Offering Circular

The Republic of El Salvador

US$653,500,000
7.625% Notes due 2041

The Republic of El Salvador (the "Republic") is offering US$653,500,000 aggregate principal amount of 7.625% Notes due 2041 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on February 1 and August 1 of each year commencing on August 1, 2011. The Notes will mature on February 1, 2041. This Offering Circular constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities.

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's outstanding Public External Indebtedness (as defined herein). Under these provisions, which are described in the sections entitled "Terms and Conditions of the Notes — Events of Default" and "— Modifications, Amendments and Waivers", the Republic may amend the payment provisions of the Notes and certain other terms with the consent of the holders of 75% of the aggregate amount of the outstanding Notes.

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 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 8 regarding certain risk factors you should consider before investing in the Notes.

Price: 100.0%
plus accrued interest, if any, from February 1, 2011

Delivery of the Notes will be made on or about February 1, 2011.

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.

Sole Lead Manager and Bookrunner

Deutsche Bank Securities

The date of this offering circular is January 25, 2011

El Salvador

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 document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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

TABLE OF CONTENTS

PRESENTATION OF INFORMATION iii
FORWARD-LOOKING STATEMENTS iii
ARBITRATION AND ENFORCEABILITY iv
EXCHANGE RATE INFORMATION v
OFFERING CIRCULAR SUMMARY 1
THE OFFERING 6
RISK FACTORS 8
USE OF PROCEEDS 10
THE REPUBLIC OF EL SALVADOR 11
THE SALVADORAN ECONOMY 15
FOREIGN TRADE AND BALANCE OF PAYMENTS 33
MONETARY SYSTEM 42
PUBLIC SECTOR FINANCES 47
PUBLIC DEBT 55
TERMS AND CONDITIONS OF THE NOTES 60
SUBSCRIPTION AND SALE 68
BOOK-ENTRY SETTLEMENT AND CLEARANCE 71
TRANSFER RESTRICTIONS 74
TAXATION 76
VALIDITY OF THE NOTES 80
GENERAL INFORMATION 81

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT THE EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

The Notes will be direct, general and unconditional obligations of the Republic. The Notes will, at all times, rank equally without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated Public External Indebtedness (as defined herein) of the Republic.

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 "Terms and Conditions 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 document 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 Sole Lead Manager to subscribe to 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 Sole Lead Manager to inform themselves about and to observe any such restrictions. See "Subscription and Sale" and "Transfer Restrictions" 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 reofferred, 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 pursuant to Rule 144A 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 Sole Lead Manager or any person affiliated with the Sole Lead Manager 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 Sole Lead Manager.

IN CONNECTION WITH THIS ISSUE OF NOTES, THE SOLE LEAD MANAGER 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 and references to the *“colón”* and *“colones”* and “¢” are to Salvadoran *colones.*

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 correction and change in subsequent publications.

Certain other information in this Offering Circular is derived from information made publicly available by the United Nations.

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 publicly 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 Fiscal Agency Agreement (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 the procedures set forth in Articles 556 to 558 and 590 *et seq.* of the Salvadoran Civil and Business Procedure Code that entered into force on July 1, 2010, which require registration of the judgment for inclusion in the budget for payment in a subsequent fiscal year of the Republic.

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.

OFFERING CIRCULAR 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 a republic and its form of government is a representative democracy. In March 2009, Mauricio Funes of the *Frente Farabundo Martí para la Liberación Nacional* (the "FMLN") party was elected president of the Republic. His election marked the first time that a representative of the FMLN was elected president after four consecutive terms in which the representatives of the *Alianza Republicana Nacionalista* ("ARENA") party had been elected to serve as president. He took office on June 1, 2009, succeeding Elias Antonio Saca González, who had been elected in 2004.

El Salvador is geographically the smallest and also the most densely populated of the five Central American countries. It is bounded on the south by the Pacific Ocean, on the northwest by Guatemala and on the northeast and east by Honduras.

In 2009, El Salvador had a nominal gross domestic product ("GDP") of approximately US$21.1 billion, a decrease from US$22.1 billion in 2008. Real GDP contracted by 3.5% in 2009, compared to growth of 2.4% in 2008, reflecting the negative effects of the slowdown of the global economy, which had a negative impact on external demand in El Salvador as well as on remittances and foreign direct investment. For the nine months ended September 30, 2010, real GDP increased 0.4%, compared to a 3.1% decrease registered during the same period in 2009, reflecting the slight recovery of the economy during the period.

According to the United Nations Human Development Report 2010, El Salvador's per capita gross national income ("GNI") based on 2008 figures and adjusted for purchasing power parity was US$6,498.

Recent Political and Economic Developments

Since taking office in June 2009, the Funes administration has begun to implement a series of measures to continue strengthening the Salvadoran economy in light of the global economic crisis beginning in 2007. In an effort to counteract its effects, President Funes and his administration developed the *Plan Global Anti-Crisis* ("Global Anti-Crisis Plan"), a program that sought to inject approximately US$575 million into the economy by: (1) stimulating the national economy with special focus on strategic sectors such as construction and agriculture, livestock and fishing; (2) providing unemployment compensation to citizens who have lost their jobs while at the same time reducing the level of unemployment by creating new positions in key economic sectors to compensate for job losses in the *maquila* sector; (3) assisting in the budgetary needs of families with low incomes or who have lost their primary source of income as a result of the crisis by establishing a universal social protection system, including providing free health coverage for six months under the social security system and free uniforms and other materials for students in grades 1 through 9 of the public school system; and (4) establishing the basis to build national policies for economic and social development and maintaining macroeconomic stability, including fiscal reforms to strengthen public finances. On November 12, 2009, the Legislative Assembly approved a local US$300 million bond issuance and reallocated US$150 million of funds that were originally allocated to fund the Global Anti-Crisis Plan to begin the rebuilding of basic infrastructure in areas damaged by Hurricane Ida. See "The Republic of El Salvador —Territory, Population and Safety". The bonds were issued in two tranches: one in June 2010 for US$200 million and the other in December 2010 for US$100 million. Of the US$300 million issued, US$150 million are being used to pay for the damage caused by Hurricane Ida. The remaining US$150 million are being used towards financing the projects of the Global Anti-Crisis Plan, as budgeted for in the 2010 Budget.

In connection with the implementation of the Global Anti-Crisis Plan, President Funes succeeded in enacting the following reforms: (i) 7,000 senior citizens over 70 years of age living in poor municipalities now receive a basic pension of US$50 a month and regular medical care; (ii) the unemployed have been extended three months coverage of social insurance; (iii) new jobs have been generated as a result of the enactment of sectoral policies and the investment in economic and social infrastructure; (iv) the creation of new institutional bodies that promote the participation of organized groups in the formulation of public policy; (v) the elimination of fees in public hospitals; (vi) 179,425 students in 658 schools have received free uniforms and 1,277,244 students in 4,684 schools have received free school supplies; (vii) the implementation of a substantial low income housing program; and (viii) the grant of approximately 4,000 land titles to an equal number of families.

On March 8, 2010, President Funes was the first Central American president to meet President Obama in the United States, and one of few Latin American heads of state to be received by leaders of both Houses of Congress. At the meeting, the Presidents

discussed ways that both countries can continue to improve their trading relationship, including expanding the use of biofuels and energy development, as well as security issues in the region, including drug trafficking and gang violence.

In May 2010, the government published its *Plan Quinquenal de Desarrollo 2010-2014* ("Five-Year Development Plan"). The Five-Year Development Plan contains the vision, priorities, objectives and goals of the government for the medium and long-term periods and includes an outlook through 2024. Its main purpose is to help ensure consistency and coordination of government action and to provide a strategic framework for productive socio-economic development.

Under the Five-Year Development Plan, the government's economic and social plans include the following objectives:

- reverse the trend of increasing poverty in recent years and expand the coverage of basic social services in both rural and urban areas, especially for the most vulnerable citizens and women;
- protect the purchasing power of the population and improve the rationalization of subsidies so that they benefit sectors in need;
- steadily increase domestic food production for domestic consumption, for export and for efficient import substitution, so as to reduce the country's dependence on food imports;
- reverse the trend of increasing unemployment and underemployment and promote the creation of jobs;
- increase tax revenues, make efficient and transparent use of such resources and reduce the level of external debt by reducing government spending and adequately managing its debt portfolio;
- significantly reduce the levels of violence and crime throughout the country;
- promote political reform in order to strengthen democracy and the rule of law; and
- expand economic and social infrastructure, primarily in rural areas of the country.

In macroeconomic terms, the Five-Year Development Plan contemplates the following goals:

- reduce poverty by 12 to 15 percentage points in both urban and rural areas;
- achieve an average rate of real GDP growth of 4.0% at the end of the five-year period.
- generate at least 250,000 new jobs;
- increase exports of goods and services by at least 20% at the end of five years;
- achieve an annual inflation rate of 2.8% at the end of five years;
- reduce the fiscal deficit relative to GDP to less than 2.0% at the end of five years;
- reduce public debt relative to GDP below 47.8% at the end of five years by increasing tax revenues and the efficiency of government spending and adequately managing its debt portfolio;
- achieve rural electrification coverage of 95% in 100 of the poorest municipalities in the country;
- extend the rural roads network by at least 250 kilometers; and
- increase clean drinking water coverage by 80% at the end of five years in 100 of the poorest municipalities.

The strategy for achieving the above mentioned objectives is based on the implementation of the following: (i) a universal social protection system and other social policies related to health, education and housing; (ii) the development of a financial system that can extend credit to the various productive sectors of the economy, particularly the micro, small- and medium-sized businesses and entrepreneurs and farmers and producers in the agricultural sector; (iii) policies directed at a sustainable macroeconomic environment and inclusive of various sectors of society; (iv) a productive development strategy that reorients government resources and services to promote both innovation and entrepreneurial initiatives of women and men involved in

production and business activities and creating new ways of enabling access to financial resources and quality management; (v) policies on internal security, democratic coexistence and international relations; and (vi) public investments in strategic programs and projects that address (a) equity, social inclusion and poverty reduction, (b) economic recovery, (c) sustainable development and (d) internal security.

In June 2010, President Funes announced the reestablishment of diplomatic relations with Cuba, formally restoring ties that were broken in 1961.

In July 2010, the United States government announced a 15-month extension of the temporary protected status afforded to Salvadoran immigrants in the United States.

Economic Performance

El Salvador's real GDP increased at an average annual rate of 2.1% from 2005 to 2009. The average annual rate of growth of real GDP from 2005 to 2007 was 4.0%. Real GDP increased by 2.4% in 2008, but contracted 3.5% in 2009 due to the global economic crisis. El Salvador's inflation rate was approximately 4.3% during 2005 and remained at 4.9% during 2006 and 2007. In 2008, inflation reached 5.5% due to sustained increases of international prices of food and oil in the first half of the year, but contracted 0.2% in 2009 as a result of low economic activity. As of November 2010, 12-month inflation registered an increase of 1.8% primarily due to price increases in food, beverages and transportation.

Remittances from Salvadoran workers abroad and a strong capital account resulted in the steady growth of foreign currency reserves at the Central Bank from 1992 through 1999. Remittances are an important source of income for the Salvadoran economy, representing US$3.5 billion, or 16.4% of GDP in 2009. For the eleven months ended November 30, 2010, remittances increased by approximately 2.3% as compared to the same period in 2009. See "Foreign Trade and Balance of Payments — Foreign Currency Reserves".

In recent years, *maquila* (assembly for re-export) has been an important activity within the economy, contributing an average of 11.4% of total production in the manufacturing sector in real terms from 2005 to 2009. According to the Ministry of Economy, as of September 30, 2010, there were 249 *maquila* plants and trading companies, 132 of which were located in free trade zones, with the remaining 117 operating outside the geographic boundaries of the free trade zones protected by the free trade zone law. Over half of the *maquila* plants established in the free trade zones produce apparel and linens, mainly for export to the United States. Since 2005, the manufacturing sector has generated an annual average of 20.9% of El Salvador's nominal GDP. Manufacturing activity increased at an average annual rate of 1.5% in real terms from 2005 to 2009. From 2005 to 2006 manufacturing was affected by the weakness of the *maquila* industry partially explained by the end of textile quotas in 2005, which intensified the competition from China and other Asian countries. In 2007, the manufacturing sector grew 3.7% but slowed to 2.7% in 2008. In 2009, the manufacturing sector declined 3.4%. *Maquila* activity has been the most important area in the manufacturing sector. *Maquila* production declined 7.0% in 2005 and 0.1% in 2006. After experiencing zero growth in 2007, *maquila* production grew by 5.1% in 2008 and declined 7.0% in 2009. As of November, 2010, the value of *maquila* exports increased by 15.2% compared to the same period in the previous year mainly due to the incipient economic recovery in the United States. See "The Salvadoran Economy—Principal Sectors of the Economy—Manufacturing".

Traditionally, coffee has been the principal agricultural product of the Republic and an important component of the overall Salvadoran economy. As the economy has increasingly come to rely on the manufacturing sector, particularly *maquila,* the importance of coffee to the economy has declined. Coffee accounted for 1.3% of real GDP and 9.9% of agricultural production in 2009 compared to 3.8% of real GDP and 25.5% of agricultural production in 1993. Coffee is nevertheless an important source of employment in El Salvador, generating approximately 75,000 jobs during the 2009/2010 harvest, which decreased to 2.9% of employment nationwide in 2009, compared to 4.0% of employment in 2008, due to the damage of crops caused by tropical storms. Coffee is also an important source of foreign currency. In 2009, coffee accounted for 6.1% of total Salvadoran exports of goods.

Net international reserves increased from US$1,829.4 million at December 31, 2005 to US$2,984.8 million at December 31, 2009. As of November 30, 2010, net international reserves stood at US$2,910.2 million.

In 2009, the non-financial public sector deficit totaled US$825.7 million, or US$513.7 million above the target set forth in the 2008 budget. The non-financial public sector deficit was 3.9% of nominal GDP in 2009, above the 1.3% target set forth in the 2009 budget. The non-financial public sector deficit for 2009 reflected total revenues of US$612.5 million below the 2009 budget projections of US$4,238.5 million, which were partially offset by expenditures of US$98.8 million below the 2009 budget projections. The decrease in total revenues was primarily due to the effects of the global crisis on the public finances. On the expenditure side, lower than budgeted expenditures were mainly the result of decreases in gross public investment (US$143.7 million), cost of subsidies for cooking gas (US$53.4 million) and electricity (US$92.7 million), due to lower oil prices than in

2008 offset by increased expenditures for social programs by the government. As of October 31, 2010, the non-financial public sector registered a deficit equal to US$339 million, equivalent to 1.6% of estimated nominal GDP. The non-financial public sector deficit as of October 31, 2010 reflects total revenues of US$3.4 billion.

The Republic's ratio of public external debt to GDP was 36.0% in 2005 and increased to 37.9% in 2009 primarily due to the higher deficit of the non-financial public sector. See "Public Debt —External Debt".

The ratio of total public sector debt increased from 43.7% of GDP at December 31, 2008 to 52.6% of GDP at December 31, 2009. The increase in public sector debt in 2009 was mainly due to US$800.0 million of external notes issued by the Republic in December 2009 that mature in 2019, the disbursement of US$300.0 million from a US$500.0 million IADB loan facility to the central government, as well as a disbursement of US$201.1 million from a US$450.0 million IBRD loan facility to the central government; and the issuance of US$335.0 million, from which US$183.0 million were used for cancelling the outstanding *Fideicomiso para Inversión en Educación, Paz Social y Seguridad Ciudadana* ("FOSEDU") certificates.

On November 15, 2009, Moody's Investors Service downgraded the Republic's long-term government bond ratings from "Baa3" to "Ba1", one level below investment grade, with a "negative outlook". On January 14, 2011, Standard & Poor's Ratings Services lowered the Republic's foreign currency issuer credit rating from "BB" to "BB-", with a "stable outlook". Currently, the Republic's long-term issuer default rating by Fitch Ratings is "BB".

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

Selected Economic Indicators

	For the Year Ended December 31,				
	2005	2006	2007	2008	2009
	(in millions of US dollars, except percentages and where noted)				
The Economy					
Nominal GDP[1]	$17,214.4	$18,749.4	$20,376.7	$22,106.8	$21,100.5
Real GDP (in millions of US dollars)[1][2]	$8,439.5	$8,795.4	$9,176.1	$9,399.4	$9,066.6
Real GDP growth[1][2]	3.3%	4.2%	4.3%	2.4%	(3.5)%
Annual inflation[3]	4.3%	4.9%	4.9%	5.5%	(0.2)%
Unemployment	7.2%	6.6%	6.3%	5.9%	7.3%
Balance of Payments					
Exports (FOB goods and services)	$4,392.3	$4,773.5	$5,168.8	$5,651.7	$4,696.0
Imports (FOB goods and services)	$7,458.5	$8,497.9	$9,563.9	$10,629.4	$7,966.3
Trade and services balance	$(3,066.2)	$(3,724.3)	$(4,395.1)	$(4,977.6)	$(3,270.3)
Current account surplus (deficit) of the balance of payments	$(610.2)	$(783.2)	$(1,221.3)	$(1,681.9)	$(373.5)
As % of GDP[1][4]	$(3.5)	$(4.2)	$(6.0)	$(7.6)	$(1.8)
Net international reserves	$1,829.4	$1,907.2	$2,197.5	$2,540.9	$2,948.8
Non-Financial Public Sector					
Total revenues	$2,884.3	$3,285.3	$3,640.3	$3,935.8	$3,626.0
Total expenditures	$3,065.0	$3,482.5	$3,716.1	$4,298.5	$4,451.7
Primary balance surplus (deficit)	$208.7	$257.7	$431.6	$156.8	($294.8)
As % of GDP[1]	1.2%	1.4%	2.1%	0.7%	(1.4%)
Surplus (deficit)[4]	($180.7)	($197.2)	($75.8)	($362.8)	($825.7)
As % of GDP[1]	(1.0%)	(1.1%)	(0.4%)	(1.6%)	(3.9%)
Public Sector Debt[5]					
Total public debt	$7,665.0	$8,332.7	$8,604.6	$9,669.6	$11,102.7
Internal debt	$1,470.7	$1,680.3	$2,153.6	$2,764.9	$3,107.4
External debt	$6,194.3	$6,652.4	$6,451.0	$6,904.7	$7,995.3
Total public debt (as % of GDP)[1]	44.5%	44.4%	42.2%	43.7%	52.6%
Public internal debt (as % of GDP)[1]	8.5%	9.0%	10.6%	12.5%	14.7%
Public external debt (as % of GDP)[1]	36.0%	35.5%	31.7%	31.2%	37.9%
External debt service (as % of exports of goods and services)[1][6]	12.4%	16.2%	13.2%	11.5%	13.9%

(1) Preliminary figures for 2005 to 2009.
(2) At constant 1990 prices.
(3) As measured by the variation in the *Índice de Precios al Consumidor* (Consumer Price Index or the "CPI") published by the National Bureau of Statistics and Census. 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.

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

THE OFFERING

Issuer	The Republic of El Salvador.
Issue Amount	US$653,500,000 aggregate principal amount.
Issue Price	100.0% of the principal amount of the Notes, plus accrued interest, if any, from February 1, 2011.
Issue Date	February 1, 2011.
Maturity Date	February 1, 2041.
Interest	The Notes will bear interest from February 1, 2011 at the rate of 7.625% per annum payable semi-annually in arrears on February 1 and August 1 of each year, commencing on August 1, 2011.
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 "Terms and Conditions of the Notes — Payment of Additional Amounts".
Status	The Notes will be direct, general, unsecured and unconditional obligations of the Republic. The Notes will at all times rank equally without any preference among themselves and at least equally with all other present and future unsecured and unsubordinated Public External Indebtedness of the Republic. See "Terms and Conditions of the Notes — General", "— Negative Pledge" and "— Covenants".
Negative Pledge and Certain Covenants	The Terms and Conditions of the Notes contain certain covenants and restrictions on the creation or subsistence of any Security (as defined herein) securing Public External Indebtedness, with certain exceptions. See "Terms and Conditions of the Notes — Negative Pledge" and "— Covenants".
Use of Proceeds	The net cash proceeds from the issuance and sale of the Notes will be approximately US$653,284,650 after deduction of the commissions payable by the Republic to the Sole Lead Manager and the net expenses payable by the Republic. The net proceeds from the issuance and sale of the Notes will be used by the Republic to finance the payment at maturity of the Republic's 8.50% Notes due July 25, 2011 for US$653.5 million.
Collective Action Clauses	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 the Republic's outstanding Public External Indebtedness. Under these provisions, which are described in the sections entitled "Terms and Conditions of the Notes — Events of Default" and "— Modifications, Amendments and Waivers", the Republic may amend the payment provisions of the Notes and certain other terms with the consent of the holders of 75% of the aggregate amount of the outstanding Notes.
Form of Notes	The Notes will be issued in the form of 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.
Listing	Application has been made to list the Notes on 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").
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 and execution 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 the procedures set forth in Article 556 to 558 and 590 *et seq*. of the Salvadoran Civil and Business Procedure Code that entered into force on July 1, 2010, which require registration of the judgment for inclusion in the budget for payment in a subsequent fiscal year of the Republic.
Fiscal Agent, Principal Paying Agent, Registrar and Transfer Agent	The Bank of New York Mellon.
Luxembourg Transfer and Paying Agent	The Bank of New York Mellon (Luxembourg) S.A.

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 the Notes

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

El Salvador has been advised by the Sole Lead Manager that it intends to make a market in the Notes but is 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 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 "Terms and Conditions 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 with the consent of the holders of 75% of the aggregate amount of the outstanding Notes.

Risk Factors Relating to El Salvador

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".

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:

- interest rates in the United States and financial markets outside El Salvador;
- changes in economic or tax policies;
- the imposition of trade barriers;
- general economic and business conditions in El Salvador and the global economy;
- 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; and
- the decisions of international financial institutions regarding the terms of their financial assistance to 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 memorandum.

El Salvador's economy remains vulnerable to external shocks, including the global economic crisis that began in 2007 and those 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 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.

USE OF PROCEEDS

The net cash proceeds from the issuance and sale of the Notes will be approximately US$653,284,650 after deduction of the commissions payable by the Republic to the Sole Lead Manager and the net expenses payable by the Republic. The net proceeds from the issuance and sale of the Notes will be used by the Republic to finance the payment at maturity of the Republic's 8.50% Notes due July 25, 2011 for US$653.5 million.

THE REPUBLIC OF EL SALVADOR

Territory, Population and Society

El Salvador is geographically the smallest as well as the most densely populated of the five Central American countries, encompassing 8,124 square miles (21,041 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. Two major earthquakes struck El Salvador in January and February 2001. Throughout the country, there are 25 volcanoes, most of which are dormant. The most recent major volcanic eruption was in 1946. A minor volcanic eruption occurred in 2005.

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 2005, Hurricane Stan produced floods and mudslides in El Salvador that required the central government to take emergency measures and provide temporary shelter to the affected population. On November 6, 2009, Hurricane Ida produced mudslides, flooding and wind damage in thirteen provinces in El Salvador. The government's estimate of the cost of reconstruction from the destruction caused by Hurricane Ida is approximately US$150 million, which was approved by the Legislative Assembly on November 2009. In May 2010, Hurricane Agatha caused further damage to the Republic's infrastructure and crops. According to the Ministry of Environment and Natural Resources, both hurricanes are estimated to have caused approximately US$351.0 million in damages and losses to the affected areas.

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. Currently, the governments of Honduras and El Salvador are in the final stage of the process, which is the approval of definitive maps of each country.

El Salvador's population is currently estimated at 6.2 million people by the *Dirección General de Estadística y Censos* (the "National Bureau of Statistics and Census"), a division of the Ministry of Economy. In 2010, approximately 64% of the population resided in urban areas and 36% resided in rural areas. In addition, more than one 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. According to the National Bureau of Statistics Census 2007, over 86.3% of the current population is *mestizo* of mixed European and Indian descent. San Salvador, the capital and country's largest city, had a population of approximately 317,295 in 2010 and the average annual population growth rate for the Republic is projected to be approximately 0.6% for the period between 2011 and 2015. Most of the population is Roman Catholic.

The following table sets forth information on per capita gross domestic product, average life expectancy, adult literacy rates and enrollment ratio-education in certain countries.

Selected Comparative Social Statistics

	El Salvador	Nicaragua	Honduras	Guatemala	Costa Rica	Panama	United States
Per Capita GNI[1]	$ 6,498	$ 2,567	$ 3,750	$ 4,694	$ 10,870	$ 13,347	$ 47,094
Average life expectancy[2]	72.0	73.8	72.6	70.8	79.1	76.0	79.6
Adult literacy rate[3]	84.0%	78.0%	83.6%	73.8%	96.0%	93.5%	-- %
Mean years of schooling	7.7	5.7	6.5	4.1	8.3	9.4	12.4
Expected years of schooling	12.1	10.8	11.4	10.6	11.7	13.5	15.7

(1) In dollars. Based on 2008 figures, adjusted for purchasing power parity.
(2) In years, at 2008.
(3) From most recent years available 2005-2008. Percentage of persons 15 years and older.

Source: *Human Development Report 2010, United Nations.*

Historical Background

Prior to the Spanish conquest in the early 16th century, various Indian 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 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 then recently formed Communist Party was quashed by General Maximiliano Hernández 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* (the "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 and that, with amendments, is still in force. In 1984, in the first presidential election under the new Constitution, the PDC leader, José Napoleón Duarte, was elected president.

During this time, several guerrilla organizations unified to form the FMLN. From 1980 until the signing of the Peace Accord in 1992, the Republic faced internal political and military conflicts which caused the loss of approximately 75,000 lives, triggered extensive emigration, displaced hundreds of thousands of persons within the country and caused widespread destruction to the country's infrastructure and economy.

Former President Duarte was replaced in the 1989 presidential election by Alfredo Cristiani of ARENA. The Cristiani administration implemented a number of changes designed to reinvigorate the economy. The benefits of these measures were evidenced by real GDP growth of 4.8% and 3.6% in 1990 and 1991, respectively, as compared to decreases or minimal growth in the period from 1985 through 1989. 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.

The principal programs established pursuant to the Peace Accord were intended to meet the following goals:

- *Economic and social reintegration of former guerrillas and military personnel into the economy and society.* The immediate aim of the reintegration projects was to generate employment and income for the former combatants and military personnel. The projects included a program to transfer title to rural land to certain beneficiaries, United Nations agricultural training programs, agricultural credit access programs through the *Banco de Fomento Agropecuario,* vocational training and scholarship programs, and loan programs for the establishment of small business and scholarships.

- *Building public confidence in the government.* Through electoral reforms and voter identification and registration, changes in the judiciary including the evaluation and training of judges, the replacement of internal military police with a trained national civilian police force and the establishment of a human rights commission, the government has sought to restore and build confidence in the government.

- *Assistance to rural communities significantly affected by the conflict.* The Republic provided assistance to rural communities in the short-term through basic municipal services, food and housing and in the medium- and long-term through the promotion of production, infrastructure and capital investment projects in education, health, environmental protection, economic and social infrastructure and municipal development.

The aggregate cost of implementing these programs since 1992 was approximately US$2.6 billion. In addition, the Republic benefited from the voluntary write-off by the United States of a portion of its external debt in 1993 and from the restructuring of the terms of much of its other external debt to finance the costs of such programs. See "Public Debt". The Republic believes that it has already incurred the costs of implementing the programs established pursuant to the Peace Accord.

Since the signing of the Peace Accord, the Republic has undertaken a number of economic, social, monetary and fiscal reforms designed to create stability and growth in the economy. For a discussion of these reforms, see "The Salvadoran Economy — Principal Reforms from 1989 to Present".

In January 2010, President Funes apologized on behalf of the Salvadoran state for crimes and violations of human rights committed during the civil war and urged unity and reconciliation in El Salvador.

El Salvador's development has been affected by a series of natural disasters including Hurricanes Mitch in 1998, Stan in 2005, Ida in 2009, and Agatha, Alex, Matthew and Nicole in 2010. A series of devastating earthquakes in early 2001 that left nearly 2,000 people dead or missing and 8,000 injured, caused severe dislocations across all sectors of Salvadoran society. The earthquake damage was severe, with the impact concentrated on housing, schools and other basic infrastructure in rural areas that are among the country's poorest regions. Since the occurrence of these natural disasters, however, the government of El Salvador has undertaken several efforts to rebuild the areas that were severely affected.

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 13 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 its cabinet members and has veto power over legislation, which may be overridden by a two-thirds vote of the Legislative Assembly. The president also appoints the regional governors for the 14 departments of El Salvador. The current president of El Salvador, Mauricio Funes of FMLN, was elected on March 15, 2009. President Funes took office on June 1, 2009, succeeding President Elias Antonio Saca González. The next presidential election is scheduled to be held in March 2014.

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 the Legislative Assembly in two sessions, the first by a majority of the members of the Legislative Assembly and the second by a two-thirds vote.

In the most recent legislative elections held on March 15, 2009, FMLN increased its representation in the Legislative Assembly from 34 to 35 seats, becoming the largest party in the Legislative Assembly, but falling short of a simple majority. As a result, no one party has control over the Legislative Assembly. ARENA won 32 seats, securing veto power over legislation that requires a two-thirds vote. Legislative matters must be resolved, as they were prior to the 2009 legislative elections, through the creation of coalitions by ARENA or FMLN with one or more of the other minority parties. The third largest party, *Partido de Conciliación Nacional* (the "PCN"), won 11 seats, maintaining the number of seats it held prior to the election. Since the elections, one member subsequently separated from the PCN and became an Independent.

In late October 2009, after all elected members of the Legislative Assembly took office, 12 members of ARENA left the party and created a *grupo parlamentario* ("legislative group") called *Gran Alianza por la Unidad Nacional* ("GANA"). GANA became a political party in May 2010 and has gained four more seats at the Legislative Assembly since then.

The current composition of the Legislative Assembly is described in the following table.

Legislative Assembly
Composition by Political Party

Political Party	Number of Members
FMLN	35
ARENA	19
GANA	16
PCN	10
Partido Demócrata Cristiano ("PDC")	2
Cambio Democrático ("CD")	1
Independent	1
Total	84

Source: *Ministerio de Hacienda*.

Under existing laws, the next legislative elections are scheduled to be held in March 2012. Pursuant to a recent decision issued by the Supreme Court, candidates for the Legislative Assembly and for mayor may run as independents unaffiliated with any party. The Legislative Assembly is in the process of amending the Constitution and the Electoral Code was recently amended to reflect the changes provided by the decision. Recently, there was a constitutional amendment approved by the previous Legislative Assembly providing that elections for members of the Legislative Assembly and local governments be held every five years. However, in order for the amendment to enter into force, it must be approved by the current Legislative Assembly by a two-thirds vote.

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.

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 International Monetary Fund (the "IMF"), the International Bank for Reconstruction and Development ("World Bank"), the World Trade Organization (the "WTO"), the IADB and the *Banco Centroamericano de Integración Económica* ("CABEI"), among other international institutions.

Recent Developments in Foreign Relations

In February 2010, El Salvador normalized relations with Honduras and recognized Porfirio Lobo as president following elections in November 2009 after former President Manuel Zelaya was deposed in a military coup.

On March 8, 2010, President Funes was the first Central American president to meet President Obama in the United States, and one of few Latin American heads of state to be received by leaders of both Houses of Congress. At the meeting, both Presidents discussed ways that both countries can continue to improve their trading relationship, including expanding the use of biofuels and energy development, as well as security issues in the region, including drug trafficking and gang violence.

In June 2010, President Funes announced the reestablishment of diplomatic relations with Cuba, formally restoring ties that were broken in 1961.

THE SALVADORAN ECONOMY

Historical Background; Principal Reforms from 1989 to Present

Since 1989, successive governments have implemented a number of economic, monetary and fiscal reforms designed to create stability and growth in the economy. The benefits of these reforms have been evidenced by average annual real GDP growth of 4.7% from 1992 to 2000 and of 4.0% from 2005 to 2007. This trend was interrupted from 2001 to 2004, when average annual real GDP growth was 2.0%, mainly due to the 2001 earthquakes and the slow-down in the U.S. economy. In 2008, real GDP growth decelerated to 2.4% and in 2009 it contracted 3.5% due to the global economic crisis, affecting exports, employment and remittances flows. For the nine months ended September 30, 2010, real GDP increased 0.4%, compared to the same period in 2009, resulting from positive economic activities during the second and third quarter of 2010.

Some of the reforms implemented during this period included:

- adopting the Monetary Integration Act, which went into effect on January 1, 2001, fixing the *colón* to the US dollar at ¢8.75 to US$1.00 and allowing free circulation of the US dollar in the Salvadoran economy and making the US dollar the unit of account for El Salvador's financial sector. These reforms were intended to stabilize permanently the value of the *colón* against the US dollar, reduce interest rates, increase the local savings rate, control inflation, encourage foreign investment, and simplify the management of the economy. The fixed exchange rate replaced the free floating exchange rate that had been in place since 1989. The Central Bank is not permitted to be a funding source for the central government. The power of the Central Bank to issue new *colones* or coins ceased as of January 1, 2001. All deposits, loans, pensions and other operations of the financial system were redenominated to US dollars on that date. Non-financial firms may use either *colones* or US dollars to express their financial records and accounting. Salaries and wages may be denominated in either *colones* or US dollars and prices can be specified in *colones* or US dollars.

- encouraging the establishment of free trade zones by eliminating certain tariffs and adopting laws allowing unrestricted repatriation of earnings by foreign companies while providing for rebates of duties on certain exports. All these measures, which have been implemented through various laws and decrees such as the *Ley del Régimen de Zonas Francas y Récintos Fiscales* implemented in 1990 and the *Ley de Zonas Francas y de Comercialización* implemented in 1998, along with their respective amendments, were intended to stimulate the productive sectors of the economy, principally by *maquila* plants, which are exempt from import and export duties and enjoy certain income tax exemptions.

- implementing the initiatives of the *Mercado Común Centroamericano* (the "Central American Common Market" or "CACM"), qualifying for enhanced, preferential access to the United States market under the Caribbean Basin Initiative (the "CBI") and reaching free trade agreements with Mexico, Chile, the Dominican Republic, Panama, Taiwan, Colombia and the United States. El Salvador also entered into the U.S.-Dominican Republic-Central America Free Trade Agreement (the "DR-CAFTA") with the United States, the five member countries of the Central America Economic Integration System and the Dominican Republic. In May 2010, El Salvador entered into an association agreement with the European Union. See "Foreign Trade and Balance of Payments —Regional Integration and Free Trade".

- modernizing the banking sector in El Salvador through the privatization of commercial banks and the savings and loan associations in order to promote competition and the development of a stronger financial system. The government created the *Superintendencia del Sistema Financiero* (the "Superintendency of the Financial System") on January 22, 1990 to regulate the banking industry and enacted legislation to further its modernization efforts in the banking sector.

- reforming the pension system with the creation of a new system pursuant to which a substantial portion of the public "pay-as-you-go" pension system was replaced by a private system based on individual contributions. Under the new system that was established in 1996, participating workers make monthly contributions to private pension funds that invest in permitted Salvadoran securities. Subsequent reforms to the pension system law reduced the government's obligations by authorizing the government to make certain payments pursuant to a 15-year annuity rather than in one lump sum and eliminated employees' option to retire after 30 years of contributions to the system regardless of age. Subsequent reforms further reduced the burden by substituting the 15-year annuity with 25-year pension investment certificates at more favorable interest rates. At December 31, 2009, over 1.9 million Salvadorans, or 101.6% of the total Salvadoran workforce in 2009, were affiliated with the private system and US$5.2 billion in assets, equivalent to 24.4% of 2009 nominal GDP, were managed by the system's private pension fund administrators. At November 30, 2010, approximately 2.0 million Salvadorans, or 106.3% of the total Salvadoran workforce in 2010, were affiliated with the private system which had US$5.4 billion in assets. See "The Salvadoran Economy — Employment and Wages — Pension Reform" and "The Salvadoran Economy — Public Debt — Internal Debt".

- implementing a series of tax reforms, including the introduction of the value added tax in 1992 and the subsequent increase in the value added tax rate from 10.0% to 13.0% in 1995. Subsequent tax reforms were implemented in 2004 and 2009 aimed at closing loopholes, strengthening tax and customs administration, widening the tax base, increasing the penalties under the tax code for violations of the value added tax and income tax provisions as well as the applicable penalties under the Penal Code and Civil Code, and introducing penalties for customs violations. As a result of these reforms, the tax to GDP ratio increased from 9.5% of GDP in 1991 to 14.0% GDP in 2008; nevertheless, it fell to 13.4% of GDP in 2009 due to the global economic crisis.

- continuing to modernize public sector institutions by reducing the size of the central government through a decrease in the number of employees and combining ministries. The government amended the *Ley del Servicio Civil* (the "Civil Service Law"), which established a more flexible public sector employment policy and reduced the government's payroll. The amendments also provided public employees with the right to organize, the right to strike and the right to seek collective bargaining over wages, benefits, and working conditions. These last amendments were approved by the Legislative Assembly in September 2006 and entered into force in June 2009 after ratification of a constitutional amendment recognizing public workers' right to organize and the right to strike under certain circumstances. During 2003 and again in 2009, the government implemented measures designed to reduce government expenditures for subsidies in the areas of electricity and water consumption and public transportation and focus subsidies on those sectors of the population most in need of such assistance.

- promoting tourism through, among other things, enacting laws and regulations designed to foster the development of the tourism sector, including the use of the proceeds from special contribution levies on lodging and airport departures to develop the sector. See "The Salvadoran Economy — Promotion of Tourism".

- investing in infrastructure projects, which include the construction of a major port facility at La Unión, completed in 2008, the construction and expansion of the thermal power plant in Atéos to generate an additional 50.0 MW, completed in 2008, the construction of a 66.1 MW hydroelectric plant known as "El Chaparral", expected to be completed in 2014 and a highway in the northern region of the country that will connect the eastern region with the western region of the Republic, expected to be completed in 2012. See "The Salvadoran Economy — Infrastructure Investment".

- implementing a comprehensive education plan on March 29, 2005, known as *Plan Nacional de Educación 2021* (the "2021 National Education Plan"), which includes improving school facilities, providing greater access to computers and the Internet and establishing technological institutes; as well as implementing a program, known as *Programa Red Solidaria* (now known as the *Comunidades Solidarias Rurales*, the "Mutual Aid Communities"), that provides monetary assistance to rural families that enroll their children in school, among other things. In 2009, the Mutual Aid Communities expanded its coverage to the urban areas in poverty. See "The Salvadoran Economy — Poverty (*Plan Nacional de Educación 2021*)".

For the eleven months ended November 30, 2010, remittances increased by approximately 2.3% as compared to 2009. In addition, exports of goods for the eleven months ended November 30, 2010 increased 16.9% as compared to the same period in 2009. According to preliminary monthly data from the *Instituto Salvadoreño del Seguro Social*, approximately 15,000 jobs were recovered over the 12 months ended September 30, 2010.

Since taking office in June 2009, the Funes administration has begun to implement a series of new measures to continue strengthening the Salvadoran economy in light of the global economic crisis that affected economies around the world beginning in 2007. In an effort to counteract its effects, President Funes and his administration developed the *Plan Global Anti-Crisis* ("Global Anti-Crisis Plan"), a program that seeks to inject approximately US$575 million into the economy by: (1) stimulating the national economy with special focus on strategic sectors such as construction and agriculture, livestock and fishing; (2) providing unemployment compensation to citizens who have lost their jobs while at the same time reducing the level of unemployment by creating new positions in key economic sectors to compensate for job losses in the *maquila* sector; (3) assisting in the budgetary needs of families with low incomes or who have lost their primary source of income as a result of the crisis by establishing a universal social protection system, including providing free health coverage for six months under the social security system and free uniforms and other materials for students in grades 1 through 9 of the public school system; and (4) establishing the basis to build national policies for economic and social development and maintaining macroeconomic stability, including fiscal reforms to strengthen public finances. On November 12, 2009, the Legislative Assembly approved a US$300 million bond issuance and reallocated US$150 million of funds that were originally allocated to fund the Global Anti-Crisis Plan to begin the rebuilding of basic infrastructure in areas damaged by Hurricane Ida. Of the US$300 million approved, US$150 million were used to replenish the funds of the Global Anti-Crisis Plan that are being used to pay for the damage caused by Hurricane Ida. The remaining US$150 million will be used towards financing the projects of the Global Anti-Crisis Plan, as budgeted for in the 2010 Budget.

As a result of the execution of the Global Anti-Crisis Plan, President Funes succeeded in enacting the following reforms: (i) 7,000 senior citizens over 70 years of age living in poor municipalities now receive a basic pension of US$50 a month and regular medical care; (ii) the unemployed have been extended 3 months coverage of social insurance; (iii) new jobs have been generated as a result of the enactment of sectoral policies and the investment in economic and social infrastructure; (iv) creation of new institutional bodies that promote the participation of organized groups in the formulation of public policy; (v) elimination of fees in public hospitals; (vi) 179,425 students in 658 schools have received free uniforms and 1,277,244 students in 4,684 schools have received free school supplies; (vii) implementation of a substantial low income housing program; and (viii) extension of approximately 4,000 land titles to an equal number of families.

At year-end 2009, the non-financial public sector deficit increased to 5.6% of GDP due to the impacts of the global recession. To counteract this effect, in 2009 the Republic took several measures to strengthen its fiscal management, including measures such as rationalizing and better management of current expenditures, reducing government subsidies and increasing government revenues. The government estimates that for 2010 the non-financial public sector deficit will be reduced to approximately 4.8% of GDP due to an increase in tax collections resulting from tax reform approved in late 2009 and reduction of expenses related to subsidies and interest payments.

Effects of Reforms

The reforms that were implemented during the 1992 to 1995 period laid the foundation for stability in future periods. During the period from 1996 to 1999, the average rate of growth of real GDP was 3.3%, which slowed to 2.3% from 2001 to 2005, due in large part to natural phenomena, increases in international oil prices, decreases in coffee prices in the international market in 2001 and 2002 and the slow-down in the U.S. economy in 2001 and 2002. In 2005, real GDP grew at a rate of 3.1%, compared to 1.9% during 2004, primarily due to increased activity in the agriculture, livestock and fishing and manufacturing sectors and the recovery of the construction sector. Real GDP grew by 4.2% in 2006 and 4.7% in 2007, before declining to 2.4% in 2008 due to decreases in consumption and fixed capital formation (the value of acquisition of fixed assets used in the production process by businesses, government and households). Real GDP growth contracted by 3.5% in 2009 due to a contraction in external and internal demand, resulting from a decrease in private consumption of 9.8% (despite an increase in public consumption of 4.4%); a 17.4% decrease in the fixed capital formation; and a decrease in both exports and imports. For the nine months ended September 30, 2010, real GDP increased 0.4%, compared to a 3.1% decrease registered during the same period in 2009, reflecting the slight recovery of the economy following the global economic crisis.

During 2005, inflation was 4.3%. Inflation increased to 4.9% in 2006 and remained stable at that rate in 2007. In 2008 inflation reached 5.5% due to sustained increases of international prices of food and oil in the first half of the year. In 2009, deflation was 0.2% due to a reduction in various expenditure categories, such as food and beverage, restaurants and hotels and services. From 2005 through 2009, average annual inflation was 3.9%. As of November 2010, inflation increased by approximately 1.8%, primarily due to increases in the food, beverages and transportation sectors despite lower prices in the communications and the electricity, water and utilities sectors.

Remittances from Salvadoran workers abroad totaled US$3.5 billion in 2009, a decrease of 8.5% compared to US$3.8 billion in 2008, which represented an increase of 2.7% from US$3.7 billion in 2007 and an increase of 8.5% from approximately US$3.5 billion in 2006. Remittances have increased at an annual average rate of 6.3% from 2005 to 2009. For the eleven months ended November 30, 2010, remittances increased by approximately 2.3% as compared to a decrease of approximately 9.3% during the same period in 2009. See “Foreign Trade and Balance of Payments”.

Exports of goods and services increased from US$1.3 billion in 1993 to approximately US$4.4 billion in 2005 and to approximately US$5.7 billion in 2008, largely as a result of measures taken to eliminate trade barriers through tariff reductions and establish free trade zones (areas free from import or export duties and with an income tax exemption) and rebates for nontraditional exported goods manufactured outside of free trade zones. The increase in exports from 2005 to 2008 has principally been due to the evolution of exports of non-traditional goods, the favorable price of coffee in the case of traditional exports, and the increase in travel, transportation and communication services exports. Exports decreased to US$4.7 billion in 2009 primarily due to lower external demand resulting from the global economic crisis, although *maquila* exports increased in 2010.

Primarily as a result of the Monetary Integration Act, which pegged the *colon* to the U.S. dollar, average interest rates on short-term and long-term loans fell to 6.4% and 7.4%, respectively, for the month of December 2004, compared to 12.2% and 13.7%, respectively, for the month of December 2000, the month before the Monetary Integration Act came into force. Since 2004, interest rates have increased, which is partially explained by the increase of the international interest rates from the second semester of 2004 to the first semester of 2006. Both increases were related to increases in the United States federal funds rate between 2004 to 2007. Between December 2008 to November 2010, weighted monthly average interest rates on long-term loans

decreased from 10.4% in 2008 to 9.9% in November 2010, while weighted monthly average interest rates on short-term loans for the respective period decreased from 9.6% in December 2008 to 6.9% in November 2010. The domestic currency interest rate for deposits (passive basic rate - 180 days) decreased from 7.1% in December 2000 to 3.3% in December 2004. Between December 2008 and November 2010, the weighted monthly average passive rate decreased from 5.3% in 2008 to 2.1% in 2010. The decrease in the average interest rates on short-term and long-term loans between 2008 and 2010 was primarily due to following the declining trend of international interest rates as well as an excess supply of liquidity in the domestic market resulting from increased levels of deposits and distribution of fewer loans.

The government introduced several tax reforms including the establishment of the value added tax in 1992 and the subsequent increase in the value added tax rate from 10.0% to 13.0% in 1995. A second tax reform was implemented in 2004 aimed at closing loopholes, strengthening tax and customs administration, increasing the penalties under the tax code for violations of the value added tax and income tax provisions as well as the applicable penalties under the Penal Code and Civil Code, and introducing penalties for customs violations. As a result of these reforms, the tax to GDP ratio increased from 9.5% of GDP in 1991 to 14.0% GDP in 2008. In 2009, the tax burden fell to 13.4% due to the effect of the global economic crisis, but a new tax reform was approved by the Legislative Assembly aimed at: (i) closing loopholes, reducing tax evasion and broadening the tax base; (ii) internationalizing the tax system; and (iii) strengthening the tax administration and customs capabilities, providing them with more effective tools to control the fulfillment of tax obligations. As a result of the enactment of the reform, the ratio of tax revenue to GDP increased from 13.4% in 2009 to 14.0% at December 31, 2010.

Economic and Social Policies

In May 2010, the government published its *Plan Quinquenal de Desarrollo 2010-2014* ("Five-Year Development Plan"). The Five-Year Development Plan contains the vision, priorities, objectives and goals of the government for the medium and long-term periods and includes an outlook through 2024. Its main purpose is to help ensure consistency and coordination of government action and provide a strategic framework for productive socio-economic development.

Under the Five-Year Development Plan, the government's economic and social plans include the following objectives:

- reverse the trend of increasing poverty in recent years and expand the coverage of basic social services in both rural and urban areas, especially for the most vulnerable citizens and women;
- protect the purchasing power of the population and improve the rationalization of subsidies so that they benefit sectors in need;
- steadily increase domestic food production for domestic consumption, for export and for an efficient import substitution, so as to reduce the country's dependence on food imports;
- reverse the trend of increasing unemployment and underemployment and promote the creation of jobs;
- increase tax revenues, make efficient and transparent use of such resources and reduce the level of external debt by reducing government spending and adequately managing its debt portfolio;
- significantly reduce the levels of violence and crime throughout the country;
- promote political reform in order to strengthen democracy and the rule of law; and
- expand economic and social infrastructure, primarily in rural areas of the country.

In macroeconomic terms, the Five-Year Development Plan contemplates the following goals:

- reduce poverty from 12 to 15 percentage points in both urban and rural areas;
- achieve an average rate of real GDP growth of 4.0% at the end of the five-year period.
- generate at least 250,000 new jobs;
- increase exports of goods and services by at least 20% at the end of five years;
- achieve an annual inflation rate of 2.8% at the end of five years;

- reduce the fiscal deficit relative to GDP to less than 2.0% at the end of five years;
- reduce public debt relative to GDP below 47.8% at the end of five years by increasing tax revenues and the efficiency of government spending and adequately managing its debt portfolio;
- achieve rural electrification coverage of 95% in 100 of the poorest municipalities in the country;
- extend the rural roads network by at least 250 kilometers; and
- increase clean drinking water coverage by 80% at the end of five years in 100 of the poorest municipalities.

No assurance can be given that any of the above goals will be achieved.

The strategy for achieving the above mentioned objectives is based on the implementation of the following: (i) a universal social protection system and other social policies related to health, education and housing; (ii) the development of a financial system that would extend credit to the various productive sectors of the economy, particularly the micro, small- and medium-sized businesses and entrepreneurs and farmers and producers the agricultural sector; (iii) policies directed at a sustainable macroeconomic environment and inclusive of various sectors of society; (iv) a productive development strategy that reorients government resources and services to promote both innovation and entrepreneurial initiatives of women and men involved in production and business activities and creating new ways of enabling access to financial resources and quality management; (v) policies on internal security, democratic coexistence and international relations; and (vi) public investments in strategic programs and projects that address (a) equity, social inclusion and poverty reduction, (b) economic recovery, (c) sustainable development and (d) internal security.

Gross Domestic Product

As measured by real GDP growth, economic growth in El Salvador averaged 2.1% per year from 2005 to 2009. Private consumption grew in real terms by an average of 2.7% per year for the same period. Economic growth declined in 2009 due to a reduction in external and internal demand, resulting from a decrease in private consumption of 9.8% (despite an increase in public consumption of 4.4%); a 17.4% decrease in fixed capital formation (the value of acquisition of fixed assets used in the production process by businesses, government and households); and a decrease in both exports and imports.

Real GDP growth in 2005 was 3.3%. The rise in real GDP growth in 2005 was primarily attributable to increased consumption, principally in the private sector and a significant rise in public investment.

Real GDP growth in 2006 was 4.2% and was primarily due to private sector investment and fixed capital formation as well as accelerating growth of private consumption. The recovery was driven by remittance-financed consumption and private investment, pushed by the growth in the construction sector in 2006. These trends continued in 2007, offsetting declines in public sector investment. Real GDP growth increased to 4.3% in 2007.

Real GDP growth in 2008 was 2.4% as consumption moderated to 3.9% due to a slower increase in remittances and lower activity in the local economy. Fixed capital formation decreased by 4.7% as a consequence of a contraction in private sector investment of 6.6% that was partly offset by an increase in public sector investment of 11.5%. Real exports of goods and services increased 5.5% and real imports of goods and services increased 4.7%.

Real GDP contracted 3.5% in 2009. Almost all sectors experienced a contraction in 2009, in particular mining, which registered a 14.6% decline, and finance and insurance, which registered a 5.3% decline.

For the nine months ended September 30, 2010, real GDP increased 0.4%, compared to the same period in 2009, reflecting the slight recovery of the economy following the global economic crisis. The increase in real quarterly GDP growth reflected positive contributions from the agriculture, livestock and fishing, government services, manufacturing, trade, restaurants and hotels, finance and insurance and residential leasing sectors. These positive contributions were partly offset by a negative contribution from the construction, electricity, gas and water, transportation, storage and communications and the real estate and services sectors.

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 Sector

	For the Year Ended December 31,				
	2005(1)	2006(1)	2007(1)	2008(1)	2009(1)
Real GDP (in millions of US dollars)(2)	$ 8,439	$ 8,795	$ 9,176	$ 9,399	$ 9,067
Real GDP growth(2)	**3.3%**	**4.2%**	**4.3%**	**2.4%**	**(3.5)%**
Real GDP growth by sector:					
Manufacturing	1.5%	3.0%	3.5%	2.7%	(3.4)%
Trade, restaurants and hotels	4.4	4.9	4.3	1.4	(5.2)
Agriculture, livestock and fishing	5.1	5.7	8.5	7.3	(2.2)
Transportation, storage and communications	6.7	6.9	4.8	2.1	(3.9)
Residential leasing	2.9	1.3	2.4	1.6	0.2
Government services(3)	1.8	2.3	2.8	2.3	1.3
Community, social, personal, and domestic services(4)	(0.3)	3.2	4.7	2.0	(1.6)
Construction	4.0	6.5	(3.2)	(5.4)	(0.7)
Finance and insurance	2.0	4.1	2.6	(1.6)	(5.3)
Real estate and business services(5)	3.2	4.3	5.1	2.2	(3.9)
Electricity, gas and water	3.8	4.8	2.7	2.5	(1.5)
Mining	5.3	4.2	(2.0)	(6.7)	(14.6)

(1) Preliminary.
(2) Based on constant 1990 prices.
(3) Includes wages and fringe benefits paid by the government to its employees.
(4) Includes education and private health care services, entertainment (cinemas and television), and other services such as veterinary services, services provided by commercial, professional, labor and religious associations, and repair and maintenance services provided by electricians, technicians, etc.
(5) Includes leasing and use of non-residential real estate and professional, legal, accounting and similar services.

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

The following table sets forth the real GDP growth by expenditure for the periods indicated.

Real GDP by Expenditure

	For the Year Ended December 31,				
	2005(1)	2006(1)	2007(1)	2008(1)	2009(1)
	(in millions of dollars)				
Consumption					
Public Sector Consumption	$ 657	$ 671	$ 658	$ 695	$ 726
Private Consumption	8,126	8,530	9,269	9,622	8,682
Total Consumption	**8,783**	**9,201**	**9,927**	**10,317**	**9,408**
Gross Investment					
Public Sector	196	198	184	206	213
Private Sector	1,317	1,505	1,570	1,466	1,167
Fixed Capital Formation	1,513	1,703	1,754	1,671	1,380
Variation in Stocks	94	154	0	0	0
Total Gross Investment	**1,607**	**1,857**	**1,754**	**1,671**	**1,380**
Exports of goods and services	3,246	3,421	3,658	3,861	3,226
Imports of goods and services	5,196	5,684	6,163	6,450	4,948
Net exports/(imports)	(1,950)	(2,262)	(2,505)	(2,589)	(1,721)
Real GDP	**$ 8,439**	**$ 8,795**	**$ 9,176**	**$ 9,399**	**$ 9,067**

(1) Preliminary.

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

The following table sets forth El Salvador's real GDP growth by expenditure as a percentage of total real GDP growth for the periods presented.

Real GDP Growth by Expenditure

	For the year ended December 31,				
	2005[1]	**2006**[1]	**2007**[1]	**2008**[1]	**2009**[1]
	(percent change, based on constant 1990 prices)				
Consumption:					
Public sector consumption	2.1%	2.2%	(2.0)%	5.6%	4.4%
Private consumption	5.0	5.0	8.7	3.8	(9.8)
Total Consumption	**4.8**	**4.8**	**7.9**	**3.9**	**(8.8)**
Gross Investment:					
Public sector	32.8	0.7	(6.9)	11.5	3.6
Private sector	(1.5)	14.3	4.3	(6.6)	(20.4)
Fixed capital formation	1.9	12.5	3.0	(4.7)	(17.4)
Exports of goods and services	(0.9)	5.4	6.9	5.5	(16.4)
Imports of goods and services	3.4	9.4	8.4	4.7	(23.3)
Real GDP	**3.3%**	**4.2%**	**4.3%**	**2.4%**	**(3.5)%**

(1) Preliminary.

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

Principal Sectors of the Economy

After centuries of dependence on agricultural products, the Salvadoran economy has come to rely on manufacturing activity, which totaled US$4.3 billion and accounted for 20.5% of nominal GDP in 2009. Since 2005, the manufacturing sector has generated an annual average of 20.9% of the country's nominal GDP and increased from 2005 to 2008 at an average annual rate of 2.7% in real terms but contracted by 3.4% in 2009. However, a considerable portion of the manufacturing sector remains linked to agriculture, livestock and fishing since it consists of processing of foods.

The trade, restaurants and hotels sector has been an increasingly significant factor for El Salvador's growth in recent years. In 2009 GDP for the trade, restaurants and hotels sector was US$4.2 billion and accounted for 20.0% of El Salvador's nominal GDP, compared to approximately US$3.4 billion, or approximately 19.6% in 2005. The annual growth rate of real GDP for the trade, restaurants and hotels sector was 4.4% in 2005, 4.9% in 2006, 4.3% in 2007 and 1.4% in 2008. Real GDP growth for this sector contracted by 5.2% in 2009.

In 2009, the agricultural, livestock, and fishing sector represented 11.9% of the country's nominal GDP, compared to 9.7% in 2005. The annual growth rate of real GDP for the agriculture, livestock and fishing sector was 5.1% in 2005, 5.7% in 2006, 8.5% in 2007 and 7.3% in 2008. Real GDP growth for this sector contracted by 2.2% in 2009. Coffee, which traditionally has been the main agricultural product of El Salvador, typically represents the largest agricultural component of GDP. See "—Agriculture, Livestock and Fishing".

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

Nominal GDP by Economic Sector

	For the Year Ended December 31,									
	2005[1]	% of GDP	2006[1]	% of GDP	2007[1]	% of GDP[1]	2008[1]	% of GDP[1]	2009[1]	% of GDP[1]
	(in millions of US dollars, except for percentages)									
Manufacturing	$ 3,749	21.8%	$ 3,968	21.2%	$ 4,202	20.6%	$ 4,524	20.5%	$ 4,319	20.5%
Trade, restaurants and hotels	3,377	19.6	3,707	19.8	4,055	19.9	4,420	20.0	4,226	20.0
Agriculture, livestock and fishing	1,677	9.7	1,830	9.8	2,215	10.9	2,619	11.8	2,520	11.9
Transportation, storage and communications	1,569	9.1	1,668	8.9	1,759	8.6	1,842	8.3	1,720	8.2
Community, social, personal, and domestic services	1,257	7.3	1,401	7.5	1,517	7.4	1,639	7.4	1,639	7.8
Government services	1,111	6.5	1,235	6.6	1,313	6.4	1,442	6.5	1,519	7.2
Residential leasing	1,274	7.4	1,307	7.0	1,335	6.6	1,382	6.3	1,414	6.7
Finance and insurance	773	4.5	855	4.6	918	4.5	969	4.4	922	4.4
Real estate and business services	715	4.2	775	4.1	851	4.2	910	4.1	877	4.2
Construction	717	4.2	823	4.4	835	4.1	876	4.0	826	3.9
Electricity, gas and water	293	1.7	319	1.7	341	1.7	382	1.7	402	1.9
Mining	60	0.3	66	0.4	62	0.3	71	0.3	61	0.3
Plus: tariffs and value added tax	1,291	7.5	1,499	8.0	1,686	8.3	1,774	8.0	1,384	6.6
Less: imputed financial services[2]	649	3.8	704	3.8	712	3.5	745	3.4	729	3.5
Total nominal GDP	**$ 17,214**	**100.0%**	**$ 18,749**	**100.0%**	**$ 20,377**	**100.0%**	**$ 22,107**	**100.0%**	**$ 21,100**	**100.0%**

(1) Preliminary.
(2) Imputed financial services include the difference between interest accrued and interest paid by the financial sector.

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

Manufacturing

Manufacturing is a key sector of the Salvadoran economy. Since 2005, the manufacturing sector has generated an annual average of 20.9% of El Salvador's nominal GDP. Manufacturing activity increased at an average annual rate of 1.5% in real terms in 2005 and increased further at an average rate of 3.1% in real terms from 2006 to 2008, but contracted by 3.4% in 2009. From 2004 to 2006 manufacturing was affected by the weakness of the *maquila* industry partially explained by the end of textile quotas in 2005, which intensified the competition from China and other Asian countries. In 2007, the manufacturing sector grew 3.5% but decreased to 2.7% in 2008 and contracted 3.4% in 2009 due to the reduction of demand in goods. *Maquila* activity has been the most important area in the manufacturing sector. *Maquila* production declined 0.1% in 2006 and after experiencing zero growth in 2007, *maquila* production grew by 5.1% in 2008. In 2009, *maquila* production declined 7.0% primarily due to the reduction of external demand, particularly from the United States, following the negative effects of the global economic crisis. For the nine months ended September 30, 2010, the manufacturing sector increased 0.2%.

The industries that grew in 2009 were: sugar at 8.3%, chemicals at 5.4%, printing and related industries at 3.0%, transport supplies and diverse manufacturing products at 2.1% and paper and cardboard at 2.1%.

The following table sets forth production (at constant 1990 prices) of El Salvador's principal manufacturing activities for the periods presented.

Principal Manufacturing Activities

	For the Year Ended December 31,				
	2005[1]	**2006[1]**	**2007[1]**	**2008[1]**	**2009[1]**
	(in millions of US dollars)[2]				
Maquila (assembly for re-export)	$ 231.4	$ 231.2	$ 231.2	$ 243.0	$ 226.0
Chemicals	166.6	171.4	179.7	183.7	193.7
Baked goods	175.6	185.6	195.9	201.8	180.8
Beverages	160.9	163.2	169.2	171.9	168.4
Sugar	147.0	145.5	150.5	154.3	167.1
Other processed foods	134.7	140.5	144.6	148.5	145.7
Printing and related industries	108.6	110.4	119.0	123.0	126.8
Metallic mineral products	92.9	95.3	97.8	100.0	98.3
Refined oil products	89.0	94.9	101.5	102.6	92.8
Textiles	98.6	102.3	105.5	108.9	92.5
Non-metallic mineral products	81.0	88.3	88.6	91.4	82.9
Leather and related products	71.5	73.9	79.9	82.1	77.6
Transport supplies and diverse manufacturing products	68.8	71.3	72.1	71.0	72.5
Paper and cardboard	56.8	59.0	63.6	66.6	68.0
Milk products	59.7	62.7	66.0	67.3	66.0
Machinery and equipment	60.3	63.0	57.0	58.2	52.9
Plastic products	48.1	49.3	52.1	54.4	49.1
Meat packaging and related products	33.5	34.5	37.2	37.7	35.3
Apparel	36.2	37.6	36.7	38.2	35.7
Lumber and related products	24.1	24.5	25.2	24.8	24.3
Other	0.1	0.1	0.4	0.4	0.4
Total	**$ 1,945.5**	**$ 2,004.4**	**$ 2,073.7**	**$ 2,129.8**	**$ 2,056.9**

(1) Preliminary.
(2) In constant 1990 prices.

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

Maquila (assembly for re-export) production represented US$226.0 million (in 1990 constant prices) in 2009. *Maquila* production decreased by approximately 7.0% in 2009 compared to 2008 due to a reduction in *maquila* exports of approximately 22.9% resulting from lower global demand, particularly from the United States.

According to the Ministry of Economy, as of September 30, 2010, there were 249 *maquila* plants and trading companies, 132 of which were located in free trade zones, with the remaining 117 operating outside the geographic boundaries of the free trade zones protected by the free trade zone law. Over half of the *maquila* plants established in the free trade zones produce apparel and linens, mainly for export to the United States. 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. Firms that operate outside of a free trade zone and that do not export 100.0% of their production are entitled to a 6.0% rebate on exports of non-traditional goods outside of Central America. See "Foreign Trade and Balance of Payments — Composition of Foreign Trade".

Trade, Restaurants and Hotels

The trade, restaurants and hotels sector contributed US$4.2 billion and accounted for 20.0% of El Salvador's nominal GDP in 2009. From 2005 to 2009, this sector grew at an average annual real rate of 1.9%. In 2008, the trade, restaurants and hotels sector grew by 1.4% in real terms, affected by a decrease in restaurant and hotel activities. However, in 2009, growth in the trade, restaurants and hotels sector declined to 5.2%, due to the reduction in private consumption arising from lower remittances, reduced levels of imports for consumer goods as well as the amount of credit lending to the trade sector. For the nine months ended September 30, 2010, the trade, restaurants and hotels sector increased 0.6%.

In June 2004, the government created a new ministry within the executive branch, the Ministry of Tourism, which was charged with the task of promoting and revitalizing tourism in El Salvador. Growth in this sector has increased since then. Growth in the restaurant and hotel industries largely follows patterns of tourism. During 2008 and 2009, the tourism industry was affected by increasing air tariffs and declining tourist expenditures due to the higher oil prices in 2008 and global economic crisis. In 2009,

the number of passengers that entered El Salvador by air decreased by 5.6%. This trend persisted throughout the first ten months of 2010, resulting in an overall decrease of 8.3% in 2010.

Agriculture, Livestock and Fishing

The agriculture, livestock and fishing sector accounted for US$2.5 billion and represented 11.9% of El Salvador's nominal GDP during 2009. This sector grew at an average annual real rate of 4.8% during the period 2005 to 2009. For the nine months ended September 30, 2010, the agriculture, livestock and fishing sector increased 1.7%.

In 2005, the agriculture, livestock and fishing sector grew by 5.1% in real terms, primarily due to growth in the production of coffee, cotton, basic grains, poultry, eggs and fish. The agriculture, livestock and fishing sector grew by 5.7% in 2006 and 8.5% in 2007, in each year due mainly to increases in production of basic grains (corn, beans and sorghum) and other agricultural products (sugar, vegetables and fruits), cattle, fishing and poultry. The growth was also supported by the increase in the aggregate value of coffee production. In 2008, the agriculture, livestock and fishing sector grew by 7.3% due to an increase in demand for coffee, basic grains and livestock. In 2009, the agriculture, livestock and fishing sector contracted by 2.2% resulting from negative contributions from agriculture production (coffee, sugar, basic grains) that was only partially offset by the positive contributions from cattle, fishing, forestry and poultry. The area devoted to the cultivation of sugar cane increased to 80,373 hectares during the 2009/2010 harvest. The production of basic grains like corn, beans and sorghum increased. Similarly, the production of fishing, livestock and forestry increased.

Coffee is the Republic's principal agricultural export and is an important source of employment in El Salvador. The coffee industry generated approximately 81,000 jobs during the 2005/2006 harvest, 87,000 jobs during the 2006/2007 harvest, 106,000 jobs during the 2007/2008 harvest, 99,000 jobs during the 2008/2009 harvest and 75,000 jobs during the 2009/2010 harvest. In 2006, coffee production totaled US$120.7 million, a decrease of 3.9% from 2005 due to damages to the coffee supply caused by a volcanic eruption that occurred in October 2005 and was further affected by Hurricane Stan. In 2006, coffee accounted for 79.6% of agricultural exports and 5.1% of total exports of goods. In 2007, coffee production totaled US$133.3 million in constant 1990 prices, an increase of 10.4% from 2006, primarily due to higher average coffee prices, which rose from US$1.12 per pound in 2006 to US$1.17 per pound in 2007. In 2007, coffee accounted for 73.6% of agricultural exports and 4.7% of total exports of goods. In 2008, coffee production totaled US$135.5 million, and increased by 1.7% from 2007 due in part to the increase in coffee supply generated by the 2007/2008 harvest. In 2008, coffee accounted for 77.8% of agricultural exports and 5.7% of total exports of goods. In 2009, coffee production totaled US$118.4 million, and decreased by decreased 12.6% from 2008 due to damages caused to the coffee supply by hurricane Ida and other tropical rainstorms. In 2009, coffee accounted for 77.0% of agricultural exports and 6.1% of total exports of goods. Currently, there are approximately 153,757 hectares devoted to the cultivation of coffee, representing approximately 7.3% of the country's land.

In July 2000, the Legislative Assembly created the *Fondo de Emergencia para el Café* (the "Coffee Emergency Fund") to revitalize the coffee production industry and extend financing to coffee producers to enable them to repay debts related to their coffee production, thereby freeing funds for further investment in the coffee industry. The Coffee Council, an autonomous public organization consisting of representatives from the government and private trade organizations, administers the Coffee Emergency Fund. As of November 2010, the Coffee Emergency Fund had outstanding obligations to the Republic of US$21.5 million.

With the exception of coffee, which is mainly export-oriented, most agricultural production is for domestic consumption. El Salvador generally permits the importation of most agricultural products that meet established health standards, with the exception of poultry products. Since 1992, the *Ministerio de Salud* (the "Ministry of Health") has forbidden the importation of all poultry products in an effort to limit several common avian diseases such as salmonella.

The following table sets forth the production (at constant 1990 prices) of certain major agricultural, livestock and fishing products for the periods presented.

Main Agricultural, Livestock and Fishing Products

	For the Year Ended December 31,				
	2005[1]	2006[1]	2007[1]	2008[1]	2009[1]
	(in millions of US dollars)[2]				
Basic grains	$ 189.1	$ 210.6	$ 234.2	$ 279.0	$ 256.2
Other agricultural	204.4	233.8	257.8	283.6	289.2
Livestock	174.9	184.2	198.4	212.6	216.9
Poultry	146.9	151.1	157.8	141.7	145.6
Coffee	125.6	120.7	133.3	135.5	118.4
Forestry	56.6	59.1	62.4	70.7	71.4
Sugar cane	54.7	51.7	53.4	53.5	51.6
Fishing	32.4	29.8	32.3	35.1	35.8
Cotton	1.1	0.7	0.2	0.0	0.0
	$ 985.7	**$ 1,041.6**	**$ 1,129.7**	**$ 1,211.8**	**$ 1,185.1**

(1) Preliminary.
(2) Based on constant 1990 prices.

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

Transportation, Storage and Communications

The transportation, storage and communications sector accounted for US$1.7 billion and represented 8.2% of the country's nominal GDP during 2009.

From 2005 to 2009, the average annual real growth rate in the transportation, storage and communications sector was 3.2%. In 2005 the transportation, storage and communications sector grew by 6.7% in real terms primarily due to growth in the transportation and storage subsectors resulting from the increased shipment of cargo and air transportation activity. The sector grew by 6.9% in 2006 and 4.8% in 2007, driven mainly by the expansion of the communications sector due to the increase of fixed line penetration and the volume of international traffic and the rise in mobile phone usage information and mail services. In 2008 this sector grew 2.1% due in part to increased cell phone activity. In 2009, this sector decreased 3.9% primarily due to lower levels of passenger and cargo transportation as a result of a decrease in international trade activities that affected related services. Transportation growth was limited due to an increase in freight costs, operating costs and a decrease in air transportation. Currently, there are 10 fixed line telecommunications companies, 5 mobile telecommunications companies and 15 international long distance companies operating in El Salvador.

El Salvador has approximately 3,000 kilometers of paved roads (which include highways, primary and secondary roads). Two major highways cross the country: the Pan-American highway links El Salvador with Guatemala in the west and Honduras in the east; and the Carretera Litoral, which runs south of the Pan-American highway, links Sonsonate to the west and Zacatecoluca and Usulután to the east and forms part of the Mexico-Central American region's plan to link the Central American countries from Mexico to South America.

El Salvador has two operating seaports: Puerto Acajutla, a cargo seaport west of San Salvador, and a second major seaport recently completed at La Unión, to the 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. In September 2002, the Legislative Assembly enacted the *Ley General Marítimo Portuaria* ("General Sea Ports Law") establishing, among other matters, the regulation of the construction, rehabilitation, and operation of the port facilities. In addition, in 2004 the government created the *Comisión de Desarrollo del Golfo de Fonseca* ("Fonseca Gulf Development Commission") that is responsible for the planning and management of the development of the Golfo de Fonseca area, which is the future gate to the world maritime trade. As of December 2010, La Union seaport is being operated by CEPA; in 2011, the Executive Branch will send to Congress a draft Concession Law aimed at enhancing the potential of the port infrastructure and its services to the productive sectors.

The El Salvador International Airport, also known locally as the "Comalapa Airport", is located 50 kilometers south of San Salvador. According to the last statistics issued by CEPA in 2009, 17 different international airlines use the El Salvador International Airport. In 2009, there were 15,637 departures of international airlines from the El Salvador International Airport.

From 2007 through 2009, CEPA received three proposals for expansion by Aéroports de Paris Group (ADPi); Nippon Koei, a Japanese consortium; and SNC-Lavalin Group Inc., which have all been evaluated and will be the source for a new expansion project. In 2011, CEPA plans to begin the first phase, at a cost of US$40 million, which includes expanding the areas of immigration, screening of passengers and four new boarding gates. The next phase of the project will be carried out in 2012-2013, which will include the construction of a new terminal and a second runway to double airport capacity.

Community, Social, Personal, and Domestic Services

The community, social, personal, and domestic services sector contributed and accounted for 7.3% of El Salvador's nominal GDP in 2005. In 2006, the community, social, personal and domestic services sector contributed US$1,401 million and represented 7.5% of nominal GDP. In 2007, this sector contributed US$1,517 million and represented 7.4% of nominal GDP. In 2008, the community, social, personal and domestic services sector contributed US$1,639 million and represented 7.4% of nominal GDP. The community, social, personal, and domestic services sector's contribution to nominal GDP remained at US$1,639 million during 2009 and accounted for 7.8% of nominal GDP.

In 2005, the community, social, personal, and domestic services sector contracted by 0.3% but in 2006 it expanded by 3.2% primarily due to increased activities in health, education and services. The community, social, personal and domestic services sector increased 4.7% in 2007 and 2.0% in 2008. In 2009, the community, social, personal and domestic services sector contracted 1.6% due to a reduction in private education, private medical treatments and other corporate services.

Government Services

In 2005, the government services sector contributed US$1,111 million and represented 6.5% of El Salvador's nominal GDP. In 2006, the government services sector contributed US$1,235 million and represented 6.6% of El Salvador's nominal GDP. In 2007, the government services sector contributed US$1,313 million and represented 6.4% of El Salvador's nominal GDP. In 2008, the government services sector contributed US$1,442 million and represented 6.5% of El Salvador's nominal GDP. The government services sector's contribution to nominal GDP increased to US$1,519 million during 2009 and represented 7.2% of El Salvador's nominal GDP.

In 2005, the government services sector increased by 1.8% and in 2006 it increased by 2.3% primarily due to an increase in government employment. In 2007, the government services sector increased 2.8% and in 2008, it continued its growth by 2.3%. In 2009, the government services sector increased 1.3% due to an increase in government employment that in turn contributed to higher government services.

Residential Leasing

In 2005, the residential leasing sector contributed US$1,274 million and represented 7.4% of El Salvador's nominal GDP. In 2006, the residential leasing sector contributed US$1,307 million and represented 7.0% of nominal GDP. In 2007, the residential leasing sector contributed US$1,335 million and represented 6.6% of nominal GDP. In 2008, the residential leasing sector contributed US$1,382 million and represented 6.3% of nominal GDP. The residential leasing sector's contribution to nominal GDP increased to US$1,414 million during 2009 and represented 6.7% of nominal GDP.

In 2005, the residential leasing sector increased by 2.9% and in 2006 it further increased by 1.3%. In 2007, the residential leasing sector increased 2.4% and in 2008 it continued its growth by 1.6%. In 2009, the residential leasing sector increased slightly by 0.2% due to the loss of family homes due to natural disasters, lower family income and an increase in the supply of tenants.

Finance and Insurance

In 2005, the finance and insurance sector contributed US$773 million and represented 4.5% of El Salvador's nominal GDP. In 2006, the finance and insurance sector contributed US$855 and represented 4.6% of nominal GDP. In 2007, the finance and insurance sector contributed US$918 and represented 4.5% of nominal GDP. In 2008, the finance and insurance sector contributed US$969 and represented 4.4% of nominal GDP. In 2009, the finance and insurance sector contributed US$922 and represented 4.4% of nominal GDP.

In 2005, the finance and insurance sector increased by 2.0% and in 2006 it further increased by 4.1%. In 2007, the finance and insurance sector increased 2.6%. In 2008, the finance and insurance sector contracted by 1.6% and in 2009 it contracted further by

5.3%, mainly due to uncertainties in the global financial markets, reduction of lending in the private sector and lower economic activity.

Construction

The construction sector contributed US$717 million and represented 4.2% of El Salvador's nominal GDP in 2005. In 2006, the construction sector contributed US$823 million and represented 4.4% of El Salvador's nominal GDP. In 2007, the construction sector contributed US$835 million and represented 4.1% of El Salvador's nominal GDP. In 2008, the construction sector contributed US$876 million and represented 4.0% of nominal GDP. The construction sector's contribution to nominal GDP decreased to US$826 million and represented 3.9% of nominal GDP during 2009.

In 2005, the construction sector grew by 4.0% and further accelerated to 6.5% in 2006 due primarily to increased infrastructure development by the public and private sectors. In 2007, construction contracted 3.2% as housing construction decreased. In 2008, housing construction was affected by lower financing related to the international impact of the global economic crisis, which resulted in a decline of 5.4% for the construction sector. In 2009, the construction sector slightly contracted by 0.7% due to government efforts to curtail the decline in this sector by implementing various home construction projects, however, despite the government's efforts, there was a decrease in the demand for homes by Salvadorans abroad due the higher levels of unemployment in the United States.

Electricity, Water and Gas Sector

In 2005, the electricity, water and gas sector contributed US$293 million and represented 1.7% of nominal GDP. In 2006, the electricity, water and gas sector contributed US$319 million and represented 1.7% of nominal GDP. In 2007, the electricity, water and gas sector contributed US$341 million and represented 1.7% of nominal GDP. In 2008, the electricity, water and gas sector contributed US$382 million and represented 1.7% of nominal GDP. The electricity, water and gas sector totaled US$402 million in 2009, representing 1.9% of nominal GDP for that year.

Electricity, gas and water activity increased at an annual average rate of 2.4% from 2005 to 2009. This activity increased from 2005 to 2008 at an average annual rate of 3.5% and declined 1.5% in 2009 due to a decrease in the generation of electricity resulting from a lower level of economic activity. As of December 31, 2009, El Salvador had an installed energy capacity of 1,471.2 MW. Out of the total capacity, 472 MW came from hydroelectric energy, 204.4 MW from geothermal energy, 691.2 MW from thermal energy and 103.5 MW from sugar mills. The country has the highest geothermal energy production in Central America. The largest share of generation capacity is owned by private sector companies. Installed capacity has almost doubled in the last 20 years and increased by an average of 200 MW per year since the year 2000.

Until 1996, all planning, regulatory and executive functions concerning power generation, transmission and distribution were vested in the state-owned monopoly *Comisión Hidroeléctrica del Río Lempa* ("CEL"). The electricity sector from 1996 to 2000, mandated by the General Electricity Law ("*Ley General de Electricidad*"), led to the unbundling of electricity generation, transmission and distribution and the horizontal division of generation and distribution into several companies.

Currently, 13 companies participate in the wholesale market as energy generators, including CEL, LaGEO, Duke Energy International, Nejapa Power Company, among others, and eight companies, including CAESS, DELSUR, AES-CLESA y CIA, as energy distributors.

Employment and Wages

The unemployment rate decreased from 7.2% in 2005 to 5.9% in 2008. In 2009, as a result of the global slowdown of the economy, the unemployment rate increased to 7.3%. Approximately 15,000 jobs were recovered over the 12 months ended September 30, 2010. The economic sectors with the greatest job growth during the 2005 to 2008 period were transportation, storage and communications (annual average of 12.4%), electricity, gas and water (annual average of 8.1%), finance and insurance (annual average of 7.9%) and agriculture, livestock and fishing (annual average of 7.0%). Almost all sectors experienced a decline in 2009, the largest being in construction (25.9%), mining (12.5%), industry (8.5%) and agriculture, livestock and fishing (7.8%). The few sectors that recorded continued growth in 2009 were community, social, personal and domestic services sector, transportation, storage and communications sector and electricity, gas and water sectors.

El Salvador's labor law provides for 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 the overall economic situation. 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.

In 2001, the Legislative Assembly made several reforms to the constitution, one of them allowing public workers to organize. 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.

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

Daily Minimum Wages by Economic Sector

	Agriculture, Livestock and Fishing[1]	*Maquila*	Industry	Commerce and Services	Construction[2]
			(in US dollars)		
2005	$ 2.47	$ 5.04	$ 5.16	$ 5.28	$ 7.70
2006	2.72	5.24	5.68	5.81	8.00
2007[3]	2.86	5.40	5.97	6.10	8.12
2008[4]	3.24	5.57	6.77	6.92	8.79
2009	3.24	5.79	6.77	6.92	9.14
2010	3.24	5.79	6.77	6.92	9.14

[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] Wages applicable since November 15, 2007.
[4] Official Gazette of El Salvador Executive Decree Numbers 134, 135 and 136 (22/12/2008).

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

Poverty

Economic growth since 1996 has significantly decreased the level of poverty in El Salvador. From 1996 to 2009, the number of households living below the poverty line decreased 13.9%. As of December 31, 2009, 33.3% of households in urban areas and 46.5% of households in rural areas lived below the poverty line. The percentage of households living in extreme poverty decreased to 9.9% in 2009 from 21.9% in 1996. In part due to effects of the global economic crisis, higher oil prices that resulted in higher transportation and production costs and higher prices for basic foodstuffs, overall poverty levels during 2008 increased to 40.0% from 34.6% in 2007. However, in 2009 overall poverty levels declined to 37.8% as a result of the decrease in inflation.

In March 2005, former President Elías Antonio Saca created the *Red Solidaria* (now known as the "Mutual Aid Communities"), which seeks to improve the economic, social and health conditions for approximately 100,000 families living in conditions of extreme poverty. The program provides subsidies to families that agree to follow certain health and nutrition programs and send their 5 to 15-year old children to pre-school and primary school. The program began by covering 15 of the poorest municipalities of the country and progressively increased to cover 32 municipalities in 2006. In 2007, 15 municipalities ranked in high poverty level were added in the program and that number was increased to 46 high poverty level municipalities, for a total of 77 municipalities in both categories. Beginning June 2009, the government extended the coverage of the program to urban areas, creating the component *Comunidades Solidarias Urbanas*, which also strengthened and introduced new benefits to families such as basic pensions for elderly people, nutrition and health programs, temporary income protection, intensive employment and urban slum improvement, among other things.

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

Percentage of Households in Poverty

	Extreme poverty			Relative Poverty			Total poverty		
	Urban	**Rural**	**Total**	**Urban**	**Rural**	**Total**	**Urban**	**Rural**	**Total**
1996	14.5	32.3	21.9	27.9	32.5	29.8	42.4	64.8	51.7
1997	12.0	27.9	18.5	26.7	33.7	29.6	38.7	61.6	48.0
1998	12.9	28.7	18.9	23.1	29.9	25.7	36.0	58.7	44.6
1999	10.3	27.4	16.8	22.5	28.0	24.6	32.8	55.4	41.3
2000	9.3	27.2	16.0	20.6	26.6	22.8	29.9	53.7	38.8
2001	10.2	26.1	16.1	21.0	25.5	22.7	31.3	51.6	38.8
2002	10.3	25.0	15.8	19.2	24.2	21.0	29.5	49.2	36.8
2003	9.7	22.1	14.4	20.3	24.1	21.7	30.0	46.2	36.1
2004	8.6	19.3	12.6	20.7	24.4	22.0	29.2	43.7	34.6
2005	9.7	16.9	12.3	21.3	25.5	22.8	30.9	42.4	35.2
2006	8.0	12.2	9.6	19.8	23.6	21.2	27.7	35.8	30.7
2007	7.9	16.3	10.8	22.0	27.5	23.8	29.9	43.8	34.6
2008	10.0	17.5	12.4	25.7	31.5	27.6	35.7	49.0	40.0
2009	9.2%	17.5%	12.0%	24.1%	29.0%	25.8%	33.3%	46.5%	37.8%

Source: *Encuesta de Hogares de Propósitos Múltiples, EHPM, DIGESTYC.*

Social Security

El Salvador's Constitution provides for the guarantee of social security benefits to workers and their families. Social security benefits provide assistance in case of accidents, illness, maternity, disability, retirement and 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 *Instituto Salvadoreño del Seguro Social* (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 governmental 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 589 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. For retirement and death benefits, private sector employees contribute 7.0% of their salary and employers contribute 7.0% of their total payroll to the Salvadoran Social Security Institute. Public sector employees contribute 7.0% of their salary and their employers contribute 7.0% of their total payroll to the National Public Pension Institute.

In order to provide the government with the proceeds to improve social security benefits, the *Ley Especial para la Constitución del Fondo Solidario para la Salud* (the "Special Law for the Constitution of the Solidarity Fund" or "FOSALUD") was enacted in December 2004. FOSALUD aims to establish legal mechanisms to finance special programs designed to increase the availability of healthcare services and social assistance in rural and urban areas, as well as programs providing emergency assistance. During the period from 2005 to December 2009, FOSALUD funds were used to modernize and expand services at 150 clinics throughout the country, with 56 operating on a 24-hour basis and 94 during the weekends.

The following table sets forth the distribution of workers in the private sector by economic sector 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.

Contributors by Private Sector

	As of December 31,									
	2005		2006		2007		2008[1]		2009[2]	
	Number	%	Number	%	Number	%	Number	%	Number	%
Manufacturing	161,121	32.1%	159,900	30.2%	164,762	29.0%	165,127	28.6%	151,086	27.4%
Trade, restaurants and hotels	115,203	23.0	120,467	22.7	128,798	22.7	141,270	24.4	135,822	24.6
Finance and insurance	93,403	18.6	104,344	19.7	111,435	19.6	118,990	20.6	115,530	21.0
Community, social, personal, and domestic services	71,068	14.2	76,552	14.4	90,248	15.9	75,687	13.1	77,762	14.1
Construction	26,311	5.2	31,636	6.0	32,061	5.6	28,102	4.9	31,144	5.6
Transportation, storage and communication	19,652	3.9	21,109	4.0	23,752	4.2	31,248	5.4	23,146	4.2
Agriculture, livestock and fishing[3]	11,767	2.3	12,017	2.3	12,906	2.3	13,253	2.3	12,315	2.2
Electricity, gas and water	2,929	0.6	3,240	0.6	3,642	0.6	3,867	0.7	3,996	0.7
Mining	508	0.1	600	0.1	697	0.1	699	0.1	612	0.1
Total	**501,962**	**100.0%**	**529,865**	**100.0%**	**568,301**	**100.0%**	**578,243**	**100.0%**	**551,413**	**100.0%**

(1) Revised.
(2) Preliminary.
(3) Only covers administrative workers within the agricultural sector.

Source: *Instituto Salvadoreño del Seguro Social.*

Pension Reform

On December 20, 1996, the Legislative Assembly approved the creation of a private pension system for eligible workers (including both public sector employees and private sector employees) in El Salvador modeled on the then-existing Chilean system. The *Superintendencia de Pensiones* (the "Superintendency of Pensions") is responsible for overseeing both the public pension system and the private pension system. Private pension companies (the "*Administradoras de Fondos de Pensiones*" or "AFPs") were authorized to operate pursuant to the pension system law of April 15, 1998. All workers 35 years old or younger were required to affiliate with a private pension company by April 15, 1999. Men between the ages of 36 and 55 and women between the ages of 36 and 50 had the option of continuing with the prior public pension system, or switching to the new private pension system, while women over the age of 50 and men over the age of 55 were not eligible to participate in the new private pension system and were required to remain in the prior public pension system. All workers entering the work force since April 15, 1998 have been required to participate in the private pension system, regardless of age. At December 31, 2009, 1.9 million workers, or 101.6% of the Salvadoran workforce in 2009, were affiliated with this private pension system, including 551,520 active workers. At December 31, 2009, there were 21,421 active workers registered in the public pension system. At November 30, 2010, approximately 2.0 million Salvadoran workers, or 106.3% of the Salvadoran workforce in 2010, were affiliated with the private pension system, including 569,557 active workers.

Beginning January 1, 2002, employees participating in the private pension system were required to contribute 6.25% of their salary on a monthly basis to a private pension fund (a portion of the 6.25% monthly contribution payments made by employees represented commissions to the AFPs). Employers are required to contribute an additional 6.75% of each worker's salary to each worker's private pension fund account on a monthly basis. On December 21, 2005, the Legislative Assembly approved an amendment to the pension system law, that became effective January 2006, which reduced the maximum commission that AFPs may charge from 3.0% to 2.7% and required that such commissions be deducted from employer contributions rather than employee contributions. Under the new law, employees continue to contribute 6.25% of their salary on a monthly basis; however, commissions are not deducted from employee contributions, but instead are deducted from contributions by employers, who continue to contribute 6.75%. Only men who are 60 years old and women who are 55 years old, and who have contributed to the pension system for 25 years, are eligible to receive a monthly pension. As of January 2005, the option of retiring after contributing to the pension system for 30 years, regardless of age, is no longer available for those employees who did not meet the 30 years of service requirement by December 31, 2004.

When employees who transferred to the private pension system retire, the government issues *Certificados de Traspaso* ("Certificates of Transfer" or "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, CTs, due to reforms to the pension system law, 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 *Certificado de Traspaso Complementario* (the "Complementary

Recognition Bond") 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 pensions system and the value of the monthly pensions if they shifted to the new private pension system.

Beginning October 2006, the government has been issuing Pension Investment Certificates to pension funds to finance the cost of its pension obligations to retired public employees and to holders of outstanding CTs and Complementary Recognition Bonds. Pension Investment Certificates amortize over a 25 year period and carry a floating rate based on 180-day LIBOR. The government has been able to reduce its pension burden by benefiting from the longer maturity and progressive amortization profile of Pension Investment Certificates compared with CTs and Complementary Recognition Bonds. As of September 30, 2010, *Banco Multisectorial de Inversiones* ("BMI") had issued US$1,325 million in Pension Investment Certificates to pay for the public pension system's obligations. See "Public Debt — Internal Debt"

The creation of the private pension system reduced the net present value of the government's obligations with respect to pensions by approximately 71.6%. The government currently estimates that the difference between contributions to the public pension system and benefits payable to retirees under the public pension system and partial benefits payable to retirees who switched to the private pension system for the time they were covered by the public pension system was 1.6% of GDP in 2009 having reached a peak deficit of 1.9% of GDP in 2005 and 2006. The accumulated deficit for the period from 2005-2010 could reach approximately US$2.0 billion.

Infrastructure Investment

Puerto La Unión

The government completed construction of a major port facility at La Unión in April 2009. The project cost a total of approximately US$170.0 million. Approximately US$90.0 million of the project costs were financed through a credit facility provided by the Japan Bank for International Cooperation. Approximately US$45.0 million of the project costs were financed through government funds and the balance was financed through additional credit facilities. As of December 2010, the port is being operated by CEPA. During 2011, the executive branch intends to send Congress a project of a concession law aimed at enhancing the potential of the port infrastructure and its services.

Planta Térmica Atéos

The government undertook the installation of a 50 MW thermal power plant at Atéos, to the west of San Salvador. The project cost a total of US$63.3 million, of which approximately US$58.6 million was financed through a loan from CABEI. The balance of the project costs were financed by government funds. The power plant has been operational since December 2006. A second phase for another 50 MW was completed in 2008 by *Industrias Energéticas* ("INE"), a private arm of CEL, and cost approximately US$69.1 million, including US$49.7 million from CABEI and US$19.4 million from INE's own resources.

Central Hidroeléctrica El Chaparral

The government is currently building a hydroelectric plant with a capacity of 66.1 MW in the eastern side of the country. This project is expected to be completed in 2013.

Proyecto Fomilenio

With a US$461.0 million grant from the United States Millenium Challenge Account, the government is developing *Proyecto Fomilenio*, which includes the construction of a highway in the northern part of the Republic that will connect the eastern region of the Republic with the western region, thereby providing easier access to some of the poorest municipalities in the country. In addition, the project will introduce electricity to rural parts of the region, educational facilities and other social programs designed to develop that region. The project will finance agricultural business initiatives as well as training and development for the people in the region. *Proyecto Fomilenio* is expected to be completed by 2012.

Boulevard Diego de Holguín

The government will continue building Boulevard Diego de Holguín. Located between San Salvador and Santa Tecla, this express highway is expected to ease traffic flow coming from the west side of the country heading east towards the capital city. The project will cost approximately US$69 million and is expected to be completed by 2011.

Program of Hospital Reconstruction

The government has implemented a program of reconstructing the facilities of eight hospitals. The total cost of the program is expected to be approximately US$200 million, which is being financed through multilateral loans. Two hospitals were completed before June 2009 (*Cojutepeque* and *Santa Tecla*), two other hospitals were completed between June 2009 and December 2010 (*San Miguel* and *San Vicente*), while two additional hospitals are in the final phase of construction and expected to be completed in March 2011 (*Usulutan* and *Zacatecoluca*). The Maternity Hospital and *La Unión Hospital* are expected to be built in 2011.

Promotion of Tourism

The government believes that tourism represents a potential area of growth for the Salvadoran economy and has implemented measures designed to foster development of the tourism sector. On December 15, 2005, the Legislative Assembly enacted a tourism law (the "*Ley de Turismo*" or "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 contribution levy of 5.0% on lodging. For the ten-month period ended October 31, 2010, revenues from the tourism tax were US$6.6 million. These funds have been used in accordance with the Tourism Law to promote tourism in El Salvador. Of this amount, approximately 80% was directed towards marketing in countries such as Spain, Italy, Argentina, the United States, Costa Rica, Guatemala and Honduras, among others, while the remaining 20% was spent marketing in El Salvador.

The Tourism Law also provides for economic incentives for companies that engage in certain tourism activities. As of October 31, 2010, 13 tourism projects have benefited from this law and the tax exemptions it provides.

Education Initiatives

In 2005, the government implemented measures designed to improve the education system, promote greater access to educational opportunities and encourage greater participation in the education system, particularly in rural communities. These measures included:

- improving educational facilities throughout the country (including higher educational facilities known as *megatecs*);
- increasing access to computers and the Internet;
- promoting English as a second language for all students; and
- implementing a conditional cash transfer program known as Mutual Aid Communities, to encourage extremely poor families to send their 5 to 15-year old children to pre-school and primary school, fully immunize children younger than 5, and regularly monitor the health and nutrition status of pregnant mothers and infants.

For the year ended December 31, 2009, government expenditures in education increased to US$756.2 million from US$621.8 million for the year ended December 31, 2008, representing an increase of 21.6%. As of the first ten months of 2010, government expenditures in education increased to US$543.2 million. Under its *Plan Nacional de Educación 2021*, the government increased expenditures in the area of education from 2.9% to 3.6% of GDP during the period from 2005 to 2009.

In May 2009, the Legislative Assembly approved a constitutional amendment providing that education at public elementary and middle schools and at public schools for children with special needs will be free of charge when managed by the government.

Since June 2009, the government has been promoting a new educational plan based on eight strategic areas of action: (i) providing equal access and permanence in the educational system; (ii) providing relevant curriculum and meaningful learning; (iii) maintaining dignity and professional development of teachers and principals; (iv) strengthening institutional management and curriculum in schools; (v) providing continuing education for young people and adults; (vi) integrating research, science and technology into education; (vii) strengthening the higher education levels; and (viii) providing job training.

Some components of this new plan include a provision for school uniforms and supplies, feeding schoolchildren, a literacy plan, an education and development of early childhood plan, inclusive education, school infrastructure and science and technology, among others.

FOREIGN TRADE AND BALANCE OF PAYMENTS

General

In 2009, imports accounted for 34.4% of nominal GDP, mostly in the form of intermediate goods (38.6% of total imports) and consumer goods (35.9% of total imports). Export earnings have grown 11.1% from 2005 to 2009 primarily due to an increase in exports in manufacturing products such as food, beverages and tobacco, textiles, paper and chemicals. Based on preliminary information, the current account deficit of the balance of payments decreased from 7.6% of nominal GDP in 2008 to 1.8% of nominal GDP in 2009 due to the decrease in imports of goods and services. The trade and services deficit decreased from 22.5% of nominal GDP during 2008 to 15.5% of nominal GDP during 2009.

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. The government largely controlled exports, with the international commercialization of coffee and sugar in the hands of state-owned monopolies.

Since 1989, the Republic has significantly liberalized its foreign trade policy. The tariff structure has been simplified and currently 95.7% of all imports are subject to tariffs at three principal rates: 0% for capital goods, between 5% and 10% for intermediate goods and 15% for consumer goods. There are some products with different rates, such as jewelry, fine arts, guns and ammunition. 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, eliminating government involvement in 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 sector. 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. Prior to 2004, the Republic entered into trade agreements with Chile, Panama, the Dominican Republic and Mexico, among others. Since 2004, the Republic 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;
- participating in the Free Trade Area of the Americas negotiations;
- entering into a free trade agreement with Taiwan, that became effective in March 2009;
- entering into a free trade agreement with Colombia that became effective in February 2010;
- participating in free trade agreement negotiations with Canada; and
- participating in free trade agreement negotiations to lower tariffs via an association agreement with the European Union, which became effective in May 2010.

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 1963) signed the General Treaty for Central American Economic Integration (the "General Treaty"), which provided the framework for the 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 January 2000, the Central American nations agreed to a tariff structure with, and Salvadoran tariffs are currently set at, three principal rates: 0% for capital goods; between 5% and 10% for intermediate goods; and 15% for consumer goods.

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. This free trade agreement with Mexico does not apply to trade between El Salvador and Guatemala or Honduras. On March 6, 2002, El Salvador and Panama entered into a free trade agreement that became effective on April 11, 2003.

El Salvador entered into an agreement with Guatemala to accelerate the completion of the customs union process between both countries. As a result, they have established a comprehensive plan aimed at facilitating the areas of commerce, free trade, legal logistics between both countries. This plan is intended as a prototype to complete the process of Customs Union with the rest of the countries around the region, which have *Convenio Marco* as a base for the establishment of the *Unión Aduanera Centroamericana*.

Trade Initiatives Involving the United States and European Union

El Salvador has been a beneficiary of the 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 percent 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 (the "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 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. The DR-CAFTA, which is subject to the ratification and implementation by the respective legislatures of the parties to the agreement, has been ratified and implemented by the United States and El Salvador. 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 addition, the Central American countries have negotiated with representatives of the European Union for an association agreement between the two regions which is currently awaiting approval by Congress to become effective. The association agreement includes regional quotas for sugar, meat, rice and textile quotas for the Republic, among other benefits.

Composition of Foreign Trade

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

Merchandise Exports by Country of Destination

	For the Year Ended December 31,					Percentage of Total Exports	
	2005[1]	2006[1]	2007[1]	2008[1]	2009[1]	2005[1]	2009[1]
	(in millions of US dollars, except percentages)						
North America							
Canada	$ 22.3	$ 26.3	$ 12.0	$ 36.2	$ 33.2	0.7%	0.9%
Mexico	42.0	44.0	47.5	48.3	56.7	1.2	1.5
United States	1,819.3	1,980.5	2,028.1	2,184.3	1763.1	53.2	46.4
Central America							
Belize	9.5	11.9	12.7	17.2	13.3	0.3	0.4
Costa Rica	111.4	118.9	137.2	166.2	135.0	3.3	3.6
Guatemala	417.7	468.6	539.5	620.6	533.3	12.2	14.0
Honduras	476.7	404.0	445.6	589.4	510.6	13.9	13.4
Nicaragua	158.1	195.4	220.3	251.8	208.7	4.6	5.5
South America and the Caribbean							
Chile	1.9	0.7	2.6	17.2	7.1	0.1	0.2
Dominican Republic	39.1	50.7	63.4	62.3	66.9	1.1	1.8
Panama	52.0	63.6	90.6	122.8	104.0	1.5	2.7
Puerto Rico	9.3	11.7	6.4	3.7	6.5	0.3	0.2
Venezuela	3.8	4.7	5.4	8.1	10.5	0.1	0.3
Europe							
Benelux[2]	26.5	23.4	24.1	50.7	29.1	0.8	0.8
Germany	45.2	96.5	105.2	123.1	89.8	1.3	2.4
Other	183.4	204.7	243.5	247.3	229.5	5.4	6.0
Total	**$ 3,418.2**	**$ 3,705.6**	**$ 3,984.1**	**$ 4,549.1**	**$ 3,797.3**	**100.0%**	**100.0%**

(1) Preliminary.
(2) Belgium, Netherlands and Luxembourg.
Note: Since 2005, the source for *maquila* information is the Salvadoran Customs Bureau.

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

In 2009, 36.9% of El Salvador's merchandise exports went to Central American countries, compared to 34.3% in 2005. Primarily as a result of the free trade agreement with Mexico, Chile, Panama and Dominican Republic merchandise exports to those countries increased from 3.9% in 2005 to 6.2% in 2009. Exports to the United States decreased from 53.2% of the country's total exports in 2005 to 46.4% in 2009, primarily due to the decline in *maquila* production. Exports to the United States consist primarily of *maquila* products, coffee, sugar, shrimp, apparel and textiles.

The following table sets forth the composition of the Republic's major exports for the periods presented.

Merchandise Exports (FOB) by Groups of Products

	For the Year Ended December 31,					Percentage of Total Exports	
	2005[1]	2006[1]	2007[1]	2008[1]	2009[1]	2005[1]	2009[1]
	(in millions of US dollars, except percentages)						
Maquila	$ 1,821.3	$ 1,775.4	$ 1,803.8	$ 1,928.3	$ 1,487.4	53.3%	39.2%
Agricultural products							
Coffee	163.6	188.7	187.2	258.7	230.3	4.8	6.1
Other	39.2	48.5	67.3	73.7	68.7	1.1	1.8
Manufacturing							
Paper	147.5	166.5	195.8	223.4	225.2	4.3	5.9
Textiles	117.5	121.5	133.9	154.4	229.4	3.4	6.0
Shoes and footwear	19.5	21.4	27.3	29.8	29.1	0.6	0.8
Food, beverages and tobacco	348.3	387.2	473.5	535.5	522.2	10.2	13.8
Chemicals	209.9	371.8	343.5	430.9	280.2	6.1	7.4
Mineral products	70.5	99.9	136.0	188.3	114.0	2.1	3.0
Base metals and similar byproducts	188.3	208.6	246.5	282.8	178.8	5.5	4.7
Plastic, rubber and their byproducts	110.5	126.8	160.3	196.3	180.1	3.2	4.7
Animal products							
Shrimp	2.9	2.4	0.8	0.5	0.4	0.1	0.0
Other	41.0	37.8	41.7	39.4	45.0	1.2	1.2
Other	138.3	149.4	166.6	207.1	206.6	4.0	5.4
Total	**$ 3,418.2**	**$ 3,705.6**	**$ 3,984.1**	**$ 4,549.1**	**$ 3,797.3**	**100.0%**	**100.0%**

(1) Preliminary.
Note: Since 2005, the source for *maquila* information is the Salvadoran Customs Bureau

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

From 2005 to 2009, exports have increased at an average annual rate of 2.8%. Within the manufacturing exports, paper, textiles, food, beverage and tobacco, chemicals and plastic, rubber and their byproducts had an average annual gross rate of over 10%. During the same time period, however, *maquila* exports decreased at an annual average rate of 5.0%.

In 2009, total exports decreased by 16.5% as compared to total exports in 2008, primarily due to a decreased global demand in *maquila*, coffee, chemicals, mineral products and base metals and similar byproducts exports. *Maquila* exports decreased by 5.3% in 2005 and further decreased by 2.5% in 2006 due to increased competition from China, other Asian countries and Nicaragua resulting from lower labor costs in those countries and the expiration of the Agreement on Textiles and Clothing in December 2004. Additionally, *maquila* exports declined sharply in the last quarter of 2005 due to Hurricanes Stan and Katrina, which temporarily discontinued the importation of inputs from the United States and negatively affected the production of these exports. El Salvador's *maquila* exports increased slightly to US$1,803.8 million in 2007 as a result of the tariff and non-tariff benefits under the DR-CAFTA agreement and the increase in non-textile *maquila* sales (e.g., electronic chips), mitigating the negative effects of competition from China by broadening El Salvador's free-trade region, and ending the downward trend *maquila* exports had experienced in previous years. In 2008, *maquila* exports increased to US$1,928.3 million, primarily due to an increase in textile and clothing *maquila* products, which increased by approximately 6.5% and other industrial products, such as computer chips and lightbulbs, which increased by approximately 10.8% during the same time. In 2009, *maquila* exports decreased sharply to US$1,487.4 million, primarily due to lower global demand for products, specifically a lower demand in clothing produced by *maquila* factories. *Maquila* products continue to be the main component of El Salvador's exports, increasing by 17.0% during the first eleven months of 2010 as compared to the same period in 2009.

Coffee exports increased by 40.7% from US$163.6 million in 2005 to US$230.3 million in 2009. Higher international coffee prices contributed to this increase.

The country's exports of food, beverages and tobacco increased from 2005 to 2008 at an average annual rate of 18.2%, from US$348.3 million in 2005 to US$535.5 million in 2008, due to the increase in exports of food and beverages to Central American countries, Panamá, the Dominican Republic and the United States. Exports of food, beverages and tobacco in 2009 decreased by 2.5% from the previous year due to contraction of global trade during the global economic crisis.

Non-traditional exports increased at an average annual rate of 10.4% from 2005 to 2009. The most significant non-traditional exports were cooked tuna and frozen tenderloins, ethylic alcohol, prepared medicines, iron, steel and their manufactures, toilet

tissue, rolled products from iron or steel, plastic boxes, bags, bottles, caps and containers. In particular, the country's exports of chemicals have increased since 2005 at an average annual rate of 10.6%, from US$209.9 million in 2005 to US$280.2 million in 2009, due to the increase in exports of ethylic alcohol and prepared medicines.

During the first eleven months of 2010, exports amounted to US$4,095 million and experienced an increase of 16.9% compared to the same period in 2009. This increase was mainly attributable to the increase of *maquila* products and non-traditional exports, which increased by 17.0% and 20.1%, respectively, primarily due to the increase in global demand in *maquila* products following the recovery of the United States market. Traditional exports decreased 2.7% primarily due to a 17.5% decrease in coffee exports.

The following table describes the origin of the Republic's imports during the periods presented.

Merchandise Imports (CIF) by Country of Origin

	For the Year Ended December 31,					Percentage of Total Imports	
	2005[1]	2006[1]	2007[1]	2008[1]	2009[1]	2005[1]	2009[1]
	(in millions of US dollars, except percentages)						
North America							
Canada	$ 54.5	$ 62.3	$ 55.5	$ 69.5	$ 46.5	0.8%	0.6%
Mexico	510.3	600.5	843.1	874.5	540.1	7.6	7.4
United States	2,466.2	2,708.7	3,146.5	3,336.6	2,606.2	36.9	35.9
Central America							
Costa Rica	180.5	219.5	248.5	261.0	224.6	2.7	3.1
Guatemala	567.5	631.0	744.1	826.8	754.1	8.5	10.4
Honduras	175.7	277.6	299.5	375.4	343.5	2.6	4.7
Nicaragua	127.4	152.1	164.4	198.9	195.1	1.9	2.7
South America and the Caribbean							
Argentina	70.5	126.1	116.1	77.5	42.9	1.1	0.6
Brazil	263.2	283.1	291.2	330.3	171.9	3.9	2.4
Colombia	61.7	85.4	83.2	173.9	93.2	0.9	1.3
Chile	100.6	133.2	140.7	163.7	66.1	1.5	0.9
Ecuador	115.4	155.9	222.6	354.3	223.1	1.7	3.1
Panama	165.6	206.7	187.7	198.7	177.0	2.5	2.4
Peru	55.2	28.2	62.1	28.9	23.4	0.8	0.3
Venezuela	223.5	135.1	112.6	193.9	97.5	3.3	1.3
Europe							
Benelux[2]	51.4	67.0	74.8	87.4	73.1	0.8	1.0
Germany	118.7	126.6	130.6	154.9	104.7	1.8	1.4
Japan	127.7	157.5	180.1	186.9	103.3	1.9	1.4
Other	1,254.2	1,506.2	1,608.4	1,861.3	1,368.6	18.7	18.9
Total	**$ 6,689.7**	**$ 7,662.6**	**$ 8,711.7**	**$ 9,754.4**	**$ 7,254.7**	**100.0%**	**100.0%**

(1) Preliminary.
(2) Belgium, Netherlands and Luxembourg.
Note: Since 2005, the source for *maquila* information is the Salvadoran Customs Bureau.

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

From 2005 to 2008, the average annual rate of growth for imports was 11.4%. However, imports declined by 25.6% in 2009. As a result, from 2005 to 2009, imports increased at an average annual rate of 2.8%. During this five-year period, the average annual rate for imports increased 7.8% for consumer goods, 6.0% for intermediate goods, 0.4% for capital goods and decreased 10.5% for *maquila*.

From 2005 to 2008, El Salvador's trade deficit with the United States increased from US$646.9 million in 2005 to US$1,152.4 million in 2008. In 2009, the deficit declined to US$843.0 million, but remained higher than 2005. This increased trade deficit was due primarily to a decline in *maquila* exports as a result of the expiration of the Agreement on Textiles and Clothing in December 2004, which resulted in a decline in *maquila* and non-*maquila* textile and clothing exports in 2005, and an increase in the import of consumer goods attributable in part to an increase in remittances from Salvadorans workers in the United States.

The United States is the principal source of El Salvador's imports. Imports from the United States in 2009 consisted primarily of mobile phones, diesel oil, corn, kerosene, printers and polyethylene. Imports from the United States also consisted of cotton, oil products, wheat, automobiles, flour and raw materials for *maquila*.

Maquila imports, as a percentage of total imports of goods, decreased from 18.0% in 2005 to 11.6% in 2009 following the decreasing tendency of *maquila* exports.

For the first eleven months of 2010, imports of consumer goods, intermediate goods and capital goods increased by 12.9%, 21.4% and 6.2%, respectively from the same period in 2009. Total imports have increased by 17.1% as compared to the same period in 2009. Crude oil and oil byproducts imports also increased from US$996.2 million in the first eleven months of 2009 to US$1,300 million in the equivalent period of 2010.

The following table sets forth the composition of the Republic's imports for the periods presented.

Merchandise Imports (CIF) by Type of Goods

	For the Year Ended December 31,					Percentage of Total Imports	
	2005[(1)]	**2006[(1)]**	**2007[(1)]**	**2008[(1)]**	**2009[(1)]**	**2005[(1)]**	**2009[(1)]**
	(in millions of US dollars, except percentages)						
Consumer Goods	$ 2,132.9	$ 2,425.6	$ 2,821.1	$ 2,974.0	$ 2,602.2	31.9%	35.9%
Non-durable	1,807.1	1,984.1	2,252.0	2,514.3	2,226.0	27.0	30.7
Durable	325.9	441.4	569.1	459.7	376.2	4.9	5.2
Intermediate Goods	2,343.6	2,877.9	3,289.0	4,157.3	2,801.6	35.0	38.6
Manufacturing	1,836.9	2,306.4	2,666.8	3,341.0	2,251.7	27.5	31.0
Agriculture, livestock and fishing	144.8	141.5	179.0	239.8	206.2	2.2	2.8
Construction	301.0	394.4	401.1	525.8	284.4	4.5	3.9
Other	60.8	35.6	42.2	50.8	59.3	0.9	0.8
Capital Goods	1,008.2	1,216.4	1,365.1	1,341.4	1,011.9	15.1	13.9
Manufacturing	284.9	357.5	423.9	455.5	370.1	4.3	5.1
Transport	419.3	445.0	563.3	473.0	327.1	6.3	4.5
Agriculture, livestock and fishing	15.5	17.9	20.4	19.9	14.0	0.2	0.2
Construction	63.1	81.4	81.2	101.3	78.5	0.9	1.1
Other	225.4	314.6	276.2	291.5	222.3	3.4	3.1
Maquila	1,204.9	1,142.7	1,236.5	1,281.7	839.0	18.0	11.6
Total	**$ 6,689.7**	**$ 7,662.6**	**$ 8,711.7**	**$ 9,754.4**	**$ 7,254.7**	**100.0%**	**100.0%**

(1) Preliminary.

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

Balance of Payments

The current account of the Republic's balance of payments for the past five years has been characterized by deficits, which have been financed in most years by capital and financial account surpluses. In 2007, the current account deficit widened significantly while the capital and financial account decreased. For 2008, the current account deficit continued widening while the capital and financial account registered a US$1,379.8 million surplus. For 2009, the current account deficit decreased by US$1,308.4 million, or 77.8%, compared with the previous year due to the impact of the global economic crisis and the slowdown of the domestic economy reflected in variables such as trade, prices and remittances.

The following table sets forth the Republic's balance of payments for the periods presented.

Balance of Payments

	For the year Ended December 31,				
	2005[1]	**2006[1]**	**2007[1]**	**2008[1]**	**2009[1]**
	(in millions of US dollars)				
Current Account	**$ (610.2)**	**$ (783.2)**	**$ (1,221.3)**	**$ (1,681.9)**	**$ (373.5)**
Trade and services balance	**(3,066.2)**	**(3,724.3)**	**(4,395.1)**	**(4,977.6)**	**(3,270.3)**
Exports (FOB goods and services)	4,392.3	4,773.5	5,168.8	5,651.7	4,696.0
Imports (FOB goods and services)	7,458.5	8,497.9	9,563.9	10,629.4	7,966.3
Income	(578.8)	(531.0)	(576.1)	(536.0)	(663.8)
Transfers	**3,034.8**	**3,472.1**	**3,749.9**	**3,831.7**	**3,560.6**
Private	3,015.6	3,457.4	3,719.2	3,823.1	3,550.1
Remittances	3,017.2	3,470.9	3,695.3	3,787.7	3,464.9
Public	19.2	14.8	30.7	8.6	10.5
Capital and financial account	**929.1**	**1,094.2**	**400.0**	**1,379.8**	**546.5**
Capital account	93.6	96.8	150.5	79.8	130.2
Financial account	835.5	997.4	249.6	1,300.0	416.3
Direct Investment	398.3	267.5	1,408.2	718.8	561.9
Abroad	(112.9)	26.4	(100.3)	(65.4)	131.2
In reporting economy	511.1	241.1	1,508.5	784.2	430.7
Portfolio Investment	104.5	777.4	(196.4)	137.6	781.4
Assets	18.1	62.3	(92.5)	193.9	365.5
Liabilities	86.4	715.1	(103.9)	(56.3)	415.9
Other Investment	273.8	24.1	(682.0)	777.3	(498.3)
Assets	(256.8)	(60.5)	(214.1)	158.9	(46.7)
Liabilities	530.6	84.6	(467.9)	618.4	(451.6)
Change in Reserves [2]	58.9	(71.6)	(280.2)	(333.7)	(428.7)
Net errors and omissions	**$ (318.9)**	**$ (311.0)**	**$ 821.2**	**$ 302.1**	**$ (173.0)**

(1) Preliminary.
(2) Figures in parentheses indicate an increase.

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

Current Account

The trade and services deficit grew from US$3.0 billion in 2005 to approximately US$5.0 billion in 2008, with imports growing at a higher rate than exports during the period. Imports increased primarily due to remittances from abroad, which are used in El Salvador mainly for consumption. In addition, since 2005 higher oil prices have had a negative impact on the current account, particularly from 2005 to 2008. In 2007 and 2008, the increase in food prices and the import of intermediate goods contributed to the rise of total imports. In 2009, the trade and services deficit decreased by 34.3% to US$3,270.3 million. Imports in 2009 declined 25.0% to US$7,966.3 million compared with 2008 and exports in 2009 declined 16.9% to US$4,696.0 million. The services deficit in 2009 resulted from lower payments for freight, insurance and personal travel.

Transfers from Salvadoran workers abroad in the form of worker remittances increased from US$3,017.2 million in 2005 to US$3,787.7 million in 2008 and represented 17.1% of GDP in 2008. Remittances decreased by 8.5% in 2009 to US$3,464.9 million compared to 2008. 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, remittances have been a significant source of funds and an important factor in the composition of the country's current account and in 2008 represented approximately 39.9% of all current account inflows in the balance of payments. The impact of these remittances on the country's balance of payments has been two-fold. First, by raising 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.

Remittances grew each year during the period from 2005 through 2008. Remittances increased in 2008 as compared to 2007, rising from US$3,695.3 million to US$3,787.7 million (an increase of 2.5%) and represented 17.1% of GDP in 2008, compared to 16.1% of GDP in 2004. In 2009, remittances were affected by the increase in Hispanic unemployment in the United States and decreased by 8.5% compared to 2008. Remittances in 2009, which totaled approximately US$3,464.9 million, represented 16.4% of GDP. Remittances for the eleven-month period ended November 30, 2010 increased by 2.3% to US$3,199.4 million from US$3,128.5 million for the comparable period in 2009.

In the first three quarters of 2010, the current account registered a deficit of US$269.3 million, representing a 50.3% improvement compared to the same period of 2009, largely due to the recovery from the effects of the global economic crisis and the higher inflows of remittances into the Republic. In addition, there was an increase of 18.6% of imports as well as an increase of 16.1% in exports.

In July 2010, the United States government announced a 15-month extension of the temporary protected status afforded to Salvadoran immigrants in the United States.

Capital and Financial Account

For the five-year period from December 31, 2005 to December 31, 2009, the capital account registered a surplus due mainly to transfers from abroad, primarily through grants from bilateral and multilateral sources. The capital account transfers have been stable and averaged around US$110.2 million during the last five years.

For the five-year period ending December 31, 2009, the financial account consistently reflected a surplus primarily due to inflows from foreign direct investment, issuances by the government of external notes and loans to private banks. In 2007, the direct investment of financial accounts was five times greater than that recorded in 2006, at US$1,408 million, as a result of receipts from the sale of bank assets to foreign banks.

The Investment Law (*Ley de Inversiones*), enacted in 1999, implements reporting requirements that permit a more accurate measurement of foreign direct investment in El Salvador. The Investment Law also clarifies certain rules directed to protect foreign investments in El Salvador. Foreign investment must be registered with the National Investment Office of the Ministry of Economy. While the Investment Law recognizes the protection of investor's property rights, expropriation is permitted for public interest reasons with fair compensation paid to the investor. There are no limitations on repatriation of profits. Registered foreign investors are entitled to repatriate their investment plus any capital gains and are exempted from withholding tax on dividends. Investors are still responsible, however, for income tax, labor, social security, bankruptcy and other legal obligations.

Foreign direct investment ("FDI") in 2009 registered US$561.9 million, a decrease of 21.8% compared with the previous year, resulting from an unusually high level of investment in the financial sector during 2008 and 2007 than in 2009, which was approximately US$95.1 million. In 2009, the majority of the FDI was invested by Panama, United States and Singapore, directing the investments towards the finance, *maquila*, manufacturing and trade sectors. FDI in 2008 registered US$718.8 million, mainly due to a US$370 million investment in the financial sector. FDI in 2007 significantly increased to US$1,408.2 million, compared to US$267.5 million in 2006, primarily due to foreign direct investment in the financial sector of US$1,167.5 million, which has been the main target of FDI in the last years. FDI in the financial system amounted to US$102.2 million in 2005 primarily due to the merger of Scotiabank and *Banco de Comercio de El Salvador* and the acquisition of *Banco Salvadoreño* by *Grupo Banistmo, S.A.* (Panama). After declining in 2006, FDI in the financial system reached US$1,167.5 million in 2007 due mainly to Citibank's acquisition of Banco Uno and Banco Cuscatlán as well as Bancolombia's acquisition of Banco Agrícola.

During 2005 and 2006, portfolio investments were affected primarily due to the issuance by the government of external notes amounting to US$375.0 million in 2005 and US$625 million in 2006. In 2007, portfolio investments had a net outflow of US$196.4 million compared to an inflow of US$777.4 million in 2006 mainly due to the fact that in 2007 the government did not issue any new indebtedness and redeemed outstanding notes for US$50.0 million. For 2009, portfolio investments were primarily affected by the government issuance of external notes amounting to US$800 million.

For the first nine months of 2010, the capital and financial account showed a US$201.6 million net outflow, which included the payment of external loans by private banks and the general government. During the same period, foreign direct investment was

US$140.2 million, which primarily consisted of investments in the financing, trade, services and agriculture, livestock and fishing sectors. External assets increased by US$23.2 million resulting from the accumulation of assets in the private financial and non-financial sectors of US$490.4 million and a decrease in reserve assets of US$467.3 million.

Foreign Currency Reserves

At December 31, 2009, net international reserves ("NIRs") totaled US$2,984.8 million, an increase of 17.5% from December 31, 2008. At December 31, 2009, the Central Bank had international reserves equivalent to 5.6 months worth of goods imports, excluding *maquila*. As of November 30, 2010, NIRs reached US$2,910.2 million, as measured using a gold value of US$1,383.5/troy ounce.

The following table sets forth NIRs of the Central Bank for the periods presented.

Net International Reserves

	At December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
	(in millions of US dollars, except months)				
Assets:					
Gold[1]	$ 110.2	$ 84.0	$ 88.8	$ 101.9	$ 117.5
Foreign currencies	1,684.9	1,782.2	2,069.5	2,404.1	2,611.8
Cash	78.9	16.0	9.9	122.2	37.2
Deposits abroad	580.3	1,016.5	632.9	766.3	698.7
Investments	1,025.7	749.7	1,426.7	1,515.7	1,875.9
Special drawing rights	35.7	37.5	39.1	38.9	257.1
Other	2.2	4.4	0.9	0.5	0.1
Liabilities:	**3.6**	**1.0**	**0.9**	**4.5**	**1.8**
Total liabilities	**3.6**	**1.0**	**0.9**	**4.5**	**1.8**
Net international reserves	**$ 1,829.4**	**$ 1,907.2**	**$ 2,197.5**	**$ 2,540.9**	**$ 2,984.8**

(1) For 2005, 2006, 2007 and 2008, gold was valued at US$337.89/troy ounce, US$360.54/troy ounce, US$398.00/troy ounce and 456.59/troy ounce, respectively. For 2009, gold was valued at US$526.73/troy ounce.

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

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.

The Central Bank is an independent institution governed by a board of six members who are appointed to five-year terms and are removable only for cause. The President of the Central Bank, one of the six board members, is appointed by the President of the Republic. The Executive Cabinet chooses the remaining Board members pursuant to nominations from the banks, the Economic Cabinet, the private sector and professional organizations.

The Central Bank issues *Certificados Negociables de Liquidez* ("CENELIs"), which are short-term US dollar-denominated liquidity management instruments that are auctioned by the Central Bank weekly every Monday, and *Bonos BC*, which are US-dollar denominated medium-term instruments intended to provide greater stability and liquidity to the Central Bank. At December 3, 2010, a principal amount of approximately US$100.5 million of CENELIs were outstanding, an increase from the US$54.6 million of outstanding CENELIs at December 31, 2009.

In December 2008, the Central Bank received a US$400.0 million loan from the IADB to provide liquidity and support to productive projects in the private sector. As of May 2009, approximately US$187.0 million had been disbursed. Of that amount, the Republic has repaid approximately US$183.5 million as of November 2010.

In September 2009, the Republic reached a preliminary stand-by agreement ("SBA") with the IMF, which was approved by the Executive Board of the International Monetary Fund in March 2010. The SBA is a 36-month, US$790 million loan for the Republic in order to help mitigate the adverse effects of the global economic crisis. This new SBA, which authorities of the Republic intend to treat as a precautionary backup measure, will replace the 15-month SBA approved on January 16, 2009. The main objectives of the Republic's economic program are to accelerate the economic recovery, reduce poverty, preserve financial stability, and secure debt sustainability. In addition, the economic program seeks to implement a countercyclical fiscal policy in 2010, which includes modernizing the country's roads and increasing electricity generation. To date, the Republic has not used the funds under the SBA.

Financial Sector

The entities participating in the financial system in El Salvador include commercial banks (two are state-owned banks specializing in incentive credit), insurance companies, broker/dealers, one security depository, four operating rating agencies, bonded warehouses, financial leasing companies, factoring companies, the El Salvador Stock Exchange and the Deposit Guaranty Institute.

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 credits. 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 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 the Central Bank had absorbed from the privatized entities. Since such time, the financial sector in El Salvador has grown steadily and, at December 31, 2009, the aggregate value of deposits in the system was approximately US$9.1 billion, including deposits held by the two state-owned banks. As of the first ten months of 2010, the aggregate value of deposits in the system was approximately US$9.3 billion, including deposits held by the two state-owned banks.

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 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 Deposit Guaranty Institute, created

by the Banking Law, guarantees deposits up to US$9,000 (as of January 1, 2010) and has the authority to contribute funds to banks with liquidity problems. It was originally funded by the government and 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 to increase the responsibility of the banks. 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.

In 2005 the Superintendency of the Financial System raised the minimum paid-in capital requirement for banks, increasing it from US$12.0 million to US$13.0 million. Effective as of July 2007, the Superintendency of the Financial System raised the paid-in capital for banks requirement for banks to US$14.2 million and once more raised this requirement to US$16.0 million in January 2009.

In an effort to strengthen the financial system's ability to withstand shocks, the Legislative Assembly approved in January 2011 the Financial Sector Supervision and Regulatory Law. The new law, which will come into effect 180 days after its enactment, is aimed at merging the supervisory entities for financial institutions (banks, insurance companies and savings and loan companies), pensions and the stock exchange. The law is designed to enhance functional autonomy for the new supervisory institution, strengthen cross-border supervision through improved information-sharing mechanisms and make the Central Bank the consolidated financial system regulatory authority.

Commercial Banks

As of December 31, 2009, the Salvadoran banking system had a total of 13 banking institutions, of which 11 were foreign-owned banks and two were state-owned banks. As of December 31, 2009 the amount of assets in the private banking sector amounted to US$12.4 billion. As of October 31, 2010, the Salvadoran banking system had a total of 13 banking institutions, of which 11 were foreign-owned banks and two were state-owned banks, and the amount of assets in the private banking sector amounted to US$12.1 billion.

The following table sets forth the 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,				
	2005	2006	2007	2008	2009
Total assets (in billions of US dollars)	$ 10.7	$ 11.3	$ 12.5	$ 12.9	$ 12.4
Non-performing loans (as % of total loans)	1.9%	1.9%	2.1%	2.8%	3.7%

(1) Excluding the two state-owned banks. As of December 31, 2008, the aggregate assets and non-performing loans as a percentage of total loans of the two state-owned banks were US$0.6 billion and 2.4%, respectively.

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

In 2005, Scotiabank and *Banco de Comercio de El Salvador*, two private commercial banks, merged to form Scotiabank El Salvador. In 2005, Grupo Banistmo, S.A. (Panama) acquired a majority stake in Banco Salvadoreño. In 2006, HSBC Group (United Kingdom) acquired Grupo Banistmo. 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. In July 2009 Banco Azteca (Mexico) initiated operations in El Salvador.

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 cooperative banks and 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.

Pension Funds

In 1996, El Salvador enacted a new pension system law, pursuant to which a substantial portion of the public, pay-as-you-go pension system was replaced by a private pension fund system based on individual capitalization accounts. Under the private system, which became effective April 15, 1998, participating workers make monthly contributions to private pension funds which invest in permitted Salvadoran securities. Currently, there are two operating pension funds, plus one additional fund which is in liquidation and the assets of which will be transferred to the other two funds. See "The Salvadoran Economy — Social Security — Pension Reform".

State-Owned Financial Institutions

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

- Banco de Fomento Agropecuario (Rural Development Bank);
- Banco Hipotecario de El Salvador, S.A. (Mortgage Bank of El Salvador);
- 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. The *Fondo de Financiamiento y Garantia de la Pequeña Empresa* ("Small Business Finance and Guaranty Fund"), another bank financial institution owned by the state, was liquidated in July 2007.

The two public banks listed above, *Banco Hipotecario de El Salvador, S.A.* and *Banco de Fomento Agropecuario* had total assets of US$0.63 billion and total liabilities of US$0.56 billion as of December 31, 2009. At October 31, 2010, the two public banks and *Fondo Social para la Vivienda* had an aggregate of approximately US$0.72 billion in total assets and approximately US$0.7 billion in total liabilities.

In 2010, the government announced its intention to create a state development banking system governing the credit operations of *Banco Hipotecario de El Salvador, S.A.*, *Banco de Fomento Agropecuario*, and BMI. This state development banking system is expected to begin operations in 2011. According to the new system, *Banco Hipotecario de El Salvador, S.A.*, will specialize in providing support to productive sectors of the economy, such as small and medium-sized companies and other relevant sectors. *Banco de Fomento Agropecuario* will specialize in the agricultural sector and micro-sized companies. Finally, under the new banking system, BMI will be able to extend credit to organizations within the productive sectors of the economy.

Capital Markets

The Salvadoran capital markets are regulated by the *Ley del Mercado de Valores* (the "Stock Exchange Market Law") and the *Ley Orgánica de la Superintendencia de Valores* (the "Superintendency of Securities Law") enacted in 1995 and 1996, respectively and are supervised by the Superintendency of Securities. Trading activity in El Salvador's capital markets has decreased in recent years mainly attributable to a decrease in the trading of repos. Retail trading of debt and equity securities of private Salvadoran issuers is relatively new and has remained limited thus far. Most of the trading on Salvadoran capital markets involves the purchase and sale of government securities. The El Salvador Stock Exchange opened in 1992 and currently lists 119 entities. Of those entities, 11 commercial banks, 11 companies, 1 public institution, 10 sovereign states and 36 international entities executed transactions during 2009. In 2009, US$2.7 billion worth of securities were traded on the El Salvador Stock Exchange, representing a decline compared with the US$4.5 billion of the securities traded in 2008. As of November 30, 2010, approximately US$2.3 billion worth of securities were traded on the El Salvador Stock Exchange.

Interest Rates and Money Supply

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

Average Interest Rates

	2005	2006	2007	2008	2009
		(in percentages)			
Loans					
Short-term	6.9%	7.5%	7.8%	7.9%	9.3%
Long-term	8.2	9.0	9.4	9.7	10.9
Deposits					
30-day	3.2	4.5	4.9	4.1	4.4
180-day	3.4%	4.4%	4.7%	4.2%	4.5%

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

The average interest rates on short-term and long-term loans increased from 6.7% and 8.2%, respectively, in 2005 to 7.8% and 9.4%, respectively, in 2007, primarily due to the gradual increase in interest rates announced by the United States Federal Reserve and higher domestic inflation rates that pressure local nominal interest rates. Between December 2008 to November 2010, weighted monthly average interest rates on long-term loans decreased from 10.4% in 2008 to 9.9% in November 2010, while weighted monthly average interest rates on short-term loans for the respective period decreased from 9.6% in December 2008 to 6.9% in November 2010. The domestic currency interest rate for deposits (passive basic rate - 180 days) decreased from 7.1% in December 2000 to 3.3% in December 2004. Between December 2008 and November 2010, the weighted monthly average passive rate decreased from 5.3% in 2008 to 2.1% in 2010. The decrease in the average interest rates on short-term and long-term loans between 2008 and 2010 was primarily due to following the declining trend of international interest rates as well as an excess supply of liquidity in the domestic market that resulted from increased levels of deposits and distribution of fewer loans.

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

Principal Monetary Indicators

	At December 31,				
	2005	2006	2007	2008[(1)]	2009[(1)]
	(in millions of US dollars)				
Currency in circulation	$ 34.2	$ 33.6	$ 33.2	$ 33.0	$ 32.8
Demand deposits	1,257.2	1,453.8	1,699.5	1,726.9	1,946.2
M1	**1,291.3**	**1,487.4**	**1,732.7**	**1,759.9**	**1,979.0**
Savings	2,136.9	2,204.6	2,456.7	2,400.9	2,363.0
Term deposits	2,924.6	3,400.9	4,152.4	4,192.5	4,113.9
M2 (M1 plus savings plus term deposits)	**6,352.8**	**7,093.0**	**8,341.8**	**8,353.2**	**8,455.8**
Deposits in foreign currency	0.0	0.0	0.0	0.0	0.0
Others	631.3	778.4	926.5	1,029.6	1,033.9
M3 (M2 plus deposits in foreign currency plus others)	**$ 6,984.2**	**$ 7,871.4**	**$ 9,268.4**	**$ 9,382.8**	**$ 9,489.8**

(1) Preliminary.

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

From 1997 to 2000, the Central Bank influenced the money supply through the issuance of *Certificados de Administración Monetaria* at par and, from 1998 to 2000, through the issuance of *Certificados de Administración Monetaria a Descuento*, both of which were *colón*-denominated instruments, which have not been issued since the effectiveness of the Monetary Integration Act in January 2001. The reserve requirements applicable to checking accounts, savings accounts and deposit certificates are currently 25.0%, 20.0% and 20.0%, respectively. As a precautionary measure to provide liquidity in anticipation of the presidential elections in 2004, the Superintendency of Financial System required all commercial banks to gradually increase their reserves by an additional 9.0% of total deposits, 3.0% of which was required to be in cash and 6.0% of which was required to be in the form of securities issued by the Ministry of Finance or the Central Bank, or highly liquid external securities with minimum credit ratings requirements. In 2004, the 3.0% additional cash reserve requirement was eliminated while the 6.0% additional reserve requirement with respect to such securities was maintained. In April 2005, the 6.0% additional reserve requirement with respect to these securities was reduced to 3.0% of total deposits and modified to require reserves in the form of highly liquid external securities with minimum credit ratings requirements or deposits at the Central Bank. Similarly, due to the then upcoming

presidential and legislative elections in 2009, in July 2008, the Superintendency of the Financial System required all commercial banks to increase their reserves by an additional 3.0% of total deposits, which was eliminated gradually from April through June 2009.

Effective January 1, 2001, pursuant to the Monetary Integration Act, the U.S. dollar is the legal tender and permitted to circulate freely in El Salvador. *Colones* in circulation rapidly decreased since then. Up to date all circulating cash in El Salvador was 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.

The following table sets forth the rate of inflation in the Republic as measured by the CPI for the periods presented.

Inflation

	For the Year Ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
Inflation	4.3%	4.9%	4.9%	5.5%	(0.2)%

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

In 2005, the inflation rate was 4.3%. During 2005, prices were affected directly and indirectly by high oil prices, which resulted in higher costs for fuel, transportation services and food. Further, in October 2005, food prices rose temporarily due to Hurricane Stan, which caused the closure of certain highways. In 2006, inflation increased slightly and reached 4.9% mainly due to variations in food, non-alcoholic beverages, transportation, residential leasing, and services related with public utilities. In 2007, inflation remained stable at 4.9%.

The rise in global commodity prices in 2008 generated substantial inflationary pressures. In 2008 inflation reached 5.5% due to sustained increases of international prices of food and oil in the first half of the year. After peaking at 9.9% in August 2008, there was a deflation of 5.5% in December primarily due to lower prices in the food and oil categories. In 2009, there was a deflation of 0.2% due to a reduction in various expenditure categories measuring inflation, including food and beverage, restaurants and hotels and services. As of November 2010, inflation registered a modest increase of 1.8% for the twelve-month period ended November 30, 2010.

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 matters. Pursuant to the AFI, the Republic's nonfinancial public sector's budget consists of the General Budget (as defined below), budgets for municipalities and the Salvadoran Social Security Institute and budgets for the non-financial autonomous entities (such as CEL and CEPA).

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 guidelines adopted 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 branch approves the budget for the Legislative Assembly after 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 entity, 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 Economic and Social Development Fund Law, 7.0% of net current revenues must be allocated to municipalities.

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 approved 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 approved by the Legislative Assembly.

At the end of each fiscal year, the Executive Branch must submit a report on the 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 its 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 under the *Plan Nacional de Educación 2021* and the new educational policy implemented by the current Administration;
- reduce overall government expenditures for subsidies in the areas of electricity, water consumption, public transportation and cooking gas, while focusing subsidies on those sectors of the population most in need of such assistance;
- increase public saving by all public sector entities;
- increase spending on programs designed to enhance security throughout the country, such as through the establishment of a rural police force;
- implement the *Comunidades Solidarias Rurales,* a conditional cash transfer program, formerly known as *Programa Red Solidaria* or the Solidarity Network, to encourage extremely poor families to send their 5-15 year old children to pre-school and primary school, fully immunize children younger than 5, and regularly monitor the health and nutrition status of pregnant mothers and infants;

- implement the *Comunidades Solidarias Urbanas*, a program to strengthen and introduce new benefits to families such as a basic pension for elderly people, nutrition and health programs, temporary income protection, intensive employment and urban slum improvement, among others; and

- 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 terms of revenues, the government has been implementing tax reforms designed to increase revenues by expanding the overall tax base, while minimizing increases of existing taxes and limiting the imposition of new taxes or levies for specific purposes, such as the special contribution levies imposed on lodging and airport departures. Other taxes that have been put into effect are a US$0.10 charge on each gallon of gasoline and diesel and a US$0.04 per minute tax on incoming international calls to El Salvador, in each case to partially finance the public transportation subsidy. In 2009 and September 2010, the Congress approved an *ad valorem* rate of 8% and the updating of specific rates for alcoholic beverages.

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 budgeted for 2010.

Non-Financial Public Sector
Consolidated Revenues and Expenditures[1]

	For the Year Ended December 31,					
	2005	2006	2007	2008	2009	2010 Budgeted[2]
	(in millions of US dollars, except percentages)					
Revenues						
Current revenues[3]	$ 2,832.0	$ 3,244.0	$ 3,578.0	$ 3,882.8	$ 3,517.1	$ 3,912.2
Capital revenues	0.1	0.0	0.0	0.1	0.0	0.0
Foreign aid	52.1	41.3	62.3	52.9	108.8	181.8
Total revenues	$ 2,884.3	$ 3,285.3	$ 3,640.3	$ 3,935.8	$ 3,626.0	$ 4,094.0
Expenditures						
Current expenditures[3]	$ 2,585.1	$ 2,903.3	$ 3,148.7	$ 3,637.4	$ 3,809.5	$ 3,972.7
Consumption	1,885.1	2,034.3	2,136.9	2,350.9	2,533.3	2,727.6
Interest	389.4	454.9	507.4	519.6	530.9	660.6
Transfers	310.6	414.5	504.4	766.9	745.2	584.2
Capital expenditures	481.3	579.5	658.3	661.7	643.1	808.7
Gross investment	429.6	500.0	477.5	582.1	581.3	743.0
Capital transfers	51.7	79.5	90.8	79.7	61.8	65.7
Net lending	(1.4)	(0.7)	(0.8)	(0.6)	(0.9)	(1.0)
Total expenditures	$ 3,065.0	$ 3,482.5	$ 3,716.1	$ 4,298.5	$ 4,451.7	$ 4,780.5
Current account surplus (deficit)[4]	$ 246.9	$ 340.3	$ 429.2	$ 245.4	$ (292.3)	$ (60.6)
Surplus (deficit) excluding foreign aid	(232.8)	(238.5)	(138.2)	(415.7)	(934.4)	(868.3)
Surplus (deficit) including foreign aid	(180.7)	(197.2)	(75.8)	(362.8)	(825.7)	(686.5)
External financing	342.6	340.3	429.2	126.8	785.1	758.5
Internal financing[5]	(161.9)	(299.8)	191.0	236.0	40.6	(72.0)
Current account surplus (deficit)/Nominal GDP	1.4%	1.8%	2.1	1.1%	(1.4)%	(0.3)%
Surplus (deficit) excluding foreign aid/Nominal GDP	(1.4)%	(1.3)%	(0.7)%	(1.9)%	(4.4)%	(4.0)%
Surplus (deficit) including foreign aid/Nominal GDP	(1.1)%	(1.1)%	(0.4)%	(1.6)%	(3.9)%	(3.1)%
Nominal GDP	$ 17,214.4	$ 18,749.4	$ 20,376.7	$ 22,106.8	$ 21,100.5	$ 21,796.0
Deficit including pension, education and security trust	(508.1)	(546.6)	(395.1)	(683.5)	(1,171.6)	(1,047.3)
Deficit as a percent of GDP	(3.0)%	(2.9)%	(1.9)%	(3.1)%	(5.6)%	(4.8)%

(1) All figures are presented on a cash basis.
(2) Budgeted figures are based on amounts contained in the 2010 budget approved by the Legislative Assembly and its amendments.
(3) Current revenues and current expenditures are presented on a gross basis.
(4) The current account equals current revenues less current expenditures.
(5) Includes pension costs.

Source: *Ministerio de Hacienda.*

In 2005, the non-financial public sector deficit was equal to US$181 million, or US$10.1 million below the target set forth in the 2005 budget. The non-financial public sector deficit was 1.1% of nominal GDP in 2005, lower than the 1.2% target set forth in the 2005 budget. The non-financial public sector deficit figure for 2005 reflected total revenues of US$142 million over the 2005 budget projections, which was partially offset by expenditures of US$131.9 million over the 2005 budget projections. The increase in total revenues was primarily due to higher than forecasted tax collections due in part to the approval and implementation of certain tax reforms. On the expenditure side, expenditures above those that were budgeted were mainly the result of government subsidies to lessen the impact of high international oil prices affecting the prices of natural gas, electricity and public transportation.

In 2006, the non-financial public sector deficit was equal to US$197.2 million, or US$57.9 million above the target set forth in the 2006 budget. The non-financial public sector deficit was 1.1% of nominal GDP in 2006, higher than the 0.8% target set forth in the 2006 budget. The non-financial public sector deficit figure for 2006 reflected total revenues of US$220.8 million over the 2006 budget projections, which was partially offset by expenditures of US$278.6 million over the 2006 budget projections. The increase in total revenues was primarily due to larger than budgeted tax collections associated with the 2004 tax reform, positive results from stricter tax audits of taxpayers and higher economic activity. On the expenditure side, expenditures above those that were budgeted were mainly the result of larger cost of subsidies for cooking gas and public transportation as the price of oil continued its upward trend.

In 2007, the non-financial public sector deficit was equal to US$75.8 million, or US$47.2 million below the target set forth in the 2007 budget. The non-financial public sector deficit was 0.4% of nominal GDP in 2007, lower than the 0.6% target set forth in

the 2007 budget. The non-financial public sector deficit figure for 2007 reflected total revenues of US$186.6 million over the 2007 budget projections, which was partially offset by expenditures of US$142.4 million over the 2007 budget projections. The increase in total revenues was primarily due to positive results of auditing processes and higher economic activity. On the expenditure side, expenditures above those that were budgeted were mainly the result of larger cost of subsidies as the government introduced the public transportation subsidy which added US$4.1 million to expenditures and the cost of cooking gas subsidy increased by US$9.8 million due to higher international prices.

In 2008, the non-financial public sector deficit was equal to US$362.8 million, or US$265.4 million above the target set forth in the 2008 budget. The non-financial public sector deficit was 1.6% of nominal GDP in 2008, above the 0.4% target set forth in the 2008 budget. The non-financial public sector deficit figure for 2008 reflected total revenues of US$49.4 million below the 2008 budget projections, and additional expenditures of US$216 million over the 2008 budget projections. The decrease in total revenues was primarily due to changes in tax laws that granted additional income tax deductions and the reduction in tariff for imports of fertilizer, oil and wheat. On the expenditure side, expenditures above those that were budgeted were mainly the result of increases in the cost of subsidies for cooking gas (US$22.5 million), electricity (US$127.4 million), and public transportation (US$40.7 million) as well as increased expenditures for social programs.

In 2009, the non-financial public sector deficit totaled US$825.7 million, or US$513.7 million above the target set forth in the 2008 budget. The non-financial public sector deficit was 3.9% of nominal GDP in 2009, above the 1.3% target set forth in the 2009 budget. The non-financial public sector deficit figure for 2009 reflected total revenues of US$612.5 million below the 2009 budget projections, which were partially offset by expenditures of US$98.8 million below the 2009 budget projections. The decrease in total revenues was primarily due to the effects of the international crisis on the public finances. On the expenditure side, expenditures below those that were budgeted were mainly the result of decreases in gross public investment (US$143.7), cost of subsidies for cooking gas (US$53.4 million), electricity (US$92.7 million), due to lower oil prices than in 2008; offset by increased expenditures for social programs by the government.

As of October 31, 2010, the non-financial public sector registered a deficit equal to US$339 million, equivalent to 1.6% of estimated nominal GDP. The non-financial public sector deficit as of October 31, 2010 reflects total revenues of US$3.4 billion.

Central Government Revenues

The following table shows the composition of the central government's revenues and foreign aid for the periods presented.

Central Government Revenues and Foreign Aid[(1)]

	For the Year Ended December 31,				
	2005	2006	2007	2008	2009
	(in millions of US dollars)				
Tax revenues[(2)]					
Income	$ 699.6	$ 818.7	$ 968.2	$ 1,053.4	$1,003.8
Property transfers	16.3	18.6	21.0	17.8	13.4
Imports	180.9	199.7	203.8	178.8	138.0
Consumption	95.4	97.4	97.8	95.8	99.7
Value added tax	1,169.9	1,362.5	1,506.8	1,615.2	1,423.2
Others	0.3	0.8	0.9	19.9	47.3
Special contributions (FOVIAL)[(3)]	66.4	69.0	70.3	65.3	68.1
Special contributions (AZUCAR)[(4)]	0.6	0.6	0.7	0.8	0.7
Special contributions (TURISMO)[(5)]	0.0	6.2	7.3	9.9	7.6
Special contributions (TRANSPORTE)[(6)]	0.0	0.0	0.0	32.7	34.1
Total tax revenues	2,229.4	2,573.5	2,876.8	3,089.6	2,836.0
Non-tax revenues[(7)]	115.3	147.3	149.1	156.6	132.8
Total current revenues	2,344.7	2,721.2	3,025.9	3,246.1	2,968.8
Capital revenues	0.1	0.0	0.0	0.1	0.0
Foreign aid	48.5	36.2	22.0	29.1	19.0
Total revenues	$ 2,393.3	$ 2,757.4	$ 3,047.8	$ 3,275.3	$ 2,987.9

(1) All figures are presented on a cash basis.
(2) Tax revenues are presented on a gross basis.
(3) In 2001, the government imposed a levy, the *Fondo de Conservación Vial* (Road Maintenance Fund or "FOVIAL"), of US$0.20/gallon on gasoline and diesel which is specifically used for road maintenance and improvements.
(4) Tax levied on pound of sugar extracted and paid by sugar cane producers and sugar mills.
(5) Special tax on the payment of accommodation establishments that offer tourist services and the tax levied on leaving the country by air, per person
(6) Special contribution to stabilizing the fare of public transportation of passengers, and levied on the gallon of gasoline or diesel.
(7) Includes fines, license fees, plate issuance fees, passport fees, and gasoline related revenues.

Source: *Ministerio de Hacienda.*

One of the challenges facing the government is the collection of income taxes, as evidenced by the dependence of the government on indirect taxes such as the value added tax. To a lesser extent, collection of the value added tax is also a challenge, particularly in connection with transactions related to the informal sector of the economy. Continuing a trend that began in 1992, the value added tax was the principal component of tax revenues for 2009, generating approximately 50.2% of total tax revenues. Revenues from the value added tax fell 11.9% during 2009 compared to 2008, due to the impact of the global economic crisis. In 2008, VAT revenues grew 7.2% compared to 2007. Income tax revenues accounted for approximately 35.4% of tax revenues for 2009, compared to 34.1% for 2008. Income tax revenues decreased 4.7% during 2009 compared to 2008 and grew 8.8% during 2008 compared to 2007. Import duties, the third largest component of tax revenues, accounted for approximately 4.9% of tax revenues for 2009. The FOVIAL special contribution accounted for 2.4% of tax revenue for 2009.

The existence of a large informal sector of the economy inhibits tax collection, but the value added tax assists the government in collecting revenues from certain transactions in which that sector engages. Tax revenues increased 11.8% in 2007 and 7.4% in 2008, but decreased 8.2% during 2009. See "— Taxation and Customs".

Central Government Expenditures

The following table shows the actual central government expenditures for the periods presented.

Central Government Expenditures[1]

	For the Year Ended December 31,				
	2005	2006	2007	2008	2009[2]
	(in millions of US dollars, except percentages)				
Education	$ 493.0	$ 525.7	$ 560.5	$ 621.8	$ 745.0
Public health	260.9	288.1	326.4	352.6	382.0
Public security[3]	197.8	220.0	55.1	14.4	15.1
Public works	97.8	81.8	158.5	177.6	204.0
Judiciary	130.0	150.0	160.5	176.7	179.2
Defense	107.2	113.8	119.5	120.1	135.3
Presidency	91.3	102.3	102.9	104.2	101.7
Finance[4][5]	48.1	51.6	55.3	52.6	59.6
Agriculture, livestock and fishing	33.2	38.7	46.1	54.9	73.5
Foreign relations	29.4	34.6	37.5	42.7	39.9
Economy	26.2	31.7	40.9	36.1	26.9
Attorney General	19.6	21.4	26.8	38.2	39.1
Electoral tribunal	10.2	13.0	14.1	20.2	14.0
Controller	19.0	22.9	24.9	27.2	32.3
Legislature	19.6	22.8	24.3	30.4	36.8
General Prosecutor	14.6	18.4	16.3	19.0	19.9
Labor	6.0	7.7	9.3	9.3	9.6
Environmental	5.9	22.0	17.3	13.3	9.8
National Judicial Council	3.9	3.9	4.2	4.7	4.7
Defense of human rights	3.9	4.3	4.2	5.5	6.3
Civil service tribunal	0.2	0.3	0.5	0.6	0.6
Tourism	3.2	7.2	15.8	14.4	11.6
Interior[3]	0.0	0.0	0.0	0.0	0.0
Housing and urban development	0.0	0.0	0.0	0.0	0.0
Transport	0.0	0.0	0.0	0.0	0.0
Public Treasury[6]	875.1	1,094.7	1,008.2	1,075.9	1,147.2
Interest payments	371.1	455.9	496.7	494.2	504.7
Current transfers	232.9	343.6	306.4	357.2	377.9
General obligations	216.9	130.0	101.0	101.9	142.3
Other obligations	15.9	213.6	205.4	255.2	235.6
Capital transfers	271.1	295.2	205.1	224.5	264.6
Financial investments	0.0	0.0	0.0	0.0	0.0
Total	$ 2,496.3	$ 2,877.1	$ 3,016.3	$ 3,301.8	$ 3,579.4
Central government expenditure/Nominal GDP	14.6%	15.4%	14.8%	14.9%	17.0%

(1) All figures are presented on a cash basis.
(2) Preliminary.
(3) Includes expenditures of *Policía Nacional Civil* ("National Civil Police") and *Academia Nacional de Seguridad Pública* ("National Police Academy") and the Ministry of Justice budget. In June 2001, the Ministry of Justice and Public Safety merged with Ministry of the Interior to form the Ministry of Governance.
(4) Includes operating expenses of the Ministry of Finance.
(5) Excludes amortizations.

Source: *Ministerio de Hacienda.*

Expenditures relating to social goals, including health, education and housing represented approximately 42.1% of government expenditures in 2009, compared to 39.2% for 2008, 39.0% for 2007 and 37.0% for 2006.

Central government expenditures increased 13.1% in nominal terms from US$2,496.3 in 2005 to US$2,877.1 in 2006. This increase was mainly attributable to a 9.3% salary increase, larger interest payments and current transfers, as well a 12.8% increase in capital expenditures.

In 2007, central government expenditures as a percentage of nominal GDP decreased to 14.8% compared to 15.4% in 2006. Overall expenses increased to approximately US$3,016.3 million in 2007 compared to approximately US$2,877.1 million in 2006. Central government expenditures in 2007 increased in part due to salary increases, higher payments for goods and services, current transfers and capital expenditures.

In 2008, central government expenditures as a percentage of nominal GDP increased to 15.0% compared to 14.8% in 2007, primarily due to current transfers, salary increases, and larger payments in goods and services. Overall expenses increased to approximately US$3,301.8 million in 2008 compared to approximately US$3,016.3 million in 2007.

In 2009, central government expenditures as a percentage of nominal GDP increased to 16.4% compared to 15.0% in 2008, primarily due to current transfers and larger payments in remunerations and goods and services. Overall expenses increased to approximately US$3,579.4 million in 2009 compared to approximately US$3,301.8 million in 2008.

2010 Budget

The 2010 budget, which was submitted to the Legislative Assembly in September 2009 and approved on November 6, 2009, contemplated a deficit of 3.1% of GDP for the non-financial public sector (excluding obligations related to the pension system estimated at 1.6% of GDP). The main assumptions underlying the 2010 budget included an inflation rate of 1.5%, a real GDP growth rate of 1.0%, remittances from abroad growing at 5% relative to the prior year, stable coffee prices, a price of US$70.0 per barrel of oil and a rate of growth for the U.S. economy of 0.8%. During 2010, the budget was amended by increasing the allocation to public works, presidency, health, security, education, and economy line items, as well as an increase in the allocation to the general obligations line item under the public treasury.

As of the first ten months of 2010, central government expenditures as a percentage of nominal GDP decreased to 14.2% compared to 14.7% during the same period in 2009, primarily due to lower capital expenditures. Overall expenses decreased to approximately US$3,092.4 million in the first ten months of 2010 compared to approximately US$3,109.1 million during the same period in 2009.

2011 Budget

The 2011 budget was submitted to the Legislative Assembly in September 2010 and approved on November 18, 2010. The current budget contemplates a deficit of 1.8% of GDP for the non-financial public sector excluding obligations related to the pension system estimated at 1.7% of GDP. The main assumptions underlying the 2011 budget include an inflation of 2.8%, a real GDP growth rate between of 2.5%, remittances from abroad growing at 5.0% relative to the prior year, a price of US$77.5 per barrel of oil, stable coffee prices and a rate of growth for the U.S. economy of 2.9%.

Taxation and Customs

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% value added tax on tangible assets and services.

Approximately 94.5% of the central government's current revenues came from various forms of taxation in 2009. The central government's tax revenues were US$2.8 billion in 2009, a decrease of 8.2% compared to tax revenues in 2008. Such decrease was principally a result of the impact of the global economic crisis on the Salvadoran economy. Tax revenues as a percentage of GDP reached 13.4% for 2009, compared to 14.0% for 2008.

The value added tax typically is the principal component of tax revenues, generating 50.2% of the total tax revenues in 2009. The value added tax applies to most sales of tangible assets as well as most services, except for educational, public transportation and cultural services, among others. As of the first ten months of 2010, value added tax, with a collection of US$1,288.3 millions, has generated 50.2% of the total tax revenues.

The second largest component of tax revenues is the income tax, which accounted for 35.4% of tax revenues during 2009. Effective personal income tax rates for residents and non-residents who file tax returns in the Republic range from 0% to 25.0%. A flat 25.0% rate applies to non-resident taxpayers and corporate entities. Import duties, the third largest component of tax revenues, accounted for 4.7% of tax revenues in 2009.

Tax Reforms

The Legislative Assembly approved a new tax code that became effective in January 2001 and allows the government to unify collection procedures for different taxes and expedite the process of imposing and collecting fines from taxpayers that do not comply with the legal framework. In addition, the Legislative Assembly approved a levy of US$0.20/gallon on gasoline and diesel which is used for road maintenance and improvements and, effective January 2002, eliminated the ¢75,000 exemption from the corporate income tax.

In November and December 2004, the Legislative Assembly approved several tax measures intended to increase revenues, close tax loopholes and reduce tax evasion. Reforms to the tax laws included, among others, clarifying the requirements for eligibility for tax credits, limiting deductions related to inter-company loans, disallowing deductions for expenses incurred in certain taxing jurisdictions, establishing a unified nondiscretionary period for taxpayers to pay delinquent tax liabilities, prohibiting settlement of cases involving customs smuggling, raising the jail term that may be imposed on tax evaders and eliminating the possibility of tax evaders avoiding prison sentences.

In addition, the government enacted in December 2004 a new law that aims to encourage the informal sector to register with the government tax authority by requiring large taxpayers to withhold a 1% value added tax on transactions with small taxpayers.

In 2005, the government increased the excise tax on tobacco products and alcoholic beverages and imposed a tax on the sale of guns, ammunition, and fireworks. The additional revenue collected from new excise taxes will be used to increase public healthcare coverage, improve health services in rural areas and provide patients better access to healthcare facilities in urban and rural areas.

The Tourism Law enacted in December 2005 imposes a special contribution levy of US$7.00 for each person leaving the country through the international airport, as well as a special contribution levy of 5% on lodging.

In November 2007, the government put into effect a US$0.10 charge on each gallon of gasoline and diesel to partially finance the public transportation subsidy.

In December 2007, the government approved the *Ley de Incentivos Fiscales para el Fomento de las Energías Renovables en la Generación de Electricidad*, which promotes investments in projects that generate hydroelectric, geothermal, wind and solar sources.

In June 2008, the government imposed a US$0.04 per minute tax on incoming international calls to El Salvador to partially finance the public transportation subsidy.

In November and December 2009, the Legislative Assembly approved a series of tax reforms aimed at closing tax loopholes, reducing fiscal evasion and smuggling through the enhancement of income concepts, limiting deductions, restricting deductions in fiscal credits and enacting norms for control of thin capitalization, among other things. Other tax reforms included the internationalization of the tax system, retrofitting the legal framework to global practices; broadening the tax base through the enhancement of the activities subject to the different taxes, updating tax structures and creating new tax schemes applied to the specific consumption of certain goods, among others; and strengthening the tax administration and customs capabilities by providing them with more effective tools to control the enforcement of tax obligations.

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 such 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 custom 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 CAUCA and other international agreements concerning international trade of goods.

In February 2006, a reform to the law governing the *Tribunal de Apelaciones de Impuestos Internos*, an administrative body initially created to review taxes and fines imposed by the *Dirección General de Impuestos Internos* (the internal tax office of the Ministry of Finance), granted authority to the tribunal to also review decisions of the Customs Administration. As a result of the reform, the tribunal has been renamed the *Tribunal de Apelaciones de Impuestos Internos y de Aduanas* and will review decisions of the Customs Administration related to the imposition of taxes and duties, penalties, customs decisions and classifications and the determination of the origin of goods.

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, was approximately US$11,102.7 million at December 31, 2009, compared to US$9,669.6 million at December 31, 2008 and US$8,604.6 million at December 31, 2007. The increase in public sector debt in 2009 was mainly due to US$800.0 million of external notes issued by the Republic in early December 2009 that mature in 2019, the disbursement of US$300 million from a US$500.0 million IADB loan facility to the central government that was deposited in the Central Bank, a disbursement of US$201.1 million from a US$450.0 million IBRD loan facility to the central government; and the issuance of US$335.0 million of internal debt. The ratio of total public sector debt to GDP increased from 42.3% at December 31, 2007 to 52.6% at December 31, 2009. As of October 31, 2010, total public sector debt was approximately US$11,605.9 million (53.3% of GDP).

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 approved the 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 AFI law requires that public debt must be approved 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 with the participation of the Ministry of Foreign Relations 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 December 31, 2009, US$412.5 million in aggregate principal amount of LETES were outstanding. As of October 31, 2010, approximately US$265.6 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 total external debt of the public sector in El Salvador, excluding the Central Bank, was US$7,788.4 million at December 31, 2009 compared to US$6,579.4 million at December 31, 2008, and US$6,390.0 million at December 31, 2007. The increase in public sector external debt since December 31, 2007 is primarily the result of the issuance by the Republic of US$800.0 million of external bonds in 2009.

The Central Bank's external debt at December 31, 2009 was US$206.9 million, compared to US$325.3 million at December 31, 2008. As of October 31, 2010, the Central Bank's external debt was US$159.0 million.

Since the signing of the Peace Accord in 1992, most of the external debt of the Republic has been entered into with multilateral organizations, and the funds borrowed have been used primarily for the reconstruction and improvement of physical infrastructure. Since 2005, the Republic has been involved in the following outstanding note issuances that are included in its external debt:

- US$375.0 million of external notes issued by the Republic in June 2005 that mature on June 15, 2035;
- US$400.0 million of external notes issued by the Republic in April 2006 that mature on June 15, 2035 and form a single series with the external notes issued in June 2005;
- US$225.0 million of external notes issued by the Republic in July 2006 that mature on June 15, 2035 and form a single series with the external notes issued in June 2005; and
- US$800.0 million of external notes issued by the Republic in December 2009 that mature on December 1, 2019.

To finance reconstruction associated with the January and February 2001 earthquakes, the Republic received US$327.0 million in new loans from multilateral and bilateral sources, including US$238.0 million in loans from the IADB, and secured the reallocation of US$116.4 million of existing loans from such sources to the reconstruction effort. The proceeds of these loans were disbursed over the period from 2001 to 2005.

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

Public Sector External Debt

	At December 31,				
	2005	2006	2007	2008	2009
	(in millions of dollars, except percentages)				
Central Government	$ 5,631.5	$ 6,102.4	$ 6,019.0	$ 6,107.9	$ 7,243.4
Public financial and non-financial entities	367.5	453.8	371.0	471.5	545.0
Sub-total	5,999.0	6,556.2	6,390.0	6,579.4	7,788.4
Central Bank	195.3	96.2	61.0	325.3	206.9
Total	$ 6,194.3	$ 6,652.4	$ 6,451.0	$ 6,904.7	$ 7,995.3
External public debt as a percentage of nominal GDP(1)	36.0%	35.5%	31.7%	31.2%	37.9%

(1) Preliminary.

Source: *Ministerio de Hacienda.*

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

	At December 31,				
	2005	2006	2007	2008	2009
	(in millions of US dollars)				
Central Government and Public Financial and Non-financial Entities	$ 5,999.0	$ 6,556.2	$ 6,390.0	$ 6,579.4	$ 7,788.4
Multilateral	2,437.8	2,448.6	2,443.4	2,592.8	3,056.9
Bilateral	672.7	668.9	680.1	729.1	682.8
Commercial	2,888.5	3,438.7	3,266.5	3,257.5	4,048.7
Central Bank	195.3	96.2	61.0	325.3	206.9
Multilateral	172.1	71.2	61.0	235.3	141.9
Bilateral	1.5	0.0	0.0	0.0	0.0
Commercial	21.7	25.0	0.0	90.0	65.0
Total Public Sector	$ 6,194.3	$ 6,652.4	$ 6,451.0	$ 6,904.7	$ 7,995.3

Source: *Ministerio de Hacienda.*

The increases in multilateral debt of the central government and public financial and non-financial entities from December 31, 2005 to December 31, 2009 were due mainly to the impact of the disbursement of loans for reconstruction, other infrastructure and policy based loans. The US$464.1 million increase in multilateral indebtedness of the government and the public financial and non-financial entities in 2009 was mainly due to disbursement of US$300.0 million from a US$500.0 million IADB loan facility and the disbursement of US$201.1 million from a US$450.0 million IBRD loan facility. The purpose of the loan is to strengthen El Salvador's social safety net for the poor and to support the government's social projects.

The increase in commercial indebtedness from December 31, 2005 to December 31, 2009 is due primarily to the Republic's issuance of external notes to cover partially expenses related to construction efforts from the 2001 earthquakes, financing of the pension system and others capital expenses.

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

	At December 31, 2009		At December 31, 2008	
	Amount	Percentage	Amount	Percentage
	(in millions of US dollars, except percentages)		(in millions of US dollars, except percentages)	
Fixed Rate				
0-3%	$ 990.2	12.4%	$ 953.1	13.8%
3-6%	665.3	8.3	828.4	12.0
6-9%	4,050.9	50.7	3,285.8	47.6
More than 9%	8.7	0.1	17.5	0.3
Floating Rate	2,280.2	28.5	1,819.9	26.4
Total	**$ 7,995.3**	100.0%	**$ 6,904.7**	100.0%

Source: *Ministerio de Hacienda y Banco Central.*

The following table sets forth scheduled debt service for the Republic's the total public external debt for the periods presented.

Public Sector External Debt Service Maturity 2009-2018[(1)]

	For the Year Ending December 31,									
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
					(in millions of dollars)					
Central Government	$ 655.0	$ 1,294.0	$ 570.0	$ 536.0	$ 534.0	$ 527.0	$ 514.0	$ 488.0	$ 473.0	$ 1,253.0
Principal	244.0	891.0	231.0	205.0	210.0	210.0	203.0	184.0	174.0	959.0
Interest	411.0	403.0	339.0	331.0	324.0	317.0	311.0	304.0	299.0	294.0
Rest of Public Sector	61.0	50.0	52.0	48.0	42.0	41.0	38.0	35.0	34.0	33.0
Principal	41.0	32.0	35.0	34.0	29.0	29.0	28.0	25.0	25.0	25.0
Interest	20.0	18.0	17.0	14.0	13.0	12.0	10.0	10.0	9.0	8.0
Total Debt Service	**$ 716.0**	**$ 1,344.0**	**$ 622.0**	**$ 584.0**	**$ 576.0**	**$ 568.0**	**$ 552.0**	**$ 523.0**	**$ 507.0**	**$ 1,286.0**

(1) Medium and long term external debt disbursed as of December 31, 2008, excluding Central Bank´s debt service.

Source: *Ministerio de Hacienda.*

Debt Record

Since 1993, El Salvador has not rescheduled any loans and has not defaulted on any of its 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 Cnd$8.1 million of outstanding debt to an obligation of the government to use amounts which would have been applied to service this debt for environmental projects. In 1999, the government of France, upon its own initiative, forgave FF133.0 million 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.

Internal Debt

The public sector's internal debt, excluding the Central Bank, was US$3,107.4 million at December 31, 2009 compared to US$2,764.9 million at December 31, 2008 and US$2,153.6 million at December 31, 2007. 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, 2009, the outstanding principal balance of obligations related to such activity was US$709.8 million. No interest obligations were outstanding at such date.

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

Public Sector Internal Debt[(1)]

	At December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
		(in millions of US dollars, except percentage)			
Central government	$ 951.7	$ 1,053.7	$ 1,151.9	$ 1,406.1	$ 1,588.0
Public non-financial entities	0.3	0.0	0.0	0.0	0.0
Public financial entities[(3)]	518.7	626.6	1,001.7	1,358.8	1,519.4
Total	**$ 1,470.7**	**$ 1,680.3**	**$ 2,153.6**	**$ 2,764.9**	**$ 3,107.4**
Internal public debt as a percentage of nominal GDP[(2)]	8.5%	9.0%	10.6%	12.5%	14.7%

(1) Excludes Central Bank internal debt obligations and the direct debt of Municipalities without government guarantee.
(2) Preliminary.
(3) Includes Trust Funds: FOP Serie A and FOSEDU.

Source: *Ministerio de Hacienda.*

Central government internal debt increased from US$951.7 million at December 31, 2005 to US$1,588.0 million at December 31, 2009, due primarily to the issuances by the government of LETES, issuances of internal bonds sold in the Salvadoran exchange market in 2009 and bonds issued by the government for various purposes, including the payment of compensation for lands expropriated prior to 1989 and loans from the Central Bank that were used to fund the fiscal deficit prior to 1994. The increase registered in the internal debt incurred by public financial entities, is represented mainly by debt of the FOP trust fund, a financing vehicles established in 2006 and 2007, oriented to finance pension costs. As of December 31, 2009 US$1,063.1 million in aggregate amount of FOP Pension Investment Certificates were outstanding to cover pension payments from the public pension system.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes that will appear on the reverse of each of the Notes (the "Terms and Conditions"). Certain provisions of the Notes refer to and are subject to the Fiscal Agency Agreement to be dated as of February 1, 2011 among the Republic, The Bank of New York Mellon, as Fiscal Agent, Principal Paying Agent, Registrar and Transfer Agent and the paying agents and the transfer agents named therein.

1. General. (a) This Note is one of a duly authorized issue of 7.625% Notes due 2041 (the "Notes") of the Republic, limited to the aggregate principal amount of US$653,500,000 (except as otherwise provided below) issued pursuant to a Fiscal Agency Agreement dated as of February 1, 2011 (the "Fiscal Agency Agreement"), among the Republic, The Bank of New York Mellon, as fiscal agent (the "Fiscal Agent"), principal paying agent (the "Principal Paying Agent"), registrar (the "Registrar") and transfer agent (the "Transfer Agent"), which expressions shall include any successors thereto, in its capacity as such, and The Bank of New York Mellon (Luxembourg) S.A., as transfer agent (the "Luxembourg Transfer Agent") and paying agent (the "Luxembourg Paying Agent" and together, the "Agents", which term shall include the Fiscal Agent, the Paying Agents, the Registrar and the Transfer Agents). If not previously redeemed in accordance with Condition 7 below, the entire principal amount of the Notes together with accrued interest thereon is payable on February 1, 2041.

(b) The Notes are direct, general and unconditional obligations of the Republic. The Notes shall at all times rank equally without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated Public External Indebtedness (as defined herein) of the Republic.

(c) The holders of the Notes will be entitled to the benefits of, be bound by, and be deemed to have notice of, all of the provisions of the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are on file and may be inspected at the Specified Office of the Fiscal Agent and at the Specified Offices of the Paying Agents referred to herein.

(d) The issue of the Notes is authorized under Legislative Decree No. 32 (as published in the *Diario Oficial* on May 25, 2009) of the Republic's Legislative Assembly.

2. Form, Denomination and Title. (a) Each Note will be issued in minimum denominations of US$150,000 and integral multiples of US$1,000 in excess thereof. The Notes, and the transfer thereof, shall be registered as provided in Condition 9 below and in the Fiscal Agency Agreement. In this Note, "Noteholder" and (in relation to a Note) "holder" mean the person in whose name a Note is registered in the Register. A Noteholder may (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.

(b) Notes initially sold within the United States in reliance on Rule 144A under the Securities Act will be represented by one or more Restricted Global Notes and will be deposited with a custodian for, and registered in the name of a nominee of, DTC.

(c) Notes initially sold outside the United States pursuant to Regulation S under the Securities Act will be represented by one or more Regulation S Global Notes and will be deposited with a custodian for, and registered in the name of a nominee of, DTC.

(d) Registration of title to Notes initially represented by the Restricted Global Notes in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless (i) such depositary notifies the Republic that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Notes or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), or is at any time no longer eligible to act as such, and the Republic is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (ii) following a failure to pay at maturity or upon acceleration of any Note, the Fiscal Agent has received a notice from the registered holder of the Restricted Global Notes requesting exchange of a specified amount of the Restricted Global Notes for individual note certificates (the "Restricted Note Certificates").

Registration of title to Notes initially represented by the Regulation S Global Notes in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless (i) such depositary notifies the Republic that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Regulation S Global Notes or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Republic is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (ii) following a failure to pay principal in respect of any Note at maturity or upon acceleration of any Note, and the Fiscal Agent has received a request from the registered holder of the Regulation S Global Notes requesting exchange of the

Regulation S Global Notes for individual note certificates (the "Regulation S Note Certificates" and together with the Restricted Note Certificates, the "Note Certificates").

(e) The Notes will not be issued in bearer form. So long as DTC or its nominee is the registered owner of a Global Note, it will be considered the sole owner or holder of the Notes represented thereby for all purposes under the Notes and the Fiscal Agency Agreement. Neither the Republic nor any Agent will have any responsibility or liability for any aspect of the records relating to or payments made by DTC on account of beneficial interests in a Global Note.

3. Interest. (a) 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.

(b) The Notes will bear interest from and including February 1, 2011 to, but excluding, February 1, 2041 at the rate of 7.625% per annum on the principal amount thereof payable semi-annually in arrears on February 1 and August 1 of each year commencing on August 1, 2011. Each Note will cease to bear interest from and including the due date for redemption unless, upon due presentation and surrender, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (ii) the day seven days after the Fiscal Agent or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes (except to the extent that there is failure in the subsequent payment to the relevant holders).

4. Payment and Paying Agents. (a) Payment of principal of the Notes (together with accrued interest) will only be made to the person in whose name such Note is registered as of the close of business on the due date for payment of the principal, following presentation and surrender of such Note at the office of the Principal Paying Agent or any other Paying Agent, 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 fifteenth day (if the Notes are represented by Note Certificates) or the third day (if the Notes are represented by Global Notes) (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 by a U.S. dollar check drawn on a bank in New York City mailed to the holder at such holder's registered address, or, upon application of the holder to the Principal Paying Agent or any other Paying Agent in New York City or in Luxembourg 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 ("Payment Date") is not a Business Day, the holder shall not be entitled to payment until the next Business Day following such day in the applicable jurisdiction, with the same force and effect as if made on the date for such payment, and no additional interest in respect of such Payment Date shall accrue as a result of the delay in payment. "Business Day" means a day, other than a Saturday or Sunday, in which the commercial banks and foreign exchange markets are open, or not authorized to close, in Luxembourg, New York City, San Salvador, or the city of the Paying Agent to which the Note is surrendered for payment.

(b) The Republic agrees that so long as any of the Notes are outstanding, it will maintain (i) a Principal Paying Agent in a Western European or United States city for payments on the Notes, (ii) so long as the Notes are listed on the Luxembourg Stock Exchange, a Luxembourg Paying Agent and Luxembourg Transfer Agent in Luxembourg, (iii) a Registrar having a Specified Office in New York, and (iv) a Paying Agent having a Specified Office in New York. The Republic has initially appointed The Bank of New York Mellon, as fiscal agent and as principal paying agent, registrar and transfer agent and The Bank of New York Mellon (Luxembourg) S.A. as Luxembourg paying agent and Luxembourg transfer agent. Subject to the foregoing, the Republic shall have the right at any time to terminate any such appointments and to appoint any other Agents in such other places as it may deem appropriate upon notice in accordance with the Fiscal Agency Agreement.

(c) Payments in respect of the Notes shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

5. Payment of Additional Amounts. (a) 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; 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.

(b) 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.

6. The Agents. (a) In acting under the Fiscal Agency Agreement and in connection with the Notes, the Fiscal Agent, the Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and each other Agent are acting solely as agent of the Republic and do not assume any obligation toward or relationship of agency or trust for or with the owner or holder of any Note, except that any funds held by any such Agent for payment of principal of or interest (or any Additional Amounts) on the Notes shall be held in a segregated account by it and applied by it as set forth herein. For a description of the duties and the immunities and rights of the Fiscal Agent, the Principal Paying Agent, the Paying Agents, the Registrar and the Transfer Agents under the Fiscal Agency Agreement, reference is made to the Fiscal Agency Agreement, and the obligations of the Fiscal Agent, the Principal Paying Agent, the Paying Agents, the Registrar and the Transfer Agents to the owners or holders of Notes are subject to such immunities and rights.

(b) All monies paid by or on behalf of the Republic to the Principal Paying Agent or any other Paying Agent for the payment of the principal of or interest on any Note which remain unclaimed at the end of two (2) years after such principal or interest shall have become due and payable will be repaid to the Republic upon the Republic's written request therefor and the holder of such Note will thereafter look only to the Republic for payment. Upon such repayment, all liability of the Principal Paying Agent and any other Paying Agent with respect thereto shall thereupon cease, without, however, limiting in any way the obligation of the Republic in respect of the amount so paid.

7. Redemption and Purchase; Further Issues. (a) The entire principal amount of the Notes together with accrued interest thereon is payable on February 1, 2041. The Notes will not be redeemable prior to maturity at the option of the Republic or (except on acceleration following an Event of Default) the Noteholders.

(b) The Republic may at any time, directly or indirectly, purchase Notes in the open market or otherwise at any price. Any purchase by tender shall be made available to all Noteholders alike. The Notes so purchased, while held by or on behalf of the Republic, shall not entitle the holder to vote the Notes and shall not be deemed to be outstanding for purposes of calculating

quorums. All Notes so purchased may at the Republic's discretion be held, resold or surrendered to the Fiscal Agent for cancellation.

(c) The Republic may, without the consent of Noteholders, create and issue additional notes having the same terms and conditions as the Notes (or the same except for the amount of the first interest payment) in accordance with applicable law; 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 the U.S. federal tax laws), a greater amount of original issue discount than the Notes have as of the date of the issue of such notes. The Republic may consolidate the additional notes to form a single series with the outstanding Notes.

8. Events of Default. In the event that one or more of the following events (herein referred to as "Events of Default") shall have occurred and be continuing:

(a) the Republic shall default 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;

(b) the Republic shall default 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;

(c) the Republic shall fail to perform any of its other obligations under the Notes, which default shall continue unremedied within sixty (60) days after notice of such default shall have been given to the Republic by the Fiscal Agent or any Noteholder;

(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 US$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 US$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 US$25,000,000 of others shall not be honored when due and called or within any period of grace applicable thereto;

(e) a moratorium shall be declared on the payment of any Public External Indebtedness of the Republic which does not expressly exclude the Notes; or

(f) the Republic shall deny, repudiate or contest the validity of its obligations under the Notes;

then the holders of not less than twenty-five percent (25%) in principal amount of the Notes outstanding may by written notice to the Republic and the Fiscal Agent declare the Notes then outstanding to be due and payable immediately 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 have been cured. If an Event of Default shall give rise to a declaration which shall be effective and all Events of Default shall cease to continue following such declaration, then such declaration may be rescinded and annulled by the affirmative vote or written consent of the holders of not less than 66 2/3% in aggregate principal amount of the Notes then outstanding in accordance with the procedures set forth in Condition 12 below.

9. Replacement, Exchange and Transfer. (a) If any Note shall become mutilated or defaced or be destroyed, lost or stolen, the Fiscal Agent 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 in New York, 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 mutilation or defacement or destruction, loss or theft, the applicant for a substitute Note shall furnish to the Republic, the Fiscal Agent and the Registrar such security and indemnity as the Republic, the Fiscal Agent 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 Fiscal Agent or the Registrar) connected therewith. If any Note which has matured or is about to mature 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.

(b) Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, and subject to Condition 9(e) below, 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 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.

(c) Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, and subject to Condition 9(e) below, a Note may be transferred in whole or in part (in the principal amount of US$150,000 and integral multiples of US$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.

(d) 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 Condition 9(a) above, the fees and expenses of the Registrar or Fiscal Agent, will be borne by the Republic.

(e) 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.

10. Negative Pledge. (a) Negative Pledge. So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Republic will not create or permit to subsist any Security (as defined herein) upon the whole or any part of its present or future revenues, property or assets to secure any present or future Public External Indebtedness (as defined herein) of the Republic without at the same time or prior thereto securing the Notes equally and ratably therewith or providing such other security for the Notes as shall be approved by the holders of a majority of the aggregate principal amount outstanding of the Notes.

(b) Exceptions. The following exceptions apply to the Republic's obligations under subparagraph (a) above:

(i) any Security upon property to secure Public External Indebtedness of the Republic incurred for the purpose of financing the acquisition of such property and any renewal or extension of any such Security which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing;

(ii) any Security existing upon property to secure Public External Indebtedness of the Republic at the time of the acquisition of such property and any renewal or extension of any such Security which is limited to the original property covered thereby and which secures any renewal or extension of the original secured refinancing;

(iii) any Security in existence as of the date of the Fiscal Agency Agreement or any renewal or extension thereof which secures only the renewal or extension of the original secured financing;

(iv) any Security 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 or any renewal or extension of such Security, provided that (A) the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project or the proceeds of insurance thereon as the principal source of repayment of such Public External Indebtedness and (B) the property over which such Security is granted consists solely of such assets and revenues; and

(v) any Security or Securities in addition to those permitted pursuant to clauses (i) through (iv) above, and any renewal or extension thereof, provided that the aggregate amount of Public External Indebtedness secured by such additional Security or Securities shall not exceed the equivalent of US$25,000,000.

(c) Definitions. For the purposes of this Note:

(i) "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.

(ii) "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.

(iii) "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.

(iv) "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.

(v) "Security" 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.

11. Covenants. So long as any Note is outstanding, the Republic will:

(a) Ranking: ensure that its obligations under the Notes will at all times constitute direct, general and unconditional obligations of the Republic ranking at all times *pari passu* without any preference among themselves and at least equally with all other present and future unsecured and unsubordinated Public External Indebtedness of the Republic; and

(b) Listing: use reasonable efforts to maintain the listing of the Notes on the Luxembourg Stock Exchange.

12. Modifications, Amendments and Waivers. (a) At any meeting of Noteholders duly called and held as specified in the Fiscal Agency Agreement, upon the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of not less than 66 2/3% in aggregate principal amount of the Notes then outstanding represented at such meeting, or with the written consent of the holders of not less than 66 2/3% in aggregate principal amount of the Notes then outstanding, the Republic and the Fiscal Agent, upon agreement between themselves, may modify, amend or supplement the terms of the Notes or the Fiscal Agency Agreement, in any way, and the holders of Notes may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Notes to be made, given or taken by Noteholders; provided, however, that no such action may, without the consent or affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of not less than 75% in aggregate principal amount of the Notes then outstanding, (i) change the due date for the payment of the principal of (or premium, if any) or any installment of interest on any Note, (ii) reduce the principal amount of any Notes, the portion of such principal amount that is payable upon acceleration of the maturity of such Notes, the interest rate thereon or the premium payable upon redemption thereof, (iii) change the coin or currency in which payment with respect to interest, premium or principal in respect of Notes is payable or the place or places in which any such payment is required to be made, (iv) shorten the period during which the Republic is not permitted to redeem the Notes, or permit the Republic to redeem the Notes if, prior to such action, the Republic is not permitted to do so, (v) reduce the proportion of the principal amount of Notes the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement or the Conditions of the Notes or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided hereby or thereby to be made, taken or given, (vi) change the obligation of the Republic to pay Additional Amounts, if any, pursuant to the Notes, (vii) amend the definition of "Outstanding" in Section 1.1 of the Fiscal Agency Agreement, (viii) change the governing law provisions of the Notes, (ix) change the Republic's agreement to submit to arbitration in respect of disputes relating to or arising under the Fiscal Agency Agreement or the Notes, each as set forth in Sections 17 and 18 of the Fiscal Agency Agreement and in the Notes, (x) change the ranking of the Notes as set forth in Condition 1(b) hereof or (xi) in connection with an offer to acquire all or any portion of the Notes where the consideration consists of either cash, new securities to be issued by the Republic, or any combination of the foregoing, amend any Event of Default. Any such modification, amendment or supplement shall be binding on all Noteholders.

(b) The Republic and the Fiscal Agent may, upon agreement between themselves, without the vote or consent of any Noteholder modify, amend or supplement the Fiscal Agency Agreement or the Notes for the purposes of curing any ambiguity, or curing, correcting or supplementing any defective or inconsistent provisions contained therein or in any manner which the Republic and the Fiscal Agent may deem mutually necessary or desirable that will not adversely affect, in any material respect, the interests of the Noteholders.

13. Notices. All notices to holders of Notes will be valid if (a) given in writing and mailed to the holders of Notes at their respective addresses shown in the Register and (b) (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 Fiscal Agency Agreement. Notices may also be published 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.

14. Prescription. All claims against the Republic for payment of principal of or interest on or in respect of the Notes shall be prescribed unless made within five years from the date on which such payment first became due.

15. Governing Law. These Notes are governed by, and construed in accordance with, the law of the State of New York, except that all matters concerning authorization and execution 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.

16. Arbitration. 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 Fiscal Agency Agreement (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.

17. Sovereign Immunity. The Republic represents and warrants 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 Justice of the Republic, which will recognize such award if all 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. The public property (*bienes de uso público*) of the Republic located in El Salvador is not subject to execution or attachment, either prior or after judgment. The execution of a judgment against El Salvador in El Salvador is only available in accordance with the procedures set forth in Articles 556 to 558 and 590 et seq. of the Salvadoran Civil and Business Procedure Code that entered into force on July 1, 2010, which require registration of the judgment for inclusion in the budget for payment in a subsequent fiscal year of the Republic.

The Republic hereby irrevocably waives, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceedings (including appeals) in El Salvador arising out of or relating to the Notes, the posting of any bond or the furnishing, directly or indirectly, of any other security.

18. Judgment Currency. All payments required to be made hereunder by the Republic shall be in U.S. dollars, regardless of any law, rule, regulation or statute, whether now or hereafter in existence or in effect in any jurisdiction, which affects or purports to affect such obligations. The obligation of the Republic in respect of any such amount due hereunder shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount of US dollars that any of the Agents may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which any of the Agents receives such payments. If the amount in U.S. dollars that may be so purchased for any reason falls short of the amount originally due, the Republic shall pay such additional amounts, in U.S. dollars, as may be necessary to compensate for such a

shortfall. Any obligation of the Republic not discharged by such payment shall be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect.

SUBSCRIPTION AND SALE

Deutsche Bank Securities Inc. is acting as Sole Lead Manager of the offering. Subject to the terms and conditions in the subscription agreement dated the date of this Offering Circular (the "Subscription Agreement"), the Sole Lead Manager will agree to purchase, and the Republic will agree to sell to the Sole Lead Manager, the principal amount of the Notes.

The Subscription Agreement provides that the obligations of the Sole Lead Manager to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Sole Lead Manager must purchase all the Notes if it purchases any of the Notes.

The Republic has been advised that the Sole Lead Manager proposes 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 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 Sole Lead Manager has agreed that, except as permitted by the Subscription Agreement and set forth in "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.

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), including each Relevant Member State that has implemented amendments to Article 3(2) of the Prospectus Directive with regard to persons to whom an offer of securities is addressed and the denomination per unit of the offer of securities (each, an "Early Implementing Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), no offer of Notes will be made to the public in that Relevant Member State (other than offers (the "Permitted Public Offers") where a prospectus will be published in relation to the Notes that has been approved by the competent authority in a Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive), except that with effect from and including that Relevant Implementation Date, offers of Notes may be made to the public in that Relevant Member State at any time:

(a) to "qualified investors" as defined in the Prospectus Directive, including:

> (A) (in the case of Relevant Member States other than Early Implementing Member States), legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities, or any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43.0 million and (**ii**) an annual turnover of more than €50.0 million as shown in itslast annual or consolidated accounts; or
>
> (B) (in the case of Early Implementing Member States), persons or entities that are described in points (1) to (4) of Section I of Annex II to Directive 2004/39/EC, and those who are treated on request as professional clients in accordance with Annex II to Directive 2004/39/EC, or recognized as eligible counterparties in accordance with Article 24 of Directive 2004/39/EC unless they have requested that they be treated as non-professional clients; or

(b) to fewer than 100 (or, in the case of Early Implementing Member States, 150) natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive) subject to obtaining the prior consent of the Sole Lead Manager; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or of a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State (other than a Relevant Member State where there is a Permitted Public Offer) who initially acquires any Notes or to whom any offer is made will be deemed to have represented, acknowledged and agreed to and with the Sole Lead Manager that (A) it is a "qualified investor", and (B) in the case of any Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (x) the Notes acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, or in circumstances in which the prior consent of the Sole Lead Manager has been given to the offer or resale, or (y) where Notes have been acquired by it on behalf of persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer of any Notes to be offered so as to enable an investor to decide to purchase any Notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71 EC (including that Directive as amended, in the case of Early Implementing Member States) and includes any relevant implementing measure in each Relevant Member State.

The Sole Lead Manager will represent and agree in the Subscription Agreement that:

(i) 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 (the "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

(ii) it has 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.

The Sole Lead Manager will represent and agree in the Subscription 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).

Although application has been made to list the Notes on the Luxembourg Stock Exchange and to have the Notes trade on the Euro MTF Market, the listing does not assure that a trading market for the Notes will develop. The Sole Lead Manager intends to make a secondary market for the Notes. However, it is 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 the Republic or the Sole Lead Manager 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 the Republic 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 Sole Lead Manager may purchase and sell Notes in the open market. These transactions may include over-allotment, covering transactions and stabilizing transactions. Over-allotment involves sales of Notes in excess of the principal amount of Notes to be purchased by the Sole Lead Manager in this offering, which creates a short position for the Sole Lead Manager. 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. The Sole Lead Manager may conduct these transactions in the over-the-counter market or otherwise. If the Sole Lead Manager commences any of these transactions, it may discontinue them at any time.

The Sole Lead Manager and its 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 Sole Lead Manager against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Sole Lead Manager 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 three 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 succeeding business day 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.

BOOK-ENTRY SETTLEMENT AND CLEARANCE

Global Notes

The Notes will initially be issued in the form of two registered notes in global form (which we refer to in this offering memorandum 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 Fiscal Agent (as defined in "Terms and Conditions 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 memorandum 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 Sole Lead Manager; 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 Fiscal Agent may require the seller to provide certain written certifications in the form provided in the Fiscal Agency Agreement (as defined in "Terms and Conditions 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 Sole Lead Manager is responsible for those operations or procedures.

DTC has advised that it is:

- a limited purpose trust company organized under the laws of the State of New York;
- a "banking organization" within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;
- a "clearing corporation" within the meaning of the Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the U.S. Securities Exchange Act of 1934.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC's participants include securities brokers and dealers, including the Sole Lead Manager; banks and trust companies; clearing corporations; and other organizations. Indirect access to DTC's system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC's nominee is the registered owner of a Global Note, that nominee will be considered the sole owner or holder of the Notes represented by that Global Note for all purposes under the Fiscal Agency Agreement. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have Notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the owners or holders of the Notes under the Fiscal Agency Agreement for any purpose, including with respect to the giving of any direction, instruction or approval to the Fiscal Agent under the Fiscal Agency Agreement.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of DTC to exercise any rights of a holder of Notes under the Fiscal Agency Agreement (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest in the Notes).

Payments of principal and interest with respect to the Notes represented by a Global Note will be made by the Fiscal Agent to DTC's nominee as the registered holder of the Global Note. Neither the Republic nor the Fiscal Agent will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and DTC.

Transfers between participants in DTC will be effected under DTC's procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream, Luxembourg will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and participants in Euroclear or Clearstream, Luxembourg, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream, Luxembourg. To deliver or receive an interest in a Global Note held in a Euroclear or Clearstream, Luxembourg account, an investor must send transfer instructions to Euroclear or Clearstream, Luxembourg, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream, Luxembourg, as the case may be, will send instructions to its DTC depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream, Luxembourg participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream, Luxembourg.

Because of time zone differences, the securities account of a Euroclear or Clearstream, Luxembourg participant that purchases an interest in a Global Note from a DTC participant will be credited on the business day for Euroclear or Clearstream, Luxembourg immediately following the DTC settlement date. Cash received in Euroclear or Clearstream, Luxembourg from the sale of an interest in a Global Note to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account as of the business day for Euroclear or Clearstream, Luxembourg following the DTC settlement date.

DTC, Euroclear and Clearstream, Luxembourg have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither the Republic nor the Fiscal Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated Notes

Notes in physical, certificated form will be issued and delivered to each person that DTC identifies as a beneficial owner of the related Notes only if:

- DTC notifies the Republic at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934 and a successor depositary is not appointed within 90 days; or
- the Fiscal Agent receives a notice from the registered holder of the Global Note requesting exchange of a specified amount for individual note certificates following a failure to pay at maturity or upon acceleration of any Note.

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 Sole Lead Manager:

(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 Sole Lead Manager is 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 Sole Lead Manager nor any person representing the Republic or the Sole Lead Manager 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;

(d) pursuant to Regulation S; or

(e) under any other available exemption from the registration requirements of the Securities Act; subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or such account's control.

Each prospective investor also acknowledges that:

- the Republic and the fiscal agent 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 fiscal agent;

- 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, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (II) THROUGH (V) 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 FISCAL AGENCY AGREEMENT.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE FISCAL AGENCY AGREEMENT.

- 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 FISCAL AGENCY AGREEMENT 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 Sole Lead Manager 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 Sole Lead Manager. 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. 32 (as published in the *Diario Oficial* on May 25, 2009), 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 gain 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 Taxation

UNITED STATES TREASURY CIRCULAR 230 NOTICE

ANY U.S. FEDERAL TAXATION DISCUSSION IN THIS OFFERING CIRCULAR WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR PURPOSES OF AVOIDING U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER. ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES TO BE ISSUED OR SOLD PURSUANT TO THIS OFFERING CIRCULAR. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

Generally

The following summary of certain U.S. federal income tax consequences to original purchasers of the Notes of the purchase, ownership and disposition of the Notes is based upon existing U.S. federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not purport to discuss all aspects of U.S. federal income taxation which may be relevant to a particular investor in light of that investor's individual investment 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, and 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 any non-U.S., state, or local tax considerations. This summary only applies to investors that hold Notes as "capital assets" (generally, property held for investment) within the meaning of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). Prospective investors should consult their own tax advisors regarding the U.S. federal, state, and local, as well as non-U.S., tax considerations of investing in the Notes.

For purposes of this summary, the term "U.S. Holder" means a beneficial owner of a Note who is an individual who is a citizen or resident of the United States, a corporation (including an entity treated 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 whose income is subject to U.S. federal income tax regardless of its source or a trust if 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 have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons under the Code and applicable Treasury regulations prior to that date, that elect to continue to be treated as United States persons under the Code or applicable Treasury regulations also will be U.S. Holders. If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. As used herein, the term "non-U.S. Holder" means a holder of a Note that is neither a U.S. Holder nor a partnership for U.S. federal income tax purposes.

U.S. Holders

Payments of Interest and Additional Amounts

Payments of interest on a Note (including Additional Amounts, if any) generally will be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, depending on the U.S. Holder's regular method of tax accounting.

Interest on the Notes will constitute income from sources outside the United States. Under the foreign tax credit rules, that interest generally will be classified as "passive category income" (or, in certain cases, as "general category income"), which may be relevant in computing the foreign tax credit allowable to a U.S. Holder under the U.S. federal income tax laws.

Original Issue Discount

For U.S. federal income tax purposes, a Note will be treated as issued with original issue discount ("OID") if the excess of the "stated redemption price at maturity" of the Note over its "issue price" equals or exceeds the "de minimis" amount (generally, 0.25 of one percent of such Note's stated redemption price at maturity multiplied by the number of complete years from the issue date to the maturity date). The stated redemption price at maturity equals the sum of all payments due under the Note, other than any payments of "qualified stated interest". A "qualified stated interest" payment generally is a payment of stated interest that is unconditionally payable in cash or property, or that will be constructively received, at least annually during the entire term of the Note. The issue price will generally equal the initial public offering price at which a substantial number of Notes is issued in a given offering.

A U.S. Holder must include in its gross income amounts of non-de minimis OID as ordinary interest income on an accrual basis generally under a "constant yield to maturity" method described below (whether a U.S. Holder is a cash or accrual basis taxpayer). Generally, OID must be included in income in advance of the receipt of cash representing such income.

The amount of OID on a Note that a U.S. Holder must include in its income during a taxable year is the sum of the "daily portions" of OID for that Note. The daily portions are determined by allocating to each day in an "accrual period" (generally the period between compounding dates) a pro rata portion of the OID attributable to that accrual period. The amount of OID attributable to an accrual period is the product of the "adjusted issue price" of the Note at the beginning of the accrual period and its yield to maturity reduced by the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The adjusted issue price of a Note at the beginning of any accrual period is generally equal to the sum of its issue price and all prior accruals of OID. Cash payments on an OID Note are allocated first to any stated interest then due, then to previously accrued OID (in the order of accrual) to which cash payments have not yet been allocated, and then to principal.

A U.S. Holder generally may make an irrevocable election to include in its income the entire return on an OID Note (including payments of qualified stated interest) under the constant yield method applicable to OID.

For purposes of the foreign tax credit provisions of the Code, any OID accrued on a Note and included in a U.S. Holder's income will constitute income from sources outside the United States and generally will be classified as "passive category income" (or, in certain cases, as "general category income").

Treatment of Premium

If a U.S. Holder's basis upon purchase of the Note is greater than its principal amount, a U.S. Holder will be considered to have purchased the Note at a premium. The U.S. Holder generally may elect to amortize this premium over the term of the Note. If the U.S. Holder makes this election, the amount of interest income the U.S. Holder must report for U.S. federal income tax purposes with respect to any interest payment date will be reduced by the amount of premium allocated to the period from the previous interest payment date to that interest payment date. The amount of premium allocated to any such period is calculated by taking the difference between (i) the stated interest payable on the interest payment date on which that period ends and (ii) the product of (a) the Note's overall yield to maturity and (b) the U.S. Holder's purchase price for the Note (reduced by amounts of premium allocated to previous periods). If the U.S. Holder makes the election to amortize premium, the election will apply to the Note and to all debt instruments acquired at a premium that the U.S. Holder holds at the beginning of the taxable year in which the U.S. Holder makes the election and to all debt instruments subsequently purchased at a premium, unless the U.S. Holder obtains the U.S. Internal Revenue Service's consent to revoke the election. If the U.S. Holder does not make the election to amortize premium on a Note and holds the Note to maturity, the U.S. Holder will have a capital loss for U.S. federal income tax purposes, equal to the amount of the premium, when the Note matures. If the U.S. Holder does not make the election to amortize premium and sells or otherwise disposes of the Note before maturity, the premium will be included in the U.S. Holder's "tax basis" in the Note, and

therefore will decrease the gain, or increase the loss, that the U.S. Holder would otherwise realize on the sale or other disposition of the Note.

Pre-issuance Interest

If a Note is issued with pre-issuance accrued interest, a U.S. Holder may treat the Note, for U.S. federal income tax purposes, as having been issued for an amount that excludes the pre-issuance accrued interest. In that event, a portion of the first stated interest payment equal to the excluded pre-issuance accrued interest will be treated as a return of such pre-issuance accrued interest and will not be taxable to such U.S. Holder or otherwise treated as an amount payable on the Note.

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

A U.S. Holder will generally recognize taxable capital gain or loss upon the sale, exchange, retirement or other taxable disposition of a Note (including payments as a result of an acceleration) 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, which will be taxed as such) and that U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal that U.S. Holder's initial investment in the Note, increased by the amount of OID (if any) that a U.S. Holder has included in income, and decreased (but not below zero) by any amortized premium (as described above). That gain or loss will generally be long-term capital gain or loss if the Note is held for more than one year, and generally will be U.S. source income or loss for U.S. foreign tax credit limitation purposes. Under current law, net capital gains of individuals 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.

Medicare Tax

For taxable years beginning after December 31, 2012, 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% tax on the lesser of (i) the U.S. Holder's "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 will be between US$125,000 and US$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally will include 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).

Information with Respect to Foreign Financial Assets

Under recently enacted legislation, individuals who own "specified foreign financial assets" with an aggregate value in excess of US$50,000 in taxable years beginning after March 18, 2010 generally will be required to file information reports with respect to such assets with their U.S. federal income tax returns. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in non-U.S. entities.

Non-U.S. Holders

Subject to the discussion below of special rules that may apply to certain non-U.S. Holders and the discussion below of "backup" withholding, payments of interest and any Additional Amounts on the Notes are currently not subject to U.S. federal income tax, including withholding tax, if paid to a "non-U.S. Holder", as defined above, unless the interest is effectively connected with such non-U.S. Holder's conduct of a trade or business within the United States (and, if an income tax treaty applies, 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. A non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional "branch profits tax" in respect of any such effectively connected interest income at a 30% rate (or, if attributable to a permanent establishment maintained by such non-U.S. Holder within the United States, a lower rate under an applicable tax treaty).

In addition, (i) subject to the discussion below of special rules that may apply to certain non-U.S. Holders and the discussion below regarding backup withholding, a non-U.S. Holder will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of a Note, and (ii) the Notes will be deemed to be situated outside the United States for purposes of the U.S. federal estate tax and will not be includible in the gross estate for purposes of that tax in the case of a non-U.S. Holder

who was not a citizen of the United States at the time of death if income on the Notes would not have been effectively connected with a U.S. trade or business at the time of the holder's death.

Special rules may apply in the case of non-U.S. Holders that are (i) engaged in a U.S. trade or business, (ii) former citizens or long-term residents of the United States, "controlled foreign corporations", corporations which accumulate earnings to avoid U.S. federal income tax, or certain foreign charitable organizations, each within the meaning of the Code, or (iii) non-resident alien individuals who are present in the United States for 183 days or more during a taxable year.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of principal of and interest and any Additional Amounts on the Notes to non-corporate U.S. Holders if those payments are made within the United States or by or through a custodian or nominee that is a "U.S. Controlled Person", as defined below. Backup withholding will apply to those payments if such a U.S. Holder fails to provide an accurate taxpayer identification number or, in the case of interest payments and the accrual of interest, fails to certify that it is not subject to backup withholding or is notified by the U.S. Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its U.S. federal income tax returns. Payments of principal and interest to beneficial owners who are non-U.S. Holders generally will not be subject to information reporting and backup withholding, but those holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on U.S. Internal Revenue Service Forms W-8BEN.

Pursuant to recently enacted legislation, certain payments in respect of the Notes made to corporate U.S. Holders after December 31, 2011 may be subject to information reporting and backup withholding.

The payment of proceeds of a sale or redemption of Notes effected at the U.S. office of a broker will generally be subject to the information reporting and backup withholding rules described above. 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, 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.

Under U.S. Treasury regulations, a payment to a non-U.S. partnership is treated, with some exceptions, for backup withholding purposes as a payment directly to the partners, so that the partners are required to provide any required certifications.

As used herein, the term "U.S. Controlled Person" means:

- a "United States person" (as defined for U.S. federal tax purposes);
- 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 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 United States 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 the holder's U.S. federal income tax liability as long as the holder provides the required information to the U.S. Internal Revenue Service in a timely manner.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On September 15, 2008 the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the Commission's advice on the need for changes to the Savings Directive. On November 13, 2008 the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on April 24, 2009. If any of those proposed changes are made in relation to the Savings Directive, they may amend or broaden the scope of the requirements described above. Noteholders are advised to consult their independent professional advisers in relation to the implications of the proposed changes, once finally made.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by Lic. Romeo Benjamin Barahona Meléndez, the *Fiscal General* (the "Attorney General") of the Republic and by Consortium Centro América Abogados, Salvadoran counsel to the Republic, and by Arnold & Porter LLP, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the Sole Lead Manager by Guandique Segovia Quintanilla, Salvadoran counsel to the Sole Lead Manager, and by Shearman & Sterling LLP, U.S. counsel to the Sole Lead Manager. As to all matters of Salvadoran law, Arnold & Porter LLP will rely on the opinions of the Attorney General and Consortium Centro América Abogados, and Shearman & Sterling LLP will rely upon the opinion of Guandique Segovia Quintanilla.

GENERAL INFORMATION

1. The Regulation S Global Note have been 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 P01012 AR7 and 283875 AQ5, respectively. The common codes for the Regulation S Global Note and the Restricted Global Note are 058774081 and 058774065, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are USP01012AR71 and US283875AQ53, 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. 32 (as published in the *Diario Oficial* on May 25, 2009) of the Republic's Legislative Assembly.

3. The Republic is currently involved in three pending arbitration proceedings. The first is an arbitration proceeding filed by Enel, an Italian company, before the International Chamber of Commerce requesting indemnification of US$120.0 million, alleging the Republic breached a contract that provided for the acquisition of a number of shares in LaGeo, a power generating company owned by CEL, a state-owned monopoly, and Enel. As of December 31, 2010, the arbitration was completed and is pending the arbitral ruling, which is expected to be issued shortly. The second arbitration proceeding was filed by PacRim Cayman, a company based in the state of Nevada, with headquarters in Canada, pursuant to Chapter 10 of CAFTA-DR, claiming US$77.0 million for an indemnification claim involving the concession for the exploitation of a gold mine in San Isidro, Department of Cabañas. The third arbitration proceeding was filed by Commerce Group, an American company, pursuant to Chapter 10 of CAFTA-DR, claiming US$100.0 million for an indemnification claim involving the opening of a mine in San Sebastian, Department of La Unión.

The Republic has always fulfilled its obligations pursuant to international arbitral awards and intends to comply with any obligations imposed upon it by any future arbitral award.

4. On November 15, 2009, Moody's Investors Service downgraded the Republic's long-term government bond ratings from "Baa3" to "Ba1", one level below investment grade, with a "negative outlook". On January 14, 2011, Standard & Poor's Ratings Services lowered its foreign currency issuer credit rating from "BB" to "BB-", with a stable outlook. Currently, the Republic's long-term issuer default rating by Fitch Ratings is "BB".

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

5. Application has been 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 and transfer 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 Fiscal Agency Agreement incorporating the forms of Global Notes and Note Certificates;

(b) copies of the Constitution of the Republic, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish); and

(c) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English).

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, 2009.

ISSUER

Republic of El Salvador
Ministry of Finance
Boulevard Los Héroes No. 1231
Edificio Ministerio de Hacienda
San Salvador
El Salvador

FISCAL AGENT, PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT

The Bank of New York Mellon
101 Barclay Street, 4th Floor
New York, New York 10286

SOLE LEAD MANAGER AND BOOKRUNNER

Deutsche Bank Securities Inc.
60 Wall Street
New York, New York 10005
United States

LEGAL ADVISORS TO THE REPUBLIC OF EL SALVADOR

As to United States Law
Arnold & Porter LLP
399 Park Avenue
New York, New York 10022
United States

As to Salvadoran Law
Lic. Romeo Benjamin Barahona Meléndez
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 Centro América Abogados
67 Avenida Sur, Pasaje. 2 # 26
Colonia Escalón
San Salvador
El Salvador

LEGAL ADVISORS TO THE SOLE LEAD MANAGER

As to United States Law
Shearman & Sterling LLP
599 Lexington Avenue
New York, New York 10022
United States

As to Salvadoran Law
Guandique Segovia Quintanilla
Pasaje Senda Florida Nte., #124
Colonia Escalón
San Salvador
El Salvador

LUXEMBOURG TRANSFER, LISTING AND PAYING AGENT

The Bank of New York Mellon (Luxembourg) S.A.
2-4 rue Eugène Ruppert
Vertigo Building - Polaris
L-2453 Luxembourg
Luxembourg

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

TABLE OF CONTENTS

Offering Circular

PRESENTATION OF INFORMATION iii
FORWARD-LOOKING STATEMENTS iii
ARBITRATION AND ENFORCEABILITY iv
EXCHANGE RATE INFORMATION v
OFFERING CIRCULAR SUMMARY 1
THE OFFERING 6
RISK FACTORS 8
USE OF PROCEEDS 10
THE REPUBLIC OF EL SALVADOR 11
THE SALVADORAN ECONOMY 15
FOREIGN TRADE AND BALANCE OF PAYMENTS .33
MONETARY SYSTEM 42
PUBLIC SECTOR FINANCES 47
PUBLIC DEBT 55
TERMS AND CONDITIONS OF THE NOTES 60
SUBSCRIPTION AND SALE 68
BOOK-ENTRY SETTLEMENT AND CLEARANCE ...71
TRANSFER RESTRICTIONS 74
TAXATION 76
VALIDITY OF THE NOTES 80
GENERAL INFORMATION 81

The Republic of El Salvador

US$653,500,000
7.625% Notes due 2041

Deutsche Bank Securities

Offering Circular

January 25, 2011