurance companies, broker/dealers, one security depository, five operating rating agencies, bonded warehouses, financial leasing companies, the El Salvador Stock Exchange, DGI, pension fund administrators, investment fund managers and securitization companies.

In the early 1980s, the Government nationalized all commercial banks and savings and loans associations. During the ensuing years, the operation of the financial system was frequently in the hands of political appointees, and by 1989, the system was essentially insolvent. As the state-owned banks lost public confidence, private entities were formed and accepted deposits and extended credit. Beginning in 1989, the Republic began the modernization of the financial system through the reorganization of the Central Bank, the regulation of financial institutions and the privatization of the banks through the sale of shares to bank employees and other individual shareholders.

Following the privatization of the banking system in 1992, the Central Bank recognized an account receivable from the Government for approximately US$100 million in connection with bad loans that the Central Bank had absorbed from the privatized entities. Since such time, the financial sector in El Salvador has grown steadily and, as of December 31, 2015, the aggregate value of deposits in the system was approximately US$10.3 billion, including deposits held by the two state-owned banks, representing an increase of 5.5 % compared to December 31, 2014. As of December 31, 2016, the aggregate value of deposits in the system was approximately US$10.6 billion, an increase of 2.6% compared to December 31, 2015. As of December 31, 2017, the aggregate value of deposits in the system was approximately US$11.7 billion, an increase of 10.4% compared to December 31, 2016. As of December 31, 2018, the aggregate value of deposits in the system was approximately US$12.3 billion, an increase of 5.2% compared to December 31, 2017. As of May 31, 2019, the aggregate value of deposits in the system was approximately US$12.7 billion, an increase of 4.7% compared to May 31, 2018.

The Banking Law imposed on financial institutions capital adequacy requirements and other standards corresponding to the Basel Accords. Under applicable law, the capital adequacy requirement of 11.5% in 2004 was increased to 12.0% in 2005 and has not been subsequently modified. The *Superintendencia del Sistema Financiero* (the "Superintendency of the Financial System") supervises compliance with these standards. The Banking Law, enacted in 1999, includes limits on loans to shareholders, establishes minimum capital requirements and regulates supervisory powers and the independence of the Superintendency of the Financial System. The DGI, created by the Banking Law, will guarantee deposits of up to US$10,227 commencing as of January 1, 2020. Originally completely funded by the Government, DGI currently receives obligatory contributions from banks operating in the financial system. The Banking Law also governs the transparency and reporting requirements of banks, imposes audit standards and limits related party loans and other transactions. Subsequent amendments to the Banking Law provide greater protections to depositors by creating stricter capital and risk management requirements and granting broader authority to the Superintendency of the Financial System with respect to troubled financial institutions.

As of December 2014, the Superintendency of the Financial System updated the minimum amount of paid-in capital to US$17.6. million, setting a deadline of 180 days starting from January 1, 2015, so that banks could adjust their shareholding structure according to the new requirement. The Superintendency of the Financial System maintained the paid-in capital for banks requirement of US$17.6 million for the 2017-2018 period. The paid-in-capital requirement for banks was increased to US$18.1 million, effective from January 1, 2019 until December 31, 2020.

In an effort to strengthen the financial system's ability to withstand shocks, the Legislative Assembly enacted in Financial Sector Supervision and Regulatory Law in January 2011. The law merged the supervisory entities for pensions and securities into the supervisory entity for financial institutions (banks, insurance companies and savings and loan companies). The law enhances functional autonomy for the new supervisory institution, strengthens cross-border supervision through improved information-sharing mechanisms and makes the Central Bank the consolidated financial system regulatory authority.

Commercial Banks

As of July 15, 2019, the Salvadoran banking system had a total of 14 banking institutions, of which 10 were foreign-owned banks, two were state-owned banks and two were domestically and privately-owned banks. As of December 31, 2015, the amount of assets in the private banking sector totaled US$14.4 billion. As of December 31, 2016, the amount of assets in the private banking sector totaled US$14.9 billion. As of December 31, 2017, the amount of assets in the private banking sector totaled US$15.7 billion. As of December 31, 2018, the amount of assets in the private banking sector totaled US$16.6 billion. As of May 31, 2019, the amount of assets in the private banking sector totaled US$16.8 billion.

The following table sets forth total assets of the Salvadoran private banking sector and the percentage of non-performing loans over total loans:

Banking System (1)

	For the Year Ended December 31,				
	2014	**2015**	**2016**	**2017**	**2018**
Total assets (in billions of US dollars)	$13.5	$14.4	$14.9	$15.7	$16.6
Total deposits (in billions of US dollars)	$9.0	$9.5	$9.7	$10.7	$11.3
Non-performing loans (as % of total loans)	2.4%	2.4%	2.1%	2.0%	1.9%

(1) Excluding the two state-owned banks and BANDESAL. As of December 31, 2018 the aggregate assets, deposits and non-performing loans as a percentage of total loans of the two state-owned banks were US$1.4 billion, US$1.0 billion and 1.9 %, respectively.
Source: *Banco Central de Reserva de El Salvador.*

In 2007, Grupo Bancolombia (Colombia) acquired Banco Agrícola and Citibank acquired Banco Cuscatlán and Banco Uno. In September 2008, Banco Cuscatlán and Banco Uno merged and changed its name to *Banco Citibank de El Salvador*. In July 2009, Banco Azteca (Mexico) initiated operations in El Salvador. In November 2010, First Commercial Bank closed its affiliated office in El Salvador. In July 2011, Banco Industrial (Guatemala) initiated operations in El Salvador. In July 2015, Banco Azul initiated operations in El Salvador. Grupo Terra, Honduras acquired Citibank in El Salvador during June and July 2016, which now operates as *Banco Cuscatlán de El Salvador*. In October 2017, the Financial Group Atlantida, of Honduran nationality, purchased Bank Procrédit. In November 2017, the new entity began to operate under the commercial name of Banco Atlántida El Salvador S.A. In February 2019, Scotia Capital (USA) Inc. announced that it reached an agreement with Grupo Imperia International Inc., the main shareholder of Banco Cuscatlán de El Salvador S.A., to sell its banking operations. The transaction is currently subject to regulatory approval. In June 2019, the Salvadoran group *Perinversiones S.A. de C.V* completed the acquisition of Banco Azteca. The acquisition was approved by the Superintendence of Competition on May 30, 2019.

Commercial banks are under the supervision of the Superintendency of the Financial System and are subject to periodic reporting requirements and mandatory audits. Commercial banks are required to maintain a certain percentage of their deposits as a reserve deposited at the Central Bank in the form of cash or securities issued by the Central Bank. See "— Interest Rates and Money Supply".

Cooperative Banks and Savings and Loans Companies

The financial system in El Salvador also includes seven cooperative banks and four savings and loans companies, previously known as “non-banking financial intermediaries”, consisting primarily of cooperatives/credit unions (entities constituted to provide financial services to their members), federations (organizations of cooperatives engaging in the same type of financial activity that provide assessment and technical assistance services to their member cooperatives) and savings and loans companies (non-governmental financial entities that may collect deposits from the public and make loans). The cooperative banks and savings and loans companies are supervised by the Superintendency of the Financial System pursuant to the *Ley de Bancos Cooperativos y Sociedades de Ahorro y Crédito* (the “Cooperative Banks and Savings and Loans Companies Law”), which became effective in 2001 and was subsequently amended in 2008. The purpose of the creation of these entities by the Cooperative Banks and Savings and Loans Companies Law is to improve access to the financial system for micro and small enterprises through competition.

In 2013, the Superintendency of the Financial System authorized the start of operations of the *Sociedad de Ahorro y Crédito Constelación, S.A.* and in December 2014, authorized the start of operations of the S*ociedad de Ahorro y Crédito Multivalores, S.A.*, both savings and loan companies.

State-Owned Financial Institutions

In addition to the Central Bank, the state owns four other financial institutions, each of which was chartered for the purpose of extending credit to a specific sector of the economy:

- Banco Hipotecario de El Salvador, S.A. (Mortgage Bank of El Salvador),
- Banco de Fomento Agropecuario (Rural Development Bank),
- Banco de Desarrollo de El Salvador (BANDESAL), and
- Fondo Social para la Vivienda (Social Housing Fund).

These institutions extend credit on favorable terms. These state-owned entities are governed by special legislation in addition to the general rules applicable to private financial institutions.

Banco Hipotecario de El Salvador, S.A. specializes in providing financing to productive sectors of the economy, such as small and medium-sized companies and other relevant sectors. *Banco de Fomento Agropecuario* specializes in the agricultural sector and micro-sized companies.

At December 31, 2017, the Social Housing Fund had approximately US$897.1 million in total assets and approximately US$476.5 million in total liabilities and at December 31, 2018 had US$930.3 million in total assets and US$477.3 million in total liabilities.

At December 31, 2017, the Rural Development Bank had approximately US$373.2 million in total assets and approximately US$326.0 million in total liabilities and at December 31, 2018 had US$387.9 million in total assets and US$339.3 million in total liabilities.

At December 31, 2017, the Mortgage Bank of El Salvador and the Rural Development Bank had total combined assets of US$1,004.5 million and total combined liabilities of US$891.0 million, and at December 31, 2018 had total combined assets of US$992.3 million and total combined liabilities of US$870.6 million.

At December 31, 2017, BANDESAL had total assets of US$537.6 million and total liabilities of US$306.9 million and as of December 31, 2018, had total assets of US$531.3 million and total liabilities of US$295.7 million.

Capital Markets

The Salvadoran capital markets are regulated by the *Ley del Mercado de Valores* (the “Stock Exchange Law”) and the Financial Sector Supervision and Regulatory Law enacted in 1994 and 2011, respectively, and are supervised by the Superintendency of the Financial System. On September 4, 2014, the Legislative Assembly enacted amendments to the Stock Exchange Law intended to expand the securities market. The amendments accommodate the entry of investors pursuant to the Investment Funds Law, adjust securities registration procedures, and enable local operators to transact in foreign stock exchanges upon satisfying certain conditions.

In 2014, the primary market increased by 13.8% and totaled US$805.2 million in traded volume. The secondary market decreased by 47.3% and totaled US$308.3 million in traded volume.

In 2015, the primary market decreased by 48.7% and totaled US$413.2 million in traded volume. The secondary market decreased by 12.2% and totaled US$270.7 million in traded volume.

In 2016, the primary market increased by 5.8% and totaled US$437.0 million in traded volume. The secondary market decreased by 1.4% and totaled US$266.9 million in traded volume.

In 2017, the primary market increased by 11.9% and totaled US$488.9 million in traded volume. The secondary market decreased by 55.7% and totaled US$118.2 million in traded volume.

In 2018, the primary market decreased by 6.3% and totaled US$457.9 million in traded volume. The secondary market increased by 139.5% and totaled US$282.9 million in traded volume.

As of May 31, 2019, the primary market totaled US$277.6 million in traded volume. The secondary market totaled US$42.5 million in traded volume.

Repo trading represents the largest share of trading transactions, dominated by banks. From 2014 to 2016, repo trading represented approximately 70.4% of total transactions, 76.4% in 2016, 69.0% in 2017 and 66.8% in 2018. Retail trading of debt and equity securities from private Salvadoran issuers is relatively new and has remained limited.

The following table shows aggregate amounts of traded securities for the periods listed:

Aggregate Amounts of Traded Securities
For the Year Ended December 31,

	2014	**2015**	**2016**	**2017**	**2018**
	(in millions of US dollars)				
Repos ………………	$ 2,058.2	$ 2,963.7	$ 3,361.7	$ 1,821.4	$ 2,571.5
Primary Market…….	805.2	413.2	437.0	488.9	457.9
Secondary Market…	308.3	270.7	266.9	118.2	282.9
Other ……………….	425.6	168.5	334.8	211.9	535.4
Total ………………	**$ 3,597.4**	**$ 3,816.1**	**$ 4,400.5**	**$ 2,640.3**	**$ 3,847.7**

Source: *Banco Central de Reserva de El Salvador.*

The Legislature enacted the Investment Funds Law on August 21, 2014, which permits the establishment of investment funds in El Salvador and marketing of funds created abroad, increasing investment options and encouraging investment by retail and institutional investors in the local market. Upon approval by the Central Bank of the regulatory framework required for the Investment Fund implementation, this law became effective on October 2016, when the first investment fund started operations.

In November 12, 2015, the Legislative Assembly enacted amendments to *Código Tributario* (the "Tax Code"), cutting the tax rate from 20% to 3% for yield and capital gains on securities traded in the Salvadoran primary and secondary capital markets by non-resident investors. This tax cut is intended to attract foreign investors to the country's securities market.

As of December 31, 2018, 119 international issuers, 33 commercial banks and financial institutions, 23 insurance companies, 22 entities in securitization, 20 sovereign states, 11 private companies, five financial conglomerates, five public institutions and two pension funds were listed in the El Salvador Stock Exchange.

In 2018, US$3.8 billion worth of securities were traded on the El Salvador Stock Exchange, representing a significant increase in comparison with 2017 where US$2.6 billion were traded. In 2014, 2015 and 2016 US$3.6 billion, US$3.8 billion, and US$4.4 billion were traded, respectively.

As of May 31, 2019, US$1.6 billion worth of securities were traded on the El Salvador Stock Exchange, compared to US$1.6 billion as of May 31, 2018.

Interest Rates and Money Supply

The following table sets forth the average annual interest rates for the periods presented:

	Average Interest Rates				
	2014	**2015**	**2016**	**2017**	**2018**
	(in percentages)				
Loans					
Short-term	6.0%	6.2%	6.4%	6.5%	6.6%
Long-term	10.2	10.3	10.2	10.3	10.0
Deposits					
30-day	3.2	3.8	4.0	3.8	3.5
180-day	3.8	4.2	4.4	4.4	4.2

Source: *Banco Central de Reserva de El Salvador.*

Interest rates on short-term and long-term loans increased to 6.0% and 10.2% respectively in 2014 and to 6.2% and 10.3% in 2015, respectively, as economic recovery kept its pace in both years. In 2016, interest rates increased to 6.4% on short-term loans and decreased to 10.2% on long-term loans. In 2017, interest rates increased to 6.5% on short-term loans and increased to 10.3% on long-term loans. In 2018, interest rates increased to 6.6% on short-term loans and decreased to 10.0% on long-term loans. Interest rates on deposits on 30-day decreased from 4.0% in 2016 to 3.5% in 2018 and interest rates on 180-day deposits decreased from 4.4% in 2016 to 4.2% in 2018.

In May 2019, interest rates on long-term loans decreased to 9.7% compared to 10.1% in May 2018. Interest rates on short-term loans increased to 6.7% in May 2019 compared to 6.5% in May 2018. Interest rates on 30-day deposits increased from 3.5% in May 2018 to 3.7% in May 2019. Interest rates on 180-day deposits increased from 4.1% in May 2018 to 4.2% in May 2019.

The following table sets forth the principal monetary indicators for the periods presented:

Principal Monetary Indicators

	At December 31,				
	2014	**2015**	**2016**	**2017**	**2018**
			(in millions of US dollars)		
Currency in circulation	$3.8	$3.5	$2.9	2.5	2.2
Demand deposits	2,916.4	3,249.9	3,126.3	3,650.5	3,799.6
M1	**2,920.2**	**3,253.4**	**3,129.2**	**3,653.0**	**3,801.8**
M2 (M1 plus savings deposits plus term deposits plus securities other than shares in local currency)	**10,118.8**	**10,755.1**	**11,121.2**	**12,282.9**	**12,990.9**
Deposits in foreign currency	0.0	0.0	0.0	0.0	
Others	775.6	856.8	847.4	1,000.0	1,068.5
M3 (M2 plus deposits in foreign currency)	**10,894.4**	**11,611.9**	**11,968.7**	**13,283.0**	**14,059.4**

(1) Preliminary
(2) Since December 2012, the *Banco Central de Reserva de El Salvador* has implemented harmonized monetary and financial statistics, which are based on the IMF's Monetary and Financial Statistics Manual (2000)
Source: *Banco Central de Reserva de El Salvador*.

Effective January 1, 2001, pursuant to the Monetary Integration Act the U.S. dollar is the legal tender and is permitted to circulate freely in El Salvador. *Colones* in circulation rapidly decreased after that time. Currently all circulating cash in El Salvador is U.S. dollars. Further, pursuant to the Monetary Integration Act, all *colón*-denominated deposits were converted into U.S. dollars effective January 1, 2001, and the U.S. dollar became the unit of account in the financial system. As a result, U.S. dollar deposits that in prior periods were classified as deposits in foreign currency are for periods from and after January 1, 2001 classified as demand deposits, savings or term deposits, as applicable.

Inflation

El Salvador has experienced moderate levels of inflation, even during episodes of unfavorable economic conditions. The highest rate of inflation registered in El Salvador was 31.9%, which occurred in 1985. The establishment of an independent Central Bank caused this rate to decline substantially and, from 1991 to 2000, the rate of inflation continued to decline. The enactment of the Monetary Integration Act initially caused El Salvador's inflation to approach the inflation levels of the United States, although in 2003 it began to diverge and in recent years has been driven by variations in international prices of food, oil and other commodities, in addition to certain internal factors such as natural disasters, economic policy measures and adjustments to public utilities' prices.

The following table sets forth the rate of inflation in the Republic as measured by the CPI for the years indicated:

	CPI For the Year Ended December 31,				
	2014	**2015**	**2016**	**2017**	**2018**
Inflation	0.5%	1.0%	(0.9)%	2.0%	0.4%

Source: *Dirección General de Estadística y Censos (DIGESTYC). CPI base of December 2009 = 100*

In 2013 and 2014, the inflation rate decreased to 0.8% and 0.5%, respectively, mainly due to a decrease in the price of food, clothes and footwear and oil-derived products. In 2015, the inflation rate increased to 1.0% mainly due to an increase in the prices of housing, water, electricity and oil-derived products of 11.7% offset by a reduction in prices of transportation services of 5.1%. In 2016, the inflation rate decreased to negative 0.9%, mainly due to a decrease in the price of food and beverages, housing, water, electricity and oil-derived products and clothes and footwear. In 2017, the inflation rate increased to 2.0%, mainly due to an increase in the prices of housing, water, electricity and other fuels of 5.2%, non-alcoholic food and beverages of 2.5%, transportation and storage 3.6%, restaurants and hotels of 1.6%, miscellaneous goods and services of 1.5% and education of 1.0%. In 2018, the inflation rate decreased to 0.4% mainly due to a decrease in the prices of housing, water, electricity, gas and other fuels of 0.4%, restaurants and hotels of 0.2% and non-alcoholic food and beverages of 0.04% which was mitigated by a reduction of prices in activities such as transportation and storage, clothing and footwear, furniture and household items. The inflation rate totaled 0.5% in June 2019, below the inflation level of 0.9% in June 2018

PUBLIC SECTOR FINANCES

Overview

Budget Process

El Salvador's Constitution requires that for each fiscal year a general budget must be prepared and submitted to the Legislative Assembly for approval. The budget contains estimates of revenues expected to be collected and authorizes expenditures during the fiscal year. State-owned autonomous entities, other than those in the financial public sector, prepare individual budgets that they submit to the Legislative Assembly for approval.

The *Ley Orgánica de Administración Financiera del Estado* (the "Law on the Administration of Public Finances" or "AFI"), a statute enacted in 1995 to regulate several financially related areas of the Republic, implements the constitutional principles relating to budgetary and financial matters. Pursuant to the AFI, the Republic's non-financial public sector's budget consists of the central Government budget, special budgets of decentralized institutions (hospitals, University of El Salvador, Salvadoran Social Security Institute among others), and the budgets for the non-financial autonomous entities (which include CEL, ANDA, CEPA and LNB). The Ministry of Finance prepares the general budget (the "General Budget"), which consists of the budget for the agencies and ministries of the central Government and the budgets for the legislative and judicial branches, by following budgetary policy guidelines approved by the president and the cabinet. The Supreme Court prepares the budget for the judicial branch, which it submits to the Ministry of Finance for inclusion, without modifications, in the General Budget.

The Legislative Assembly approves its own budget in consultation with the Executive Branch. Simultaneously with the presentation of the General Budget, the Ministry of Finance submits individual budgets to the Legislative Assembly prepared by each non-financial autonomous unit with such modifications as the Ministry of Finance deems appropriate. Pursuant to the Constitution, at least 6.0% of the central Government's current revenues contained in the General Budget must be allocated to the judiciary and, pursuant to the *Ley del Fondo de Desarrollo Económico y Social* ("Economic and Social Development Fund Law"), 8.0% of net current revenues must be allocated to municipalities. In 2020, the amount allocated to municipalities is expected to increase to 10.0% of net current revenues.

The Ministry of Finance must submit the project of the General Budget to the Legislative Assembly before September 30 of each year. The Legislative Assembly must approve the budget for the non-financial public sector before December 31 of each year. In the event the new budget is not enacted by January 1, the budget for the prior year remains in effect until the Legislative Assembly approves the new budget. Expenditures are capped at the levels in the budget enacted by the Legislative Assembly.

At the end of each fiscal year, the Executive Branch must submit a report on the financial execution of the budget to the Legislative Assembly and to the Corte de Cuentas de la República, the supervisory board in charge of overseeing the Republic's public finances.

Fiscal Policy

The Government has been implementing fiscal policies designed to increase its overall tax revenues, while allocating expenditures in order to further its economic and social policies, principally combating poverty, improving the education system, enhancing security throughout the country, increasing the availability of healthcare and providing opportunities for job creation in the private sector.

With respect to Government expenditures, the Government has been implementing fiscal policies designed to:

- increase expenditures in education including free uniforms, nutrition, shoes, and other school packages,
- reduce overall Government expenditures for subsidies while focusing subsidies to basic services on those sectors of the

population most in need of assistance such as liquid petroleum gas, electric energy and public transportation,

- increase spending on programs designed to enhance security throughout the country, such as through the establishment of a rural police force,

- increase expenditures in the healthcare sector to, among other things, increase the availability of healthcare services throughout the country, principally in rural areas to eliminate out of pocket expenses by those in need of such services. In addition, the Government is implementing an integrated reform to the National Healthcare System based on the improving the first level of health attention characterized by a new model of service formed by *Equipos Comunitarios de Salud Familiares y Especializados* (Family and Specialized Health Community Teams).

The 2017-2019 fiscal policy included in the Framework draws from the objectives, strategies and criteria established under the 2014-2019 five year development plan. It evaluates the efforts made and achievements attained, as well as the national and international economic scenarios, in order to address possible difficulties. The main difficulties that the fiscal policy seeks to resolve are the permanence of the structural imbalances, the reduction of public indebtedness to sustainable levels and the need to promote greater economic growth.

To reach the objectives of the 2014-2019 five year development plan, the Government proposed a fiscal policy to: (i) obtain resources and the adequate institutional capacity to expand the provision and quality of basic public services; (ii) improve the efficiency and effectiveness of public spending, protecting the social component for the benefit of the marginalized population, and (iii) make greater public investments and in so doing, generate quality employment. Furthermore, said policy must advance the consolidation of public finances of El Salvador and guarantee a fiscal path to financial sustainability in a stable macroeconomic setting in the medium and long term.

As provided for in the 2014-2019 five year development plan, the challenges of the fiscal policy in El Salvador are: (i) to ensure the required resources to achieve sound priorities of the Government; and (ii) overcome the structural limitations, reverting to a fiscal sustainability and macroeconomic stability path in the long term.

In this regard, the fiscal policy for the 2014-2019 period rests on two fundamental criteria; one of strategic nature, which seeks to recover the balance of public finances and revert to a sustainable trajectory, and the other of an operational nature, which seeks to generate sufficient resources, and “fiscal space” to address the requirements of the Government’s strategy.

In prior years a good part of the fiscal policy had been oriented towards creating “fiscal space”, through the generation of greater tax revenues and streamlining of subsidies. However, the expansion of social programs, the growing expenditures to finance citizen security and salary adjustments have consumed most of the revenues that have been generated. Efforts to improve the level of execution of public investment have added to the growth of the economy, which nevertheless has been lower than expected.

On November 28, 2018, Legislative Decree No. 188 implemented several reforms to the Fiscal Responsibility Law. As part of the reform, certain fiscal indicators were modified in accordance with the adoption of SNA2008.

Proposed Fiscal Policy

As part of *Plan Cuscatlán*, the Government has considered the possibility of presenting a tax reform aimed at creating a more progressive tax revenue system mainly by creating separate VAT rates for luxury assets, basic goods and medical items. *Plan Cuscatlán* also contemplates amendments to fiscal benefits and incentives, reduction in healthcare and education tax deductions, implementation of a universal income tax and a simplification in the filing process of tax returns. Additionally, the Government aims to reduce tax evasion, improve tax planning, encourage production and employment, and increase transparency in the fiscal system.

Non-Financial Public Sector Revenues and Expenditures

The following table sets forth actual revenues and expenditures for the consolidated non-financial public sector for the periods presented, as well as revenues and expenditures for 2014 to 2018:

Revenues and Expenditures of the Non-Financial Public Sector

For the Year Ended December 31,

	2014	**2015**	**2016**	**2017**	**2018**
	(in millions of US dollars)				
Revenues					
Current revenues[2]	$4,909.9	$5,069.4	$5,297.8	$5,653.7	$5,936.4
Capital revenues	0.0	0.0	0.1	0.0	0.1
Foreign aid	46.3	52.8	45.9	44.2	60.4
Total Revenues	4,956.2	5,122.2	5,343.7	5,697.9	5,996.8
Expenditures					
Current expenditures	4,707.6	4,777.7	4,757.5	5,026.6	5,436.9
Consumption	3,291.2	3,385.7	3,532.8	3,567.1	3,758.8
Interest	610.4	639.8	705.3	799.8	924.1
Transfers	806.0	752.2	519.4	659.7	754.0
Capital expenditures	689.1	710.8	817.1	743.5	888.5
Gross investment	624.6	650.7	757.7	666.4	821.1
Capital transfers	64.6	60.0	59.4	77.1	67.5
Net lending	(0.5)	(0.2)	(0.5)	(0.4)	(0.2)
Total expenditures	5,396.2	5,488.3	5,574.2	5,769.8	6,325.2
Current account surplus[3]	**202.3**	**291.7**	**540.3**	**627.1**	**499.5**
Surplus (deficit) excluding foreign aid	**(486.3)**	**(418.8)**	**(276.3)**	**(116.1)**	**(388.9)**
Surplus (deficit) including foreign aid	**(440.0)**	**(366.0)**	**(230.4)**	**(71.9)**	**(328.4)**
External Financing	787.8	(13.1)	118.9	373.5	134.9
Internal Financing[4]	(347.8)	379.2	111.5	301.6	193.5
Current account surplus/Nominal GDP	**0.9%**	**1.2%**	**2.2%**	**2.5%**	**1.9%**
Deficit excluding foreign aid/Nominal GDP	**(2.2)%**	**(1.8)%**	**(1.1)%**	**(0.5)%**	**(1.5)%**
Deficit including foreign aid/Nominal GDP	**(1.9)%**	**(1.6)%**	**(1.0)%**	**(0.3)%**	**(1.3)%**
Nominal GDP	**22,593.5**	**23,438.2**	**24,154.1**	**24,928.0**	**26,056.9**
Surplus (deficit) including foreign aid and Pension reform	**(907.0)**	**(851.2)**	**(750.3)**	**(632.2)**	**(694.4)**
Surplus (deficit) including foreign aid and Pension reform/GDP	**(4.0)%**	**(3.6)%**	**(3.1)%**	**(2.5)%**	**(2.7)%**

(1) All data is presented on a cash basis.
(2) Gross
(3) Current account figures are equal to current revenues minus current expenditures.
(4) This figure includes pension costs.
(5) Preliminary.

Source: *Ministerio de Hacienda and Banco Central de Reserva.*

In 2014, the non-financial public sector, including foreign aid but excluding pensions, registered a deficit of US$440.0 million, or 1.9% of GDP, a decrease of 18.1% compared to 2013. The decrease was mainly due to an increase in total revenues of US$79.2 million. In 2014, including pensions, the fiscal deficit totaled US$907.0 million, equivalent to 4.0% of GDP.

In 2015, the non-financial public sector, including foreign aid but excluding pensions, registered a deficit of US$366.0 million, or 1.6% of GDP, a decrease of 0.4% compared to 2014. The decrease was mainly due to an increase in the revenues in the amount of US$166.0 million compared to an increase in total expenditures of US$92.4 million. In 2015, including pensions, the fiscal deficit decreased to US$851.2 million, equivalent to 3.7% of GDP, compared to 2014.

In 2016, the non-financial public sector, including foreign aid but excluding pensions, registered a deficit of US$230.4 million, or 1.0% of GDP, a decrease of 0.6% compared to 2015. The decrease was mainly due to an increase in revenues of US$221.5 million. In 2016, including pensions, the fiscal deficit decreased to US$750.3 million, equivalent to 3.1% of GDP, compared to 2015.

In 2017, the non-financial public sector, including foreign aid but excluding pensions, registered a deficit of US$71.9 million, or 0.3% of GDP, a decrease of 0.7% compared to 2016. The decrease was mainly due to an increase in revenues of US$355.6 million. In 2017, including pensions, the fiscal deficit decreased to US$632.2 million, equivalent to 2.5% of GDP, compared to 2016.

In 2018, the non-financial public sector, including foreign aid but excluding pensions, registered a deficit of US$328.4 million, equal to 1.3% of GDP, an increase of 1.0% compared to 2017. The decrease was mainly due to an increase in expenditures of US$555.4 million. In 2018, including pension obligations, the fiscal deficit increased to US$694.4 million, equivalent to 2.7% of GDP, compared to 2017.

During the three-month period ended March 31, 2019, the non-financial public sector, including foreign aid but excluding pensions, registered a deficit of US$41.9 million, equal to 0.2% of GDP, a decrease of 0.2%, compared to the three-month period ended March 31, 2018. The decrease was mainly due to an increase in revenues of US$73.2 million. During the three-month period ended March 31, 2019, including pension obligations, the fiscal deficit decreased to US$124.0 million, equivalent to 0.5%, compared to the three-month period ended March 31, 2018.

The following table shows the composition of the Central Government's revenues and foreign aid for the years presented:

Central Government Revenues and Foreign Aid[1]

	(in millions of US dollars) For the Year Ended December 31,				
	2014	**2015**	**2016**	**2017**	**2018**
Tax Revenues[2]			**(in millions of US dollars)**		
Income	1,549.4	1,574.9	1,689.8	1,773.2	1,859.8
Property Transfers	24.4	20.4	22.7	22.6	24.0
Imports	181.3	194.2	206.5	210.8	227.4
Consumption	149.4	162.3	170.2	173.2	178.0
Value Added Tax	1,910.0	1,934.3	1,853.9	1,946.9	2,103.4
Others	54.1	99.5	99.6	100.2	106.4
Special Contributions (FOVIAL)[3]	73.6	79.6	85.6	89.0	92.8
Special Contributions (SUGAR)	0.9	0.9	0.8	1.0	1.2
Special Contributions (TOURISM)	9.0	10.1	10.5	11.1	11.8
Special Contributions (TRANSPORTATION)	36.9	39.9	43.0	44.7	46.6
Special Contributions (CESC)		2.0	48.5	48.9	48.4
Special contributions Public Security			7.0	66.6	69.6
Total Tax Revenues	3,989.0	4,118.1	4,238.0	4,488.2	4,769.3
Non-Tax Revenues	148.7	158.6	173.6	329.8	273.4
Total Current Revenue	4,137.7	4,276.7	4,411.6	4,818.0	5,042.7
Capital Revenues	-	-	0.1	-	-
Foreign Aid	14.0	25.8	21.9	17.0	12.7
Total Current Revenues	4,151.7	4,302.5	4,433.6	4,835.0	5,055.5

(1) All data is presented on a cash basis
(2) Tax revenues are presented in gross terms
(3) In 2001, the Government introduced a tax for the Fondo de Conservation Vial (FOVIAL), funded by US$0.20/gallon of gasoline. The fund is specifically used to provide for road maintenance and improvement.
(4) Includes fines, licenses, charges for the issuance of tags, passport charges and other revenues related to gasoline

Source: *Ministerio de Hacienda*

Taxation and Customs

The main pillars on which the Salvadoran tax system is based are the VAT, income tax, import duties and consumption taxes. The Salvadoran tax system relies more on the collection of indirect taxes, such as the VAT, than on direct taxes. The Constitution authorizes the levy and collection of taxes by tax authorities at the national level. The central Government collects taxes on personal and corporate income and on transfers of real estate. In addition, it collects import duties and a 13% VAT on tangible assets and services.

The VAT is the largest component of tax revenues and applies to the sale of most tangible goods as well as most services, except those related to education, public transportation and cultural services, among others. The second largest component of tax revenues is the income tax, which is in effect for natural persons and corporations as well as for residents and non-residents who file tax returns in the Republic. A fixed rate of 30.0% is applied to residents and non-resident taxpayers and corporate entities, except for those who have obtained an income equal to or below US$150,000, in that case a 25% rate applies. Import duties, the third main component of tax revenues.

In 2014, tax revenues totaled US$4.0 billion, an increase of 1.1% compared to 2013. The recorded increase was due in part to the revenue generated by the VAT, specifically for internal transactions, and income tax withheld. In aggregate the income tax and VAT constituted 86.7% of total collections. The taxes that registered greatest participation in collection were the VAT with 8.4% of total collections, income tax with 6.9% of total collections and tariff duties on imports with 0.7% of total collections. The VAT specifically registered revenue of US$1.9 billion, representing a 0.4%, increase with a participation of 47.9% of total collections. Income taxes contributed US$1.6 billion, an increase of 1.6%, or US$25.5 million, compared to 2013. Income taxes represented 38.2% of total tax revenues, presenting greater progressiveness of the tax system since 2013. The relative tax contributions of the income taxes were 38.8% of total tax revenues.

In 2015, tax revenues increased to US$4.1 billion, an increase of 3.2% compared to 2014. This increase was generated in part by the performance of VAT, income tax and the tax on financial operations. In 2015, tax collections as a percentage of GDP increased by 2.0%. The VAT increased to US$1.0 billion, a 1.3% increase, or US$24.3 million compared to 2014. VAT collection totaled 47.0% of all tax collections. Income taxes contributed US$1.6 billion, an increase of 1.6%, or US$25.5 million, compared to 2014. Income taxes represented 38.2% of total tax revenues.

In 2016, tax revenues including Special Contributions increased to US$4.2 billion, a 2.9% increase compared to 2015. The VAT by specific source decreased to US$1.9 billion, a 4.2% decrease, or US$80.4 million, compared to 2015, mainly due to lower oil prices and tax credits given to taxpayers. Income taxes contributed US$1.7 billion, a 7.3% increase, or US$114.9 million, compared to 2015. The income tax represented 39.9% of total tax revenues.

In 2017, tax revenues, including Special Contributions, increased to US$4.5 billion, an increase of 5.9% compared to 2016. VAT from specific sources increased to US$1.9 billion with an increase of 5.1% or US$94.6 million compared to 2016, mainly due to increases in goods imports by 7.8% and the oil bill at 15.8%. Income tax contributed US$1.8 billion, a 4.9% increase, or US$83.3 million, compared to 2016. Income tax represented 39.5% of total tax revenues.

In 2018, tax revenues, including Special Contributions, increased to US$4.8 billion, a 6.2% increase compared to 2017. VAT from specific sources increased to US$2.1 billion, an increase of 7.9%, or US$154.9 million, compared to 2017, mainly due to increases in the oil bill of 23.2% and the reported VAT recovery which increased 2.6%. Income tax contributed with accumulated revenues of US$1.9 billion, an increase of US$86.7 million or 4.9%. Income tax represented 39.0% of total tax revenues.

During the three-month period ended March 31, 2019, preliminary tax revenues, including Special Contributions, totaled US$1.2 billion, a 4.2% increase compared to the three-month period ended March 31, 2018.Preliminary figures indicate that VAT from specific sources totaled US$556.3 million for the three-month period ended March 31, 2019, an increase of 5.7%, or US$29.8 million, compared to the three-month period ended March 31, 2018, mainly due to an increase in imports of goods of 5.7%. For the three-month period ended March 31, 2019, preliminary income tax contributed with accumulated revenues of US$435.4 million, an increase of US$16.0 million or 3.8%, compared to the same period in 2018. Income tax represented 37.2% of total revenues during the three-month period ended March 31, 2019.

Tax Reforms

In December 2011, a tax reform was enacted which came into effect on January 1, 2012. The tax reform aimed at simplifying the taxation of income of salaried persons by means of a tax withholding mechanism, updating taxation rates, achieving a broader exemption to lower income sectors of the population, maintaining the tax burden on the middle income sector, establishing a larger tax burden to higher income sectors, and equalizing corporate income taxation to regional standards. Among other measures, the corporate income tax rate was increased from 25% to 30% and the general rate of tax withholding on gross sales increased from 1.5% to 1.75%.

With the objective of improving tax collection, in May 2014 the Ministry of Finance presented the Legislative Assembly, for discussion and approval, a set of proposed fiscal measures, among which the following three decrees were enacted on July 30, 2014:

- Legislative Decree Number 762 eliminated the income tax exemption previously granted by the Printing Law which provided publishers and printers with an exemption in connection to the production, distribution and sale of newspapers, magazines, books and other print media. This decree also provided for a minimum payment of 1% of net assets, which was declared unconstitutional in April 2015 by the Constitutional Chamber of the Supreme Court.

- Legislative Decree Number 763 included reforms to the tax code with the purpose of lowering the levels of tax evasion. This decree also adopts the guidelines on value transfer prices that is recommended by the Organization for Economic Cooperation and Development ("OECD"), an enhancement of the tax solvency forms to include customs solvency, publication of brief reports on final resolutions issued by fiscal authorities, and a new regulation on the use of electronic Point of Sale ("POS") devices.

The relationship of direct taxes to indirect taxes poses a challenge for the country. One of the purposes of the tax reform of 2011 was to improve the relationship between both tax types to achieve a better balance in the tax system. To a lesser extent, collection of the VAT is also a challenge of the Salvadoran taxation system, particularly in connection with transactions related to the informal sector of the economy.

Special Tax on Fuels

An ad-valorem tax on fuels was enacted through Legislative Decree No. 225 dated December 12, 2009 where the tax basis is the reference price of fuels for end consumers published by the Ministry of Economy. The tax rate is variable, depending on the international reference price per barrel of oil: less than US$50.0 per barrel = 1% tax, between US$50.0 and US$70.0 =0.5%, and if greater than US$70.0 then no tax is applied. In 2015, 2016, 2017 and 2018, US$7.1 million, US$8.9 million, US$7.9 million and US$7.3 million, respectively, were collected as a result of this tax.

Reforms to the Reimbursement of the Tax Credit (VAT)

Reforms were made to improve the reimbursement or refund of tax credits to exports through the enactment of Legislative Decree No. 71 dated July 29, 2015. The greatest impact of the reform was generated in 2016 when reimbursements were made in the amount of US$94.3 million (US$4.9 million in internal VAT and US$89.4 million in VAT imports).

Special Contribution by high net income taxpayers for the security and coexistence plan

A tax on earnings was enacted through Legislative Decree No. 161 dated October 29, 2015 for the purpose of fighting crime. A tax of 5% of the tax base is applied to net earnings in excess of US$500 million. The decree will have effect for five years. In 2016, 2017 and 2018, US$7.0 million, US$66.6 million and US$69.6 million were collected as result of this tax. The constitutionality of this decree is currently being challenged before the Constitutional Chamber of the Supreme Court of Justice. As of the date of this offering circular, the Constitutional Chamber of the Supreme Court has not yet issued a final resolution.

Special Contribution for Citizen Security and Coexistence

A tax for citizen security and coexistence was enacted through Legislative Decree No. 162 dated October 29, 2015 on the procurement and/or use of telecommunications services and on transfers of any type of technological devices, terminals, equipment and accessories. The tax is to be paid by the users and re-sellers of the telecommunication services and importers, among others. The tax rate is 5.0% and is applied to a specified tax base according to the decree, the decree will be in force for five years after its enactment. In 2015, 2016, 2017 and 2018, US$2.0 million, US$ 48.6 million, US$48.9 million and US$48.4 million, respectively had been collected as a result of the tax. The constitutionality of this decree is currently being challenged before the Constitutional Chamber of the Supreme Court of Justice. As of the date of this offering circular, the Constitutional Chamber of the Supreme Court has not yet issued a final resolution.

Reforms to the Tax Code

Article 158 of the Tax Code was amended through Legislative Decree No. 179 dated November 12, 2015 to reduce the percentage of income tax withholding of non-resident, for capital markets transactions by lowering the previous 20% rate to a 3.0% rate.

Article 162-A of the Tax Code was amended by means of Legislative Decree N° 627 dated March 9, 2017 to make possible to credit the surplus of VAT advance payment in operations with credit cards or with debit cards.

Reforms to article 119 of the Tax Code were approved by Legislative Decree No. 191 of November 28, 2018 to improve the provisions on transaction control documents related to invoices of subjects excluded from the taxpayer status.

Reforms to Withholding Tables (Income Tax)

The income tax withholding tables were amended through Legislative Decree No. 95 dated December 18 ,2015, to consider the current basic salary structure for social security contributions, as well as the type of contributions

Transitory Law to facilitate voluntary compliance with tax and customs obligations (Tax Amnesty)

The transitory law to facilitate voluntary compliance with tax and customs obligations was enacted on October 2017 in order to allow taxpayers who, due to different circumstances, have not faithfully complied with their tax obligations, to legalize their tax situation with the Treasury of the Republic. The process will not require the collection of interest or surcharges, granting them a term of three months from the effective date of the decree to pay the original or complementary taxes owed to the Treasury. The Law was extended in 2018. The payments covered by the amnesty benefits during 2018 amounted to US$92.7 million.

Agreements

The decree that ratifies the convention on compatibility of internal taxation applicable to trade between the states parties to the Central American customs union entered into force on November 2017 with the aim of applying said compatibility to the trade of movable goods and services within the single customs territory.

On October 11, 2018, El Salvador's Legislative Assembly approved the ratification of the OECD-Council of Europe Convention on Mutual Administrative Assistance on Tax Matters

Customs Reforms

The Government has reformed a number of laws to modernize customs procedures and accommodate the Republic's international commitments, especially those contained in the DR-CAFTA. The reforms establish the *Dirección General de Aduanas* (the "Customs Administration") to oversee the modernization of the customs service. The main purpose of these reforms is to permit the Customs Administration to perform its activities more efficiently, focusing on the supervision and control of international trade duties and taxes, simplifying customs procedures, granting more authority to customs officers to review questionable declarations, and ensuring compliance with the rules of origin applicable to goods imported into the Republic. In addition to the Republic's commitments pursuant to the DR-CAFTA, the reforms are also intended to permit the Republic to comply with its other international commitments, such as those under the *Código Arancelario Unificado de Centro America* ("CAUCA") and other international agreements concerning international trade of goods.

The *Ley de Simplificación Aduanera* (Law of Customs Simplification) was passed in 2012, which, among other things, includes the following improvements to the customs administration:

- creates an electronic registry for customs control,
- creates non-intrusive inspection services (X-rays) inside and outside of the customs facilities,
- establishes a legal definition for customs criminal activities,
- authorizes a fee of US$18.00 per operation for the entrance and exit of merchandise to the Republic,
- facilitates and simplifies processes and procedures for merchandise inspection, and
- improves controls of external trade operations and mechanisms of customs control.

Amendments to the Special Law on Sanctions to Customs Infractions was approved on September 2017 to adjust the legislation to the current foreign commerce trends. In May 2018, amendments were made to several articles in order to suppress unlawful acts with deterrent and coercive sanctions that in turn allow the continuity of international trade operations, facilitating voluntary compliance and ensure the swiftness of procedures.

Central Government Expenditures

The following table shows the actual central Government expenditures for the specified periods:

Central Government Expenditures[(1)]

	For the Year Ended December 31,				
	2014	**2015**	**2016**	**2017**	**2018**
	(in millions of US dollars, except percentages)				
Legislative Body	$57.2	$56.5	$57.1	$54.6	$58.2
Audit Office	36.4	36.0	37.6	37.7	38.0
Supreme Electoral Tribunal	16.5	15.1	16.6	16.6	19.7
Civil Service Tribunal	0.8	0.7	0.8	0.8	0.8
Government Ethics Tribunal	2.0	2.0	5.9	5.7	2.5
Presidency	121.6	134.6	119.3	128.5	123.0
Finance	81.5	89.0	96.5	100.9	97.5
Foreign Relations	41.8	43.8	46.0	42.4	45.7
National Defense	155.4	161.1	153.9	164.2	173.3
National Judiciary Council	5.8	6.0	1.3	1.3	6.3
Judicial Body	217.2	239.7	245.3	246.9	248.9
Attorney General's Office	44.5	48.9	47.7	63.8	60.3
General Ombudsman's Office	25.1	25.2	25.4	26.1	29.0
Human Rights Ombudsman's Office	8.8	9.2	9.8	9.6	9.6
Interior or the Institute for Access to Public Information	0.9	1.2	2.3	2.2	1.4
Governance (Public Security)	19.8	21.4	22.6	26.9	38.4
Justice and Public Security and Justice Branch	357.9	438.6	435.8	461.8	435.2
Police and Fire Department					
Education	874.9	926.6	943.1	955.4	927.4
Public Health	555.0	585.2	612.1	618.5	607.1
Labor and Social Welfare	15.4	14.9	13.2	13.2	46.6
Culture					5.8
Housing and Urban Development					
Economy	144.0	109.4	93.6	148.8	112.1
Agriculture and Livestock	81.7	91.3	77.4	76.4	74.2
Public Works	219.7	229.1	199.6	253.8	214.3
Environmental and Natural Resources	13.2	14.1	24.2	21.0	11.0
Tourism	18.7	16.2	17.3	19.8	18.3
Transportation					
Public Treasury Note[(2)]	**2,626.1**	**1,460.1**	**1,500.5**	**1,726.5**	**1,912.4**
Public Debt	1,953.1	793.7	889.0	969.5	1,017.7
General Obligations	58.0	37.8	32.8	80.0	88.2
Other Transfers	615.0	628.6	578.7	677.0	806.5
Total Central Government Expenditures	**$5,741.9**	**$4,775.9**	**$4,804.9**	**$5,223.4**	**$5,285.0**
Central Government Expenditures/Nominal GDP	**25.4%**	**20.4%**	**19.9%**	**21.0%**	**20.3%**
GDP	**22,593.5**	**23,438.2**	**24,154.1**	**24,928.0**	**26,056.9**

(1) All data is presented on an accrued basis
(2) Excludes Pensions Debt and Debt Capital Repayments

Source: Ministry of Finance

Expenses related to social objectives, including health, education, justice and public security increased from US$1,787.8 in 2014 to US$1,950.4 in 2015, to US$1,991.0 in 2016, to US$2,035.7 in 2017, and decreased to US$1,969.7 in 2018.

2019 Budget

The 2019 budget for the Central Government was presented to the Legislative Assembly on September 28, 2018 and enacted on December 21, 2018 for a total amount of US$6,713.2 million, an increase of US$1,245.7 million, or 22.8% compared to the 2018 budget.

The 2019 budget contemplates revenues of US$4,850.6 million (75.3% of total revenues) from current revenues, which include revenues from tax and Government fees for certain services such as passport and national identity documents, among others, US$40.1 million from capital revenues (0.6% of total revenues), which include donations and US$1,502.5 million from financing (22.4% of total revenues) and US$320.0 million (4.8% of total revenues) from revenues from the highway fund, sugar fund, tourism promotion fund, public transportation fund and public safety fund ("Special Contributions").

The 2019 budget contemplates expenditures of US$4,170.1 million (62.1% of total expenditures) of current costs, which include salaries and benefits, goods and services, certain financial costs and current transfers, US$806.5 million for capital costs (12.0% of total expenditures), which include public investment programs and other capital costs, and US$1,090.5 million for financial expenditures (16.3% of total expenditures), which include interest and amortization payments on internal and external debt.

The principal assumptions on which the 2019 budget is based are real GDP growth of 2.6%, an inflation rate of 2.0% and a nominal GDP of US$27,011.9 million. The 2019 budget contemplates total revenues in the amount of US$6,713.2 million, which includes US$1,297 million of expected income from various financing sources, and total expenditures for US$6,713.2 million.

PUBLIC DEBT

General

Public sector debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, totaled US$18,742.6 million as of December 31, 2018, compared to US$18,072.1 million as of December 31, 2017, US$17,192.1 million as of December 31, 2016, US$16,323.4 million as of December 31, 2015, and US$15,466.1 million as of December 31, 2014. The increase in public sector debt in 2018 was mainly due to the increase in stock of LETES issued by the Government, the issuance of CIPs, and the disbursement of a loan for budgetary support from the IADB of US$350.0 million.

Total Public Debt
As of December 31,

	2014	**2015**	**2016**	**2017**	**2018**
	(in millions of US dollars and % of GDP)				
External Debt	$10,212.9	$10,096.5	$10,155.2	$10,703.9	$10,866.5
Internal Debt	5,253.2	6,226.9	7,036.9	7,368.2	7,876.1
Total	**15,466.1**	**16,323.4**	**17,192.1**	**18,072.1**	**18,742.6**
GDP	22,593.5	23,438.2	24,154.1	24,998.0	26,056.9
D/GDP (%)	**68.5**	**69.6**	**71.9**	**72.5**	**71.9**

Source: Ministerio de Hacienda

Under the Constitution, the Legislative Assembly has the power to adopt legislation governing the issuance of public debt and to appropriate funds required for debt service. Acting pursuant to this constitutional mandate, the Legislative Assembly enacted the *Ley Orgánica de Administración Financiera del Estado* ("AFI") law, which governs, among other matters, the procedures that must be observed in all matters regarding public debt. AFI rules concerning public debt apply to all state-owned entities, with the exception of the Central Bank and the state-owned financial institutions, as well as to obligations of the municipalities guaranteed by the national Government. The Central Bank and the state-owned financial institutions are subject to restrictions in their respective charters regarding the issuance of debt. They are also subject to the AFI if they issue obligations guaranteed by the Republic. The Constitution requires that public debt must be enacted by a two-thirds vote of the Legislative Assembly.

Because all AFI-governed public debt must comply with the public indebtedness policies adopted by the executive branch, a non-financial public sector entity must obtain the prior written approval of the Ministry of Finance before entering into any negotiations with respect to borrowing. Any contract executed by such entities without the approval of the Ministry of Finance is null and void and unenforceable and may give rise to civil and criminal liability for the individuals involved. Once approval of the Ministry of Finance is obtained, the entity may proceed to negotiate the terms and conditions of the obligations to be incurred, provided that its own charter gives it the authority to conduct such negotiations on its own behalf; otherwise, the Ministry of Finance conducts the negotiations in the case of transactions with multilateral and bilateral international lenders. Loan proceeds are disbursed to the Government which, in turn, transfers such proceeds to the ultimate borrower pursuant to an agreement between the Ministry of Finance and such entity.

Although public debt service is the primary responsibility of the entity for whose benefit the loan was received, AFI-governed debt is an obligation of the Government. Accordingly, transfers from the Government to any entity pursuant to the annual budget take into account debt service obligations for the following year.

LETES

The Ministry of Finance is authorized to issue LETES to finance temporary revenue shortages. LETES, which are U.S. dollar-denominated instruments, are sold on the Salvadoran stock exchange at discounts and reflect market conditions at the time of issuance. The maximum maturity of LETES is 360 days. As of June 30, 2019, US$853.3 million in aggregate principal amount of LETES were outstanding.

External Debt

External debt obligations of El Salvador are to multilateral organizations, bilateral institutions and commercial lenders, as well as investors in the international capital markets.

The Central Bank's external debt as of December 31, 2018 was US$113.6 million, compared to US$152.0 million at December 31, 2017.

The following table sets forth total public external debt for the periods presented:

Public Sector External Debt

	As of December 31,				
	2014	**2015**	**2016**	**2017**	**2018** [(1)]
		(in millions of US dollars, except percentages)			
Central Government	$ 9,382.4	$ 9,309.1	$ 9,190.1	$ 9,700.8	$ 9,916.0
Public financial and non-financial entities	596.0	631.2	752.3	851.1	836.9
Sub-total	9,978.4	9,940.3	9,942.4	10,551.9	10,752.9
Central Bank	234.5	156.2	212.8	152.0	113.6
Total	$ 10,212.9	$ 10,096.5	$ 10,155.2	$ 10,703.9	$ 10,866.5
External public debt as a percentage of nominal GDP [(1)]	45.2%	43.1%	42.0%	42.9%	41.7%

(1) Preliminary

Source: *Ministerio de Hacienda y Banco Central de Reserva.*

The following table shows the composition of the Republic's external public debt by type of creditor for the periods presented:

Public Sector External Debt by Type of Creditor

	As of December 31,				
	2014	**2015**	**2016**	**2017**	**2018**[(1)]
		(in millions of US dollars)			
Central Government and public financial and non-financial entities	$ 9,978.4	$ 9,940.3	$ 9,942.4	$ 10,551.9	$ 10,752.9
Multilateral	3,680.2	3,692.3	3,699.3	3,762.5	3,985.0
Bilateral	470.0	433.8	428.9	422.3	386.8
Commercial	5,828.2	5,814.2	5,814.2	6,367.1	6,381.1
Central Bank and Notes	234.5	156.2	212.8	152.0	113.6
Multilateral	199.5	156.2	182.8	152.0	113.6
Bilateral	0.0	0.0	0.0	0.0	0.0
Commercial	35.0	0.0	30.0	0.0	0.0
Total Public Sector	$ 10,212.9	$ 10,096.5	$ 10,155.2	$ 10,703.9	$ 10,866.5
As a Percentage of GDP	45.2%	43.1%	42.0%	42.9%	41.7%

(1) Preliminary.

Source: *Ministerio de Hacienda y Banco Central de Reserva.*

The increases in multilateral debt of the central Government and public financial and non-financial entities from December 31, 2014 to December 31, 2018 was mainly due to the impact of the disbursement of loans for strategic projects and budgetary support, such as the disbursement of US$350.0 million from the IADB, whose purpose was to strengthen fiscal sustainability, protecting public investment and social program funding to favor inclusive growth.

The issuance of external long term debt requires the approval of a two-thirds majority of the Legislative Assembly. The increase in commercial indebtedness from December 31, 2013 to December 31, 2018 was due primarily to the Republic's issuance of external indebtedness including its US$800,000,000 6.375% Notes due 2027 and its US$601,085,000 8.625% Notes due 2029.

At December 31, 2018, total disbursements to the non-financial public sector were US$548.6 million, oriented to public works including public road infrastructure, public health, education, socio-economic, and cultural redevelopment of the old town of San Salvador, justice and public security, agriculture, environment, support to the tourism sector, rural water and sanitation.

The following table shows the rates of interest applicable to the outstanding principal balance of the Republic's public external debt at the dates indicated:

Interest on Public Sector External Debt

	As of December 31, 2018	
	Amount	Percentage
	(in millions of US dollars, except percentages)	
Fixed Rate		
0-3%	$414.3	3.8%
3-6%	1,989.0	18.3
6-9%	5,461.1	50.3
Floating Rate	3,002.1	27.6
Total	**$10,866.5**	**100.0%**

Source: *Ministerio de Hacienda y Banco Central de Reserva.*

The following tables set forth scheduled debt service for the Republic's total public external debt for the periods presented:

Public Sector External Debt Service Maturity 2019 - 2028[1]

	For the Year Ended December 31,									
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(in millions of US dollars)									
Central Government	**$1,665.8**	**$816.3**	**$774.1**	**$757.1**	**$1,525.5**	**$788.0**	**$1,418.0**	**$577.7**	**$1,328.5**	**$483.3**
Principal	1,071.3	291.1	260.3	253.1	1,062.2	365.4	1,033.1	224.4	1,008.5	196.0
Interest	594.5	525.2	513.8	504.0	463.3	422.6	384.9	353.3	320.0	287.3
Rest of Public Sector	**89.3**	**91.4**	**86.2**	**83.9**	**89.2**	**81.7**	**77.7**	**74.6**	**61.3**	**50.3**
Principal	49.5	54.3	51.8	52.1	60.5	56.2	55.4	55.4	45.1	36.6
Interest	39.8	37.1	34.4	31.8	28.7	25.5	22.3	19.2	16.2	13.7
Total Debt Service	**$1,755.1**	**$907.7**	**$860.3**	**$841.0**	**$1,614.7**	**$869.7**	**$1,495.7**	**$652.3**	**$1,389.8**	**$533.6**

(1) Medium-and Long-Term debt, with disbursements as of December 31, 2018, excluding Central Bank´s debt service.
Source: *Ministerio de Hacienda*

Public Sector External Debt Service Maturity 2029 - 2038[1]

	For the Year Ended December 31,									
	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
	(in millions of US dollars)									
Central Government	**$1,005.2**	**$358.6**	**$329.8**	**$796.6**	**$269.8**	**$551.2**	**$1,198.8**	**$142.4**	**$1,198.8**	**$483.3**
Principal	750.5	134.8	110.6	601.7	99.2	384.1	1,095.3	80.4	75.9	59.1
Interest	254.7	223.8	219.2	194.9	170.6	167.1	103.5	62.0	59.2	56.5
Rest of Public Sector	**38.3**	**32.4**	**31.0**	**29.5**	**28.0**	**22.3**	**21.2**	**19.9**	**16.8**	**5.6**
Principal	26.6	22.2	22.2	22.2	22.2	17.9	17.9	17.8	15.8	5.2
Interest	11.7	10.2	8.8	7.3	5.8	4.4	3.3	2.1	1.0	0.4
Total Debt Service	**$1,043.5**	**$391.0**	**$360.8**	**$826.1**	**$297.8**	**$573.5**	**$1,220.0**	**$162.3**	**$151.9**	**$121.2**

(1) Medium-and Long-Term debt, with disbursements as of December 31, 2018, excluding Central Bank´s debt service.
Source: *Ministerio de Hacienda*

Public Sector External Debt Service Maturity 2039 - 2048[1]

	For the Year Ended December 31,									
	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
	(in millions of US dollars)									
Central Government	**$80.4**	**$70.1**	**$692.4**	**$52.0**	**$1.5**	**$0.7**	**$0.5**	**$0.4**	**$0.1**	**$9.8**
Principal	25.7	16.2	663.9	50.3	1.5	0.7	0.5	0.4	0.1	9.8
Interest	54.7	53.9	28.5	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Rest of Public Sector	**5.4**	**2.7**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Principal	5.2	2.7	0.3							
Interest	0.2									
Total Debt Service	**$85.8**	**$72.8**	**$692.7**	**$52.0**	**$1.5**	**$0.7**	**$0.5**	**$0.4**	**$0.1**	**$9.8**

(1) Medium-and Long-Term debt, with disbursements as of December 31, 2018, excluding Central Bank´s debt service.
Source: *Ministerio de Hacienda*

Debt Record

Since 1993, El Salvador has not rescheduled any external loans and has not defaulted on any of its external indebtedness. During the civil war, El Salvador was unable to service a portion of its international debt. Between 1990 and 1993, El Salvador successfully negotiated the rescheduling of certain loans totaling US$382.5 million and forgiveness of certain other obligations with some of its international creditors. In 1993, the U.S. Agency for International Development, upon its own initiative, forgave US$463.9 million of the Republic's outstanding debt and Canada converted 8.1 million Canadian Dollars of outstanding debt to an obligation of the Government to use amounts that would have been applied to service this debt for environmental projects. In 1999, the Government of France, upon its own initiative, forgave 133.0 million French Francs of the country's outstanding debt. The funds previously allocated to repay El Salvador's outstanding debt to France have been reallocated to establish the *Fondo Franco-Salvadoreño*, a fund that provides financing for infrastructure projects. In 2006, with the Government of Spain, US$10 million of outstanding debt was reallocated to finance projects in the education sector, and in 2009, with the Government of the Federal Republic of Germany, €10.0 million of outstanding debt was reallocated to finance development projects in selected municipalities of El Salvador and €10 million more were reallocated in 2012 to finance projects to improve the quality of life in selected urban neighborhoods. In February 2019, an additional €10 million of outstanding debt was reallocated to improve the medical infrastructure of the Ministry of Health.

The budget for fiscal year 2017 presented by the Government to the Legislative Assembly on September 30, 2016 did not include payment of US$38.4 million in interest orUS$18.3 million in principal with respect to CIPs Series A and Series B maturing between April 7 and April 20, 2017. The opposition parties in the Legislative Assembly and the Government did not reach consensus on budget allocation to pay the aforementioned amounts until April 21, 2017, and as a result, these payments were only made on April 28, 2017. The foregoing default did not result in acceleration of the CIPs, the exercise of any remedies by the trustee on behalf of the holders of the CIPs, nor any cross-default or acceleration under any other indebtedness of the Republic. Since April 28, 2017 , the Republic has timely met all of its payment obligations under the CIPs and other indebtedness. See "Risk Factors - Inability to reach an agreement among the several political parties in El Salvador could have a material adverse effect on the economy and on the ability of the Republic to make payments on the Notes."*Internal Debt*

The public sector´s internal debt, excluding the Central Bank, was US$7,876.1 million as of December 31, 2018 compared to US$7,368.2 million as of December 31, 2017, US$7,036.9 million as of December 31, 2016, US$6,226.9 million as of December 31 2015, and US$5,253.2 million as of December 31, 2014. As of 2001, as a result of the Monetary Integration Act, all issuances and amortizations of existing public sector internal debt are in U.S. dollars.

The Government's internal debt consists of obligations to both public sector and private entities. Although pursuant to its current charter, the Central Bank is not allowed to finance the Government, this restriction did not become effective until 1994. Prior to 1994, the Central Bank had extensively financed Government operations. At December 31, 2018, the outstanding principal balance of obligations related to such activity totaled US$704.3 million.

The following table sets forth the public sector internal debt for the periods presented:

Public Sector Internal Debt

	As of December 31,				
	2014	**2015**	**2016**	**2017**	**2018[(1)]**
	(in millions of US dollars, except percentage)				
Central Government	1,631.6	2,085.8	2,416.0	2,100.8	2,325.3
Public non-financial entities	154.9	211.6	235.0	345.7	316.8
Public financial entities[(2)]	3,466.7	3,929.5	4,385.9	4,921.7	5,234.0
Total	**5,253.2**	**6,226.9**	**7,036.9**	**7,368.2**	**7,876.1**
Internal public debt as a percentage of nominal GDP[(1)]	23.3%	26.6%	29.1%	29.6%	30.2%

Exclude Central Bank internal debt obligations and the direct debt of Municipalities without Government guarantee.
(1) Preliminary.
(2) Includes Trust Funds: FOP Serie A.
Source: *Ministerio de Hacienda y Banco Central de Reserva.*

Central Government internal debt increased from US$1,631.6 million as of December 31, 2014 to US$2,325.3 million as of December 31, 2018, mainly due to the increase of LETES issued by the Government, and the issuances of internal bonds sold in the Salvadoran Stock Exchange mainly to finance justice and public security measures, repay interest and capital of bonds issued in 2009, and budgetary support. The increase registered in the internal debt incurred by public financial entities, is represented mainly by debt of the FOP trust fund, a financing vehicle established in 2006 to finance pension costs. As of December 31, 2018 US$4,921.5 million in aggregate amount of FOP Pension Investment Certificates were outstanding to cover pension payments from the public pension system.

DESCRIPTION OF THE NOTES

This section of this Offering Circular is intended to be an overview of the material provisions of the Notes and the Indenture. Because this section is only a summary, it does not contain all the information that may be important to you as a potential investor in the Notes. You are urged to read the Indenture for a complete description of the Republic's obligations and your rights as a holder of the Notes. Copies of the Indenture are available free of charge at the offices of the Trustee.

The Notes will be issued pursuant to a trust indenture, dated as of February 28, 2017(the "Indenture"), among the Republic, The Bank of New York Mellon, as trustee (the "Trustee"), principal paying agent ("Principal Paying Agent"), transfer agent ("Transfer Agent") and registrar (the "Registrar"), and The Bank of New York Mellon (Luxembourg) S.A. as paying agent (the "Luxembourg Paying Agent" and together with the Principal Paying Agent the "Paying Agents"), and as the Luxembourg transfer agent.

You can find the definition of capitalized terms in this section under "—Certain Definitions."

General Terms of the Notes

The Notes will:

- initially be issued on August 6, 2019 in an aggregate principal amount of U.S.$1,097,000,000;
- mature at par on January 20, 2050;
- bear interest from and including, August 6, 2019 to, but excluding January 20, 2020, at a rate of 7.1246% per annum on the principal amount thereof, payable semi-annually in arrears on January 20 and on July 20 of each year, commencing on January 20, 2020. Interest on the Notes will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed, but not more than 30 days in a month; and
- pay interest to persons in whose names the bonds are registered at the close of business on January 19 or July 19, as the case may be, preceding each payment date.
- be represented by one or more global securities in fully registered form only, without coupons;
- be registered in the name of the nominee of The Depository Trust Company, known as DTC, and recorded on, and transferred through, the records maintained by DTC and its participants, including the depositaries for Euroclear Bank SA/NV, as operator of the Euroclear System plc ("Euroclear"), and Clearstream Banking, S.A. ("Clearstream, Luxembourg")
- be available in definitive, certificated form only under certain limited circumstances;
- be subject to optional redemption prior to their scheduled maturity as described under " - Optional Redemption";

Ranking

The Notes will constitute direct, general, unconditional, unsubordinated and unsecured Indebtedness (as defined below) of the Republic and will rank equally, without any preference among themselves, with all other unsecured and unsubordinated obligations of the Republic, present or future, constituting Public External Indebtedness (as defined below) of the Republic. The Republic has pledged its full faith and credit for the due and punctual payment of all amounts due in respect of the Notes. It is understood that this provision will not be construed so as to require the Republic to make payments under any series of the Notes ratably with payments being made under any other Public External Indebtedness.

Form, Denomination and Title

The Notes will be issued in U.S. dollars, in fully registered form, in denominations of U.S.$150,000 or any amount in excess thereof, which is an integral multiple of U.S.$1,000. The Notes, and the transfer thereof, shall be registered as provided in the Indenture. As used herein, "holder," in relation to a Note, means the person in whose name a Note is registered. A person in whose name a Note is registered will, to the fullest extent permitted by law, be treated at all times, by all persons and for all purposes as the absolute owner of such Note regardless of any notice of ownership, theft or loss or of any writing thereon.

The Notes, and transfer thereof, will be registered as provided in "—Replacement, Exchange and Transfer" below and in the Indenture.

Notes sold to qualified institutional buyers in reliance on Rule 144A of the Securities Act of 1933, as amended (the "Securities Act") will be represented by restricted permanent global Notes, each in registered form without interest coupons (the "Rule 144A Global Note") and will be deposited with the Registrar, as custodian for The Depository Trust Company ("DTC"), and registered in the name of a nominee of DTC.

Notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act will be represented by a single, unrestricted, permanent global Note in registered form without interest coupons (the "Regulation S Global Note" and, together with the Rule 144A Global Note, the "Global Notes") and will be deposited with the Registrar, as custodian for DTC, and registered in the name of a nominee of DTC. Owners of beneficial interests in the Global Notes will not be entitled to receive individual definitive Notes in registered form (the "Definitive Notes" and, together with the Global Notes, the "Notes") unless (i) DTC notifies the Republic that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Notes or ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934, as amended, or if at any time it is no longer eligible to act as such, and the Republic is unable to appoint a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC, (ii) the Republic, at its option, elects to terminate the book-entry system through DTC with respect to the Global Notes, or (iii) after the occurrence of an Event of Default (as defined below), holders of beneficial interests in the Global Notes representing not less than a majority of the aggregate principal amount of the Global Notes outstanding advise the Trustee, through DTC in writing, that the continuation of a book-entry system through DTC (or a successor thereof) with respect to the Global Notes is no longer in such holders' best interest, and the Trustee shall notify all holders of beneficial interests of the Global Notes through DTC of the availability of Definitive Notes.

The Notes will not be issued in bearer form. The rights in respect of each Note issued to DTC and registered in the name of its nominee will be those of the registered nominee. Accordingly, each person having a beneficial interest in such Note must rely on the procedures of the institutions having accounts with DTC to exercise any rights of such person. As long as Notes are held through DTC's book-entry settlement system, ownership of beneficial interests in such Note will (unless otherwise required by applicable law) be shown on, and transfers of such beneficial interests may be effected only through, records maintained by (i) DTC or its registered nominee or (ii) institutions having accounts with DTC (including, without limitation, Euroclear and Clearstream, Luxembourg). Beneficial interests in the Global Notes may be held in denominations of U.S.$150,000 and integral multiples of U.S.$1,000 in excess thereof.

Replacement, Exchange and Transfer

If any Note shall become mutilated or defaced or be destroyed, lost or stolen, the Trustee shall, subject to having received the prior approval of the Republic (such approval not to be unreasonably withheld), authenticate and deliver a new Note at the offices of the Registrar, on such terms as the Republic or the Registrar may require, in exchange and substitution for the mutilated or defaced Note or in lieu of and in substitution for the destroyed, lost or stolen Note. In every case of destruction, loss or theft, the applicant for a substitute Note shall furnish to the Republic, the Trustee and the Registrar such indemnity as the Republic, the Trustee or the Registrar, as the case may be, may require and evidence to their satisfaction of the destruction, loss or theft of such Note, and of the ownership thereof. In every case of mutilation or defacement of a Note, the holder shall surrender to the Registrar the Note so mutilated or defaced. In addition, prior to the issuance of any substitute Note, the Republic may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee or the Registrar) connected therewith. If any Note that has matured or is about to mature within 15 days shall become mutilated or defaced or be apparently destroyed, lost or stolen, the Republic may pay or authorize payment of the same without issuing a substitute Note.

Upon the terms and subject to the conditions set forth in the Indenture, a Note or Notes may be exchanged for a Note or Notes of equal aggregate principal amount, but in such different authorized denominations as may be requested by the holder, by the surrender of such Note or Notes to the office of the Registrar, or to the office of any transfer agent, together with a written request for the exchange.

Upon the terms and subject to the conditions set forth in the Indenture, a Note may be transferred in whole or in part (in the principal amount of U.S.$150,000 or integral multiples of U.S.$1,000 in excess thereof) by the holder or holders surrendering the Note for registration of transfer at the office of the Registrar or at the office of any Transfer Agent duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Republic and the Registrar or any such Transfer Agent as the case may be, duly executed by the holder or holders thereof or such holder's or holders' attorney-in-fact or attorneys-in-fact duly authorized in writing.

The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions, except for the expenses of delivery by other than regular mail (if any) and except, if the Republic shall so require, the payment of a sum sufficient to cover any tax or other governmental charge or insurance charges that may be imposed in relation thereto or, in connection with the provisions of the Indenture, the fees and expenses of the Registrar or Trustee, will be borne by the Republic.

The Registrar may decline to register the transfer or exchange of Notes for a period of 15 days preceding the due date for any payment of principal of or interest on the Notes or register the transfer of or exchange any Notes previously called for redemption.

Certain Covenants of the Republic

So long as any Note remains outstanding, the Republic has agreed to certain covenants, including:

1. So long as any Note is outstanding, the Republic will not create or allow any Lien to be placed on the whole or any part of its present or future revenues, properties or assets to secure the Public External Indebtedness of the person unless, at the same time or prior to the creation of the Lien, the Republic creates or allows a Lien on the same terms for its obligations under the Notes. The Republic may, however, create or allow the following permitted Liens (each a "Permitted Lien"):

    - any Lien upon property to secure Public External Indebtedness incurred for the purpose of financing the acquisition of property over which such Lien has been created and any renewal or extension of any such Lien which is limited to the original property covered thereby and which secures only the renewal or extension of the original secured financing;

    - any Lien existing in respect of an asset at the time of its acquisition and any renewal or extension of any such Lien which is limited to the original asset covered thereby and which secures only the renewal or extension of the original secured financing;

    - any Lien in existence on the date of the Indenture, including any renewal or extension of such Lien which secures only the renewal or extension of the original secured financing;

    - any Lien securing Public External Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project and any renewal or extension of any such Lien, provided that:

        i. the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness; and
        ii. the property over which such Lien is granted consists solely of such assets and revenues or claims that arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such assets; and

    - Liens in addition to those permitted by other Permitted Liens above, and any renewal or extension of such Liens, provided that the aggregate amount of Public External Indebtedness secured by all such additional Liens does not exceed U.S.$25,000,000 (or its equivalent in other currencies) at any time.

2. The Republic will ensure that its obligations under the Notes will at all times constitute direct, general, unconditional, unsubordinated and unsecured Indebtedness of the Republic will rank equally, without any preference among themselves, with all other unsecured and unsubordinated obligations of the Republic, present or future, constituting Public External Indebtedness of the Republic (it being understood that this provision will not be construed so as to require the Republic to make payments under any series of the Notes ratably with payments being made under any other Public External Indebtedness).

Events of Default

Each of the following events is an event of default with respect to the Notes (each, an "Event of Default"):

(a) The Republic defaults in the payment of principal in respect of the Notes when and as the same are due, and such default shall continue for a period of thirty (30) days thereafter; or

(b) The Republic defaults in the payment of interest in respect of any of the Notes when and as the same are due, and such default shall continue for a period of thirty (30) days thereafter; or

(c) The Republic fails to perform any other obligation under the Notes and such failure continues for a period of 60 calendar days after written notice requiring the same to be remedied shall have been given to the Republic by the Trustee or by the Holders (with a copy to the Trustee) of at least 25% in the aggregate principal amount of the Outstanding Notes; or

(d) as a result of any default or event of default resulting from the failure to make any payment of principal or of interest thereunder when due contained in any agreement or instrument related to any External Indebtedness (as defined herein) of the Republic in excess of U.S.$25,000,000, such External Indebtedness becomes due and payable prior to the stated maturity thereof or if the Republic defaults in the payment or repayment of any of its External Indebtedness in excess of U.S.$25,000,000 on the maturity thereof as extended by any applicable days of grace or any guarantee or indemnity given by the Republic of any External Indebtedness in excess of U.S.$25,000,000 of others shall not be honored when due and called or within any period of grace applicable thereto and after written notice requiring the same to be remedied shall have been given to the Republic by the Trustee or by the Holders (with a copy to the Trustee) of at least 25% in the aggregate principal amount of the Outstanding Notes; or

(e) The Republic declares a moratorium with respect to the payment of principal of or interest on Public External Indebtedness, which moratorium does not expressly exclude the Notes; or

(f) The Republic denies, repudiates or contests the validity of its obligations Notes.

then, in any such event, the holders of at least 25% of the aggregate principal amount of the Notes outstanding, may by written notice given to the Republic with a copy to the Trustee, declare the principal of and any accrued interest on the Notes held by such holders to be, and such principal and any interest shall thereupon become, immediately due and payable at their principal face amount plus interest accrued thereon to the date of payment, including any Additional Amounts, unless prior to receipt of such demand by the Republic all such defaults shall have been cured. Notes held by or on behalf of the Republic shall not be considered "outstanding" for purposes of the preceding sentence. If any Event of Default described in clauses (a) through (g) above shall give rise to a declaration which shall be effective and such Event of Default is cured or waived following such declaration, then such declaration may be rescinded and annulled by the affirmative vote of the holders of more than 50% of the aggregate principal amount of the Notes outstanding in accordance with the procedures set forth in the Indenture. The Trustee shall not be deemed to have notice of any Default or Event of Default unless a responsible officer of the Trustee having direct responsibility for the administration of the Indenture and the Notes, has received written notice of such default at the corporate trust office of the Trustee, and such notice references the Notes and the Indenture and details the nature of the default.

Collective Action Securities, Modifications, Amendments and Waivers

Modifications may also be approved by holders of the Notes pursuant to written action consented by the holders of the requisite percentage of the Notes of the relevant series. The Republic shall solicit the consent of the relevant holders to the modification not less than 10 and not more than 30 calendar days before the expiration date for the receipt of such consents as specified by the Republic.

The holders of a series of the Notes may generally approve any proposal by the Republic to modify the Indenture or the terms of the Notes of that series with the affirmative vote (if approved at a meeting of the holders) or consent (if approved by written action) of holders of more than 50% of the outstanding principal amount of the Notes of that series.

However, in order to modify a reserved matter (as defined below), holders of any series of debt securities (including the Notes) must approve, by vote or consent through one of three modification methods (as further described below), any modification, amendment, supplement or waiver proposed by the Republic that would do any of the following (such subjects referred to herein as "reserve matters”):

- change the date on which any amount is payable;
- reduce the principal amount (other than in accordance with the express terms of the debt securities of that series and the Indenture);
- reduce the interest rate;
- change the method used to calculate any amount payable (other than in accordance with the express terms of the debt securities of that series and the Indenture);
- change the currency or place of payment of any amount payable;
- modify the Republic’s obligation to make any payments (including any redemption price therefor);
- change the identity of the obligor;
- change the definition of “outstanding” with respect to any series of debt securities (including the Notes) or the percentage of affirmative votes or written consents, as the case may be, required to make a “reserve matter modification;”
- change the definition of “uniformly applicable” or “reserve matter modification;”
- authorize the Trustee, on behalf of all holders of the debt securities, to exchange or substitute all the debt securities for, or convert all the debt securities into, other obligations or securities of the Republic or any other person; or
- change the legal ranking, governing law, submission to jurisdiction or waiver of immunities provisions of the terms of such debt securities.

A change to a reserve matter, including the payment terms of any series of debt securities (including the Notes), can be made and future compliance may be waived without your consent, as long as the change is approved, pursuant to one of the three following modification methods, by vote or consent by:

- where such proposed modification would affect a single series of debt securities, the holders of more than 75% of the aggregate principal amount of the outstanding debt securities of the series affected by the proposed modification (defined in the Indenture as “single series reserve matter modification”);
- where such proposed modification would affect the outstanding debt securities of two or more series (defined in the Indenture as a “cross series modification”), the holders of more than 75% of the aggregate principal amount of the then outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, if certain “uniformly applicable” requirements are met (defined in the Indenture as “cross-series modification with single aggregated voting”); or
- where such proposed modification would affect the outstanding debt securities of two or more series, whether or not the “uniformly applicable” requirements are met, the holders of more than 66 2/3% of the aggregate principal amount of the then outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, and the holders of more than 50% of the then aggregate principal amount of the outstanding debt securities of each series affected by the modification, taken individually (defined in the Indenture as “cross-series modification with two-tier aggregated voting”).

“Uniformly applicable,” as used herein, means a modification by which holders of debt securities of any series affected by that modification are invited to exchange, convert or substitute their debt securities on the same terms for (x) the same new instruments or other consideration or (y) new instruments or other consideration from an identical menu of instruments or other consideration. It is understood that a modification will not be considered to be uniformly applicable if each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification (or, where a menu of instruments or other consideration is offered, each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification electing the same option under such menu of instruments).

Any modification consented to or approved by the holders of debt securities pursuant to the above provisions will be conclusive and binding on all holders of the relevant series of debt securities or all holders of all series of debt securities affected by a cross-series modification, as the case may be, whether or not they have given such consent, and on all future holders of those debt securities whether or not notation of such modification is made upon the debt securities. Any instrument given by or on behalf of any holder of a debt security in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of that debt security, and on owners of debt securities issued in exchange or substitution, whether or not notation of such modification is made upon the debt securities

The Republic may select, in its discretion, any modification method for a reserve matter modification in accordance with the Indenture and to designate which series of debt securities will be included for approval in the aggregate of modifications affecting two or more series of debt securities. Any selection of a modification method or designation of series to be included will be final for the purpose of that vote or consent solicitation.

For so long as any series of debt securities issued under a fiscal agency agreement entered into the by Republic prior to the date hereof through which the Republic issued notes in the international capital markets upon reliance of Rule 144A of the Securities Act and Regulation S of the Securities and for which The Bank of New York Mellon thereof acts as fiscal agent (each, an "FAA") (the securities issued under the FAAs, "FAA Debt Securities") is outstanding, if the Republic certifies to the Trustee under the Indenture and to the fiscal agent or trustee under the relevant FAA that a cross-series modification is being sought simultaneously with a "FAA reserve matter modification," the FAA Debt Securities affected by such FAA reserve matter modification shall be treated as "series affected by that proposed modification" as that phrase is used in the Indenture; *provided*, that if the Republic seeks a cross-series modification with single aggregated voting, in determining whether such modification will be considered uniformly applicable, the holders of any series of FAA Debt Securities affected by the FAA reserve matter modification shall be deemed "holders of debt securities of all series affected by that modification," for the purpose of the uniformly applicable definition. It is the intention that in such circumstances, the votes of the holders of the affected FAA Debt Securities be counted for purposes of the voting thresholds specified in the Indenture for the applicable cross-series modification as though those FAA Debt Securities had been affected by that cross-series modification although the effectiveness of any modification, as it relates to the FAA Debt Securities, shall be governed exclusively by the terms and conditions of those FAA Debt Securities and by the applicable FAA; *provided, however*, that no such modification as to the debt securities will be effective unless such modification shall have also been adopted by the holders of the FAA Debt Securities pursuant to the amendment and modification provisions of such FAA Debt Securities set forth in the applicable FAA.

"FAA reserve matter modification," as used herein, means any modification to a reserve matter affecting the terms and conditions of one or more series of FAA Debt Securities, pursuant to the applicable FAA.

Before soliciting any consent or vote of any holder of the debt securities (including the Notes) for any change to a reserve matter, the Republic will provide the following information to the Trustee for distribution to the holders of debt securities of any series that would be affected by the proposed modification:

- a description of the Republic's economic and financial circumstances that are in the Republic's opinion relevant to the request for the proposed modification, a description of the Republic's existing debts and description of its broad policy reform program and provisional macroeconomic outlook;

- if the Republic shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of the multilateral or other creditors, as applicable, a copy of the arrangement or agreement;

- a description of the Republic's proposed treatment of external debt instruments that are not affected by the proposed modification and its intentions with respect to any other major creditor groups; and

- if the Republic is then seeking any reserve matter modification affecting any other series of debt securities, a description of that proposed modification.

For purposes of determining whether the required percentage of holders of Notes has approved any amendment, modification or change to, or waiver of, the Notes or the Indenture, or whether the required percentage of holders has delivered a notice of acceleration of the Notes, Notes owned, directly or indirectly, by the Republic or any public sector instrumentality of the Republic will be disregarded and deemed not to be "outstanding", except that in determining whether the Trustee shall be protected in relying upon any amendment, modification, change or waiver, or any notice from holders, only Notes that the Trustee knows to be so owned shall be so disregarded. As used in the preceding paragraph, "public sector instrumentality" means *Banco Central de Reserva de El Salvador*, any department, ministry or agency or any corporation, trust or other legal entity owned or controlled by the government of the Republic or any of the foregoing, and "control" means the power, directly or indirectly, through the ownership of the voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity.

Certain Amendments Not Requiring Holder Consent

The Republic and the Trustee may, without the vote or consent of any holder of Notes, modify the Indenture or the Notes for the purpose of:

- adding to the Republic's covenants for the benefit of the holders of the Notes;
- surrendering any right or power conferred upon the Republic with respect to the Notes;
- securing the Notes pursuant to the requirements of the Notes or otherwise;
- curing any ambiguity or curing, correcting or supplementing any defective provision in the Notes or the Indenture;
- amending the Notes or the Indenture in any manner that the Republic and the Trustee may determine and that does not materially adversely affect the interests of any holders of Notes; or
- correcting a manifest error of a formal, minor or technical nature.

Any such modification shall be binding on all holders of the Notes intended to be affected by such modification and, unless the Trustee otherwise requires, the Republic shall notify the holders of the Notes as soon as practicable thereafter.

Payments and Agents

Principal of, and interest on, the Notes will be payable by the Trustee to Noteholders. Payment of principal of the Notes (together with accrued interest) will only be made to the person in whose name such Note is registered (the "Noteholder") as of the close of business on the maturity date, following presentation and surrender of such Note at the office of any Paying Agent (as defined below), by U.S. dollar check drawn on, or by transfer to a U.S. dollar account maintained by the holder with, a bank located in New York City. Payment of interest on a Note will be made to the person in whose name such Note is registered at the close of business on the day (whether or not a Business Day) (the "Record Date") prior to the relevant due date for the payment of interest. Payment of such interest will be made directly to holders' DTC accounts or if notes are in physical form, upon application of the holder to the Registrar not later than the relevant Record Date, by transfer of immediately available funds to a U.S. dollar account maintained by the holder with a bank in New York City. If any day for payment of principal or interest in respect of any Note is not a Business Day, the holder shall not be entitled to payment, or to any interest or other sums, in respect of such postponed payment until the next Business Day following such day in such place.

All moneys paid by or on behalf of the Republic to the Paying Agent or any other paying agent for the payments of the principal of or interest on any Note which remain unclaimed at the end of two years after such principal or interest will have become due and payable will be repaid to the Republic (including all interest accrued, if any, with respect to any such amounts), and the holder of such Note will thereafter look only to the Republic for payment. Upon such repayment, all liability of the Paying Agent and any other paying agent with respect to the Note will cease, without, however, limiting in any way the obligation of the Republic in respect of the amount so repaid, subject to the provisions of "—Prescription."

Holders of beneficial interests in the Notes will be paid in accordance with the procedures of the relevant clearing system and its direct participants, if applicable. Neither the Republic nor the Trustee shall have any responsibility or liability for any aspect of the records of, or payments made by, the relevant clearing system or its nominee or direct participants, or any failure on the part of the relevant clearing system or its direct participants in making payments to holders of the Notes from the funds they receive.

As used herein, "Business Day" means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open, or not authorized to close, in New York City or the city of the Agent to which the Note is surrendered for payment.

The initial Agents and their initial specified offices are listed below. Any of the Agents may resign in accordance with the provisions of the Indenture, and the Republic reserves the right at any time to vary or terminate the appointment of any Agent and appoint additional or other Agents; provided that while the Notes are outstanding it will maintain (i) a Registrar and (ii) a Paying Agent and a Transfer Agent having a specified office in Luxembourg so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require. Notice of any change in the Agents or their specified offices will promptly be given to the Noteholders as described in the Indenture.

The Republic has appointed the Trustee to initially serve as its Registrar and Paying Agent and Transfer Agent for the Notes.

Payments in respect of the Notes will be made in such coin or currency of the United States of America that is the legal tender for the payment of public and private debts at the time of payment.

Concerning the Trustee

The Indenture contains provisions relating to the obligations, rights, duties and protections of the Trustee, to the indemnification of the Trustee and the liability and responsibility, including limitations, for actions that the Trustee takes. The Trustee is entitled to enter into business transactions with the Republic or any of its affiliates without accounting for any profit resulting from such transactions.

Optional Redemption

Prior to the date that is six months prior to the Maturity Date (the "Par Call Date"), the Republic will have the right, at its option, to redeem any of the Notes outstanding on the date of redemption, in whole or in part, at any time or from time to time prior to their maturity at a redemption price, calculated by the Independent Investment Bank, equal to the greater of (1) 100% of the outstanding principal amount of such Notes and (2) the sum of the present value of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year comprised of twelve 30-day months) at the Treasury Rate plus 50 basis points, plus, in each case, accrued and unpaid interest on the outstanding principal amount of the Notes to be redeemed to, but excluding, the redemption date. The Trustee shall have no duty or obligation to make any calculations required under the Indenture.

On or after the Notes Par Call Date, the Republic may, at its option, redeem the Notes, in whole or in part, at any time or from time to time at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest on 100% of on the outstanding principal amount of the Notes to be redeemed to, but excluding, the redemption date.

Notice of any redemption will be mailed by first-class mail, postage prepaid, or delivered in accordance with the procedures of the DTC, at least 30 but not more than 60 days before the redemption date to holders of the Notes to be redeemed at their respective registered addresses and to the Trustee; *provided, however*, that if the Trustee provides notice on behalf of the Republic, the Trustee will receive notice at least five (5) Business Days prior to when notice is sent to Holders. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market and the rules of such exchange so require, the Republic will also cause notices of redemption to be published as described under "—Notices."

Notes, when called for redemption as specified herein, will become due on the date fixed for redemption. The Republic will pay the redemption price for the Notes to be redeemed together with accrued and unpaid interest thereon to, but excluding, the redemption date. On and after the redemption date, interest will cease to accrue on the Notes subject to redemption as long as the Republic has deposited with the Trustee or a paying agent funds in satisfaction of the applicable redemption price pursuant to terms of the Notes. Upon redemption of any of the Notes by the Republic, such Notes will be cancelled.

Purchase and Cancellation

The Republic or any of its affiliates may at any time purchase the Notes at any price in the open market or otherwise. The Notes so purchased by the Republic may, at the Republic's discretion, be held, resold or surrendered to the Trustee for cancellation.

Additional Amounts

All payments by the Republic in respect of the Notes shall be made without withholding or deduction for or on account of any present or future taxes, duties, fines, penalties, assessments or other governmental charges of whatsoever nature (or interest on any taxes, duties, fines, penalties, assessments or other governmental charges of whatsoever nature) imposed or levied by or on behalf of the Republic or any political subdivision or authority thereof or therein having power to tax unless the Republic is compelled by law to deduct or withhold such taxes, duties, fines, penalties, assessments or governmental charges (or interest on any taxes, duties, fines, penalties, assessments or other governmental charges). In such event, the Republic shall make such withholding, make payment of the amount so withheld to the appropriate governmental authority (and promptly forward to each holder of a Note an official receipt (or a certified copy) or other documentation evidencing such payment) and forthwith pay such additional amounts ("Additional Amounts") as may be necessary to ensure that the net amounts receivable by the holders of Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Notes in the absence of such withholding or deduction. No such Additional Amounts shall be payable:

(i) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, fines, penalties, assessments or governmental charges (or interest thereon) in respect of such Note by reason of such holder's having some connection with the Republic other than the holding of the Note, the receipt of payments on the Note or the enforcement of rights with respect to the Note; or

(ii) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, fines, penalties, assessments or governmental charges (or interest thereon) in respect of any Note by reason of such holder's failure to comply with any reasonable certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with the Republic, or any political subdivision or taxing authority thereof or therein, of such holder or the holder of any interest in such Note or rights in respect thereof, if compliance is required by the Republic, or any political subdivision or taxing authority thereof or therein, as a precondition to exemption from such deduction or withholding; provided, however, that the Republic shall be obligated to pay Additional Amounts if such certification, identification or other reporting requirement would be materially more onerous, in form, in procedure, or in substance of information disclosed by the relevant holders or beneficial owners than comparable information or other reporting requirements imposed under United States tax law, regulation and administrative practice (such as U.S. Internal Revenue Service Forms W-8BEN, W-BENE-E, W-8IMY, W-8ECI, or W-9); or

(iii) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, fines, penalties, assessments or governmental charges (or interest thereon) in respect of any Note by reason of the failure of such holder to present such holder's Note for payment (where such presentment is required) within thirty (30) calendar days after the date on which such payment thereof became due and payable or is duly provided for and notice thereof is given to the holder, whichever occurs first, except to the extent that the holder of the Note would have been entitled to such Additional Amounts on presenting such Note for payment on the last day of such period of thirty (30) calendar days.

Whenever there is mentioned herein, in any context, the payment of the principal of or interest on, or in respect of, a Note, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this Condition, to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this Condition, and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

Currency Indemnity

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due under the Notes or a situation described above to the holder of a Note in one currency into another currency, the Republic and each holder will be deemed to have agreed that the exchange rate used will be that at which in accordance with normal banking procedures such holder could purchase the first currency with such other currency in the city which is the principal financial center of the country of issue of the first currency on the second business day preceding the day on which final judgment is given.

The obligation of the Republic in respect of any sum payable by it to the holder of a Note will, notwithstanding any judgment in a currency (the "Judgment Currency") other than that in which such sum is denominated in accordance with the applicable provisions of the Notes (the "Note Currency"), be discharged only to the extent that on the business day following receipt by such holder of the Note of any sum adjudged to be so due in the Judgment Currency, such holder of the Note may in accordance with normal banking procedures purchase the Note Currency with the Judgment Currency. If the amount of the Note Currency so purchased is less than the sum originally due to the holder of the Note in the Note Currency, the Republic will agree, as a separate obligation and notwithstanding any such judgment, to indemnify the holder of the Note against such loss, and if the amount of the Note Currency so purchased exceeds the sum originally due to the holder of the Note such holder will agree to remit to the Republic such excess, *provided* that such holder will have no obligation to remit any such excess as long as the Republic will have failed to pay such holder any obligations due and payable under the Note, in which case such excess may be applied to such obligations of the Republic under the Note in accordance with the terms of the Note.

Prescription

All claims against the Republic for payment of principal of or interest (including Additional Amounts, if any) on or in respect of the Notes will become void unless made within five years from the date on which such payment first became due.

Notices

The Republic will mail notices to holders of certificated securities at their registered addresses as reflected in the books and records of the Trustee. The Trustee will consider any mailed notice to have been given five business days after it has been sent. The Trustee will give notices to the holders of a global security in accordance with the procedures and practices of the depositary and such notices shall be deemed given upon actual receipt thereof by the depositary.

The Republic will also publish notices to the holders, and all notices to holders of Notes will be valid if (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require) published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or in such other publication or city or cities as specified in the Indenture, including on the website of the Luxembourg Stock Exchange at http://www.bourse.lu. Any such notice shall be deemed to have been given (x) on the date of mailing, in the case of mailed notice, and (y) on the date of such publication or, if published more than once, on the first date on which publication is made, in the case of published notice.

Further Issues

The Republic may, without the consent of the holders of the Notes, create and issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Notes (or the same except for the amount of the first interest payment and the issue price), so that such further notes may be consolidated and form a single series with the Notes, provided that such additional notes do not have, for purposes of U.S. federal income taxation (regardless of whether any holders of such notes are subject to U.S. federal laws), a greater amount of original issue discount than the Notes have as of the date of issuance of such additional notes Additional Notes issued in this manner will be consolidated with and will form a single series with the Notes.

Governing Law; Arbitration

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York, except that all matters concerning authorization by the Republic, as well as the bringing of any actions and the enforcement of any judgment against the Republic in the courts of the Republic, will be governed by the laws of El Salvador. With respect to any debt securities and the Notes issued pursuant to the Indenture, notwithstanding any reserve matter modification, the provisions of the Indenture relating to certain aspects of calling and holding of meetings and voting on amendments, modifications, changes and waivers related to the debt securities or these Notes shall in all cases be governed by and construed in accordance with the laws of the State of New York.

Any dispute, controversy or claim arising out of or relating to the Notes (other than any action arising out of or based on the United States federal or state securities laws), including the performance, interpretation, construction, breach, termination or invalidity thereof, shall be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules. The number of arbitrators shall be three, to be appointed in accordance with Section II of the UNCITRAL Arbitration Rules. The appointing authority shall be the Chairman of the International Court of Arbitration of the International Chamber of Commerce. The third arbitrator may be (but need not be) of the same nationality as any of the parties to the arbitration. The place of arbitration shall be New York, New York. The language to be used in the arbitration proceedings shall be English. Any arbitral tribunal constituted under this paragraph shall make its decisions entirely on the basis of the substantive law of the State of New York.

The decision of any arbitral tribunal shall be final to the fullest extent permitted by law, and a court judgment may be entered thereon by any Salvadoran court lawfully entitled to enter such judgment. In any arbitration or related legal proceedings for the conversion of an arbitral award into a judgment, the Republic will not raise any defense that it could not raise but for the fact that it is a sovereign state. The Republic has not consented to the jurisdiction of any court outside El Salvador in connection with actions arising out of or based on the Notes or in connection with the enforcement of any judgment arising out of such actions, nor has the Republic appointed an agent for service of process outside El Salvador. The Republic waives any *forum non conveniens* defense in any proceeding in El Salvador.

No arbitration proceedings hereunder shall be binding upon or in any way affect the right or interest of any person other than the claimant or respondent with respect to such arbitration.

The Republic's consent to arbitration shall not preclude a holder of any Note from instituting legal proceedings against the Republic in the courts of El Salvador.

The Republic has represented that it has no right to immunity on the grounds of sovereignty or otherwise, from the execution of any judgment in El Salvador, or from the execution or enforcement in El Salvador of any arbitral award (except, in each case, for the limitation on alienation of public property) in respect of any proceeding or any other matter arising out of or relating to its obligations contained in the Notes. The enforcement by a Salvadoran court of a foreign arbitral award is subject to recognition by the Supreme Court of the Republic, which will recognize such award if all of the required formalities are observed and the award does not contravene Salvadoran national sovereignty, constitutional rights or public policy and compliance with the obligations stated in the award is lawful in El Salvador. Under the laws of the Republic, public property (*bienes de uso público*) of the Republic located in El Salvador is not subject to execution or attachment, either prior to or after judgment. The execution of a judgment against the Republic in El Salvador is only available in accordance with Article 182 ordinal 4 of the Constitution of the Republic of El Salvador and the procedures set forth in Articles 555 to 558 and 590 et seq. of the Salvadoran Civil and Business Procedure Code; pursuant to Article 590, if the budget of the fiscal year in which a final judgment is issued is not adjusted to provide for payment of the judgment, registration of the judgment for inclusion in the budget of a subsequent fiscal year of the Republic is required for payment.

Certain Definitions

Set forth below is a summary of certain defined terms used herein and in the Indenture. Reference is made to the Indenture for a full definition of all such terms, as well as any other terms used herein for which no definition is provided.

"Comparable Treasury Issue" means the United States of America Treasury security or securities selected by an Independent Investment Banker (as defined below) as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of comparable debt securities of a comparable maturity to the remaining term of such Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations (as defined below) for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations or (ii) if El Salvador obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations. When obtaining a Comparable Treasury Price, El Salvador must consult at least two Reference Treasury Dealers.

"External Indebtedness" means any Indebtedness which is issued pursuant to agreements or evidenced by instruments subject to Chapter XII of the Commerce Code of the Republic.

"Indebtedness" means any obligation (whether present or future, actual or contingent) for the payment or repayment of borrowed money or arising from bonds, debentures, notes or other similar instruments.

"Independent Investment Banker" means one of the Reference Treasury Dealers (as defined below) or appointed by El Salvador.

"Lien" means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance including, without limitation, any equivalent created or arising under the laws of the Republic;

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having a separate legal personality; and

"Public External Indebtedness" means any External Indebtedness which is in the form of, or represented by, bonds, notes or other securities which are or are intended to be or are securities which are commonly quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market (including, without limiting the generality of the foregoing, securities eligible for resale pursuant to Rule 144A under the Securities Act), and which has an original maturity of more than one year or is combined with a commitment so that the original maturity of one year or less may be extended at the option of the Republic to a period in excess of one year.

"Reference Treasury Dealer" means Citigroup Global Markets Inc. and Scotia Capital (USA) Inc. or their respective affiliates which are primary United States government securities dealers and not less than two other leading primary United States government securities dealers in New York City designated by El Salvador; provided that if any of the foregoing cease to be a primary United States government securities dealer in New York City (a "Primary Treasury Dealer"), El Salvador will substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker (after consultation with the Republic), of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to El Salvador by such Reference Treasury Dealer at 3:30 p.m., New York time on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (as defined above), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

PLAN OF DISTRIBUTION

Citigroup Global Markets Inc. and Scotia Capital (USA) Inc. are acting as lead managers and joint bookrunners of this offering and as initial purchasers of the Notes. Subject to the terms and conditions in the purchase agreement dated the date of this Offering Circular (the "Purchase Agreement"), the initial purchasers will agree to purchase severally, and the Republic will agree to sell to the initial purchasers, the respective principal amount of the Notes set forth opposite its name below.

Initial Purchasers	Principal Amount
Citigroup Global Markets Inc.	US$548,500,000
Scotia Capital (USA) Inc.	US$548,500,000
Total:	**US$1,097,000,000**

The Purchase Agreement provides that the obligations of the initial purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The initial purchasers must purchase all the Notes if they purchase any of the Notes. The initial purchasers may offer and sell the bonds through certain of their affiliates.

The Republic has been advised that the initial purchasers propose to resell the Notes at the offering price set forth on the cover page of this Offering Circular within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule l44A and outside the United States in reliance on Regulation S. See "Transfer Restrictions". The price at which the Notes are offered may be changed at any time without notice.

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions".

Accordingly, the initial purchasers have agreed that, except as permitted by the Purchase Agreement and set forth in the "Transfer Restrictions", they will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons as part of the distribution of the Notes.

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule l44A.

Each of the initial purchasers will represent and agree in the Purchase Agreement that the offer in The Netherlands of the Notes included in this offering is exclusively limited to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) and are persons or entities who are qualified investors as defined in the Prospectus Regulation.

Although application will be made to list the Notes on the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market, the listing does not assure that a trading market for the Notes will develop. The initial purchasers intend to make a secondary market for the Notes. However, they are not obligated to do so and may discontinue making a secondary market for the Notes at any time without notice. No assurance can be given as to how liquid the trading market for the Notes will be. The Republic cannot assure you that the prices at which the Notes will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering.

No action has been or will be taken by El Salvador or the initial purchasers that would or is intended to permit an offering of the Notes or the possession, circulation or distribution of this Offering Circular in preliminary or final form, or any other offering material relating to El Salvador or the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, and neither this Offering Circular nor any circular, prospectus, form of application, other offering material or advertisement relating to the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with all applicable laws and regulations of any such country or jurisdiction.

In connection with the offering, the initial purchasers may purchase and sell Notes in the open market. These transactions may include over-allotment, covering transactions and stabilizing transactions. Over-allotment involves the sales of Notes in excess of the principal amount of Notes to be purchased by the initial purchasers. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. Initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

The initial purchasers and their affiliates have provided investment banking, commercial banking and financial advisory services for the Republic from time to time for which they have received customary fees and reimbursements of expenses and may in the future provide additional services for which they will receive customary fees and reimbursements of expenses.

The Republic has agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

It is expected that delivery of the Notes will be made against payment therefor on or about the date specified on the cover page of this Offering Circular, which will be the fifth business day following the date of pricing of the Notes (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, U.S. purchasers who wish to trade Notes on the date of pricing or the next three succeeding business days will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes in other countries who wish to trade the Notes on the date of pricing or the next two succeeding business days should consult their own advisor.

Sales Outside of the United States

Brazil

The Notes have not been, and will not be, registered with the Brazilian Securities and Exchange Commission of Brazil (*Comissão de Valores Mobiliários*, or the "CVM"). Any representation to the contrary is untruthful and unlawful. Therefore, the offer and sale of the Notes will not be carried out by any means that would constitute a public offering in Brazil under Law No. 6,385, of December 7, 1976, as amended, and under CVM Instruction (*Instrução*) No. 400, issued by the CVM on December 29, 2003, as amended; as a consequence, the Notes may not be offered and sold in Brazil, nor to any investor who is resident or domiciled in Brazil.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Chile

The offer of the Notes will begin on July 30, 2019 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*, or the "SVS"). The Notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS. As unregistered securities, the Republic of El Salvador is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los valores comienza el 30 de julio de 2019 y está acogida a la NCG 336 de fecha 27 de junio de 2012 de la Superintendencia de Valores y Seguros de Chile (la "SVS"). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública en Chile a menos que sean inscritos en el registro de valores correspondiente.

Colombia

The Notes have not been and will not be registered on the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) or in the Colombian Stock Exchange. Therefore, the Notes may not be publicly offered in Colombia. This material is for your sole and exclusive use as a determined entity, including any of your shareholders, administrators or employees, as applicable. You acknowledge the Colombian laws and regulations (specifically foreign exchange and tax regulations) applicable to any transaction or investment consummated pursuant hereto and represent that you are the sole liable party for full compliance with any such laws and regulations.

Ecuador

The offer of the Notes has not been and will not be registered as a public offering in Ecuador, either before the Stock Market Registry (*Catastro de Mercado de Valores*) of the Superintendency of Companies, Securities and Insurance of Ecuador (*Superintendencia de Compañías, Valores y Seguros de la República del Ecuador)* or any other governmental or private institution. Consequently the Notes may not be sold in Ecuador, since pursuant to the provisions of Securities Law No. 19-00 (LEY No. 19-00 de Mercado de Valores), dated February 22, 2006, and its rules for application, the offer of the notes may not qualify as a private offer in Ecuador. Thus, the offering or sale of Notes in Ecuador, through any means, may breach applicable local law in Ecuador.

European Economic Area

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) a person who is not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared, and, therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Hong Kong

The Notes have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Notes has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Luxembourg

This offering circular has not been approved by and will not be submitted for approval to the Luxembourg Financial Services Authority (*Commission de Surveillance du Secteur Financier* or the "CSSF"), or a competent authority of another EU Member State for notification to the CSSF, for the purposes of a public offering or sale in Luxembourg. Accordingly, the Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this offering circular, the indenture nor any other circular, prospectus, form of application, advertisement or other material related to such offer may be distributed, or otherwise be made available in or from, or published in, Luxembourg except in circumstances which do not constitute an offer of securities to the public requiring the publication of a prospectus in accordance with the Luxembourg Act of July 10, 2005 on prospectuses for securities, as amended (the "Luxembourg Prospectus Act"), and implementing the Prospectus Regulation. Consequently, this offering circular and any other offering circular, prospectus, form of application, advertisement or other material may only be distributed to (i) Luxembourg qualified investors as defined in the Luxembourg Prospectus Act, (ii) to fewer than 150 prospective investors, which are not qualified investors and/or (iii) in any other circumstance contemplated by the Luxembourg Prospectus Act.

Mexico

The Notes have not been and will not be registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the Mexican National Banking and Securities Commission *(Comisión Nacional Bancaria y de Valores* or the "CNBV"), and therefore may not be offered or sold publicly, or otherwise be the subject of brokerage activities in Mexico, except that the notes may be offered pursuant to a private placement exemption set forth under Article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*). The information contained in the offering memorandum is exclusively the responsibility of the bank and has not been reviewed or authorized by the CNBV. The acquisition of the notes by an investor resident of Mexico will be made under its own responsibility.

Panama

The Notes have not been, and will not be, registered for public offering in Panama with the National Securities Commission of Panama under Decree-Law 1 of July 8, 1999, as reformed by Law 67 of 2011 (the "Panamanian Securities Act"). Accordingly, the Notes may not be offered or sold in Panama, except in certain limited transactions exempted from the registration requirements of the Panamanian Securities Act. The Notes do not benefit from tax incentives accorded by the Panamanian Securities Act, and are not subject to regulation or supervision by the National Securities Commission of Panama as long as the Notes are offered to no more than 25 persons domiciled in Panama and result in the sale to no more than 10 of such persons.

Peru

The Notes have not been and will not be approved by or registered with the Peruvian securities regulatory authority, the Superintendency of the Securities Market (*Superintendencia del Mercado de Valores*). However, the Notes have been registered with the Superintendency of Banking, Insurance and Private Pension Funds (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) in order to be offered or sold in private placement transactions addressed to Peruvian institutional investors such as Peruvian private pension funds.

Singapore

This offering circular has not been registered as a prospectus under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") by the Monetary Authority of Singapore, and the offer of the Notes in Singapore is made primarily pursuant to the exemptions under Section 274 and 275 of the SFA. Accordingly, this offering circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of SFA (an "Institutional Investor"), pursuant to Section 274 of the SFA, (ii) to an accredited investor as defined in Section 4A of the SFA (an "Accredited Investor") or other relevant person as defined in Section 275(2) of the SFA (a "Relevant Person") and pursuant to Section 275(1), or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable exemption or provision of the SFA.

It is a condition of the offer that where the Notes are subscribed for or acquired pursuant to an offer made in reliance on Section 275 of the SFA by a Relevant Person which is:

(a) a corporation (which is not an Accredited Investor), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an Accredited Investor; or
(b) a trust (where the trustee is not an Accredited Investor), the sole purpose of which is to hold investments and each beneficiary of the trust is an individual who is an Accredited Investor,

securities or securities-based derivatives contracts (each as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has subscribed for or acquired the Notes except:

(i) to an Institutional Investor, an Accredited Investor, a Relevant Person, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 276(4)(i)(B) of the SFA (in the case of that trust);
(ii) where no consideration is or will be given for the transfer;
(iii) where the transfer is by operation of law; or
(iv) as specified in Section 276(7) of the SFA.

Singapore Securities and Futures Act Product Classification **-** Solely for the purposes of its obligations pursuant to Sections 309(B)(1)(a) and 309(B)(1)(c) of the SFA, the Republic of El Salvador has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Switzerland

This offering circular is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this offering circular nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this offering circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this offering circular nor any other offering or marketing material relating to the offering, nor the Republic of El Salvador nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority FINMA, and investors in the Notes will not benefit from protection or supervision by such authority.

Taiwan

The Notes have not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the Notes in Taiwan.

United Kingdom

Each Initial Purchaser has represented, warranted and agreed that it has:

- only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("FSMA") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Republic; and
- complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

BOOK-ENTRY SETTLEMENT AND CLEARANCE

Global Notes

The Notes will initially be issued in the form of registered notes in global form (which we refer to in this Offering Circular as "Global Notes"), without interest coupons, as follows:

- Notes sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act will be represented by one or more Global Notes (which we refer to in this Offering Circular as the "Restricted Global Notes"); and

- Notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by one or more Global Notes (which we refer to in this Offering Circular as the "Regulation S Global Notes").

Upon issuance, the Global Notes will be deposited with the Trustee (as defined in "Description of the Notes") as custodian for DTC and registered in the name of a nominee of DTC.

Ownership of beneficial interests in each Global Note will be limited to persons who have accounts with DTC (which we refer to in this Offering Circular as the "DTC participants") or persons who hold interests through DTC participants. The Republic expects that under procedures established by DTC:

- upon deposit of each Global Note with DTC's custodian, DTC will credit portions of the principal amount of the Global Note to the accounts of the DTC participants designated by the Joint Book-Running Managers; and

- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in each Global Note).

Investors may hold their interests in the Regulation S Global Note directly through Euroclear or Clearstream, Luxembourg, if they are participants in those systems, or indirectly through organizations that are participants in those systems. Investors may also hold their interests in the Regulation S Global Note through organizations other than Euroclear or Clearstream, Luxembourg that are DTC participants. Each of Euroclear and Clearstream, Luxembourg will appoint a DTC participant to act as its depositary for the interests in the Regulation S Global Note that are held within DTC for the account of each of these settlement systems on behalf of its respective participants.

Beneficial interests in the Global Notes may not be exchanged for Notes in physical certificated form except in the limited circumstances described below.

Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under "Transfer Restrictions".

Exchanges between the Global Notes

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the 40-day restricted period, and to which Global Note the transfer is being made, the Trustee may require the seller to provide certain written certifications in the form provided in the Indenture (as defined in "Description of the Notes").

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-Entry Procedures for the Global Notes

All interests in the Global Notes will be subject to the operations and procedures of DTC and, if applicable, Euroclear and Clearstream, Luxembourg. The Republic provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Republic nor the Joint Book-Running Managers are responsible for those operations or procedures.

TRANSFER RESTRICTIONS

The Notes are subject to the following restrictions on transfer. By purchasing Notes, each prospective investor will be deemed to have made the following acknowledgments, representations to and agreements with the Republic and the Joint Book-Running Managers :

(1) Each prospective investor acknowledges that:

- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and

- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) Each prospective investor represents that it is not an affiliate (as defined in Rule 144 under the Securities Act) of the Republic, that it is not acting on the Republic's behalf and that either:

- it is a qualified institutional buyer (as defined in Rule 144A) and is purchasing Notes for its own account or for the account of another qualified institutional buyer, and it is aware that the Joint Book-Running Managers are selling the Notes to it in reliance on Rule 144A; or

- it is not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and it is purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) Each prospective investor acknowledges that neither the Republic nor the Joint Lead Managers and Joint Bookrunners nor any person representing the Republic or the Joint Book-Running Managers has made any representation to such prospective investor with respect to the Republic or the offering of the Notes, other than the information contained in this Offering Circular. Each prospective investor represents that it is relying only on this Offering Circular in making its investment decision with respect to the Notes. Each prospective investor agrees that it has had access to such information concerning the Republic and the Notes as it has deemed necessary in connection with its decision to purchase Notes, including an opportunity to ask questions of and request information from the Republic.

(4) Each prospective investor represents that it is purchasing Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of that investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from the registration requirements of the Securities Act. Each prospective investor agrees on its own behalf and on behalf of any investor account for which it is purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the applicable resale restriction period pursuant to Regulation S or Rule 144, the Notes may be offered, sold or otherwise transferred only:

(a) to the Republic;

(b) under a registration statement that has been declared effective under the Securities Act;

(c) for so long as the Notes are eligible for resale under Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom it has given notice that the transfer is being made in reliance on Rule 144A; or

(d) pursuant to Regulation S.

Each prospective investor also acknowledges that:

- the Republic and the Trustee reserve the right to require, in connection with any offer, sale or other transfer of Notes before the applicable resale restriction period ends pursuant to Regulation S or Rule 144 under clauses (d) and (e) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Republic and the Trustee;

- Notes (other than those issued outside the United States pursuant to Regulation S) will, until the expiration of one year from the original issuance date of the Notes (or such other date as specified in Rule 144 or as specified in another applicable exemption under the Securities Act), unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS NOTE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE ISSUER OF THIS NOTE, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (II) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THESE NOTES SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE INDENTURE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

- Notes issued outside the United States pursuant to Regulation S will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY IN ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE INDENTURE AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

Each prospective investor acknowledges that the Republic, the Joint Book-Running Managers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. Each prospective investor agrees that if any of the acknowledgments, representations or agreements such prospective investor is deemed to have made by its purchase of Notes is no longer accurate, it will promptly notify the Republic and the Joint Book-Running Managers. If any prospective investor is purchasing any Notes as a fiduciary or agent for one or more investor accounts, such prospective investor represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgments, representations and agreements on behalf of each account.

TAXATION

El Salvador Taxation

The following is a general discussion of Salvadoran tax considerations. The discussion is based upon the tax laws of El Salvador as in effect on the date of this Offering Circular, which are subject to change. Prospective investors should consult their own tax advisers with respect to Salvadoran tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, El Salvador.

Under current Salvadoran law, including Legislative Decree No. 217 (as published in the *Diario Oficial* on December 21, 2018) of the Republic's Legislative Assembly, payments of principal and interest on the Notes are not subject to income or withholding tax in El Salvador. In addition, gains realized on the sale or other disposition of the Notes are not subject to income or withholding tax in El Salvador provided the transaction takes place outside El Salvador. Capital gains obtained for the purchase and sale of the Notes within El Salvador will be subject to the treatment set up in the tax legislation. There are no Salvadoran transfer, inheritance, gift or succession taxes applicable to the Notes.

United States Federal Income Taxation

Generally

The following summary describes certain material U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes acquired pursuant to this offering. This summary is based on the provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated thereunder by the U.S. Department of the Treasury (the "Treasury Regulations"), and rulings and decisions interpreting the Code as of the date that this Offering Circular was issued. All of these authorities may be repealed, revoked or modified at any time, possibly with retroactive effect. No assurances can be given that any changes in these authorities will not affect the accuracy of the discussions set forth in this summary. The Republic has not sought any ruling from the U.S. Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in this summary, and there can be no assurance that the IRS or the courts will agree with all of such statements and conclusions.

This summary deals only with holders that hold a Note as a capital asset for U.S. federal income tax purposes (generally, property held for investment). This summary does not purport to discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor's individual circumstances, such as investors whose functional currency is not the U.S. dollar or certain types of investors subject to special tax rules (*e.g.*, financial institutions, insurance companies, dealers in securities or currencies, certain securities traders, regulated investment companies, real estate investment trusts, persons subject to special tax accounting rules under Section 451(b) of the Code, partnerships or other entities or arrangements treated as partnerships for U.S. federal income tax purposes, persons holding the Notes through partnerships or other pass-through entities, pension plans, tax-exempt organizations and investors holding Notes as a position in a "straddle," "conversion transaction" or "constructive sale" transaction). In addition, this summary does not discuss the U.S. federal estate and gift tax, alternative minimum tax consequences or any non-U.S., U.S. state, or U.S. local tax considerations.

In December 2017, the United States enacted U.S. federal income tax reform, which significantly changed the U.S. federal income tax system. Although this summary takes into account this new U.S. federal income tax law, its provisions are complex and there is limited administrative guidance about its application. Prospective investors should consult their own tax advisors regarding the potential impact of this new U.S. federal income tax law on the U.S. federal income tax consequences to them in light of their particular circumstances.

If a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Notes, the U.S. federal income tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Holders of Notes that are partnerships and partners in such partnerships should consult their own tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes.

In certain circumstances (see "Description of the Notes—Optional Redemption"), we may be obligated to pay additional amounts to optionally redeem the Notes. These potential payments may implicate the provisions of the Treasury Regulations relating to "contingent payment debt instruments." Under these regulations, however, a contingency should not cause a debt instrument to be treated as a contingent payment debt instrument if, as of the issue date, such contingency is considered "remote" or "incidental" or, in certain circumstances, it is significantly more likely than not that the contingency will not occur. The Republic intends to take the position that the foregoing potential obligation to pay certain additional amounts should not cause the Notes to be treated as contingent payment debt instruments for U.S. federal income tax purposes. The Republic's position is binding on a holder unless such holder discloses its contrary position in the manner required by the applicable Treasury Regulations. It is possible that the IRS may take a different position, in which case, if such position is sustained, the timing and amount of income included and the character of the income recognized with respect to the Notes may be materially and adversely different from the consequences discussed herein. The remainder of this summary assumes that the Notes will not be treated as contingent payment debt instruments. You should consult your own tax advisor regarding the possible application of the contingent payment debt instrument rules to the Notes.

The Republic expects, and the remainder of this summary assumes, that the Notes will be issued at par or at a discount that is de minimis for U.S. federal income tax purposes.

Prospective purchasers of Notes should consult their own tax advisors concerning the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes in light of their particular circumstances, as well as the effect of any relevant U.S. state, U.S. local, non-U.S. or other tax laws.

Deemed Taxable Exchange

A change made to the terms of the Notes pursuant to the "collective action clauses" may give rise to a deemed taxable exchange of the Notes for U.S. federal income tax purposes upon which gain or loss is realized if the modified Note differs materially either in kind or extent from the original Note (a "Significant Modification"). Such gain or loss would generally be measured by the difference between the fair market value of the Note after the Significant Modification and the holder's tax basis in such Note before the Significant Modification. A modification of a Note that is not a Significant Modification does not create a deemed exchange for U.S. federal income tax purposes. Under applicable Treasury Regulations, the modification of a Note is a Significant Modification if, based on all of the facts and circumstances and taking into account all modifications of the Note collectively (other than modifications that are subject to special rules), the legal rights or obligations that are altered and the degree to which they are altered are "economically significant." The applicable Treasury Regulations also provide specific rules to determine whether certain modifications, such as a change in the timing of payments, are significant. See the discussion under "Description of the Notes— Collective Action Securities, Modifications, Amendments and Waivers" for more information about potential amendments of certain key terms of the Notes.

U.S. Holders

The following discussion applies to you if you are a U.S. Holder. For purposes of this summary, the term "U.S. Holder" means a beneficial owner of a Note who or that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (including an entity classified as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state of the United States or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons," as defined for U.S. federal income tax purposes (a "U.S. Person"), have the authority to control all substantial decisions of the trust or (b) the trust was in existence on August 20, 1996 and has in effect a valid election to be treated as a U.S. Person.

A holder of the Notes who neither is a U.S. Holder nor a partnership for U.S. federal income tax purposes is referred to herein as a "Non-U.S. Holder." If you are a Non-U.S. Holder, this discussion does not apply to you and you should refer to "Non-U.S. Holders" below.

Payments of Interest and Additional Amounts

Payments or accruals of stated interest on a Note generally will be taxable to a U.S. Holder as ordinary income at the time they are received or accrued, depending on the U.S. Holder's regular method of tax accounting. In addition to interest on a Note, a U.S. Holder will be required to include tax withheld, if any, from the interest payment as ordinary income, even though such U.S. Holder did not in fact receive it, and any Additional Amounts paid in respect of such tax withheld.

Interest (and any Additional Amounts) on the Notes will constitute income from sources outside the United States. Under the U.S. "foreign tax credit" rules, that interest generally will, depending on a U.S. Holder's circumstances, be classified as "passive" or another category of income, which may be relevant in computing the U.S. "foreign tax credit" allowable to a U.S. Holder under the U.S. federal income tax laws.

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

A U.S. Holder generally will recognize gain or loss upon the sale, exchange, retirement or other taxable disposition of a Note in an amount equal to the difference between the amount realized upon that sale, exchange, retirement or other taxable disposition (other than amounts representing accrued and unpaid interest not previously included in income, which will be taxed as such) and the U.S. Holder's adjusted tax basis in the Note. The "amount realized" is the sum of cash plus the fair market value of any property received upon the sale, exchange, retirement or other taxable disposition of a Note. A U.S. Holder's "adjusted tax basis" in a Note generally will equal the U.S. Holder's initial investment in the Note. Such gain or loss generally will be capital gain or loss, and will be long-term gain or loss if the Note was held for more than one year. Under current U.S. federal income tax law, net long-term capital gains of non-corporate taxpayers may be taxed at lower rates than items of ordinary income. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognized on the sale, exchange, retirement or other taxable disposition of a Note generally will be treated as income or loss from sources within the United States for U.S. "foreign tax credit" limitation purposes.

Medicare Tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% Medicare tax on the lesser of (i) the U.S. Holder's "net investment income" (or, in the case of an estate or trust, the "undistributed net investment income") for the relevant taxable year and (ii) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between US$125,000 and US$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally includes its interest income and its net gains from the disposition of a Note, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders should consult their own tax advisors regarding the applicability of the Medicare tax to the income and gain in respect of their investment in the Notes.

Information with Respect to Foreign Financial Assets

Owners of "specified foreign financial assets" with an aggregate value in excess of US$50,000 on the last day of the taxable year, or US$75,000 at any time during the taxable year generally will be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the U.S. Holder's circumstances, higher threshold amounts may apply. "Specified foreign financial assets" include any financial accounts maintained by non-U.S. financial institutions, as well as any of the following, but only if they are held for investment and not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. Persons, (ii) financial instruments and contracts that have non-U.S. issuers or counterparties and (iii) interests in non-U.S. entities. The Notes may be treated as specified foreign financial assets and U.S. Holders may be subject to this information reporting regime. Failure to file information reports may subject U.S. Holders to penalties. U.S. Holders should consult their own tax advisors regarding their obligation to file information reports with respect to the Notes.

Non-U.S. Holders

Payments of Interest and Additional Amounts

Subject to the discussion below of backup withholding, payments of interest and any Additional Amounts on the Notes generally are not subject to U.S. federal income tax, including withholding tax, if paid to a Non-U.S. Holder, unless the interest is effectively connected with such Non-U.S. Holder's conduct of a trade or business within the United States (and in addition, if an applicable income tax treaty requires, the interest is attributable to a permanent establishment or fixed place of business maintained by such Non-U.S. Holder within the United States). In that case, the Non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such interest in the same manner as a U.S. Holder, as described above (unless the interest is excluded under an applicable tax treaty). A Non-U.S. Holder that is classified as a corporation for U.S. federal income tax purposes may, in certain circumstances, also be subject to an additional U.S. "branch profits tax" in respect of any such effectively connected interest income.

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

Subject to the discussion below of backup withholding, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, retirement or other disposition of a Note unless: (1) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States (and in addition, if an applicable income tax treaty requires, the gain is attributable to a permanent establishment or fixed place of business maintained by such Non-

U.S. Holder in the United States), or (2) such Non-U.S. Holder is a nonresident alien individual, who is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met.

Non-U.S. Holders who are described under (1) above generally will be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder and, if the Non-U.S. Holder is classified as a corporation for U.S. federal income tax purposes, such Non-U.S. Holder may also be subject to the U.S. "branch profits tax" as described above under "—Payments of Interest and Additional Amounts." Non-U.S. Holders described under (2) above generally will be subject to a 30% U.S. federal tax on the gain derived from the sale, exchange, retirement or other disposition of a Note, which may be offset by certain U.S.-source capital losses (notwithstanding the fact that such Non- U.S. Holder is not considered a U.S. resident for U.S. federal income tax purposes). Any amount attributable to accrued but unpaid interest on the Notes generally will be treated in the same manner as payments of interest, as described above under "—Payments of Interest and Additional Amounts."

Backup Withholding and Information Reporting

If you are a U.S. Holder, and unless you prove that you are exempt, information reporting requirements will apply to payments of principal and interest and any Additional Amounts on the Notes made to you if such payments are made within the United States. Such payments will be considered made within the United States if they are transferred to an account maintained in the United States or mailed to a United States address, and the amount is paid by or through a custodian or nominee that is a "U.S. Controlled Person," as defined below. Backup withholding will apply to such payments if (i) you fail to provide an accurate taxpayer identification number, (ii) in the case of interest payments, you fail to certify that you are not subject to backup withholding, (iii) you are notified by the IRS that you have failed to report all interest and dividends required to be shown on your U.S. federal income tax returns, or (iv) you fail to demonstrate your eligibility for an exemption.

If you are a Non-U.S. Holder, you generally are exempt from these withholding and reporting requirements (assuming that the gain or income otherwise is exempt from U.S. federal income tax), but you may be required to comply with certification and identification procedures in order to prove your eligibility for exemption. The payment of proceeds of a sale or redemption of the Notes effected at the U.S. office of a broker generally will be subject to the information reporting and backup withholding rules, unless you establish an exemption. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a non-U.S. office of a broker that is a U.S. Controlled Person, as defined below, unless the broker has documentary evidence that the holder or beneficial owner is not a U.S. Holder (and has no actual knowledge or reason to know to the contrary) or the holder or beneficial owner otherwise establishes an exemption.

As used herein, the term "U.S. Controlled Person" means:

- a U.S. Person;
- a "controlled foreign corporation" for U.S. federal income tax purposes;
- a non-U.S. Person 50% or more of whose gross income is derived for U.S. federal income tax purposes from the conduct of a U.S. trade or business for a specified three-year period; or
- a non-U.S. partnership in which U.S. Persons hold more than 50% of the income or capital interests or which is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of a Note generally will be allowed as a refund or a credit against your U.S. federal income tax liability as long as you provide the required information to the IRS in a timely manner.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by Raúl Ernesto Melara Morán, the *Fiscal General de la Republica* (the "Attorney General") of the Republic and by Consortium Legal, Salvadoran counsel to the Republic, and by Arnold & Porter Kaye Scholer LLP, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the Joint Book-Running Managers by Latamlex Abogados a, Salvadoran counsel to the Joint Book-Running Managers, and by Hogan Lovells US LLP, U.S. counsel to the Joint Book-Running Managers. As to all matters of Salvadoran law, Arnold & Porter Kaye Scholer LLP will rely on the opinions of the Attorney General and Consortium Legal, and Hogan Lovells US LLP will rely upon the opinion of Latamlex Abogados.

GENERAL INFORMATION

1. The Regulation S Global Note will be accepted for clearance through Euroclear and Clearstream, Luxembourg and the Restricted Global Note will be accepted for clearance through DTC. The CUSIP numbers for the Regulation S Global Note and the Restricted Global Note are P01012CA2 and 283875BZ4, respectively. The common codes for the Regulation S Global Note and the Restricted Global Note are 203717911 and 203733224, respectively, and the International Securities Identification Numbers ("ISIN") for the Regulation S Global Note and the Restricted Global Note are USP01012CA29 and US283875BZ44, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of El Salvador in connection with the issue and performance of the Notes. The issue of the Notes is authorized under Legislative Decree No. 217 (as published in the *Diario Oficial* on December 21, 2018) of the Republic's Legislative Assembly. On January 2019, a claim was filed against the constitutionality of Legislative Decree No. 217 before the Constitutional Chamber of the Supreme Court of El Salvador. As of the date of this offering circular, the Constitutional Chamber of the Supreme Court had not admitted or rejected the claim, see "Summary—Recent Litigation."

3. Except as disclosed under "Summary - Recent Litigation currently there are no active or pending arbitration proceedings at the International Centre for Settlement of Investment Disputes ("ICSID") or other material arbitrations or litigations against the Republic.

4. On August 11, 2016, Moody's Investors Service downgraded El Salvador's ratings to B1 from Ba3 and placed the ratings on review for further downgrade. Later, on November 7, 2016, Moody's Investors Service changed El Salvador's issuer and long-term debt ratings to B3 from B1 and assigned a negative outlook to the ratings, concluding the previously initiated review for possible downgrade. Moody's Investors Service stated that the downgrade to B3 was based on a significant increase in liquidity risks and a political impasse in the Legislative Assembly. On April 13, 2017, El Salvador's ratings were downgraded to Caa1 stable from B3. On February 23, 2018, Moody's upgraded the ratings to B3 from Caa1 and maintained a stable outlook. On May 31, 2019, Moody's Investors Services confirmed El Salvador's B3 rating with stable outlook.

On October 13, 2016, S&P lowered its long-term sovereign credit ratings on the Republic of El Salvador to B from B+. The ratings on El Salvador remained on CreditWatch with negative implications. On December 8, 2016, S&P issued a Ratings Direct research update indicating it lowered its long-term foreign and local currency sovereign credit ratings on El Salvador to B- from B. On April 11, 2017, S&P lowered its long-term sovereign credit ratings to CCC-. Further, on April 20, 2017, the ratings were further lowered to Selective Default for the non-payment of interest on CIPs. On May 5, 2017, the ratings were upgraded to CC, in part due to the payment of the outstanding default. On October 2, 2017, the ratings were downgraded to SD, mainly due to a restructuring of outstanding debt related to the CIPs. Subsequently, on October 3, 2017 the ratings were upgraded to CCC+, again in relation to the restructuring of the CIPs. On December 14, 2017, S&P improved the outlook from stable to positive. On December 28, 2018, S&P improved the credit rating to B- and a stable outlook.

On July 9, 2015, Fitch downgraded El Salvador to B+ from BB- with a stable outlook. On February 1, 2017, El Salvador was downgraded to B from B+ with a negative outlook. On April 10, 2017, Fitch downgraded El Salvador's local currency credit from B to Restricted Default and its external credit was downgraded to CCC from B. On May 3, 2017, Fitch upgraded El Salvador's local currency debt to CCC from Restricted Default. On October 6, 2017, Fitch downgraded El Salvador's local currency credit to Restricted Default from CCC and on that same day both the local and external credit of El Salvador were upgraded to B- with a stable outlook. On June 13, 2018, the B- rating was confirmed.

5. Application will be made to list the Notes on the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. So long as any of the Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent in Luxembourg.

6. Copies of the following documents may be obtained on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Notes are listed on the Luxembourg Stock Exchange:

(a) the Indenture incorporating the forms of Global Notes and Note Certificates;

(b) copies of the Constitution of the Republic, and the Legislative Decree of the Republic referred to in paragraph 2 above (in Spanish);

(c) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English); and

(d) this Offering Circular.

7. Other than as disclosed herein, there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Notes since December 31, 2018.

8. The Republic of El Salvador's LEI code is 529900AKDMUSFSDOM949.

ISSUER

Republic of El Salvador
Ministry of Finance
Boulevard Los Héroes No. 1231
Edificio Ministerio de Hacienda
San Salvador
El Salvador

TRUSTEE, REGISTRAR, PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon
Global Trust Services—Americas
240 Greenwich Street, Floor 7E
New York, New York 10286
United States

JOINT BOOK-RUNNING MANAGERS

Citigroup Global Markets Inc.
388 Greenwich Street
New York, New York 10013
United States

Scotia Capital (USA) Inc.
250 Vesey Street
New York, New York 10281
United States

LEGAL ADVISORS TO THE REPUBLIC OF EL SALVADOR

As to United States Law
Arnold & Porter Kaye Scholer LLP
250 West 55th Street
New York, New York 10019
United States

As to Salvadoran Law
Raul Ernesto Melara Moran
Fiscal General de la República
Calle Cortez Blanco Poniente, #20
Urbanización Madre Selva 3
Antiguo Cuscatlán, La Libertad
El Salvador

As to Salvadoran Law
Consortium Legal
Calle Llama del Bosque Poniente
Urbanización Madre Selva III
Edificio Avante, Antiguo Cuscatlán, La Libertad Local 3-13
El Salvador

LEGAL ADVISORS TO THE JOINT BOOK-RUNNING MANAGERS

As to United States Law
Hogan Lovells US LLP
390 Madison Avenue
New York, New York 10017
United States

As to Salvadoran Law
Latamlex Abogados
Pasaje Senda Florida Norte., #124
Colonia Escalón, San Salvador
El Salvador

LUXEMBOURG LISTING AND PAYING AGENT

The Bank of New York Mellon S.A./N.V., Luxembourg Branch
Vertigo Building-Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg
Luxembourg

The Republic of El Salvador

US$1,097,000,000

7.1246% Notes due 2050

Joint Book-Running Managers

Citigroup **Scotiabank**

Offering Circular

July 30, 2019