OFFERING CIRCULAR

The Republic of El Salvador

US$601,085,000
8.625% Notes due 2029

The Republic of El Salvador (the "Republic" or "El Salvador") is offering US$601,085,000 aggregate principal amount of its 8.625% Notes due 2029 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on February 28 and August 28 of each year commencing on August 28, 2017. The Notes will mature on February 28, 2029. This Offering Circular constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities, as amended.

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

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

See "Risk Factors" beginning on page 9 regarding certain risk factors you should consider before investing in the Notes.

Price: 100.000%
plus accrued interest, if any, from February 28, 2017

Delivery of the Notes will be made on or about February 28, 2017.

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

Joint Lead Managers and Joint Bookrunners

Credit Suisse **Deutsche Bank Securities**

The date of this Offering Circular is February 21, 2017

ANY OFFER OR SALE OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED DIRECTIVE 2003/71/EC AND AMENDMENT THERETO INCLUDING DIRECTIVE 2010/73/EU (THE "PROSPECTUS DIRECTIVE") MUST BE ADDRESSED TO QUALIFIED INVESTORS (AS DFINED IN THE PROSPECTUS DIRECTIVE).

El Salvador


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

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

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

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

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

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

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

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

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

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

- acknowledge that the Notes have not been and will not be registered under the Securities Act or any State securities laws and may not be 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 also acknowledges that:

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

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

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

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

PRESENTATION OF INFORMATION

Unless otherwise specified or the context requires, references to “US dollars”, “$” and “US$” are to United States dollars 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 updates and change in subsequent publications. The Central Bank is currently in the process of changing the base year of the National Account Statistics from 1990 to 2005 and in the process of adopting the main recommendations of the United Nations System of National Accounts (“SNA2008”). The information as a result of the change in base year is preliminary and not yet public. The disclosure of the SNA2008 figures for El Salvador will be made public subject to the dissemination process of the Government.

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

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

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

FORWARD-LOOKING STATEMENTS

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

ARBITRATION AND ENFORCEABILITY

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

> Any dispute, controversy or claim arising out of or relating to the Notes (other than any action arising out of or based on the United States federal or state securities laws), including the performance, interpretation, construction, breach, termination or invalidity thereof, shall be finally settled by arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (excluding Article 26 thereof) as in effect on the date of the Indenture (the "UNCITRAL Arbitration Rules"). The number of arbitrators shall be three, to be appointed in accordance with Section II of the UNCITRAL Arbitration Rules. The appointing authority shall be the Chairman of the International Court of Arbitration of the International Chamber of Commerce. The third arbitrator may be (but need not be) of the same nationality as any of the parties to the arbitration. The place of arbitration shall be New York, New York. The language to be used in the arbitration proceedings shall be English. Any arbitral tribunal constituted under this paragraph shall make its decisions entirely on the basis of the substantive law of the State of New York.
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> 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.
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> 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.
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> The Republic's consent to arbitration shall not preclude a holder of any Note from instituting legal proceedings against the Republic in the courts of El Salvador.

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

EXCHANGE RATE INFORMATION

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

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

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 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.

El Salvador is a republic and its form of Government is a representative democracy. On March 9, 2014, Salvador Sánchez Cerén of the *Frente Farabundo Martí para la Liberación Nacional* ("FMLN") party was elected president of the Republic. He took office on June 1, 2014, succeeding Carlos Mauricio Funes Cartagena, who was elected in March 2009.

In 2013, nominal GDP was approximately US$24.4 billion and real GDP grew by 1.9%. The highest growth rates by economic sector were 4.5% in finance and insurance, 3.3% in Government services, 3.3% in real estate and business services and 3.1% in manufacturing. The only sectors to register contraction in 2013 were agriculture, livestock and fishing (0.5)% caused by reduced coffee production and lower international coffee prices, and construction (0.1%). In 2014, nominal GDP was approximately US$25.1 billion and real GDP grew by 1.4%.The highest growth rates by economic sector were 3.7% in community, social, personal and domestic services, 3.4% in finance and insurance, 3.5% real estate and business and 2.4% in trade, restaurants and hotels. The only sectors to register contraction were construction (10.7%) and mining (1.6%). In 2015, nominal GDP was approximately US$25.9 billion and real GDP grew by 2.5%.The highest growth rates by economic sector were 3.7% in real estate and business, 3.4% in manufacturing and 3.3% in transportation, storage and communication. The electricity, gas and water sector registered the lowest growth rate by economic sector increasing by 0.3%.

Preliminary real GDP figures reflect growth of 2.5% for the three-month period ended September 30, 2016, compared to 2.7% for the same period in 2015. During the first nine months of 2016 real GDP grew 2.4% compared to the same period in 2015.

According to the United Nations Human Development Report 2015, El Salvador's per capita gross national income ("GNI") based on 2015 figures and adjusted for purchasing power parity was US$7,349.

Recent Political and Economic Developments

In the presidential elections that took place in March 2014, Salvador Sánchez Cerén was elected as President of El Salvador. The next presidential election is scheduled for February 2019.

Five Year Development Plan 2014-2019

The five year development plan 2014-2019 sets forth the objectives and strategies of the Government around three main priorities: (i) sustained economic growth, (ii) inclusive education, (iii) citizen safety and security.

In order to achieve its goals, the Government has proposed a fiscal policy that would provide for: (i) financing for an increased supply of adequate basic public services, (ii) improving efficiency in public expenditures, and (iii) increasing public spending in competitive markets in order to promote job creation. These policies aim to improve the public finances of the Republic and promote a sustainable and stable economy for the medium and long term.

Fiscal Agreement

A Framework Agreement for Fiscal Sustainability, Economic Development and Bolstering Financial Liquidity for El Salvador ("the Framework") was signed on November 10, 2016 by the Government, FMLN and the *Alianza Republicana Nacionalista* ("ARENA"), the main opposition party, and in consultation with the minority parties, in order to set an agenda to guarantee fiscal sustainability and inclusive growth, increase economic and social development and offer financial stability in the short, medium and long terms. The following actions are part of the Framework:

1. Authorization to issue debt securities of US$550.0 million in the local and/or international markets, with proceeds being used to refinance US$307.0 million of short term debt and US$243.0 million to cover Government expenses carried over from fiscal year 2016. The expenses include transfer payments made by FODES, outstanding payments to suppliers and payment of subsidies. The Notes are being offered hereby in furtherance of this element of the Framework.

2. The enactment on November 10, 2016 of the Fiscal Responsibility Law. The purpose of the law is to promote policies that will guarantee fiscal sustainability of the public finances in the medium and long term which will contribute to the macroeconomic

stability of the country through the enactment of regulations that: (i) establish limits on the deficit and public indebtedness, (ii) for consistency of the budget with the goals established by the Fiscal Responsibility Law, (iii) guarantee budget allocation for social programs, and (iv) promote greater transparency and accountability. The law also provides for public finance consolidation measures to be implemented over the three years after its enactment requiring an adjustment of 3.0% of GDP through spending cuts and increased revenues.

3. Continuation of the Fiscal Work Group, a group composed of government officials from multiple agencies (the "Fiscal Work Group") that is among other things, responsible for guaranteeing fiscal sustainability and for the implementation of the second installment of issuance and placement of US$650.0 million of debt securities in order to refinance short term debt. The Fiscal Work Group is responsible for several initiatives related to fiscal sustainability including: review of budgetary support loans, review of the law providing pensions for the armed forces, review of the wage mechanism that provides for public service payroll increases, consideration of reforms to the law regulating the *Fideicomiso de Obligaciones Previsionales* ("FOP") for purposes of financing of the private pension system, review of the special budget for the *Tribunal Supremo Electoral* ("TSE") and compliance with the *Fuerza Armada de El Salvador* ("FAES") and FMLN Veterans Law.

4. The Government is committed to formalizing an agreement with the International Monetary Fund to improve fiscal sustainability, compatible with the provisions of the Fiscal Responsibility Law and the Framework.

5. Incorporate into the 2017 budget any modifications due to the agreements adopted as a result of the work of the Fiscal Work Group.

Fomilenio II

El Salvador and the United States signed the Fomilenio II project on September 30, 2014. The objective of the program is to implement projects and public policies that increase productivity by attracting investment, strengthening human capital and reducing transportation and logistics costs. The project is funded with US$277.0 million donated by the United States through the Millennium Challenge Corporation ("MCC") and US$88.2 million provided by the Government.

As of December 2016, there has been a total disbursement of Fomilenio II of US$10.8 million, and in 2017 the Government plans to disburse another US$54.7 million aimed at attracting investment by reducing and eliminating regulations and reducing logistics and transportation costs.

2017 Budget

The 2017 budget for the Central Government was presented to the Legislative Assembly on September 30, 2016 and enacted on January 19, 2017 for a total amount of US$4,958 million in expenditures, an increase of US$621.9 million or a 14.3% increase compared to the 2016 results.

The principal assumptions on which the 2017 budget is based are real GDP growth of 2.3%, an inflation rate of 2.0% and nominal GDP of US$27,826.1 million. The budget contemplates total revenues of US$4,958 million and total expenditures of US$4,958 million. The budget allocates, among other expenditures, US$3,619.0 million (72.99% of total expenditures) to current costs, which include salaries and compensation, goods and services, certain financial costs and current transfers, US$752.9 million to capital costs (15.19% of total expenditures), which include public investment programs and other capital costs and US$309.6 million to financial expenditures (6.25% of total expenditures), which include amortization payments on internal and external debt.

The 2017 budget contemplates revenues of US$4,958 million, with US$4,458.1 million (89.92% of total revenues) from current revenues, which include revenues from tax and non-tax sources, US$17.4 million from capital revenues (0.35% of total revenues), which include donations and US$245.0 million from financing (4.94% of total revenues) and US$237.3 million (4.79% of total revenues) from revenues from special contributions.

Economic Performance

In 2015, the real GDP growth rate increased to 2.5% as public consumption and investment recovered, increasing by 4.7% and 7.6%, respectively, and private investment and exports of goods and services increased by 8.1% and 2.4%, respectively. In the three-month period ended September 30, 2016, real GDP registered a growth rate of 2.5%, as a result of higher growth rates in the agriculture, livestock and fishing, trade, restaurant and hotels, community, social, personal and domestic services, construction and manufacturing sectors.

In 2012, inflation was 0.8%, concentrated in the first half of the year, mainly due to increased food and oil prices resulting from volatility of international oil prices related to political unrest in certain Arab countries and increased utility prices as a consequence of adjustments in Government subsidies. In 2013 and 2014, the inflation rate decreased to 0.8% and then 0.5% as food, clothes and footwear and oil-derived products prices registered a decline in their rate of growth. In 2015, the inflation rate increased to 1.0% as the prices of housing, water, electricity and oil-derived products increased by 11.7%. In 2016, the economy experienced a deflation of (0.9)% driven primarily by decreasing prices of food and beverages, housing, water, electricity and oil-derived products and clothes and footwear.

Remittances grew on average 4.2% from 2012 to 2016 and totaled US$3,879.7 million in 2012, US$3,937.4 million in 2013, US$4,133.0 million in 2014 and US$4,270.0 million in 2015, representing 16.3%, 16.2%, 16.5% and 16.5% of GDP, respectively. In 2016, remittances increased to US$4,576.0 million, representing an increase of 7.2% compared to 2015. See "Foreign Trade and Balance of Payments — Current Account."

Manufacturing is a key sector of the Salvadoran economy. From 2011 to 2015, the manufacturing sector has generated an annual average of 18.8% of El Salvador's nominal GDP. During 2012 and 2013, manufacturing activity experienced annual growth rates of 1.3% and 3.1%, respectively, driven mainly by growth in activities related to food, minerals and chemical products. In 2014 and 2015, this sector grew at annual rates of 1.6% and 3.4%, respectively. During the three- month period ended September 30, 2016, the manufacturing sector grew at a rate of 2.3% compared to 3.7% for the same period in 2015, mainly due to a decrease of non-traditional exports.

According to the Ministry of Economy, as of September 2016, there were a total of 220 companies that benefitted from the free trade zones law, of which 120 were located in free trade zones, with the remaining 100 operating outside the free trade zones boundaries. Out of the 220 beneficiaries, 161 produce apparel and linens, 77 of them are *maquila* plants.

Coffee is the Republic's principal agricultural export and is an important source of employment in El Salvador. The coffee industry generated approximately 81,210 jobs during the 2011/2012 harvest, 86,500 jobs during the 2012/2013 harvest, 35,001 jobs during the 2013/2014 harvest, 46,258 jobs during the 2014/2015 harvest and 39,237 jobs during the 2015/2016 harvest The most recent decrease in jobs was due to decreased production caused by drought and rust disease.. Coffee production decreased 12.3% in 2012, 37.7% in 2013, 18.2% in 2014 and 3.5% in 2015. For the same years, coffee exports accounted for 64.2%, 55.0%, 38.3% and 45.4% of agricultural exports and 5.6%, 4.3%, 2.1% and 2.7% of total exports, respectively. As of January 2017, there are approximately 135,138 hectares devoted to the cultivation of coffee, representing approximately 6.4% of the country's land.

As of December 31, 2016, net international reserves totaled US$2,923.0 million, representing an increase of 9.5% compared to the same period level in 2015.

Non-Financial Public Sector Deficit

In 2015 the non-financial public sector deficit decreased by US$74.0 million to US$366.0 million compared to 2014, not including pensions, equivalent to 1.4% of GDP. This was mainly due to an increase in inflows of US$166.0 million compared to an increase in outflows of US$92.0 million.

In 2016, the non-financial public sector deficit decreased by US$228.6 million to US$137.4 million.

The Government currently projects that the consolidated non-financial sector deficit for 2017 without pension obligations will be US$311.6 million, or 1.1% of GDP. Including pension obligations, the 2017 consolidated non-financial sector deficit is projected to be US$925.3 million, or 3.3% of GDP.

The Debt Ratio of the Public Sector

The Republic's ratio of public external debt to GDP was 39.6% in 2012 and decreased to 39.1% in 2015.

Public sector debt, including internal and external debt of the financial and non-financial public sector and the net external Central Bank debt, was US$17,192.1 million as of December 31, 2016, compared to US$16,323.4 million at December 31 2015, US$15,466.1 million at December 31 2014, US$14,691.6 million at December 31, 2013 and US$14,296.2 million at December 31, 2012. The increase in public sector debt in 2016 was mainly due to the increase in stock of LETES issued by the Government and the issuance of "*Certificados de Inversión Previsional*" (Pension Investment Certificates, or "CIPs").

Rating Agencies

On August 11, 2016, Moody's Investors Service downgraded El Salvador's ratings to B1 from Ba3 and placed the ratings on review for further downgrade. Later, on November 7, 2016, Moody's Investors Service changed El Salvador's issuer and long-term debt ratings to B3 from B1 and assigned a negative outlook to the ratings, concluding the previously initiated review for possible downgrade. Moody's Investors Service stated that the downgrade to B3 was based on a significant increase in liquidity risks and a political impasse in the Legislative Assembly.

On October 13, 2016, Standard & Poor's Global Ratings lowered its long-term sovereign credit ratings on the Republic of El Salvador to 'B' from 'B+'. The ratings on El Salvador remained on CreditWatch with negative implications.

On December 8, 2016, Standard & Poor's Global Ratings issued a Ratings Direct research update indicating it lowered its long-term foreign and local currency sovereign credit ratings on El Salvador to 'B-' from 'B'. At the same time, Standard & Poor's removed the ratings from CreditWatch with negative implications. The outlook is negative.

SELECTED ECONOMIC INDICATORS

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

	For the Year Ended December 31,				
	2011	**2012**	**2013**	**2014**	**2015**
The Economy					
Nominal GDP(1)	$23,139.0	$23,813.6	$24,350.9	$25,054.2	$25,850.2
Real GDP (in millions of US dollars)(1)(2)	$9,277.2	$9,451.7	$9,626.3	$9,763.5	$10,003.2
Real GDP growth (1)(2)	2.2%	1.9%	1.9%	1.4%	2.5%
Annual inflation(3)	5.1%	0.8%	0.8%	0.5%	1.0%
Unemployment	6.6%	6.1%	5.9%	7.0%	7.0%
Balance of Payments					
Exports (FOB goods and services)(1)	$5,878.6	$6,101.6	$6,421.7	$6,481.7	$6,710.4
Imports (FOB goods and services)(1)	$10,201.7	$10,496.2	$11,098.5	$10,948.7	$10,864.9
Trade and services balance(1)	$(4,323.1)	$(4,394.7)	$(4,676.8)	$(4,467.0)	$(4,154.5)
Current account surplus (deficit) of the balance of payments(1)	$(1,111.8)	$(1,279.5)	$(1,585.6)	$(1,306.7)	$(920.0)
As % of GDP(1)(4)	(4.8)	(5.4)	(6.5)	(5.2)	(3.6)
Net international reserves(1)	$2,501.9	$3,172.9	$2,720.7	$2,661.2	$2,670.2
Non-Financial Public Sector					
Total revenues	$4,513.6	$4,759.2	$4,877.0	$4,956.2	$5,122.2
Total expenditures	$5,014.6	$5,153.8	$5,414.2	$5,396.2	$5,488.3
Primary balance deficit	(388.7)	(277.4)	(385.6)	(296.6)	(211.5)
As % of GDP(1)	(1.7)	(1.2)	(1.6)	(1.2)	(0.8)
Deficit(7)	(906.6)	(813.9)	(979.4)	(907.0)	(851.2)
As % of GDP(1)	(3.9)	(3.4)	(4.0)	(3.6)	(3.3)
Public Sector Debt(5)					
Total public debt	$12,740.8	$14,296.2	$14,691.6	$15,466.1	$16,323.4
Internal debt	$4,252.6	$4,872.7	$5,242.1	$5,253.2	$6,226.9
External debt	$8,488.2	$9,423.5	$9,449.5	$10,212.9	$10,096.5
Total public debt (as % of GDP)(1)	55.1%	60.0%	60.33%	61.7%	63.1%
Public internal debt (as % of GDP)(1)	18.4%	20.5%	21.5%	21.0%	24.1%
Public external debt (as % of GDP)(1)	36.7%	39.6%	38.8%	40.8%	39.1%
External debt service (as % of exports of goods and services)(1)(6)	23.5%	11.5%	11.0%	11.4%	11.7%

(1) Preliminary figures for 2014 and 2015 except GDP figures which are preliminary for 2013, 2014 and 2015.
(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 *Dirección General de Estadística*. December 2009 = 100 base index.
(4) Including foreign aid.
(5) Including debt of the Central Bank.
(6) Exports (FOB goods and services). Calculation does not include Central Bank debt service.
(7) Including Pensions

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

THE OFFERING

Issuer	The Republic of El Salvador.
Issue Amount	US$601,085,000 aggregate principal amount.
Issue Date	February 28, 2017
Maturity Date	February 28, 2029
Interest	The Notes will bear interest from February 28, 2017 at the rate of 8.625% per annum payable semi-annually in arrears on February 28 and August 28 of each year, commencing on August 28, 2017.
Withholding Tax, Additional Amounts	Principal of and interest on the Notes are payable by the Republic without withholding or deduction for or on account of taxes imposed by El Salvador to the extent described herein. In the event that the Republic is required by law to deduct or withhold taxes, duties, assessments or governmental charges, the Republic will pay Additional Amounts (as defined herein) as necessary to enable holders of Notes to receive such amounts after such deduction or withholding as they would have received absent such deduction or withholding, subject to certain exceptions. See "Description of the Notes — Additional Amounts".
Status	The Notes will constitute general, direct, unconditional, unsubordinated and unsecured Public External Indebtedness (as defined herein) of the Republic for which the full faith and credit of the Republic is pledged. The Notes rank and will rank without any preference among themselves and equally with all other unsecured and unsubordinated Public External Indebtedness of the Republic. It is understood that this provision shall not be construed so as to require the Republic to make payments under the Notes ratably with payments being made under any other Public External Indebtedness. See "Description of the Notes—Ranking."
Negative Pledge and Certain Covenants	The Description of the Notes contain certain covenants and restrictions on the creation or subsistence of any Lien (as defined herein) securing Public External Indebtedness, with certain exceptions. See "Description of the Notes — Certain Covenants of the Republic".
Use of Proceeds	Pursuant to Legislative Decrees No. 388 and 534 (as published in the *Diario Oficial* on May 27, 2016 and November 11, 2016 respectively), the cash proceeds from the issuance and sale of the Notes will be US$601,085,000 and will be used by the Republic as follows: US$307,000,000 to refinance short term debt; US$29,300,000 to cover FODES (Fund for Social Development) for the last quarter of 2016; US$75,000,000 for the repayment of a bridge loan; US$92,700,000 to cover pending payment obligations; US$46,000,000 to pay the subsidy for the consumption of electrical energy; and US$51,085,000 to be used for security.

Collective Action Clauses	The Notes will contain "collective action clauses". Under these provisions, which differ from the terms of the Republic's Public External Indebtedness issued prior to the date hereof, the Republic may amend the payment provisions of the Notes and other reserved matters listed in the indenture with the consent of the holders of: (1) with respect to a single series of debt securities, more than 75% of the aggregate principal amount of the outstanding debt securities of such series; (2) with respect to two or more series of debt securities, if certain "uniformly applicable" requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, more than 66 2/3% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the aggregate principal amount of the debt securities of each series affected by the proposed modification, taken individually.
Form of Notes	The Notes will be issued in the form of registered global notes without coupons, registered in the name of a nominee of The Depository Trust Company and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.
Denominations	Each Note will be issued in minimum denominations of US$5,000 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 Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. Application will also be made to list the Notes on the *Bolsa de Valores de El Salvador* (the "El Salvador Stock Exchange").
Governing Law	The Notes shall be governed by, and construed in accordance with, the laws of the State of New York, United States of America, except that all matters concerning authorization by the Republic, as well as the bringing of any actions and the enforcement of any judgment against the Republic in the courts of the Republic, will be governed by the laws of the Republic.

Arbitration	Any dispute, controversy or claim arising out of or relating to the Notes, including the performance, interpretation, construction, breach, termination or invalidity thereof, will be finally settled by arbitration in New York, New York, in accordance with the UNCITRAL Arbitration Rules. Any arbitral tribunal constituted under the terms of the Notes will be required to make its decisions entirely on the basis of the substantive law of the State of New York as provided above. The Republic's consent to arbitration will not preclude a holder of any Note from instituting legal proceedings against the Republic in the courts of El Salvador. The Republic has represented that it has no right to immunity on the grounds of sovereignty or otherwise from the execution of any judgment in El Salvador, or from the execution or enforcement in El Salvador of any arbitral award in El Salvador (except for the limitation on alienation of public property). The enforcement by a Salvadoran court of a foreign arbitral award is subject to recognition by the Supreme Court of Justice of the Republic and the execution of any judgment against the Republic in El Salvador is only available in accordance with Article 182 ordinal 4 of the Constitution of the Republic of El Salvador and the procedures set forth in and Articles 555 to 558 and 590 et seq. of the Salvadoran Civil and Business Procedure Code; pursuant to Article 590, if the budget of the fiscal year in which a final judgment is issued is not adjusted to provide for payment of the judgment, registration of the judgment for inclusion in the budget of a subsequent fiscal year of the Republic is required for payment.
Indenture Trustee, Principal Paying Agent, Registrar and Transfer Agent	The Bank of New York Mellon
Luxembourg Transfer and Paying Agent	The Bank of New York Mellon (Luxembourg), S.A.

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

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

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

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:

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

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

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

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

The ratings of El Salvador may be lowered or withdrawn.

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

On January 26, 2016, Standard & Poor's indicated that its Ratings Direct research update affirmed El Salvador ratings of B+, with a stable outlook. Such report supplemented and affirmed sovereign ratings as communicated through Standard & Poor's press release on December 22, 2015. On October 13, 2016, Standard & Poor's Global Ratings lowered its long-term sovereign credit ratings on the Republic of El Salvador to 'B' from 'B+'. The ratings on El Salvador remained on CreditWatch with negative implications. On December 8, 2016, Standard & Poor's Global Ratings issued a Ratings Direct research update indicating it lowered its long-term foreign and local currency sovereign credit ratings on El Salvador to 'B-' from 'B'. At the same time, Standard & Poor's removed the ratings from CreditWatch with negative implications. The outlook is negative.

Since January 2014, the Republic of El Salvador has not had an agreement with Fitch Ratings Investors Service for their surveillance and rating of sovereign debt issues in the international markets. In order to save budgetary resources, only two rating agencies, Standard & Poor's and Moody's Investors Service, have been contracted for such purposes.

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

Remittances from Salvadorans living abroad, which are primarily in U.S. dollars, are one of the Republic's most important sources of foreign currency. See "Foreign Trade and Balance of Payments—Balance of Payments." Remittances totaled US$4,133.0 million in 2014 and US$4,270.0 million in 2015, representing 16.5% and 16.5% of GDP, respectively. In 2016 remittances increased to US$4,576.0 million, representing an increase of 7.2% compared to 2015. The current president of the United States, Donald J. Trump, announced as part of his campaign platform his intention to implement policies that could potentially reduce the inflow of remittances to El Salvador, including deportation of undocumented immigrants living in the United States, including immigrants from El Salvador, and a tax on outgoing remittances. The implementation of these and/or other similar policies could reduce the flow of remittances to El Salvador. A significant decrease in remittances could adversely affect our ability to make payments on our outstanding public debt, including the Notes.

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

El Salvador ranked 95 out of 176 countries in the Corruption Perceptions Index of 2016 produced by Transparency International. Currently there are several ongoing investigations against current and former Government officials. If the Government's policies fail to address corruption effectively, such failure could lead to political instability, impair El Salvador's international standing and adversely affect foreign investment.

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

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

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

Natural disasters and extreme weather conditions could adversely affect El Salvador and its financial condition
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El Salvador is located on the Pacific Coast of Central America, which may be affected by meteorological events and extreme weather conditions from time to time. The location of El Salvador often puts the country in the path of tropical storms, that sweep the region typically between the months of May and November, and have the potential to cause extensive physical and economic damage. Since 2009, El Salvador has suffered three major tropical cyclones. On November 6, 2009, Hurricane Ida produced mudslides, flooding and wind damage in thirteen departments of El Salvador. In May 2010, Hurricane Agatha caused further damage to the El Salvador's infrastructure and crops. In October 2011, tropical depression 12E dropped heavy rainfall across large portions of El Salvador. El Salvador is also located in a geographical area that has experienced earthquakes. Between 2011 and 2016, El Salvador experienced severe drought, which was exacerbated by the *El Niño* weather phenomenon during 2014 and 2015. During this period economic losses were estimated at approximately 0.3% of GDP.

Meteorological catastrophes, other extreme weather events and natural disasters could, among other things, limit access to, damage or destroy one or more of El Salvador's properties or parts of its infrastructure, including roads and bridges. Such conditions and/or events may also result in disruption to the local economy, and may cause labor, fuel and other resource shortages. For example, the Government estimated that storm systems referred in the previous paragraph caused approximately US$1,329.3 million, or 5.9% of GDP, in damages and losses in the affected areas and at least 244 fatalities. The impact of tropical depression 12E alone in the economy's production was estimated to be at 1% of GDP, which consequently affected the country's economic growth and meeting its fiscal goals. Furthermore, adverse weather conditions such as droughts, caused coffee exports to decrease in 2013, which declined to 2010 export levels.

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

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

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

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

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

El Salvador relies on multilateral lenders for financing certain projects and for budget support, including the IDB and the World Bank. In particular, El Salvador is budgeting support from both the IDB and the World Bank in 2017 to finance its fiscal deficit. Failure to comply with these undertakings may result in the suspension of disbursements under any future similar arrangements. Further, the inability of reaching an agreement with the IMF in the future could also adversely affect its ability to service its public debt.

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

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

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

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

Inability to reach an agreement and to pass regulation within the different political parties in El Salvador could have a material adverse effect on the economy.

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

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

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

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

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

Approximately 50% of public investment is financed with funds received as foreign aid and external cooperation. These funds are in most cases loans from multilateral lending institutions. In case of a reduction of such funding, public investment would be negatively affected, impacting the development of projects which would benefit the most vulnerable sectors of the population. Reduction of funding for these projects could negatively affect the performance of the economy and the ability of El Salvador to pay back its debts, including the Notes.

USE OF PROCEEDS

The cash proceeds from the issuance and sale of the Notes will be US$601,085,000 and pursuant to Legislative Decrees No. 388 and 534 (as published in the *Diario Oficial* on May 27, 2016 and November 11, 2016, respectively), will be used by the Republic as follows: US$307,000,000 to refinance short term debt; US$29,300,000 to cover FODES for the last quarter of 2016; US$75,000,000 for the repayment of a bridge loan; US$92,700,000 to cover pending payment obligations; US$46,000,000 to pay the subsidy for the consumption of electrical energy; and US$51,085,000 to be used for security.

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 8,127.37 square miles (21,040.79 square kilometers). El Salvador is bounded on the south by 210 miles of Pacific Ocean coastline, on the northwest by Guatemala and on the northeast and east by Honduras. In the north, the Sierra Madre mountains rise to over 9,000 feet above sea level. Throughout the country, there are 25 volcanoes, most of which are dormant. The most recent major volcanic eruption was in 1946. Minor volcanic eruptions occurred in 2005, 2013, 2014, 2015 and 2016.

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

In September 1992, the International Court of Justice resolved a border dispute between El Salvador and Honduras and awarded most of the disputed territories to Honduras. The border demarcation process, in which both parties were involved in accordance with the decision of the International Court of Justice, was completed in 2008. Currently, the governments of Honduras and El Salvador are in the final stage of the process, which is the bilateral approval of definitive maps of each country. As of January 2017, El Salvador has no disputes before public international courts.

Since 2009, El Salvador has suffered three major tropical cyclones. On November 6, 2009, Hurricane Ida produced mudslides, flooding and wind damage in thirteen departments of El Salvador. In May 2010, Hurricane Agatha caused further damage to the Republic's infrastructure and crops. In October 2011, tropical depression 12E dropped heavy rainfall across large portions of El Salvador. The Government estimated that these storm systems had caused approximately US$1,329.3 million, or 5.9% of GDP, in damages and losses to the affected areas, and at least 244 fatalities. The impact of tropical depression 12E alone in the economy's production was estimated to be at 1% of GDP, which consequently affected the achievement of the country's economic growth and fiscal goals.

The Government has contemplated the effects of these natural disasters in the five year development plan by including as one of its specific goals reversing environmental degradation and addressing the country's vulnerability to catastrophes. All environmental programs now include climate change adaptation measures. In addition, *Unidades de Adaptación al Cambio Climático* ("Climate Change Adaptation Units") have been created as key agencies of the central Government. In August 2012, the Ministry of Finance created the *Unidad de Riesgos Fiscales* ("Fiscal Risks Unit"), which is responsible for quantifying the short- and mid-term economic impact on public finances and planning contingencies related to natural disasters. The Fiscal Risks Unit began operations on June 2014. See "The Salvadoran Economy — Economic and Social Policies" for a description of the Government's five year development plan.

In May 2012, the Cabinet Council approved the *Política Nacional del Medio Ambiente* (the "National Environmental Policy"), to strengthen the environmental regulatory framework. The Ministry of Environment and Natural Resources is leading the *Evaluación Ambiental Estratégica* (the "Strategic Environmental Assessment") that will be used as the basis for public policies and plans in the context of El Salvador's sustainable development. In 2016, the *Gabinete de Sustentabilidad Ambiental y Vulnerabilidad* ("Environmental Council") invested US$65.9 million in the agricultural sector aimed at fighting climate change. The Government also invested US$4.6 million in a plan aimed at the preservation and efficient use of water resources.

The population of El Salvador was an estimated 6.5 million people in 2015, according to the *Dirección General de Estadística y Censos* (the "National Bureau of Statistics and Census"), a division of the Ministry of Economy. In 2015, approximately 62.4% of the population resided in urban areas and 37.6% resided in rural areas. In addition, more than 1.5 million Salvadorans are believed to be living and working outside of the country, principally in the United States. The IMF, in its 2016 Article IV consultation, has asserted that high emigration levels of Salvadorans is due in part to insecurity and fewer employment opportunities for young workers restraining investment and growth. In its report the IMF also asserted that while El Salvador is demographically stable, emigration of the young population could negatively impact economic growth, limit labor supply, contribute to macroeconomic instability and increase fiscal burdens in the future. 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 72.3% of the population is *mestizo* of mixed European and Indian descent. San Salvador, the capital and country's largest city, had a population of approximately 340,380 in 2015. The average annual population growth rate for the Republic is projected to be approximately 0.9% for the period between 2014 and 2018. Most of the population is Roman Catholic.

The following table sets forth information on per capita gross national income, 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)	$ 7,349	$ 4,457	$ 3,938	$ 6,929	$ 13,413	$ 18,192	$ 52,947
Average life expectancy(2)	73.0	74.9	73.1	71.8	79.4	77.6	79
Adult literacy rate(3)	85.5%	78.0%	85.4%	78.3%	97.4%	94.1%	
Mean years of schooling(4)	6.5	6.0	5.5	5.6	8.4	9.3	12
Expected years of schooling(4)	12.3	11.5	11.1	10.7	13.9	13.3	16

(1) Gross National Income in 2014, adjusted for 2011 purchasing power parity.
(2) In years, at 2014
(3) Percentage of persons ages 15 years and older. Data refer to the most recent year available during the 2005-2013 period.
(4) Data refer to 2014 or the most recent year available.

Source: *Human Development Report 2015, 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 century and the first quarter of the twentieth century, coffee cultivation on extensive plantations contributed to the establishment of a wealthy landholding minority. Social tensions came to a head in 1932, when an uprising of the landless peasantry led by the nascent Communist Party was quashed by General Maximiliano Hernández Martinez after the loss of 30,000 lives. From 1932 to 1979, El Salvador was governed by a succession of military leaders.

On October 15, 1979, a revolutionary *junta* composed of civilians and members of the military assumed control of the country. Early in 1980, the *Partido Demócrata Cristiano* ("PDC") joined the *junta* and imposed a program of economic reforms that included the nationalization of the banking system, agrarian reform aimed at the re-distribution of land ownership, and the granting of exclusive monopolies to state-owned entities for the international sale of coffee and sugar. In 1982, a popularly elected Constitutional Assembly began drafting a new constitution that became effective in 1983 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, triggering extensive emigration, displacing hundreds of thousands of persons within the country and causing widespread destruction to the country's infrastructure and economic development.

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

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

On January 16, 1992, after 12 years of conflict, the Government and the FMLN signed the Peace Accord in Mexico City. The Peace Accord: (i) established the specific requirements for ending the armed conflict, (ii) addressed certain root causes of the conflict by instituting commitments from the parties to follow democratic principles, and (iii) placed specific emphasis on the process of reconstruction as part of the economic and social development of the Republic. Since the signing of the Peace Accord, the Republic has implemented constitutional reforms as well as a series of initiatives designed to promote social, economic and democratic reforms establishing a lasting foundation for peace. In December 1996, as a result of the implementation of many of these initiatives, the General Assembly of the United Nations adopted a resolution to withdraw its on-site observers and continue the United Nations verification responsibilities through periodic visits. The General Assembly noted the commitment of the Republic and other parties to the full implementation of the Peace Accord. On January 6, 2003, the United Nations declared that the objectives of the Peace Accord had been completed, thus ending the United Nations peace verification process. In January 16, 2017, El Salvador commemorated 25 years of the signing of the Peace Accord.

Form of Government

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

Executive authority is vested in the president and vice president and 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 current president of El Salvador, Salvador Sánchez Cerén of FMLN, was elected on March 9, 2014. President Sánchez Cerén took office on June 1, 2014, succeeding President Carlos Mauricio Funes Cartagena. The next presidential election is scheduled to be held in February 2019.

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.

As of the last legislative election held in March 2015, the Legislative Assembly was composed as follows: ARENA 35 seats, FMLN 31 seats, GANA 11 seats, PCN 6 seats and PDC 1 seat. ARENA, holds the most seats in the Legislative Assembly and is the opposition party, FMLN is the party of the Government, and GANA PCN and PDC are generally aligned with the Government. The next congressional elections are scheduled to be held in March 2018. Since the 2015 elections, ARENA has used its majority in the Legislative Assembly to effectively block certain reforms and laws presented by the Government. The IMF, in its 2016 Article IV consultation has asserted that at the time the report was published, El Salvador was experiencing gridlock and political polarization that limited the ability to implement and enact reform. The report also asserted that the Government has worked to build consensus even reaching an agreement on the appropriation of funds for security.

El Salvador is administratively divided into 14 departments. In each department, executive power is exercised by a governor who is appointed by the President. Departments do not have their own legislative or judicial bodies, nor independent budgets. Departments are subdivided into 262 municipalities, each one with a mayor who exercises executive power. Mayors are elected by direct, universal suffrage for three-year terms. Municipal council elections were held at the same time and date as elections for the Legislative Assembly. ARENA won 130 municipalities, FMLN 86 municipalities, GANA and PCN 19 municipalities each. The remaining minority parties each won 8 municipalities in total.

The table below provides the composition of the Legislative Assembly and municipalities by political party as of January 2017.

Legislative Assembly
Composition by Political Party

Political Party	**Number of Members**	**Number of Mayors**
ARENA	35	130
FMLN	31	86
GANA	11	19
PCN	6	19
PDC	1	6
Cambio Democrático ("CD")	0	1
Partido Social Demócrata ("PSD")	0	1
Total	84	262

Source: *Ministerio de Hacienda*

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

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

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

Memberships in International Organizations

El Salvador is a member of the United Nations and the Organization of American States and many of their respective specialized agencies, as well as the International Monetary Fund ("IMF"), the World Bank, the WTO, the IADB, CABEI, among others.

Recent Developments in Foreign Relations

To date, El Salvador maintains diplomatic relations with 124 states, of which 121 states are member states of the United Nations.

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

The Northern Triangle, comprised of El Salvador, Guatemala and Honduras, have agreed to a five year initiative, the Partnership for Prosperity Plan of the Northern Triangle, as a response to the increased flow of unaccompanied minors from the Northern Triangle into the United States in 2014.

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

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

In February 2017, the Government received US$97.9 million of the US$750.0 million pledged by the Congress of the United States to the Northern Triangle countries in order to curb illegal migration into the United States. The funds will be used for the promotion of economic activities (US$29.3 million) and for the promotion of democracy and good governance initiatives (US$68.6 million).

THE SALVADORAN ECONOMY

Economic and Social Policies

Beginning in 2009, the administration of former President Funes implemented a series of measures to strengthen the Salvadoran economy in light of the global economic crisis. In an effort to counteract its effects, former President Funes and his administration developed the *Plan Global Anti-Crisis* ("Global Anti-Crisis Plan"), a program that sought to invigorate 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 low income families 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 national policies for economic and social development and maintaining macroeconomic stability, including fiscal reforms to strengthen public finances.

In May 2010, the Government published its five year development plan. The five year development plan contained the vision, priorities, objectives and goals of the Government for the medium and long-term periods and includes an outlook through 2014. Its main purpose was to help ensure consistency and coordination of Government action and to provide a strategic framework for productive socio-economic development. Under the Sánchez Cerén administration, a new five year development Plan for the period 2014-2019 was formulated, building on the work of the previous administration and focusing on creating employment with sustained growth, providing education with greater social integration and providing El Salvador's citizens with effective security from violence and crime.

Five Year Development Plan 2014-2019

The five year development plan 2014-2019 sets forth the objectives and strategies of the Government around three main priorities: (i) sustained economic growth, (ii) inclusive education, (iii) citizen safety and security.

In order to achieve its goals, the Government has proposed a fiscal policy that would provide for: (i) financing for an increased supply of adequate basic public services, (ii) improving efficiency in public expenditures, and (iii) increasing public spending in competitive markets in order to promote job creation. These policies aim to improve the public finances of the Republic and promote a sustainable and stable economy for the medium and long term.

Fiscal Agreement

A Framework Agreement for Fiscal Sustainability, Economic Development and Bolstering Financial Liquidity for El Salvador was signed on November 10, 2016 by the Government, FMLN and ARENA, and in consultation with the minority parties in the Legislative Assembly, in order to set an agenda to guarantee fiscal sustainability and inclusive growth, increase economic and social development and offer financial stability in the short, medium and long terms. The following actions are part of the Framework:

1. Authorization to issue debt securities of US$550.0 million in the local and/or international markets, with proceeds being used to refinance US$307.0 million of short term debt and to cover Government expenses of US$243.0 million carried over from fiscal year 2016. The expenses include transfer payments made by FODES, outstanding payments to suppliers and payment of subsidies. The Notes are being offered hereby in furtherance of this element of the Framework.

2. The enactment on November 10, 2016 of the Fiscal Responsibility Law. The purpose of the law is to promote policies that will guarantee fiscal sustainability of the public finances in the medium and long term which will contribute to the macroeconomic stability of the country through the enactment of regulations that: (i) establish limits on the deficit and public indebtedness, (ii) provide consistency of the budget with the goals established by the Fiscal Responsibility Law, (iii) guarantee budget allocation for social programs, and (iv) promote greater transparency and accountability. The law also provides for public finance consolidation measures to be implemented over the three years after its enactment requiring an adjustment of 3.0% of GDP through spending costs and increased revenues.

3. Continuation of the Fiscal Work Group, a group composed of government officials from multiple agencies (the "Fiscal Work Group") that is among other things, responsible for guaranteeing fiscal sustainability and for the implementation of the second installment of issuance and placement of US$650.0 million of debt securities in order to refinance short term debt. The Fiscal Work Group is responsible for several initiatives related to fiscal sustainability including: review of budgetary support loans, review of the law providing pensions for the armed forces, review of the wage mechanism that

provides for public service payroll increases, consideration of reforms to the law regulating the *Fideicomiso de Obligaciones Previsionales* for purposes of financing of the private pension system, review of the special budget for the *Tribunal Supremo Electoral* ("TSE") and compliance with the FAES and FMLN Veterans Law.

4. The Government is committed to formalizing an agreement with the International Monetary Fund to improve fiscal sustainability, compatible with the provisions of the Fiscal Responsibility Law and the Framework.

5. Incorporate into the 2017 budget any modifications due to the agreements adopted as a result of the work of the Fiscal Work Group. Modifications included US$4.0 million in funding for the FAES, US$1,000 for an initial pension plan for FAES and an increase to the health system of US$4.8 million.

The IMF has expressed its interest in continuing to provide assistance and collaboration in the design of fiscal measures and economic policies addressed at ensuring sustainable public policies, promoting economic growth, and improving investment conditions in the country. At the same time, the IMF has expressed its commitment in fostering dialogue and consensus between the Government and the opposition. The Republic and the IMF, continue to hold discussions regarding possible economic and financial programs supported by the IMF. El Salvador values the contributions and support of the IMF in the advancement of economic growth, reduction of poverty and facilitation of political consensus. The Government and the IMF are currently negotiating the form that the program may take.

The Government implemented a series of actions aimed at strengthening security, increasing productivity and investments and sustaining growth and employment. These include the Partnership for Growth entered into with the United States. The Partnership for Growth is a joint economic development program announced in March 2011 during former U.S. President Obama's visit to El Salvador and signed in November 2011. The program's goal is to identify key issues and barriers to economic growth and unify efforts of both governments to remove such barriers. During the first year, an interagency commission was established that identified two binding constraints to economic growth in El Salvador, namely (i) crime and security, in light of recent increases in criminal activity, particularly gang-related violence and (ii) low productivity in tradable goods. A joint action plan was prepared as a management tool to address these constraints, including 20 strategic goals, each of which has its own specific actions to be implemented by the governments of El Salvador and the United States.

The Sánchez Cerén administration continues to implement the development strategies initiated by the prior administration, including the following:

- the Partnership for Growth.
- the Public-Private Partnership Act, which was enacted in May 2013. The Act was amended in May 2014 so that public works may be pursued through private partnerships under the act. Additionally, all projects with private partnerships must be enacted by the Legislative Assembly.
- An amendment to the Domain Extinction Law of November 2013, which permits money and goods acquired in an illicit manner to be confiscated by the Government (i.e., civil forfeiture). It also establishes the procedure through which such assets are distributed.
- Legislative Decree No. 663 of April 9, 2014, which created the *Organismo Promotor de Exportaciones e Inversiones de El Salvador* (PROESA), an institution created to promote exports and investment in the country.

"El Salvador Seguro Plan"

The "*El Salvador Seguro Plan"* was presented on January 15, 2015 as a supplement to other initiatives, (such as the five year development plan, Fomilenio II and the Partnership for Prosperity of the Northern Triangle, among others.)

The main commitments of the *El Salvador Seguro Plan* are for the prevention of violence, territory control, and criminal prosecution. In addition, the plan will foster social rehabilitation and integration, increased support for victims of crime and strengthening of institutions.

The El Salvador Seguro Plan is being implemented in 26 municipalities and focuses its actions in 81 geographic sectors.

The components of the municipal plans are directed towards: control and recovery of territories, educational opportunities, rehabilitation of public spaces, opportunities for productive inclusion into society and public services for the families.

Other legislation enacted in the last few years include the following:

- The *Ley de Zonas Francas Industriales y de Comercialización* (Industrial Free Zone and Commercialization Act) which was amended in February 2013 to provide current and future stakeholders of the tax free zones with legal certainty and security to comply with WTO requirements, and to establish a competitive incentive system to attract investment in the tax free zone. The law provides for the regulation and the operation of tax-free zones. The law also provides enhanced benefits to businesses that install facilities outside the San Salvador metropolitan area so as to promote investment activity in areas of the country and to promote development of the nation as a whole.

- The *Reforma a la Ley de Servicios Internacionales* (Reform to International Services Act) was enacted by the Legislative Assembly in February 2013, extending the scope of some public services and establishing new services such as hospital and medical services, call centers, repair and maintenance of maritime vessels, among others, with the goal of increasing investment in the service sector.

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

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

- The *Ley de Fondos de Inversión* (Investment Funds Law) was enacted in August 2014, which permits the establishment of investment funds in El Salvador and marketing of funds created abroad, increasing investment options and encouraging investment by retail and institutional investors in the local market. Additionally, the law provides for a supervisory framework for investment funds, their participants, their administrative entities and other relevant participants.

- The *Ley de Estabilidad Juridica para las Inversiones* (Law of Judicial Stability for Investments) was enacted in December 2014 to attract and promote national and foreign investment through a legal framework that provides fiscal stability to foreign investors upon entering into judicial stability agreements for investments that contribute to the economic and social development of the country, the growth of strategic sectors, the efficient integration of the national and international economy, or generate employment.

- Reforms to the *Ley del Mercado de Valores* (Stock Exchange Law) enacted on October 2014 to improve the functioning of country's capital markets.

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

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

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

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

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

Gross Domestic Product

As measured by real GDP growth, economic growth in El Salvador averaged 2.0% per year from 2011-2015. Total consumption increased in real terms by an average of 1.9% per year for the same period, mainly due to a 1.8% increase in private consumption and a 2.9% increase in public consumption from 2011 to 2015.

Real GDP increased by 2.2% in 2011, driven mainly by growth of 13.8% in fixed capital formation and 2.5% in total consumption. The rate of growth in consumption increased in 2011 by 0.3%, compared to 2.2% in 2010. Increased consumption in 2011 was due to higher growth in imports of goods and services of 10.8%, compared to 10.4% in 2010.

For 2012, real GDP increased by 1.9% driven mainly by an increase of 2.4% in consumption and a 1.4% decrease in fixed capital formation. This deceleration in GDP growth was mainly driven by weaker external demand, which led to a contraction of exports by 7.3%.

Real GDP increased by 1.9% in 2013 as result of a recovery in fixed capital formation, which registered a growth rate of 9.3%. Consumption increased by 1.0% and exports expanded by 4.8%.

In 2014, real GDP increased by 1.4% as public and private investment contracted by 13.3% and 5.4%, respectively, public consumption decreased by 0.4% and exports of goods and services decreased by 1.0%.

In 2015, real GDP increased by 2.5% as public consumption and investment increased by 4.7% and 7.6%, respectively, and private investment and exports of goods and services increased by 8.1% and 2.4%, respectively.

In the three-month periods ended September 30, 2015 and 2016, real GDP registered growth rates of 2.7% and 2.5%, respectively, as a result of higher growth rates in agriculture, livestock and fishing, trade, restaurant and hotels and the community, social, personal and domestic services, construction and manufacturing activities. During the first nine months of 2016, real GDP grew 2.4% compared to the same period in 2015.

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,				
	2011	**2012**	**2013[(1)]**	**2014[(1)]**	**2015[(1)]**
	(in millions of US dollars, unless percentages)[(2)]				
Real GDP	$9,277.2	$9,451.7	$9,626.3	$9,763.5	$10,003.2
Real GDP growth[(2)]	2.2%	1.9%	1.9%	1.4%	2.5%
Real GDP growth by sector:					
Real estate and business services[(3)]	2.7%	2.8%	3.3%	3.5%	3.7%
Manufacturing	2.7%	1.3%	3.1%	1.6%	3.4%
Transportation, storage and communications	4.6%	1.6%	1.8%	0.9%	3.3%
Trade, restaurants and hotels	2.3%	2.6%	1.5%	2.4%	2.8%
Community, social, personal, and domestic services[(4)]	1.6%	2.4%	3.0%	3.7%	2.3%
Mining	13.7%	2.8%	1.3%	(1.6)%	2.3%
Government services[(5)]	5.1%	2.6%	3.3%	1.8%	1.5%
Construction	8.9%	0.3%	(0.1)%	(10.7)%	1.5%
Finance and insurance	3.0%	(2.8)%	4.5%	3.4%	1.0%
Residential leasing	0.9%	0.5%	0.8%	0.9%	0.9%
Agriculture, livestock and fishing	(2.5)%	3.5%	(0.5)%	1.3%	0.8%
Electricity, gas and water	0.4%	0.9%	1.0%	2.3%	0.3%

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

(3) Includes leasing and use of non-residential real estate and professional, legal, accounting and similar services.
(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 wages and fringe benefits paid by the Government to its employees.

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

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

Real GDP by Expenditure

	For the Year Ended December 31,				
	2011	**2012**	**2013[1]**	**2014[1]**	**2015[1]**
Consumption	(in millions of US dollars)				
Public Sector Consumption	$755.1	$773.8	$802.8	$799.5	$837.0
Private Consumption	8,694.1	8,902.2	8,968.1	9,127.6	9,285.2
Total Consumption	**9,449.2**	**9,676.0**	**9,770.9**	**9,927.1**	**10,122.2**
Gross Investment					
Public Sector	220.0	219.3	225.2	195.4	210.2
Private Sector	1,409.3	1,386.9	1,529.6	1,447.0	1,563.5
Fixed Capital Formation	1,629.4	1,606.2	1,754.9	1,642.4	1,773.7
Total Gross Investment	**1,629.4**	**1,606.2**	**1,754.9**	**1,642.4**	**1,773.7**
Exports of goods and services	4,102.6	3,801.8	3,985.3	3,947.5	4,042.4
Imports of goods and services	5,903.9	5,632.2	5,884.8	5,753.5	5,935.0
Net Exports	**(1,801.3)**	**(1,830.4)**	**(1,899.5)**	**(1,806.0)**	**(1,892.7)**
Real GDP	**$9,277.2**	**$9,451.7**	**$9,626.3**	**$9,763.5**	**$10,003.2**

(1) Preliminary

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

The following table sets forth El Salvador's real GDP growth rates by expenditure for the periods presented.

Real GDP Growth by Expenditure

	Consumption For the Year Ended December 31,				
	2011	**2012**	**2013[1]**	**2014[1]**	**2015[1]**
Consumption	(percent change, based on constant 1990 prices)				
Public Sector Consumption	3.9%	2.5%	3.8%	(0.4)%	4.7%
Private Consumption	2.4%	2.4%	0.7%	1.8%	1.7%
Total Consumption	2.5%	2.4%	1.0%	1.6%	2.0%
Gross Investment					
Public Sector	3.4%	(0.3)%	2.7%	(13.3)%	7.6%
Private Sector	15.6%	(1.6)%	10.3%	(5.4)%	8.1%
Fixed Capital Formation	13.8%	(1.4)%	9.3%	(6.4)%	8.0%
Exports of goods and services	9.3%	(7.3)%	4.8%	(1.0)%	2.4%
Imports of goods and services	10.8%	(4.6)%	4.5%	(2.2)%	3.2%
Real GDP	**2.2%**	**1.9%**	**1.9%**	1.4%	2.5%

(1) Preliminary

Source: Banco Central de Reserva de El Salvador.

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,

	2011	% of GDP	2012	% of GDP	2013[1]	% of GDP[1]	2014[1]	% of GDP[1]	2015[1]	% of GDP
	(in thousands of millions of US dollars, except percentages)									
Trade, restaurants and hotels	$ 4.6	19.9%	$ 4.8	20.2%	$ 4.9	20.3%	$ 5.1	20.5%	$ 5.3	20.4%
Manufacturing................................	$ 4.3	18.5%	$ 4.4	18.5%	$ 4.6	18.8%	$ 4.7	18.8%	$ 5.0	19.2%
Agriculture, livestock and fishing ...	$ 2.7	11.5%	$ 2.6	10.9%	$ 2.4	10.1%	$ 2.6	10.3%	$ 2.7	10.3%
Government services	$ 1.9	8.0%	$ 1.9	8.1%	$ 2.0	8.4%	$ 2.2	8.6%	$ 2.2	8.7%
Transportation, storage and communications	$ 1.8	7.8%	$ 1.9	7.9%	$ 1.9	7.9%	$ 1.9	7.7%	$ 2.0	7.8%
Community, social, personal, and domestic services	$ 1.8	7.9%	$ 1.9	7.9%	$ 2.0	8.1%	$ 2.1	8.3%	$ 2.1	8.2%
Residential leasing	$ 1.5	6.5%	$ 1.5	6.4%	$ 1.5	6.3%	$ 1.6	6.3%	$ 1.6	6.1%
Finance and insurance	$ 1.1	4.6%	$ 1.0	4.4%	$ 1.1	4.5%	$ 1.1	4.6%	$ 1.2	4.5%
Real estate and business services ...	$ 1.0	4.4%	$ 1.1	4.5%	$ 1.1	4.6%	$ 1.2	4.6%	$ 1.2	4.7%
Construction	$ 0.9	3.9%	$ 0.9	3.9%	$ 0.9	3.9%	$ 0.8	3.4%	$ 0.8	3.2%
Electricity, gas and water	$ 0.5	2.1%	$ 0.5	2.2%	$ 0.5	2.1%	$ 0.5	2.1%	$ 0.5	2.0%
Mining..	$ 0.1	0.3%	$ 0.1	0.3%	$ 0.1	0.3%	$ 0.1	0.3%	$ 0.1	0.3%
Plus: tariffs and value added tax......	$ 2.0	8.4%	$2.0	8.5%	$ 2.1	8.6%	$ 2.1	8.3%	$ 2.1	8.3%
Less: imputed financial services[2]..	$ 0.9	(3.8)%	$(0.9)	(3.7)%	$ 0.9	(3.8)%	$ 0.9	(3.8)%	$ 1.0	(3.7)%
Total nominal GDP.......................	**$ 23.1**	**100.0%**	**$ 23.8**	**100.0%**	**$ 24.4**	**100.0%**	**$ 25.1**	**100.0%**	**$ 25.9**	**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.*

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

Principal Manufacturing Sectors

For the Year Ended December 31, (in millions of US dollars)

	2011	**2012**	**2013[1]**	**2014[1]**	**2015[1]**
Chemicals	$ 212.4	$ 217.3	$ 225.4	$ 237.5	$ 247.2
Baked goods	$ 203.5	$ 209.1	$ 216.4	$ 222.8	$ 228.3
Sugar	$ 153.0	$ 175.9	$ 187.6	$ 189.2	$ 192.2
Maquila (assembly for re-export)	$ 200.4	$ 188.4	$ 192.2	$ 172.8	$ 192.2
Other processed foods	$ 164.6	$ 167.4	$ 175.4	$ 182.5	$ 190.3
Beverages	$ 185.9	$ 188.9	$ 193.4	$ 183.3	$ 184.8
Textiles	$ 122.0	$ 125.3	$ 130.1	$ 142.2	$ 146.4
Printing and related industries	$ 122.1	$ 124.7	$ 128.5	$ 130.2	$ 131.6
Metallic mineral products	$ 102.9	$ 100.0	$ 105.6	$ 106.5	$ 108.5
Leather and related products	$ 82.5	$ 83.8	$ 88.2	$ 93.3	$ 94.7
Non-metallic mineral products	$ 80.5	$ 81.6	$ 87.7	$ 90.4	$ 92.9
Transport supplies and diverse manufacturing products	$ 76.1	$ 77.7	$ 79.4	$ 84.7	$ 89.6
Paper and cardboard	$ 72.2	$ 73.7	$ 76.8	$ 78.0	$ 81.6
Milk products	$ 59.0	$ 58.5	$ 60.5	$ 62.6	$ 64.6
Plastic products	$ 55.4	$ 57.0	$ 59.3	$ 62.1	$ 62.7
Machinery and equipment	$ 57.7	$ 59.0	$ 59.6	$ 60.6	$ 62.7
Apparel	$ 39.1	$ 40.4	$ 42.4	$ 45.8	$ 47.0
Refined oil products	$ 74.1	$ 62.3	$ 43.6	$ 38.5	$ 42.7
Meat packaging and related products	$ 35.7	$ 35.2	$ 37.6	$ 40.0	$ 41.1
Lumber and related products	$ 23.8	$ 23.8	$ 26.8	$ 28.3	$ 28.1
Other	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4
Total	**$2,123.3**	**$2,150.2**	**$2,217.0**	**$2,251.7**	**$2,329.3**

(1) Preliminary
(2) In constant 1990 prices

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 the manufacturing sector, which totaled US$5.0 billion and accounted for 19.2% of nominal GDP in 2015. The manufacturing sector has generated on average 18.8% of the country's nominal GDP annually during the period 2011 to 2015 and increased at an average annual rate of 2.4% during the same period in real terms. However, a considerable portion of the manufacturing sector remains linked to agriculture, livestock and fishing as it consists of food processing.

The trade, restaurants and hotels sector has been an increasingly significant factor in El Salvador's growth in recent years. In 2015 the trade, restaurants and hotels sector contributed US$5.3 billion to nominal GDP and accounted for 20.4% of El Salvador's nominal GDP, compared to approximately US$4.6 billion, or approximately 19.9% in 2011. The sector expanded from 2011 to 2015 at a 2.3% annual average growth rate. Real GDP growth for trade, restaurants and hotels sector increased by 2.3%, 2.6%, 1.5%, 2.4%

and 2.8% in 2011, 2012, 2013, 2014 and 2015, respectively.

In 2015, the agricultural, livestock and fishing sector represented 10.3% of the country's nominal GDP, compared to 11.5% in 2011. In 2013, this sector decreased by 0.5% as a result of reduced coffee production and lower international coffee prices. In 2014, the sector increased by 1.3% driven by expansion in production of poultry and other agricultural products, and in 2015 the sector increased by 0.8% as a result of increase in poultry and other agricultural products. In 2014 and 2015, the agricultural sector registered reduced coffee, sugar cane and basic grains production as well as lower international coffee prices. See "—Agriculture, Livestock and Fishing".

Trade, Restaurants and Hotels

The trade, restaurants and hotels sector contributed US$5.3 billion of nominal GDP in 2015 and accounted for an average of 20.3% of El Salvador's nominal GDP from 2011 to 2015. The trade, restaurants and hotels sector grew by 2.3%, 2.6%, 1.5% 2.4% and 2.8% in real terms in 2011, 2012, 2013, 2014 and 2015, respectively. During the 2011-2015 period, the growth in this sector was attributed to an increase in both trade and in the restaurant and hotel activities.

During the three-month period ended September 30, 2016, the trade, restaurants and hotels sector increased 2.8% compared to 3.0% for the same period in 2015.

Manufacturing

Manufacturing is a key sector of the Salvadoran economy. From 2011 to 2015, the manufacturing sector has generated an annual average of 18.8% of El Salvador's nominal GDP. During 2012 and 2013 the manufacturing activity experienced annual growth rates of 1.3% and 3.1%, respectively, driven mainly by growth in activities related to food, minerals and chemical products. In 2014 and 2015, this sector grew at annual rates of 1.6% and 3.4%, respectively.

Maquila is one of the most important subsectors in the manufacturing sector, representing 8.2% of the total in 2015, or US$192.2 million in real terms. Maquila contracted 1.9% in 2011, primarily due to the reduction of external demand, particularly from the United States. In 2012, *maquila* production decreased by 6.0%. In 2013, *maquila* production grew by 2.1% as the U.S. economy recovered at a faster pace in the second half of 2013 and sales of *maquila* exports improved. In 2014, this subsector decreased by 10.1% due to lower global demand. In 2015 the subsector grew by 11.1% mainly due to a recovery in demand and a faster growth pace of the U.S. economy.

Other important manufacturing subsectors include chemicals, baked goods, sugar, beverages and textiles, representing 10.6%, 9.8%, 8.3%, 7.9% and 6.3% of manufacturing in 2015 in real terms.

During the three-month period ended September 30, 2016, the manufacturing sector increased 2.3%, compared to 3.7% for the same period in 2015.

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. See "Foreign Trade and Balance of Payments — Composition of Foreign Trade". According to the Ministry of Economy, as of September 2016, there were a total of 220 companies that benefitted from the free trade zones law, of which 120 were located in free trade zones, with the remaining 100 operating outside the free trade zones boundaries. Out of the 220 beneficiaries, 161 produce apparel and linens, 77 of them are *maquila* plants.

Agriculture, Livestock and Fishing

The agriculture, livestock and fishing sector accounted for US$2.7 billion in nominal GDP in 2015 and accounted for an average of 10.6% of El Salvador's nominal GDP from 2011 to 2015. This sector has grown at irregular rates during the past five years, recording growth of 3.5%, 1.3% and 0.8% in 2012, 2014 and 2015, respectively, and contracting by 2.5% and 0.5% in 2011 and 2013, respectively. The decrease in 2013 was mainly due to a 37.7% decline in coffee production. During the three-month period ended September 30, 2016, the agriculture, livestock and fishing sector increased by 5.0%, compared to a 0.5% increase during the same period in 2015.

In 2011, the agriculture, livestock and fishing sector contracted by 2.5% due to reduced production of coffee and vegetables and the loss of livestock due to storm 12E. Sugar cane production in 2012 and 2013 increased by 16.2% and 7.6%, respectively, reflecting growth in sugar exports of 25.8% and 14.0%, respectively. In 2014 and 2015 sugar cane production contracted by 0.3% and 3.7% and sugar exports contracted by 6.8% and grew by 0.9%, respectively. The area devoted to sugar cane cultivation during the 2015/2016 harvest season amounted to 81,224 hectares.

Coffee is the Republic's principal agricultural export and is an important source of employment in El Salvador. The coffee industry generated approximately 81,210 jobs during the 2011/2012 harvest, 86,500 jobs during the 2012/2013 harvest, 35,001 jobs during the 2013/2014 harvest, 46,258 jobs during the 2014/2015 harvest and 39,237 jobs during the 2015/2016 harvest. The most recent decrease in jobs was due to decreased production caused by drought and rust disease.

In 2011, coffee accounted for 77.7% of agricultural exports and 8.7% of total exports of goods, respectively. Due to a decline in international coffee prices, coffee rust (a coffee plant disease) and drought, coffee production and exports reduced their share in the sector and in total exports in 2012, 2013, 2014 and 2015. Coffee production decreased 12.3% in 2012, 37.7% in 2013, 18.2% in 2014 and 3.5% in 2015. For 2012, 2013, 2014 and 2015, coffee exports accounted for 64.2%, 55.0%, 38.3% and 45.4% of agricultural exports and 5.6%, 4.3%, 2.1% and 2.7% of total exports, respectively. As of January 2017, there were approximately 135,138 hectares devoted to the cultivation of coffee, representing approximately 6.4% of the country's land.

Except for coffee, which is mainly export-oriented, most agricultural production is for domestic consumption. El Salvador generally allows the importation of most agricultural products that meet established health standards, with the exception of poultry products that have been, and currently are, subject to certain heightened health controls related to avian influenza.

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,				
	2011	**2012**	**2013[1]**	**2014[1]**	**2015[1]**
	(in millions of US dollars)[2]				
Basic grains	$ 196.4	$ 245.6	$ 256.5	$ 246.8	$ 241.1
Other agricultural ...	$ 274.8	$ 276.2	$ 281.7	$ 299.3	$ 306.7
Livestock	$ 219.0	$ 221.2	$ 226.7	$ 233.6	$ 234.9
Poultry	$ 157.4	$ 159.1	$ 165.9	$ 175.7	$ 184.4
Coffee	$ 128.5	$ 112.7	$ 70.2	$ 57.4	$ 55.4
Forestry	$ 72.9	$ 64.1	$ 66.7	$ 70.5	$ 72.6
Sugar cane	$ 56.7	$ 65.9	$ 70.9	$ 70.8	$ 68.1
Fishing	$ 31.1	$ 31.4	$ 32.3	$ 32.3	$ 32.3
Cotton	$ 0.1	$ 0.2	$ 0.2	$ 0.1	$ 0.1
Total	**$1,136.9**	**$1,176.2**	**$1,171.0**	**$1,186.4**	**$1,195.6**

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

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

Government Services

The government services sector contributed US$2.2 billion of nominal GDP in 2015 and accounted for an average 8.4% of El Salvador's nominal GDP from 2011 to 2015.

In 2011 the government services sector grew by 5.1%, due to increased expenditures in the education, health, security and justice sectors. In 2012 and 2013, the government services sector increased by 2.6% and 3.3%, respectively. In 2014 and 2015 this sector grew by 1.8% and 1.5%, respectively. For the last two years, growth was relatively lower because in 2011, activity had expanded due to increased levels of public sector hiring and due to higher goods and services expenditures related to public sector employment while in 2014 and 2015 consumption expenditures grew 3.6% and 2.9%, respectively. During the three-month period ended September 30, 2016, the government services sector increased by 1.4%, a slower rate of growth compared to the 1.7% for the same period in 2015, due to a 0.3% decrease in goods and services expenditures, wages and salaries.

Transportation, Storage and Communications

The transportation, storage and communications sector accounted for US$2.0 billion of nominal GDP in 2015 and accounted for an average of 7.8% of El Salvador's nominal GDP from 2011 to 2015.

In 2011, the transportation, storage and communications sector grew by 4.6% mainly due to growth of 8.8% in the communications subsector. In 2012 and 2013, the transportation, storage and communications sector grew by 1.6% and 1.8%, respectively, driven mainly by transportation and storage activities, while growth in the communications subsector slowed. In 2014 and 2015, this sector grew by 0.9 % and 3.3 %, respectively, mainly due to growth in passenger air transportation of 0.5% and 10.3% in 2014 and 2015, respectively. In 2015 this sector grew due to an increase in the transportation of cargo of 8.6%.

During the three-month period ended September 30, 2016, the transportation, storage and communications sector increased 1.6% compared to 4.8% for the same period in 2015. The reduced growth rate is principally due to the decrease of 3.1% in exports and of cargo air transportation of 5.8% during the three-month period ended September 30, 2016, compared to the same period in 2015.

As of January 2017, there are 9 fixed line telecommunications companies, five mobile telecommunications companies, and five international long distance companies authorized to operate in El Salvador.

As of January 2017, El Salvador has approximately 3,701.8 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 with Honduras in the east, and the Carretera Litoral (coastal road), 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 de Acajutla, a cargo seaport located west of San Salvador, and a second major seaport at La Unión, located east of San Salvador. The *Comisión Ejecutiva Portuaria Autónoma* ("Autonomous Executive Ports Commission" or "CEPA") administers these ports and the international airport. The Government has contracted with private companies owned by former port facility employees for loading and unloading services at port facilities. 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 world maritime trade.

The El Salvador International Airport, *Monseñor Oscar Arnulfo Romero y Galdámez International Airport*, is located 50 kilometers south of San Salvador. As of January 2017, 16 different international carriers fly to El Salvador International Airport. Before 2009, the main air carrier operating in El Salvador was TACA, which merged with Avianca Airlines from Colombia in 2009 and now operates as Avianca, one of the leading air carriers in the region.

CEPA began a modernization project for El Salvador International Airport in 2013, which is expected to be completed in 2032 at an estimated cost of US$490 million. The work will begin with two transitional projects, followed by four phases comprising the master plan. The first transitional project is an increase in parking capacity for aircraft, which will expand the current capacity from a maximum of 18 aircraft to 22 aircraft. This aircraft parking project began in November 2014 and was completed on December 2016 at an estimated cost of US$6.9 million, increasing the capacity of passengers to 2.1 million from 1.6 million a year. The second transitional project is the construction of new passenger lounges, from 15 lounges to 20 lounges. This project commenced in September 2014 and was completed in March 2015, at a cost of US$1.9 million. As of December 2016, total disbursements for the modernization project totaled US$70.4 million. The modernization project plans to disburse US$30.0 million and US$3.1 million in 2017 and 2018 respectively.

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

Community, Social, Personal, and Domestic Services

The community, social, personal, and domestic services sector accounted for US$2.1 billion of nominal GDP, 2015 and represented an average of 8.1% of the country's nominal GDP from 2011 to 2015. This sector recorded an average real growth of 2.6% from 2011 to 2015. In 2011, 2012, 2013, 2014 and 2015, the community, social, personal and domestic services sector grew by 1.6%, 2.4%, 3.0%, 3.7% and 2.3%, respectively. In 2015, the community, social, personal and domestic services sector registered lower growth compared to 2014 mainly due to a higher growth of the community, social and personal services sector in 2014 which were due to a higher amount of private consumption related to higher growth of remittances in 2014 compared to growth in 2015.

During the three-month period ended September 30, 2016, the community, social, personal and domestic services sector increased 3.2% compared to 2.5% for the same period in 2015.

Finance and Insurance

The finance and insurance sector accounted for US$1.2 billion of nominal GDP in 2015 and represented an average 4.5% of the country's nominal GDP from 2011 to 2015. The finance and insurance sector grew by 3.0% in 2011 as a consequence of the economic recovery from the global economic crisis, partially offset in 2011 by lower active interest rates and reduced total assets of the banking sector. In 2012, the finance and insurance sector contracted by 2.8% as a result of lower economic activity in private investment, exports and imports of goods and services and construction sectors. In 2013, the finance and insurance sector grew by 4.5% as a result of recovery in economic activity. In 2014 and 2015, this sector grew by 3.4% and 1.0%, respectively, as the economic recovery moderated it pace during these years.

During the three-month period ended September 30, 2016, the finance and insurance services sector increased 1.2%, compared to 0.8% for the same period in 2015.

Construction

The construction sector accounted for US$0.8 billion of nominal GDP in 2015 and represented an average of 3.6% of the country's nominal GDP from 2011 to 2015. In 2011, construction activity grew by 8.9% mainly due to increased public investment in infrastructure and private investment in housing projects and hotels. In 2012 and 2013, the construction sector grew by 0.3% in 2012 and contracted by 0.1% in 2013 due to a reduction in private investment. In 2014 this sector decreased by 10.7% as private investment continued decreasing and in 2015 the construction sector recovered pace and grew by 1.5%.

During the three-month period ended September 30, 2016, the construction sector increased by 2.5%, a lower rate, compared to the 4.6% increase during the same period in 2015. This sector has recovered growth since the third quarter of 2015.

Electricity, Water and Gas Sector

The electricity, water and gas sector contributed US$0.5 billion of nominal GDP in 2015 and represented an average of 2.1% of nominal GDP from 2011 to 2015. In 2011, the sector grew slightly by 0.4% as a result of the slow economic recovery. For 2012 and 2013, the sector increased its growth to 0.9% and 1.0% as the manufacturing and trade, restaurant and hotel sectors maintained their annual growth. In 2014 , the sector grew by 2.3% as trade, restaurant and hotel and community, social, personal and domestic services sectors increased their growth rates. In 2015, the sector grew by 0.3% as trade, restaurant and hotel, manufacturing and transportation, storage and communications sectors increased their growth rates.

During the three-month period ended September 30, 2016, the electricity, gas and water sector increased 0.3%, the same rate registered for the same period in 2015.

At December 2015, El Salvador had an installed capacity for generating electric power of 1,659.6 MW. Of total capacity, 472.6 MW is generated from hydroelectric energy, 204.4 MW from geothermal energy, 756.6 MW from thermal energy, and the rest coming from sugar and biomass equaling 226.0 MW. El Salvador has the highest geothermal energy production in Central America. The greatest proportion of capacity to generate electricity is owned by private sector companies. The installed capacity to generate electricity has doubled in the last 20 years.

As of January 2017, 18 companies participate in the wholesale market as energy generators, including *Comisión Ejecutiva Hidroeléctrica del Río Lempa* (Executive Commission of Lempa River -"CEL"), La GEO, Duke Energy International, Nejapa Power Company, among others. In addition, there are five companies, including CAESS, DELSUR, AES-CLESA, DEUSEM and EEO, engaged in the energy distribution sector.

On February 7, 2017, President Sánchez Cerén granted 147 permits for the construction of a clean water infrastructure for new construction developments. The permits are expected to attract investment in the amount of US$1.2 billion during the next three years, and create 136,000 direct and indirect jobs.

Employment and Wages

The unemployment rate increased from 6.6% in 2011 to 7.0% in 2015. In 2012 and 2013, the unemployment rate decreased to 6.1% and 5.9% as a result of slow economic recovery. The unemployment rate increased to 7.0% in 2014 and 2015 due to slow growth of investment and exports in these years.

Based on the number of contributors from the private sector registered by *Instituto Salvadoreño del Seguro Social* (the "Salvadoran Social Security Institute") the economic sectors with greatest job creation during the period from 2011 to 2015 were finance and insurance, real estate, and business services (36,019 jobs) and trade, restaurants, and hotels (15,475 jobs). The economic sector that registered job losses during the period from 2011 to 2015 was mining (22 jobs). In 2015, employment increased by 10,102 jobs, driven mainly by manufacturing (4,564 jobs) and finance and insurance, real estate, and business services sector (3,700 jobs).

El Salvador's labor law sets a daily minimum wage. A council composed of representatives from the Government, the private sector and labor organizations sets minimum wages. Minimum wages for each major sector of the economy are set taking into account the evolution of real wages and 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 form unions. In 2009, the Legislative Assembly ratified a constitutional amendment providing public employees with labor union rights and the right to strike under certain circumstances in an effort to promote worker's rights and in order to comply with International Labor Organization conventions previously ratified by the Republic.

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)		
2011(3)........	$3.50	$6.25	$7.31	$7.47	$8.79
2012	3.50	6.25	7.31	7.47	9.05
2013(4).......	3.64	6.50	7.60	7.77	10.62
2014(4).......	3.79	6.76	7.90	8.08	10.62
2015(4)........	3.94	7.03	8.22	8.39	10.94
2016…….	3.94	7.03	8.22	8.39	11.25
2017(5).......	6.67	9.84	10.00	10.00	11.25

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

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

(3) Official Gazette of El Salvador Executive Decree Numbers 54 and 56 (06/05/2011).

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

(5) Wages effective January 1, 2017. For the construction sector, wages are still to be negotiated between firms and unions.

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 2013, the number of households living below the poverty line decreased 28.5%. As of December 31, 2015, 32.6% of households in urban areas and 38.8% of households in rural areas lived below the poverty line. The percentage of households living in extreme poverty decreased to 8.1% in 2015 from 21.9% in 1996. In 2014 overall poverty levels declined to 31.8% compared to the 37.8% in 2009 as a result of recovery from the global economic crisis and new social policies supporting the incomes of vulnerable populations.

In March 2005, former President Elías Antonio Saca created the *Red Solidaria* ("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 16-year old children to pre-school and primary school. The program began by covering 15 of the poorest municipalities and increased in 2006 to cover all 32 municipalities classified on the National Poverty Map as experiencing severe extreme poverty (FLACSO- FISDL 2005). In 2007, 15 municipalities classified as experiencing high extreme poverty were added to the program, for a combined total of 47 covered municipalities. The program was renamed *Comunidades Solidarias* as of December 31, 2016 and covers 100 municipalities.

Beginning June 2009, the Government extended the program to cover urban areas, creating *Comunidades Solidarias Urbanas*, which also strengthened benefits and introduced new ones, such as basic pensions for elderly people, nutrition and health programs, employment stability programs, temporary income protection and urban slum improvement. As of December 31, 2016, this program covered 50 urban municipalities.

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[(1)]			**Relative poverty**[(2)]			**Total poverty**		
	Urban	**Rural**	**Total**	**Urban**	**Rural**	**Total**	**Urban**	**Rural**	**Total**
2011......	8.9%	18.4%	12.2%	26.5%	31.7%	28.3%	35.4%	50.2%	40.5%
2012......	6.5%	13.6%	8.9%	23.4%	29.8%	25.6%	29.9%	43.3%	34.5%
2013.....	5.7%	9.8%	7.1%	20.5%	26.2%	22.5%	26.2%	36.0%	29.6%
2014......	5.7%	10.9%	7.6%	22.8%	27.0%	24.3%	28.5%	37.9%	31.8%
2015......	7.0%	10.1%	8.1%	25.7%	28.7%	26.8%	32.6%	38.8%	34.8%

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

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 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 750 health facilities across the country.

The social security system is financed by a combination of contributions from workers and employers. Since January 1, 2003, all employees, except for teachers in the public sector and self-employed individuals, contribute 3.0% of their salary and employers contribute 7.5% of their total payroll for accident, illness, maternity and disability benefits. Teachers in the public sector contribute the same percentage to the *Instituto Salvadoreño de Bienestar Magisterial* (the "National Education Professionals Social Security"), created in 2007, for the same benefits provided by the Salvadoran Social Security Institute. As of January 2017, for retirement and death benefits, private sector employees contribute 6.25% of their salary and employers contribute 6.75% of their total payroll to the Salvadoran Social Security Institute. Public sector employees contribute 6.25% of their salary and their employers contribute 6.75% of their total payroll to the National Public Pension Institute.

The following table sets forth the number and 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.

Contributing Workers by Private Sector

	As of December 31,									
	2011		2012		2013		2014		2015	
	Number	%	Number	%	Number	%	Number	%	Number	%
Manufacturing…………………..…………	161,752	28.3	161,190	27.4	168,037	27.3	169,744	26.9	174,308	27.2
Trade, restaurants and hotels…..…………	138,671	24.3	142,883	24.3	149,022	24.2	153,535	24.4	154146	24.1
Finance and insurance, real estate and business services……………….…………	120,271	21.1	124,260	21.1	141,234	22.9	152,590	24.2	156,290	24.4
Community, social and personal services…..	69,497	12.2	74,931	12.8	72,139	11.7	69465	11.0	69,766	10.9
Construction…………………..…………	24,040	4.2	24489	4.2	24,770	4.0	23,419	3.7	24,358	3.8
Transportation, storage and communication…………………………...	37,241	6.5	39,871	6.8	39,800	6.5	39,969	6.3	39,947	6.2
Agriculture, livestock and fishing[1] …….	13,297	2.3	13,188	2.2	13,378	2.2	13,796	2.2	13,702	2.1
Electricity, gas and water…………………	4,846	0.8	4,882	0.8	5,146	0.8	5,446	0.9	5,649	0.9
Mining……………………………………	667	0.1	662	0.1	692	0.1	689	0.1	645	0.1
Domestic services………………………...	879	0.2	1,187	0.2	1,393	0.2	1,509	0.2	1,453	0.2
Total	**571,161**	**100.0**	**587,543**	**100.0**	**615,611**	**100.0**	**630,162**	**100.0**	**640,264**	**100.0**

(1) Only covers administrative workers within the agricultural sector.

Source: *Salvadoran Social Security 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.

In order to increase social investment through FOSALUD, new funding sources were enacted by law 226, adopted in December 2009. Pursuant to law 226, new funding for FOSALUD will come from the national budget enacted in each fiscal year. Funding for FOSALUD will be obtained from 35% of the tax revenue generated through taxes on alcohol and alcoholic beverages, tobacco products, firearms, ammunition, explosives and other related items, which shall not be less than US$20.0 million per year.

As of January 2017, FOSALUD provides basic health services for the Salvadoran population in 160 community family health units, 64 on a 24 hour basis and 96 providing services during the weekend and holidays at the primary care level of the national health system. This ensures the continuity of assistance and facilitates the referral of patients previously evaluated to health centers with more sophisticated medical care (second and third level of care); it similarly contributes to the uptake of first level return, favoring the follow-up of the person's recovery.

Additionally, FOSALUD offers services of maternity waiting homes, mobile units to attend the population in case of national emergency or natural disasters, as well as at unprotected and highly vulnerable areas and gender violence care center assistance, among other services.

One of the Funes administration's main social policy strategies, the Universal Social Protection System, was adopted in 2010. The system includes programs that extend basic skills and promote equality and opportunity for individuals, families, and communities in extreme poverty and exclusion. As part of this system, programs implemented include the provision of milk, school supplies, uniforms and shoes, among others.

The administration of President Sánchez Cerén has maintained the Government's commitment to fund social programs. An accumulated amount of US$1,038.2 million has been invested during the 2009-2015 period in several ongoing programs. The programs focus on different sectors including health, education, senior citizens, food, women and agriculture.

According to preliminarily figures, in 2016 US$167.0 million has been invested in social programs, with emphasis on educational programs.

The Funes administration focused its efforts on the reform of the health sector through the implementation of the *Equipos Comunitarios de Salud* (Community Health Teams – "ECOS") aimed at giving primary affordable health services throughout the country to the poor. From 2009 to 2015, 575 family ECOS were formed to address primary health and 184 specialized ECOS located in 184 municipalities, including the poorest municipalities in El Salvador. Under this program, 2,994 professionals have been hired in the following medical specialties: pediatricians, gynecologists, internists, nurses, nutritionists, dentists, psychologists and health educators, among others. Approximately two million inhabitants have been treated, representing 400,000 families. A total of US$28.3 million was invested during 2015 and 2016 on ECOS infrastructure and 60 health facilities were equipped as a result, providing access to health services to more than two million people.

Pension Reform

On December 20, 1996, the Legislative Assembly enacted the Pension Savings System Law, creating a private pension system for eligible workers (including both public sector employees and private sector employees) in El Salvador modeled after the then existing Chilean system. The *Superintendencia de Pensiones* (the "Superintendency of Pensions") 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. As of November 30, 2016, 2.1 million workers, or 73.0% of the Salvadoran workforce, were affiliated with this private pension system, including 709,657 active workers. As of November 30, 2016, there were 10,021 active workers registered in the public pension system.

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, due to reforms to the pension system law, CTs are payable over a 15-year period commencing upon the date of the relevant employee's retirement. CTs were previously payable in one lump sum. In addition, since July 2003, persons who have the option of continuing with the prior public pension system or switching to the new private pension system are eligible to receive a CT") that would compensate them for any difference between the value of the monthly pensions they would have received had they stayed in the prior public pension system and the value of the monthly pension if they shifted to the new private pension system. CTs are used in calculating pension costs of the Republic.

Beginning October 2006, the Government has issued "*Certificados de Inversión Previsional*" (Pension Investment Certificates, "CIPs") to pension funds to finance the cost of its pension obligations to retired public employees and to holders of outstanding CTs and *Certificados de Traspaso Complementarios* ("Certificates of Complementary Transfer" or "CTCs"). CIPs amortize over a 25-year period and carry a floating rate based on the 180-day LIBOR. The Government has reduced its pension burden due to the longer maturity and progressive amortization profile of CIPs compared with CTs and CTCs. CIPs are issued as Series A to pay pensions in the public pension system and as Series B to substitute CTs and CTCs.

Legislative Decree No. 1036 of March 30, 2012, amended the Pension Savings System Law, increasing AFPs limit for acquiring CIPs from 30% to 45% of the total pension fund. This reform also reduced the management fee charged by pension fund managers to individual accounts from 2.7% to 2.2% on the workers' monthly contribution. The remaining 0.5%, estimated to be US$22.0 million in the first year, will be added to the workers' funds. As a result of Legislative Decree No. 287, the CIPs must have LIBOR as its reference rate.

According to the results from an actuarial valuation of the pension system performed between 2014 and 2015 with data as of December 31, 2013, the public pensions system is facing a significant financial imbalance where the current social assistance deficit amounts to US$24,077.81 million. Of the total deficit, 56.6% or US$14,068, million is attributable to by the *Systema de Ahorro para Pensiones* ("Pensions Savings System" or "SAP"), the payment of CTCs, the second phase of the Legislative Decree No. 100 of 2006 and minimum mandatory pension payments. The remaining 40.3%, or US$10,009.5 million, is attributable to the *Unidad de Pensiones* of the *Instituto Salvadoreno del Seguro Social* ("Pensions Unit of the Salvadoran Social Security Institute" or "UPISSS") and the *Instituto Nacional de Pensiones de los Empleados Publicos* ("National Institute of Pensions of Public Employees" or "INPEP") jointly known as the *Systema de Pensiones Publico* ("Public Pensions System" or "SPP").

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

The IMF in its 2016 Article IV consultation has asserted that the pension deficit is about 2% of GDP as of July 2016. Further the IMF asserted that pension reforms are essential to ensuring fiscal sustainability, proposing reforms such as an increase of the retirement age and contribution rates, greater coverage, taxing highly inequitable pensions and a credible commitment to fund projected pension deficits from general revenue sources. Further, the IMF also asserted that additional actions were required in order to ensure the sustainability of the pension system due to the probability of an aging population in the coming decades and a decreasing younger working population.

In February 2016, the Government submitted to the Legislative Assembly a draft law reform of the pension system. The proposed structural reform would create a mixed framework system in which the public and private pension systems would share management of the worker's funds. A newly created entity called the *Instituto Nacional de Pensiones* ("National Pensions Institute" or "INP") would manage the pensions distribution system, which function could be jointly managed with or delegated to the existing AFPs. Further the INP and AFPs would receive from the Government all individual pension savings accounts including the FOP which will continue to exist with a different financial structure. The reform also seeks to enforce a mandatory individual savings scheme to enforce savings. The draft law reform has been under discussion in the Commission of Finance of the Legislative Assembly.

On September 29, 2016, the Legislative Assembly approved several other reforms to the pension system to permit the proceeds of new issuances of CIPs to be used for the payment of debt service for previously issued CIPs. However, on November 7, 2016, the Constitutional Chamber of the Supreme Court suspended those reforms. The temporary suspension puts on hold the issuance of any new CIPs that would have used new funds to service payments of pension debts incurred previously.

Projections indicate that the obligations due from the current pensions system will continue to increase, since the obligation of the Government to provide benefits will increase significantly during the next few years. According to the actuarial valuation from 2013, the nominal amount of such benefits will rise for the 2017-2020 period to US$3,528.7 million. In 2016, a new actuarial valuation was performed using 2015 figures, which results are still being analyzed and pending disclosure.

As a result of the work of the Fiscal Work Group, the 2017 budget included US$4.0 million in funding for FAES and US$1,000 for an initial appropriation for a pension plan for FAES. The Government is in the process of studying the current pension system to develop additional policy measures to improve and strengthen the system

Infrastructure Investments

Port at La Unión

The CEPA on May 28, 2016 concluded the bidding process for the operation of the port at La Unión. No formal proposals to manage the operations of the terminal were presented. Since such date, four companies have expressed interest in the project, however, as of January 2017, no viable projects have been presented by the private sector for the operation of the port. The Government introduced improvements to the current port infrastructure to allow private operators to carry out continuous dredging, necessary for the port to offer services at competitive prices against other ports of the region. In 2016, the facilities necessary to operate the ferry were completed. The ferry will have a load capacity of 100 cargo trucks and will also be able to transport people through the Pacific coast of Central America, and docking at other international ports.

Bridges and Roads

From November 2015 to February 2017 there have been several bridge projects completed, including the bridge in San Isidro (January 22, 2016 to February 14, 2017) over the Lempa River at la Libertad , the bridge over the Rio Grande Moncagua

Section (December 27, 2015 to August 24, 2016), the bridge over route CAO4N La Palma (November 11, 2015 to June 30, 2016) and the Tamulasco bridge over route CHA11S (November 3, 2015 to June 3, 2016). From September 2014 to October 2016, several road projects have been completed including the reconstruction of the CHA07E (September 24, 2014 to October 17, 2015) route section and periodic maintenance and reconstruction of the route CA04N section. In total, these construction projects had an approximate cost of US$22.3 million.

Power Generation

The Government undertook the construction of a hydroelectric plant with a capacity of 66.1 MW in the eastern side of the country, called *Central Hidroeléctrica El Chaparral*. Construction began in 2008 but was affected in late 2009 by Hurricane Ida and in 2010 by Hurricane Agatha, which required new geological studies and engineering work to be conducted for purposes of continuing construction. A prequalification selection process commenced on December 5, 2013 to choose a company to finalize the project. Two companies entered the process to obtain the contract, Constructora Norberto Odebrecht S.A., a Brazilian company, and Sinohydro Corporation, Ltd., a Chinese company. In 2015 and 2016, total investment in this project was US$22.8 million and US$59.7 million respectively. In 2015, the Government through the *Comision Ejecutiva Hidroeléctrica del Rio Lempa* ("CEL") awarded contracts to Tyazhmash, a Russian company, for the design and construction of the turbine and to Dycsa, a local company for the construction of the operations facility. The total amount of both contracts will be US$290 million. It is expected that the project will create 1,500 new jobs. The plant is expected to commence operations in 2018.

Other power generation projects include a 525 MW natural gas base power plant (Cutuco Energy), a 250 MW coal based power plant (AES Fonseca), and a 70 MW fuel based power plant (Termopuerto).

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

On December 21, 2013, Asocio Quantum-GLU, a Finnish company, signed a contract with the Government after winning the bidding process for the construction of a natural gas plant, located in the municipality of Acajutla, Department of Sonsonate, that once completed will generate up to 355 MW. The project commenced construction in 2016, is expected to be completed in 2021, and to operate for 20 years. The estimated cost of the project is US$850.0 million.

In 2016, the Government set up a bidding process for the generation of 170 MW by renewable non-conventional energy. Four international companies won the bidding process to generate 120 MW of solar energy and 50 MW of wind powered energy. The total investment of the project is expected to be US$250.0 million.

The following projects were constructed during 2015 and 2016 in order to continue the expansion of the generation system:

- Expansion of the Hydroelectric Power Plant *5 de Noviembre*, representing an investment of US$120.1 million during 2015 and 2016. The project consists of installing a second powerhouse using the currently existing reservoir over the Lempa River, which has an 80 MW installed capacity. The project has generated approximately 450 local jobs.

- "El Chaparral Hydroelectric project" representing an investment of US$100.6 million during 2015 and 2016. The project consists of the construction of a hydroelectric plant capable of generating 65.9 MW and a smaller 1.4 MW plant over the Torola River. The project has generated approximately 534 jobs locally.

Fomilenio I and II

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

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

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

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

El Salvador and the United States signed the *Proyecto Fomilenio II* on September 30, 2014. The objective of the program is the implemention of projects and public policies to increase productivity attracting investment, strengthening human capital and reducing costs of transportation and logistics. The project is funded with US$277.0 million donated by the United States through the Millennium Challenge Corporation and US$88.2 million provided by the Government.

As of December 2016, a total disbursement of *Proyecto Fomilenio II* was US$10.8 million and in 2017 the Government plans to disburse an additional US$54.7 million aimed to attracting investment by reducing and/or eliminating regulations and costs of logistics and transportation.

Boulevard Monseñor Romero

On November 25, 2012, the government opened Boulevard Monseñor Romero, formerly known as Boulevard Diego de Holguín, an express highway connecting San Salvador and Santa Tecla. This six-lane highway eased traffic flow coming from the west side of the country heading east towards the capital city. The total cost of the project amounted to approximately US$89.6 million. The construction of segments II-A and II-B of the highway was completed in 2012 at a cost of approximately US$35.9 million.

Other infrastructure projects

Several infrastructure projects have been implemented. These include improvements to four roads at a total cost of US$34.0 million, which benefit 72,372 people by creating jobs and improving mobility in areas such as Comasagua and San Pablo Tacachico in the Department of La Libertad, and Nueva Concepción in the Department of Chalatenango. Furthermore, three bridges underwent maintenance in the municipalities of Ilopango, Copapayo, and Talnique, at a total cost of US$9.8 million.

Social and Economic Infrastructure

Investment in social infrastructure projects and programs totaled US$425.1 million in 2012 and increased to US$448.1 million in 2013. In 2013, investments included urban community development of US$210.2 million, drinkable water supply and sewage systems of US$26.0 million and health related projects for US$63.6 million.

Infrastructure for economic development investments decreased from US$572.3 million in 2012 to US$278.5 million in 2013. In 2013, investments were directed to support the sectors of transportation and warehousing in the amount of US$190.1 million, agriculture by US$19.1 million, and energy by US$67.6 million.

In 2016, total public investment in the non-financial public sector equaled US$757.7 million or 2.8% of GDP, a total of

US$106.9 million more than was registered during 2015.

By activity sectors, investments in economic development were made in an amount of US$384.9 million, representing 49.5% of the total investment; with most of those resources destined to the transportation and storage subsector representing US$204.6 million (27.0%) in investment.

Similarly, investments in social development increased to US$372.8 million representing 49.2% of total investment, with urban and community development receiving US$195.6 million representing 25.8% of total investment.

Integrated Transportation System Project of the Metropolitan Area of San Salvador - SITRAMSS

The construction of the Integrated Transportation System in the Metropolitan Area of San Salvador (SITRAMSS) seeks to improve the efficiency of the transportation system in El Salvador. Initially, SITRAMSS received US$45 million in IADB financing for the construction of the first phase of the project, consisting of a basic road that will run from the Soyapango terminal up to 33rd Avenue North in San Salvador. Construction of the first phase started in 2013 and was completed in December 2014. In December 2015, SITRAMSS initiated operations. A total of 16.7 million persons have been transported by the SITRAMSS during its two years of service.

Development of the Tourism Sector

The Government believes that tourism represents a potential area of growth for the Salvadoran economy and has implemented measures designed to foster development of the tourism sector. On December 15, 2005, the Legislative Assembly enacted a Tourism Law, which sets forth a framework for the development of the tourism sector. The tourism law imposes a special contribution levy of US$7.00 for each person leaving the country through the international airport and a special tax of 5.0% on lodging. In 2016, revenues from the tourism tax were US$10.5 million. These funds have been used in accordance with the Tourism Law to promote tourism in El Salvador. In 2016, El Salvador received 1,520 cruise passengers and a total of 2.1 million visitors, a 38% increase compared to 2009.

The Tourism Law also provides economic incentives for companies that engage in certain tourism sectors. The *Registro Nacional de Turismo* (National Tourism Registry, "NTR"), a branch of the *Corporación Salvadoreña de Turismo* (Salvadoran Tourism Corporation), facilitates access to the incentives and benefits available to business pursuant to the Tourism Law. The National Tourism Registry on December 31, 2016, recorded more than 221 companies classified as accommodation, restaurants, tourist operators, recreational parks, event organizers, convention centers and golf operators. Between the 221 companies, 42 have requested benefits under the Tourism Law, of these 18 received benefits between May 2009 and December 2016, while 6 requests are currently being reviewed.

Education Initiatives

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

The IFTS involves major changes at the school level and complementary governance reforms at the system level. First, at the school level, pedagogical reforms incorporate academic and extracurricular activities and extend schooling time from 25 hours per week to 40 hours per week for lower secondary education. Second, to complement the education reform, a new school governance model focuses on student outcomes and supports goals to improve student retention and quality and to achieve broader objectives of accountability, transparency and efficiency. As part of the reform of secondary education, the Sánchez Cerén administration intends to introduce governance reforms. Such reforms will include creating school clusters that would improve efficiency in the allocation of public resources through resource-sharing and a new governance mechanism at the cluster level.

At the end of 2013, the amount invested in the *Programa de Escuelas Inclusivas de Tiempo Pleno* totaled US$19.2 million and had been implemented in 1,511 school centers, benefitting 414,000 students.

As of 2013, the Full Time Inclusive School Integrated System (SI EITP) is being supplemented by the educational model provided by "*Vamos a la Escuela*" (Let´s Go to School) as provided under the "*El Salvador Productivo, Educado y Seguro*" program.

The Let´s Go to School initiative is built around closely integrated educational and infrastructure components. The system has been based on an inclusive full time school model that provides for experienced and accredited faculty at select educational centers. The system includes 60 educational centers to attend to children with special needs with 1,088 teachers and specialized libraries and 25 educational centers with libraries and integrated classrooms implementing the SI EITIP educational model and 644 teachers providing educational services to 21,268 children.

Main developments completed as of January 2017 include:

- 189 educational proposals and 172 annual operational plans prepared.
- Drafting of the certified training plan of the EITP educational model.
- Composition of 167 Collegiate Organizations of Integrated Coordination System (OCCSI).
- Execution of 98 transportation projects with the participation of 6,242 students of which 2,179 participate in extended day workshops in 29 municipalities.
- 2,880 students received the food benefit during the extended day, at a cost of US$518,400.
- Design of the Information, Monitoring, Evaluation and Follow-up System of the SI EITP (SIMES), which includes the design of information technology tools to be used for performance review of the system.
- Delivery of art, recreation and sports materials, for 94 educational centers and hiring of additional support personnel for extended day workshops representing US$1.4 million of investment.
- Furnishing of 409 educational centers.

Internal Security

The level of criminal activity has generally shown a decreasing trend in recent years since the National Police (PNC) and the Armed Forces (FAES) implemented a strategy to reduce violence nationwide. Incidents of homicide decreased from 4,371 in 2011 to 2,594 in 2012 and to 2,513 in 2013, but increased in 2014 to 3,921 and to 6,656 in 2015, while, decreasing to 5,280 in 2016. Incidents of extortion decreased from 3,296 in 2011 to 2,937 in 2012, 2,785 in 2013, 2,480 in 2014, 2,242 in 2015 and to 2,183 in 2016. Incidents of kidnappings decreased from 15 in 2011 to 14 in 2012 and 2013, but increased to17 in 2014, 21 in 2015 and 23 in 2016. Incidents of rape increased from 326 in 2011 to 394 in 2012, but decreased to 385 in 2013, 367 in 2014, 314 in 2015 and increased to 330 in 2016.

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

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

The penitentiary system included rehabilitation programs for inmates and physical improvements to modernize the infrastructure of the penal system. Nearly 18,000 inmates, or 50% of the entire penitentiary population, have participated in the social rehabilitation program *Yo Cambio,* and 2,000 inmates are working in violence prevention programs.

FOREIGN TRADE AND BALANCE OF PAYMENTS

General

In 2015, merchandise imports accounted for 40.3% of nominal GDP, mostly in the form of intermediate goods (41.4% of total imports) and consumer goods (37.3% of total imports). Exports have grown at an average yearly rate of 0.9% from 2012 to 2015; during this period exports growth rates were positive for shoes and footwear, textile, plastic, rubber and their byproducts, chemical and food, beverages and tobacco and were negative for coffee, shrimp, mineral products, base metal and similar byproducts.

The current account deficit of the balance of payments decreased from 4.8% of nominal GDP in 2011 to 3.6% of nominal GDP in 2015 mainly due to the decrease in the trade and services deficit as the economy recovered from the adverse effects of the global economic crisis in 2009. The trade and services deficit decreased from 18.7% of nominal GDP during 2011 to 16.1% of nominal GDP during 2015.

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 in the early 1990s, eliminating Government involvement in the trade of these industries.

Regional Integration and Free Trade

El Salvador has benefited from regional trade initiatives that have opened up the markets of Central American nations to other nations in the region. Regional integration has been especially beneficial to the manufacturing 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, El Salvador entered into trade agreements with Chile, Panama, the Dominican Republic and Mexico, among others. Since 2004, El Salvador has intensified its efforts to strengthen its trade arrangements with its primary trading partners including:

- participating in free trade agreements with various Latin American countries,
- entering into a free trade agreement with Taiwan that became effective in March 2008,
- entering into a free trade agreement with Colombia that became effective in February 2010,
- participating in free trade agreement negotiations with Trinidad and Tobago, Bolivia and Venezuela, while suspending negotiations with Peru, Belize and Canada.
- trade negotiations with Ecuador and South Korea with the trade agreements having been submitted to both countries legislative bodies for approval,
- entering into a partial scope trade agreement with Cuba in August 2012, and
- entering into a free trade agreement to lower tariffs via an association agreement with the European Union, that became effective in June 2012.

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 ("General Treaty"), which provided the framework for the *Mercado Común Centroamericano* (the Central American Common Market or "CACM"). The CACM envisioned the creation of a customs union as a temporary step towards the creation of a common market similar to the

European Union. In 1995, the five members of the CACM agreed to reduce gradually their external tariff structures for goods produced outside the Central American region. In 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 other intermediate goods, and 15% for consumer goods, produced in the region. All other goods not produced within the region have a 0% tariff.

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

El Salvador 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 and 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.

In September 2012, the free trade agreement between Central America and Mexico entered into force, essentially merging three prior different agreements between Costa Rica and Mexico, Nicaragua and Mexico and Guatemala, Honduras, El Salvador (the "Northern Triangle") and Mexico. The Government expects this new agreement to increase investment within the region.

Trade Initiatives Involving the United States and European Union

El Salvador has been a beneficiary of the Caribbean Basin Initiative ("CBI") since 1983, when the United States Government established the CBI to aid Central American and Caribbean countries. The CBI provides duty-free access to the U.S. market for certain goods manufactured and processed in CBI member countries. Excluded from the original list of duty-free products were beef, textiles, clothing, oil and oil derivatives. Sugar remains subject to quotas. The CBI also contains rules of origin which require that products must have at least 35 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 ("CBTPA"). The CBTPA significantly expands preferential treatment for apparel made in the Caribbean Basin region. Duty/quota-free treatment is provided for apparel made in the Caribbean Basin region from U.S. fabrics formed from U.S. yarns. Duty/quota-free treatment is also available for certain knit apparel made in CBTPA beneficiary countries from fabrics formed in the Caribbean Basin region, provided that U.S. yarns are used in forming the fabric. This "regional fabric" benefit for knit apparel is subject to an overall yearly limit, with a separate limit provided for t-shirts. Following the expiration in December 2004 of the Agreement on Textiles and Clothing, a multilateral transitional arrangement designed to progressively integrate the textile and clothing sector into the WTO regime, textile quotas have been eliminated.

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

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

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

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

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

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

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	
	2012	**2013**	**2014(1)**	**2015(1)**	**2016(1)**	**2012**	**2016(1)**
	(in millions of US dollars, except percentages)						
North America							
United States	$2,469.9	$2,490.3	$2,429.6	$2,563.9	$2,557.2	46.3%	47.9%
Mexico	$83.4	$81.9	$64.8	$67.5	$68.1	1.6%	1.3%
Canada	$54.4	$76.7	$64.4	$47.6	$22.5	1.0%	0.4%
Central America Panama and Belize							
Honduras	$761.0	$793.3	$747.7	$760.6	$754.2	14.3%	14.1%
Guatemala	$714.7	$721.8	$708.1	$743.0	$718.6	13.4%	13.5%
Nicaragua	$320.2	$323.8	$336.0	$363.0	$347.0	6.0%	6.5%
Costa Rica	$230.5	$229.2	$242.4	$248.1	$247.8	4.3%	4.6%
Panama	$124.6	$121.7	$142.2	$131.9	$125.0	2.3%	2.3%
Belize	$9.9	$11.3	$11.4	$13.0	$9.2	0.2%	0.2%
South America and the Caribbean							
Dominican Republic	$80.0	$74.8	$84.2	$86.1	$81.8	1.5%	1.5%
Chile	$46.3	$31.2	$13.0	$6.4	$7.1	0.9%	0.1%
Puerto Rico	$18.6	$20.1	$14.9	$14.6	$13.8	0.3%	0.3%
Jamaica	$18.6	$19.1	$14.5	$15.3	$20.0	0.3%	0.4%
Colombia	$6.3	$13.8	$12.8	$12.5	$13.2	0.1%	0.2%
Venezuela	$11.9	$12.8	$12.7	$28.8	$11.6	0.2%	0.2%
Rest of South America and the Caribbean	$35.2	$45.1	$49.4	$42.9	$40.2	0.7%	0.8%
Europe							
Spain	$79.9	$79.3	$66.4	$38.9	$40.5	1.5%	0.8%
Germany	$69.8	$57.8	$23.3	$27.0	$22.8	1.3%	0.4%
Italy	$22.5	$21.7	$25.0	$24.2	$28.9	0.4%	0.5%
Netherlands	$11.3	$20.5	$35.4	$25.5	$24.1	0.2%	0.5%
Rest of Europe	$61.2	$64.0	$39.7	$44.1	$47.7	1.1%	0.9%
Asia							
Taiwan	$7.7	$46.9	$15.6	$30.1	$36.4	0.1%	0.7%
Japan	$32.4	$36.6	$15.9	$21.9	$15.7	0.6%	0.3%
Republic of Korea	$32.0	$15.6	$41.1	$10.1	$10.0	0.6%	0.2%
Rest of Asia	$30.7	$73.6	$43.6	$90.2	$47.6	0.6%	0.9%

Other	$6.1	$8.3	$18.7	$27.8	$24.5	0.1%	0.5%
Total	**$5,339.1**	**$5,491.1**	**$5,272.7**	**$5,484.9**	**$5,335.4**	**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.*

In 2016, 41.3% of El Salvador's merchandise exports went to Central American countries, Panama and Belize, compared to 40.5% in 2012. Primarily as a result of the free trade agreement with Mexico, Chile and Dominican Republic, merchandise exports to those countries maintained a similar share of El Salvador's merchandise exports, at rates of 3.9% in 2012 and 2.9% in 2016. Exports to the United States increased from 46.3% of the country's total exports in 2012 to 47.9% in 2016, primarily due to an increase in textile, shoes and footwear exports. Exports to the United States consist primarily of *maquila* products, electronic chips 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	
	2012	**2013**	**2014[(1)]**	**2015[(1)]**	**2016[(1)]**	**2012**	**2016[(1)]**
	(in millions of US dollars, except percentages)						
Maquila	$1,106.0	$1,158.2	$1,024.0	$1,112.3	$1,155.0	20.7%	21.6%
Agricultural products							
Coffee...	$300.0	$233.9	$110.5	$149.0	$109.4	5.6%	2.1%
Other...	$119.7	$116.7	$93.6	$111.8	$101.8	2.2%	1.9%
Manufacturing							
Paper...	$286.1	$297.0	$290.0	$292.2	$273.7	5.4%	5.1%
Textiles.......................................	$1,350.9	$1,482.9	$1,581.5	$1,634.6	$1,592.1	25.3%	29.8%
Shoes and footwear.....................	$46.1	$48.3	$55.0	$50.9	$41.9	0.9%	0.8%
Food, beverages and tobacco.......	$755.4	$802.9	$751.4	$761.3	$718.2	14.1%	13.5%
Chemicals...................................	$245.9	$252.0	$261.4	$281.4	$301.8	4.6%	5.7%
Mineral products.........................	$194.5	$139.5	$148.4	$119.4	$106.2	3.6%	2.0%
Base metals and similar byproducts......................................	$282.1	$290.4	$253.0	$261.3	$246.2	5.3%	4.6%
Plastic, rubber and their byproducts…………………………	$302.8	$316.4	$327.8	$339.0	$320.5	5.7%	6.0%
Animal products							
Shrimp..	$0.4	$0.9	$0.7	$0.5	$0.3	0.0%	0.0%
Other...	$42.8	$51.5	$52.7	$55.8	$54.5	0.8%	1.0%
Other...	$306.3	$300.4	$322.6	$315.6	$313.5	5.7%	5.9%
Total	**$5,339.1**	**$5,491.1**	**$5,272.7**	**$5,484.9**	**$5,335.4**	**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 2012 to 2016, exports averaged an annual growth rate of 0.2% Within manufacturing exports, textiles, chemicals and plastic, rubber and their byproducts each grew at average annual gross rates of at least 1.4.%.

Total exports experienced growth of 0.6%, 2.8%, (4.0)%, 4.0% and (2.7)% in 2012, 2013, 2014, 2015 and 2016 respectively, totaling US$5.3 billion, US$5.5 billion, US$5.3 billion, US$5.5 billion, and US$5.3 billion in 2012, 2013, 2014, 2015 and 2016 respectively. The results for 2012 were driven mainly by the recovery of maquila, textiles, food, beverages and tobacco and plastic, rubber and their byproducts which grew 3.5%, 5.0%, 13.4% and 9.5%, respectively. The results for 2013 were driven mainly by maquila, textiles and food, beverages and tobacco exports which grew 4.7%, 9.8% and 6.3%, respectively. In 2014, total exports decreased by 4.0% as maquila, coffee and base metals and similar byproducts exports decreased by 11.6%, 52.8% and 12.9%, respectively. In 2015, total exports increased by 4.0% as maquila and coffee exports recovered growth by growing 8.6% and 34.9%, respectively, and textile and chemicals exports grew 3.4% and 7.6%, respectively. In 2016, total exports decreased by 2.7% mainly due to a decrease in the exports of coffee, paper, textiles, and shoes and footwear by 26.6%, 6.3%, 2.6% and 17.7% respectively.

The country's exports of food, beverages and tobacco decreased from 2012 to 2016 at an average annual rate of 1.8% from US$755.4 million in 2012 to US$718.2 million in 2016, due to the decrease in exports of food and beverages to Mexico, Canada, Chile, United States and Spain.

Coffee exports decreased by an average growth rate of 20.4% from 2012 to 2016, from US$300.0 million in 2012 to US$109.4 million in 2016. In 2011 and 2012, high international coffee prices contributed to the increase of exports, in particular in 2011 when coffee prices increased to historic levels. Following the exceptionally high price levels of 2011, coffee prices decreased in 2012 and 2013 by 8.0% and 24.4%, respectively. This moderation of international coffee prices, along with the adverse effects of coffee rust disease and drought, led 2013 coffee exports to decrease, declining to export levels of 2010. In 2015 coffee exports increased by 34.9% mainly due to a reduction in the rust disease and favorable weather conditions. In 2016, coffee exports decreased by 26.6% mainly due to a decrease in the international price of coffee.

Non-traditional exports increased at an average annual rate of 1.6% from 2012 to 2016. In 2016, the most significant non-traditional exports were underwear, outerwear, prepared medicines, iron, steel and their products, plastic boxes, bags, other foods and foodstuffs, bottle caps and containers, toilet tissue, waters and other nonalcoholic beverages, other textile articles, appliances, electrical equipment, rolled products from iron or steel, and bakery pastry and biscuits products.

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	
	2012	**2013**	**2014[(1)]**	**2015[(1)]**	**2016[(1)]**	**2012**	**2016[(1)]**
	(in millions of US dollars)						
North America							
United States	$3,873.7	$4,186.3	$4,307.6	$4,098.5	$3,665.7	37.8%	37.2%
Mexico	$694.6	$746.0	$734.2	$765.5	$735.0	6.8%	7.5%
Canada	$49.1	$48.5	$56.9	$60.2	$58.1	0.5%	0.6%
Central America and Belize							
Guatemala	$997.6	$935.4	$1,002.8	$996.9	$983.6	9.7%	10.0%
Honduras	$463.7	$560.5	$560.7	$589.3	$611.8	4.5%	6.2%
Costa Rica	$296.2	$282.9	$262.5	$258.2	$243.8	2.9%	2.5%
Nicaragua	$209.8	$202.8	$212.3	$243.3	$256.3	2.0%	2.6%
Panama	$179.4	$159.3	$150.9	$119.6	$188.9	1.7%	1.9%
Belize	$0.8	$0.5	$0.4	$0.9	$1.0	0.0%	0.0%
South America and the Caribbean							
Venezuela	$211.6	$286.8	$131.2	$122.9	$103.4	2.1%	1.0%
Antillas Holandesas	$100.8	$198.6	$110.5	$87.8	$29.7	1.0%	0.3%
Colombia	$328.9	$170.3	$109.4	$113.0	$125.7	3.2%	1.3%
Brasil	$218.4	$157.3	$149.0	$170.4	$156.5	2.1%	1.6%
Ecuador	$187.5	$76.4	$45.7	$14.9	$46.4	1.8%	0.5%
Rest of South America and the Caribbean	$280.6	$264.5	$292.0	$208.2	$239.4	2.7%	2.4%
Europe							
Germany	$151.4	$167.8	$151.5	$175.5	$168.0	1.5%	1.7%
Spain	$91.2	$124.1	$122.1	$131.8	$114.5	0.9%	1.2%
Italy	$51.6	$64.6	$65.3	$71.1	$75.4	0.5%	0.8%
Rest of Europe[(2)]	$376.1	$448.3	$349.5	$360.8	$326.6	3.7%	3.3%

Asia							
China	$603.5	$703.0	$763.1	$845.1	$856.0	5.9%	8.7%
Japan	$172.9	$178.0	$152.5	$155.1	$157.2	1.7%	1.6%
South Korea	$149.1	$202.5	$171.4	$163.7	$127.8	1.5%	1.3%
Taiwan	$157.4	$168.8	$149.1	$140.0	$129.6	1.5%	1.3%
India	$67.0	$98.0	$95.3	$109.3	$98.1	0.7%	1.0%
Hong Kong	$100.2	$95.3	$122.5	$117.7	$115.7	1.0%	1.2%
Rest of Asia	$177.3	$198.6	$202.9	$232.9	$211.2	1.7%	2.1%
Other	$67.8	$47.0	$41.5	$62.7	$29.3	0.7%	0.3%
Total	**$10,258.1**	**$10,772.0**	**$10,512.9**	**$10,415.4**	**$9,854.6**	**100%**	**100%**

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

Source: *Banco Central de Reserva de El Salvador and* Salvadorean Customs Bureau.

In 2012 and 2013, imports registered positive growth rates and totaled US$10,772.0 million in 2013 as domestic demand recovered from the 2009 level affected by the international trade decline. In 2014 imports declined as GDP growth reduced and imports of intermediate goods, capital goods and maquila contracted by 3.4%, 5.7% and 9.9%, respectively. In 2015 total imports declined as imports of intermediate goods, consumer goods and maquila contracted by 3.3%, 1.5% and 10.1%%, respectively. The international oil price decline of 2014 and 2015 contributed to the contraction of intermediate goods imports and total imports during 2014 and 2015. In 2016, total imports contracted by 5.4% as consumer goods, intermediate goods, capital goods imports decreased by 2.5%, 9.8% and 1.8%, respectively while maquila decreased by 4.4% compared to 2015.

From 2012 to 2016, the average annual growth rate for total imports was (0.2)%. For the same period, consumer goods, intermediate goods, capital goods and maquila grew at the rate of 1.6%, (2.9)%, 2.6% and (1.4)% respectively.

From, 2012 to 2016, El Salvador's trade deficit with the United States decreased from US$1,403.8 million in 2012 to US$1,108.5 million in 2016. The United States is the principal source of El Salvador's imports. Imports from the United States in 2016 consisted primarily of, among others, oil derived products, transmission and reception apparatus for radio broadcasting or television and their parts, machines and their parts, foods, plastic products, synthetic or artificial filaments, clothing and clothing accessories, synthetic or artificial fibers, knitting, cotton and pharmaceutical products.

Maquila imports, as a percentage of total imports of goods, decreased from 7.0% in 2012 to 5.9% in 2016 following the decreasing tendency of maquila exports.

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	
	2012	**2013**	**2014(1)**	**2015(1)**	**2016(1)**	**2012**	**2016(1)**
	(in millions of US dollars, except percentages)						
Consumer Goods							
Non-durable	$3,154.2	$3,375.4	$3,397.1	$3,305.9	$3,209.9	30.7%	32.6%
Durable	$511.7	$547.4	$551.3	$583.5	$583.9	5.0%	5.9%
Intermediate Goods							
Manufacturing	$3,742.2	$3,748.7	$3,627.4	$3,444.1	$3,107.2	36.5%	31.5%
Agriculture, livestock and fishing	$303.4	$282.2	$256.7	$260.1	$245.3	3.0%	2.5%
Construction	$471.8	$496.7	$469.0	$497.0	$438.1	4.6%	4.4%
Other	$82.4	$92.0	$108.5	$114.0	$99.8	0.8%	1.0%
Capital Goods							
Manufacturing	$443.2	$504.4	$496.6	$554.5	$535.1	4.3%	5.4%
Transport	$439.7	$510.2	$492.8	$545.4	$581.7	4.3%	5.9%
Agriculture, livestock and fishing	$28.8	$27.8	$27.7	$29.1	$31.4	0.3%	0.3%
Construction	$87.3	$100.9	$97.3	$121.0	$126.7	0.9%	1.3%
Other	$276.1	$333.9	$310.3	$351.0	$312.6	2.7%	3.2%
Maquila	$717.2	$752.4	$678.3	$609.7	$583.0	7.0%	5.9%
Total	**$10,258.1**	**$10,772.0**	**$10,512.9**	**$10,415.4**	**$9,854.6**	**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 decreased in 2014 and 2015. Such deficits have been financed in most years by capital and financial account surpluses. For 2011, the current account deficit recovered to pre-crisis levels at US$1,111.8 million mainly due to the recovery of the merchandise trade deficit and a 5.0% growth in remittances. The current account deficit registered US$ 1,279.5 million and US$1,585.6 million in 2012 and 2013, respectively, as the trade and service deficit increased due to higher amount of imports. For 2014 and 2015, the current account deficit declined as total imports were reduced and remittances grew more than in the previous two years. In 2014 total imports of goods declined as GDP growth slowed and imports of intermediate goods, capital goods and maquila contracted by 3.4%, 3.5% and 9.8%, respectively. In 2015, total imports declined as imports of intermediate goods, consumer good and maquila contracted by 3.3%, 1.5% and 10.1%%, respectively.

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

Balance of Payments

	At December 31,				
	2011	**2012**	**2013**	**2014[1]**	**2015[1]**
	(in millions of US dollars)				
Current Account	**($1,111.8)**	**($1,279.5)**	**($1,585.6)**	**($1,306.7)**	**($920.0)**
Trade and services balance	**($4,323.1)**	**($4,394.7)**	**($4,676.8)**	**($4,467.0)**	**($4,154.5)**
Exports (FOB goods and services) ..	$5,878.6	$6,101.6	$6,421.7	$6,481.7	$6,710.4
Imports (FOB goods and services)	$10,201.7	$10,496.2	$11,098.5	$10,948.7	$10,864.9
Primary Income	($618.2)	($891.3)	($992.3)	($1,074.0)	($1,137.2)
Secondary Income	$3,829.5	$4,006.5	$4,083.4	$4,234.3	$4,371.6
Personal Transfers (Remittances) ..	$3,627.5	$3,879.7	$3,937.4	$4,110.4	$4,235.1
Other Private Transfers	$119.9	$92.6	$119.3	$111.3	$113.3
General Government (Public)	$82.1	$34.1	$26.7	$12.5	$23.1
Capital Account	**$266.4**	**$201.2**	**$101.1**	**$63.6**	**$66.0**
Net borrowing (from current and capital account)	**($845.4)**	**($1,078.3)**	**($1,484.6)**	**($1,243.2)**	**($854.1)**
Net borrowing (from financial account)	**($1,068.9)**	**($1,380.0)**	**($1,346.7)**	**($735.0)**	**($984.3)**
Financial account	($1,068.9)	($1,380.0)	($1,346.7)	($735.0)	($984.3)
Direct Investment	($218.4)	($483.6)	($176.3)	($311.1)	($428.8)
Net acquisition of financial assets	($95.9)	($35.9)	$66.1	$198.2	$89.7
Net liabilities……………………	$122.5	$447.7	$242.3	$509.3	$518.5
Portfolio Investment.......................	($98.6)	($870.6)	($13.5)	($789.2)	($19.1)
Net acquisition of financial assets ..	($97.6)	($34.3)	($21.3)	$72.1	($18.2)
Net liabilities	$1.0	$836.3	($7.8)	$861.3	$0.9
Other Investment	($337.7)	($676.5)	($830.3)	$398.1	($649.2)
Net acquisition of financial assets ...	$98.9	$91.7	($86.4)	$139.6	($248.9)
Net liabilities	$436.6	$768.3	$743.8	($258.5)	($400.4)
Reserve assets	($414.1)	$650.7	($326.7)	($32.8)	$112.8
Net acquisition of financial assets ..	($414.1)	$650.7	($326.7	($32.8)	$112.8
Errors and omissions....................	**($223.4)**	**($301.7)**	**$137.8**	**$508.2**	**($130.3)**

(1) Preliminary.

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

Current Account

The trade and services deficit increased from US$4,323.1 million in 2011 to US$4,676.8 million in 2013, 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, higher oil prices have had a negative impact on the current account since 2007 to 2011. The trade and services deficit increased from US$4,323.1 million in 2011 to US$4,394.7 in 2012 and to US$4,676.8 in 2013. Imports increased primarily due to increased consumer goods imports related to increased remittances, and increased intermediate and capital goods imports. In 2014 and 2015, the trade and services deficit decreased to US$4,467.0 million and US$4,154.5 million, respectively as the international price of oil decline in 2014 and 2015 contributed to the contraction of intermediate goods imports during that same period.

At September 30, 2016, the current account registered a deficit of US$498.0 million, a 23.6% decrease compared to the same period in 2015, largely due to growth of 4.1% in remittances and a reduction of 7.9% in the goods and services deficit, compared to the same period in 2015. The reduction was the result of a decline in intermediate goods imports due to lower prices of oil derived-products.

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. In 2015, remittances represented approximately 37.8% 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 2011 through 2015 from US$3,627.5 million to US$4,270.0 million.

Remittances grew on average 4.2% from 2012 to 2016 and totaled US$3,879.7 million in 2012, US$3,937.4 million in 2013, US$4,133.0 million in 2014 and US$4,270.0 million in 2015, representing 16.3%, 16.2%, 16.5% and 16.5% of GDP, respectively. In 2016 remittances increased to US$4,576.0 million, representing an increase of 7.2% compared to 2015.

Capital and Financial Account

From 2011 to 2015, the capital account and the financial account registered a surplus each year mainly due to inflows from foreign direct investment, portfolio investment and issuances by the Government of external notes and loans to private banks. In 2015, net levels of the financial account registered US$1.0 billion, due to foreign direct investment inflows and other investments.

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. Dividends generally are subject to a 5% withholding tax, with a 25% withholding tax applicable to investors registered in a tax haven. Investors are still responsible, however, for income tax, labor, social security, bankruptcy and other legal obligations.

Foreign direct investment ("FDI") in 2011 was invested primarily in the finance, *maquila*, manufacturing and trade sectors. FDI registered US$218 million in 2011. In 2012, FDI registered US$482 million primarily from investments in manufacturing, trade and communication. In 2013, FDI totaled US$179 million as a result of investments in manufacturing, electricity and financial services sectors. In 2014, FDI totaled US$311 million as a result of investments in communication, manufacturing and financial services sectors. In 2015, FDI totaled US$429 million as a result of investments in manufacturing and financial services sectors.

FDI totaled US$343.2 million for the nine-month period ended September 30, 2016, an increase of 20.6% compared to the same period in 2015.

From 2011 to 2014, portfolio investments were mainly driven by Government issues of new indebtedness. In 2011, portfolio investments had a net inflow of US$98.6 million, due to the Government issuance of external notes amounting to US$653.5 million. In 2012, the Government issued external notes totaling US$800 million, leading to net inflows of portfolio investment of US$ 870.6 million. In 2013, the Government issued no new indebtedness and net inflows of portfolio investment accordingly declined to US$13.5 million. In 2014, the Government issued external notes amounting to US$800.0 million, leading to net inflows of portfolio investment of US$789.2 million. In 2015 and 2016, the Government issued no new indebtedness and net inflow of portfolio investment declined to US$19.1 million in 2015 and to US$81.3 million as of September 30, 2016.

During the nine-month period ended September 30, 2016, the financial account registered a US$198.0 million net inflow, a decrease of 71.8% from the same period in 2015. External assets increased to US$647.1 million, resulting from an increase in reserve assets while liabilities increased US$845.1 million, mostly from FDI, portfolio investment and other investment such as loans and commercial credits obtained by resident units.

Foreign Currency Reserves

At December 31, 2015, net international reserves ("NIRs") totaled US$ 2,670.2 million, an increase of 0.3% from December 31, 2014. The increase in NIRs resulted from an increase in assets, particularly investments and from a smaller increase in liabilities and an increase in Government deposits. At December 31, 2015, the Central Bank had international reserves equivalent to 3.3 months worth of goods imports, excluding maquila, a level that the Republic considers to be appropriate for its dollarized economy. In 2011, 2012, 2013 and 2014, the Central Bank held reserves equivalent to 3.2, 4.0, 3.3 and 3.2 months worth of goods imports, excluding maquila, respectively. At December 31, 2016, NIRs totaled US$2,923.0 million, representing an increase of 9.5% compared the same period level in 2015 and 3.8 months worth of goods imports.

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

Net International Reserves

	At December 31,				
	2012	**2013**	**2014(1)**	**2015(1)**	**2016(1)**
	(in millions of US dollars)				
Assets:	$ 369.8	$ 268.7	$ 263.0	$ 46.8	$ 50.5
Gold(2)	$ 2,552.3	$ 2,221.2	$ 2,190.4	$ 2,510.4	$ 2,965.1
Foreign Currencies	$ 32.4	$ 120.4	$ 90.2	$ 70.5	$ 76.9
Cash	$ 1,176.4	$ 33.2	$ 27.5	$ 27.5	$ 2.3
Deposits abroad	$ 1,343.6	$ 2,067.6	$ 2,070.5	$ 2,412.4	$ 2,885.9
Investments	$ 252.5	$ 255.0	$ 239.8	$ 229.4	$ 222.6
Special drawing rights	$ 0.1	$ 0.0	$ 0.0	$ 0.0	$ 0.1
Liabilities:					
Total Liabilities	$ 1.8	$ 24.2	$ 32.0	$ 116.4	$ 315.3
Net International Reserves:	**$ 3,172.9**	**$ 2,720.7**	**$ 2,661.2**	**$ 2,670.2**	**$ 2,923.0**

(1) Preliminary
(2) For 2012, 2013, 2014, 2015 and 2016 gold was valued at US$1,574.5/troy ounce, US$1,657.5/troy ounce, US$1,204.5/troy ounce, US$1,206/troy ounce,1,060US$/troy ounce, respectively.

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. In February 2011, the Central Bank's governing law was amended by adding to it the responsibility of acting as lender of last resort, to extend credit to banks in the case of extraordinary withdrawals from the banking system.

The Central Bank is an independent institution governed by a board of six members who are appointed to five-year terms and are removable only for cause. The President and Vice-president of the Central Bank and two of the six board members are appointed by the President of the Republic. The President of the Republic appoints the remaining five board members pursuant to nominations from the Ministry of Economy, the Ministry of Finance, the private sector, professional organizations and private universities.

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 31, 2016, a principal amount of US$10.5 million of Bonos BCs, the same amount registered at December 31, 2015, were outstanding. At December 31, 2016 no amount of CENELIS were outstanding and US$76.3 million was outstanding at December 31, 2015.

Financial Sector

The entities participating in the financial system in El Salvador include commercial banks (including three state-owned banks), insurance companies, broker/dealers, one security depository, 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, 2015, the aggregate value of deposits in the system was approximately US$10.3 billion, including deposits held by the two state-owned banks, representing an increase of 5.5 % compared to December 31, 2014. As of December 31, 2016, the aggregate value of deposits in the system was approximately US$10.6 billion, an increase of 2.5% compared to the December 31, 2015 level.

The Banking Law imposed on financial institutions capital adequacy requirements and other standards corresponding to the Basel Accords. Under applicable law, the capital adequacy requirement of 11.5% in 2004 was increased to 12.0% in 2005 and has not been subsequently modified. The *Superintendencia del Sistema Financiero* (the "Superintendency of the Financial System") supervises compliance with these standards. The Banking Law, enacted in 1999, includes limits on loans to shareholders, establishes minimum capital requirements and regulates supervisory powers and the independence of the Superintendency of the Financial System. The Deposit Guaranty Institute, created by the Banking Law, guarantees deposits up to US$10,171 as of January 1, 2017. 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.

As of July 2011, the paid-in capital requirement for banks enacted by the Superintendency of the Financial System was US$16.3 million. On December 2012, the Superintendency of the Financial System updated the minimum amount of paid-in capital to US$17.25 million, setting a deadline of 180 days from January 1, 2013, so that banks could adjust their shareholding structure according to the new requirement. On December 2014, the Superintendency of the Financial System updated the minimum amount of paid-in capital to US$17.6. million, setting a deadline of 180 days from January 1, 2015, so that banks could adjust their shareholding structure according to the new requirement. The Superintendency of the Financial System maintained the paid-in capital for banks requirement of US$17.6 million for the 2017-2018 period.

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

Commercial Banks

As of December 31, 2016, the Salvadoran banking system had a total of which 14 banking institutions, of which 11 were foreign-owned banks and two were state-owned banks, excluding BANDESAL and one bank was a private-domestic-owned institution. As of December 31, 2015 the amount of assets in the private banking sector amounted to US$ 14.4 billion. As of December 31, 2016, the amount of assets in the private banking sector amounted to US$14.9 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,

	2012	**2013**	**2014**	**2015**	**2016**
Total assets (in billions of US dollars	$12.5	$13.2	$13.5	$14.4	$14.9
Total deposits (in billions of US dollars	$8.8	$9.2	$9.0	$9.5	$9.7
Non-performing loans (as % of total loans)	3.0%	2.4%	2.4%	2.4%	2.1%

(1) Excluding the two state-owned banks and BANDESAL. As of December 31, 2016 the aggregate assets, deposits and non-performing loans as a percentage of total loans of the two state-owned banks were US$1.2 billion, US$0.9 billion and 1.7 %, respectively.

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

In 2007, Grupo Bancolombia (Colombia) acquired Banco Agrícola and Citibank acquired Banco Cuscatlán and Banco Uno. In September 2008 Banco Cuscatlán and Banco Uno merged and changed its name to Banco Citibank. In July 2009 Banco Azteca (Mexico) initiated operations in El Salvador. In November 2010, First Commercial Bank closed its affiliated office in El Salvador. In July 2011, Banco Industrial (Guatemala) initiated operations in El Salvador. In July 2015, Banco Azul initiated operations in El Salvador. Grupo Terra, Honduras acquired Citibank in El Salvador during June and July 2016, which now operates as *Banco Cuscatlán*.

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".

The banking system in El Salvador has lower profitability levels compared to the rest of Central America. At December 2016, loans to the public sector totaled US$760.8 million or 4.7% of total assets of the banking system, a decrease of 0.4 percentage points compared to 2015 and a low exposure level of the system.

Cooperative Banks and Savings and Loans Companies

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

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

State-Owned Financial Institutions

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

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

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

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

In 2012, the *Ley del Sistema Financiero para Fomento al Desarrollo* ("Financial System Law to Foster Development") entered into force, introducing mechanisms of financial support to productive sectors, in particular to small and medium enterprises, aimed at increasing income and employment. Pursuant to this law, the *Banco Multisectorial de Inversiones* ("BMI") was transformed into BANDESAL. BMI focused on long-term financing and operated only as a second-tier bank, lending through eligible intermediary financial institutions. Upon becoming BANDESAL in January 2012, the bank has operated both as a first- tier bank, lending directly to retail borrowers, and as a second-tier bank.

The two public banks listed above, the Mortgage Bank of El Salvador and the Rural Development Bank, had as of December 31, 2015 total assets of US$1,185.0 million and total liabilities of US1,044.6 million, and as of December 31, 2016, total assets of US$1,248.3 million and total liabilities of US$1,099.4 million. BANDESAL had as of December 31, 2015 total assets of US$560.6 million and total liabilities of US$337.4 million and as of December 31, 2016 total assets of US$590.6 million and total liabilities of US$363.6. At December 31, 2015, the Social Housing Fund had approximately US$852.2 million in total assets and approximately US$500.3 million in total liabilities and at November 30, 2016 had US$870.7 million in total assets and US$489.9 million in total liabilities.

The Rural Development Bank, the Mortgage Bank, BANDESAL, and the Social Housing Fund are part of the financial system to foster development that began operations at December 31, 2011.

Capital Markets

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

In 2012 and 2013, private securitization transactions and financial sector issues led the market. Securitization transactions have added dynamism to the primary market since 2012. The primary market has grown during the past five years, the secondary market registered increased activity in 2011, 2012, 2013 and 2014 due to trading generated mainly by pension funds. In 2015, the primary market registered a slowdown and recovered in 2016. Secondary market in 2013, 2014, 2015 and 2016 has decreased mainly due to an increase transactions in repos.

Repo trading represents the largest share of trading transactions, dominated by banks. Repo trading decreased in 2012 but increased in 2013. From 2012 to 2016, Repo trading represented approximately 64.4% of total transactions and 78% for 2015 and 76% for 2016. Retail trading of debt and equity securities from private Salvadoran issuers is relatively new and thus far has remained limited.

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

Aggregate Amounts of Traded Securities

	For the Year Ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
	(in millions of US dollars)				
Repos	$1,876.9	$1,990.9	$2,058.2	$2,963.7	$3,361.7
Other	$1,542.0	$1,579.7	$1,539.1	$852.4	$1,038.8
Total	**$3,418.9**	**$3,570.5**	**$3,597.4**	**$3,816.1**	**$4,400.5**

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

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

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

In September 1, 2014 the *Ley de Impuesto a las Operaciones Financieras* (the "Financial Operations Tax Law") became effective. The tax rate of 0.25% was levied on financial operations such as deposits, withdrawals, and electronic transfers in the financial system and the primary and secondary market for operations above US$1,000. In December 2016, The Legislative Assembly enacted amendments to the Financial Operation Tax Law by which the tax on secondary market operations was phased out.

In 2016, 11 commercial banks, 17 private companies, 4 public institutions, 5 municipalities, 3 savings and loan institutions, 5 sovereign states and 28 international entities executed transactions on the El Salvador Stock Exchange.

In 2016, US$4.4 billion worth of securities were traded on the El Salvador Stock Exchange, representing an increase compared with US$3.8 billion of the securities traded in 2015 and with US$3.6 billion of securities traded in 2014.

Interest Rates and Money Supply

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

	Average Interest Rates				
	2012	**2013**	**2014**	**2015**	**2016**
			(in percentages)		
Loans					
Short-term	5.6%	5.7%	6.0%	6.2%	6.4%
Long-term	8.8	9.9	10.2	10.3	10.2
Deposits					
30-day	2.1	2.8	3.2	3.8	4.0
180-day	2.5	3.4	3.8	4.2	4.4

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

In 2012 average interest rates on short-term and long-term loans were 5.6% and 8.8%, respectively, and increased in 2013 to 5.7% and 9.9%, respectively. Interest rates on short-term and long-term loans increased to 6.0% and 10.2% respectively in 2014 and to 6.2% and 10.3% in 2015, respectively, as economic recovery kept its pace in both years. In 2016, interest rates on short term loans increased to 6.4% and decreased to 10.2% for long-term loans.

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

Principal Monetary Indicators

	At December 31,				
	2012 [2]	**2013**	**2014**	**2015**	**2016**[1]
			(in millions of US dollars)		
Currency in circulation	$4.2	$4.0	$3.8	$3.5	$2.9
Demand deposits	2,792.2	2,887.9	2,916.4	3,249.9	3,126.3
M1	**2,796.4**	**2,892.0**	**2,920.2**	**3,253.4**	**3,129.2**
M2 (M1 plus savings deposits plus term deposits plus securities other than shares in local currency)	**9,847.2**	**10,156.5**	**10,118.8**	**10,755.1**	**11,121.**[illegible]
Deposits in foreign currency	0.0	0.0	0.0	0.0	0.0
Others	793.5	715.4	775.6	856.8	847.4
M3 (M2 plus deposits in foreign currency)	**10,640.7**	**10,871.9**	**10,894.4**	**11,612.0**	**11,968.**[illegible]

[1] Preliminary.

(2) Since December 2012, the *Banco Central de Reserva de El Salvador* has implemented harmonized monetary and financial statistics, which are based o
Monetary and Financial Statistics Manual (2000)

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

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

Inflation

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

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

	Inflation For the Year Ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
Inflation........	0.8%	0.8%	0.5%	1.0%	(0.9)%

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

In 2012, inflation was 0.8%, concentrated in the first half of the year, mainly due to increased food and oil prices resulting from volatility of international oil prices related to political unrest in certain Arab countries and increased utility prices as a consequence of adjustments in Government subsidies. In 2013 and 2014, the inflation rate decreased to 0.8% and 0.5%, respectively, as food, clothes and footwear and oil-derived products prices registered a decline in their rate of growth. In 2015, the inflation rate continued to decrease to 1.0% as housing, water, electricity and oil-derived products declined by 2.9% and transportation services prices declined 3.6%. In 2016, there was inflation of -0.9% driven primarily by decreasing prices of food and beverages, housing, water, electricity and oil-derived products and clothes and footwear.

PUBLIC SECTOR FINANCES

Overview

Budget Process

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

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

The legislative 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 unit with such modifications as the Ministry of Finance deems appropriate. Pursuant to the Constitution, at least 6.0% of the central Government's current revenues contained in the General Budget must be allocated to the judiciary and, pursuant to the *Ley del Fondo de Desarrollo Económico y Social* ("Economic and Social Development Fund Law"), 8.0% of net current revenues must be allocated to municipalities.

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

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

Fiscal Policy

The Government has been implementing fiscal policies designed to increase its overall tax revenues, while allocating 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 including free uniforms, nutrition, shoes, and other school packages,
- reduce overall Government expenditures for subsidies while focusing subsidies to basic services on those sectors of the population most in need of assistance such as liquid petroleum gas, electric energy and public transportation,
- increase spending on programs designed to enhance security throughout the country, such as through the establishment of a rural police force,
- increase expenditures in the healthcare sector to, among other things, increase the availability of healthcare services throughout the country, principally in rural areas to eliminate out of pocket expenses by those in need of such services. In addition, the Government is implementing an integrated reform to the National Healthcare System based on the improving the first level of health attention characterized by a new model of service formed by *Equipos Comunitarios de Salud Familiares y Especializados* (Family and Specialized Health Community Teams).

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

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

Proposed Fiscal Policy

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

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

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

Non-Financial Public Sector Revenues and Expenditures

The following table sets forth actual revenues and expenditures for the consolidated non-financial public sector for the periods presented, as well as revenues and expenditures for 2012 to 2016.

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

	For the year ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**[5]
	(in millions of US dollars)				
Revenues					
Current revenues[2]	4,581.1	4,806.2	4,909.9	5,069.4	5,297.8
Capital revenues	0.2	0.0	0.0	0.0	0.1
Foreign aid	178.0	70.8	46.3	52.8	45.9
Total Revenues	4,759.2	4,877.0	4,956.2	5,122.2	5,343.7
Expenditures					
Current expenditures	4,370.4	4,624.7	4,707.6	4,777.7	4,664.5
Consumption	2,894.7	3,176.8	3,291.2	3,385.7	3,444.7
Interest	536.4	593.8	610.4	639.8	702.5
Transfers	939.3	854.2	806.0	752.2	517.4
Capital expenditures	783.9	790.0	689.1	710.8	817.1
Gross investment	727.3	726.5	624.6	650.7	757.7
Capital transfers	56.5	63.5	64.6	60.0	59.4
Net lending	(0.5)	(0.6)	(0.5)	(0.2)	(0.5)
Total expenditures	5,153.8	5,414.2	5,396.2	5,488.3	5,481.2
Current account surplus[3]	**210.7**	**181.5**	**202.3**	**291.7**	**633.3**
Surplus (deficit) excluding foreign aid	**(572.5)**	**(608.0)**	**(486.3)**	**(418.8)**	**(183.3)**
Surplus (deficit) including foreign aid	**(394.6)**	**(537.1)**	**(440.0)**	**(366.0)**	**(137.4)**
External Financing	912.3	121.2	787.8	(13.1)	27.5
Internal Financing[4]	(517.8)	379.8	(347.8)	379.2	330.3
Current account surplus/Nominal GDP	**0.9%**	**0.7%**	**0.8%**	**1.1%**	**N/A**
Deficit excluding foreign aid/Nominal GDP	**(2.4)%**	**(2.5)%**	**(1.9)%**	**(1.6)%**	**N/A**
Deficit including foreign aid/Nominal GDP	**(1.7)%**	**(2.2)%**	**(1.8)%**	**(1.4)%**	**N/A**
Nominal GDP	**23,814**	**24,259**	**25,054**	**25,850**	**N/A**
Surplus (deficit) including foreign aid and Pension reform	**(813.9)**	**(979.4)**	**(907.0)**	**(851.2)**	**(657.3)**
Surplus (deficit) including foreign aid and Pension reform/GDP	**(3.4)%**	**(4.0)%**	**(3.6)%**	**(3.3)%**	**N/A**

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

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

The non-financial public sector deficit for 2011 was US$501.0 million, or 2.2% of GDP, lower than the deficit recorded in 2010, by US$59.8 million. Total income in 2011 amounted to US$4,514 million, showing a growth of US$519.8 million (13.0%) with respect to 2010. This was the result of an increase in income taxes, the surplus of public owned enterprises and foreign aid (mainly related to *Proyecto Fomilenio*). Total expenditures of the non-financial public sector amounted to US$5,014 million, recording an increase of US$460.9 million (10.1%), mainly due to an increase of 12.1% in current expenditures.

In 2012, the non-financial public sector registered a deficit of US$394.6 million, or 1.7% of GDP, lower than the deficit recorded in 2011 by US$106.4 million. Total income in 2012 amounted to US$4,759.2, showing a growth of US$245.6 million with respect to 2011. Total expenditures of the non-financial public sector amounted to US$5,153.8 million, an increase of US$139.2 million of the previous year.

In 2013, the non-financial public sector deficit totaled US$537.1 million, or 2.2% of GDP, an increase of US$142.6 million over the deficit recorded in 2012. Total revenues in 2013 amounted to US$4,877.0 million, showing a growth of US$117.8 million. Total expenditures from the non-financial public sector amounted to US$5,414.2 million, an increase of US$260.4 million from the previous year.

The non-financial public sector registered a deficit of US$440.0 million in 2014, or 1.8% of GDP, a decrease of US$97.1 million (18.1%) compared to the deficit observed in 2013. This was mainly due to an increase in total revenues to $4,956.2 million an increase of US$79.2 million. Total expenditures were US$5,396.2 million, a decrease of US$18.0 million.

The non-financial public sector in 2015 registered a deficit of US$366.0 million, or 1.4% of GDP, a 0.4% decrease compared to the previous year. This was mainly due to an increase in the revenues in the amount of US$166.0 million compared to an increase in total expenditures of US$92.0 million. Including the cost of pensions for which the Republic is responsible, the fiscal deficit amounts to US$851.2 million, equivalent to 3.3% of the GDP.

Preliminary figures have the non-financial public sector registering a deficit of US$137.4 million in 2016, reflecting a decrease of US$228.6 million from 2015. The total fiscal deficit including pensions reached US$657.3 million in 2016.

The Government currently projects that the consolidated non-financial sector deficit for 2017 without pension obligations will be US$311.6 million, or 1.1% of GDP. Including pension obligations, the 2017 consolidated non-financial sector deficit is projected to be US$925.3 million, or 3.3% of GDP.

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]

	(Millions of dollars) For the year ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
Tax Revenues[2]	**(in millions of US dollars)**				
Income	1,317.4	1,506.4	1,549.4	1,574.9	1,689.8
Property Transfers	19.9	20.7	24.4	20.4	22.7
Imports	179.6	199.2	181.3	194.2	206.5
Consumption	146.1	145.1	149.4	162.3	170.2
Value Added Tax	1,860.9	1,901.7	1,910.0	1,934.3	1,853.9
Others	45.4	45.1	54.1	99.5	99.6
Special Contributions (FOVIAL)[3]	71.2	72.1	73.6	79.6	85.6
Special Contributions (SUGAR)	0.9	0.6	0.9	0.9	0.8
Special Contributions (TOURISM)	8.4	9.0	9.0	10.1	10.5
Special Contributions (TRANSPORTATION)	35.7	36.2	36.9	39.9	43.0
Special Contributions (FONAT)		8.1	-	-	-
Special Contributions (CESC)				2.0	55.6
Total Tax Revenues	3,685.4	3,944.1	3,989.0	4,118.1	4,238.0
Non-Tax Revenues	142.1	144.6	148.7	158.6	173.6
Total Current Revenue	3,827.4	4,088.7	4,137.7	4,276.7	4,411.6
Capital Revenues	0.2	0.0	-	-	0.1
Foreign Aid	30.0	25.3	14.0	25.8	21.9
Total Current Revenues	3,857.6	4,114.0	4,151.7	4,302.5	4,433.6

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

Source: *Ministerio de Hacienda*

Taxation and Customs

The main pillars on which the Salvadoran tax system is based are the VAT, income tax, import duties and consumption taxes. These four tax categories in 2016 represented 92.5% of total tax revenues, including special contributions. The Salvadoran tax system relies more on the collection of indirect taxes, such as the VAT, than on direct taxes.

The Constitution authorizes the levy and collection of taxes by tax authorities at the national level. The central Government collects taxes on personal and corporate income and on transfers of real estate. In addition, it collects import duties and a 13% VAT on tangible assets and services. Approximately 96.0% of the central Government's current revenues came from various forms of taxation in 2016.

The VAT applies to the sale of most tangible goods as well as most services, except those related to education, public transportation and cultural services, among other. Continuing the trend that began in 1992, the VAT was the principal source of tax revenues in 2016, generating approximately 43.7% of total tax revenues. In 2011, VAT collection totals US$1.8 billion, representing an increase of 16.0% compared to 2010. For 2012, VAT collections totaled US$1.9 billion, representing an increase of 3.3% compared to 2011. For 2015, VAT collections totaled US$1.8 billion an increase of 1.3% compared to 2014. For 2016, VAT collections totals US$1.9 billion approximately, a decrease of 4.2% compared to 2015.

The second largest component of tax revenues is the income tax, which accounted for 39.9% of total tax revenues in 2016. Such income tax is in effect for natural persons and corporations as well as for residents and non-residents who declare in the Republic. A fixed rate of 30.0% is applied to residents and non-resident taxpayers and corporate entities, except for those who have obtained an income equal to or below US$150,000, in that case a 25% rate applies. Import duties, the third main component of tax revenues, represented 4.9% of total revenues for 2016.

In 2011, tax revenues were US$3.5 billion an increase of 13.5% compared to 2010. In 2012, tax revenues were US$3.7 billion an increase of 5.7% compared to 2011. In 2013, tax revenues were US$3.9 billion, an increase of 7.0% compared to 2012. The increase was principally the result of the moderate recovery of economic activity, growth in the value of non *maquila* imports (which provide higher import duties and the corresponding VAT), and improved efficiency in tax and customs administration and in tax audits.

For 2014, tax revenues amounted to US$4.0 billion, an increase of 1.1% compared to 2013. The recorded increase was due in part to the performances generated by the VAT, specifically for internal transactions, and income tax, in the withholding items. In aggregate the income tax and VAT constituted 86.7% of total collections. The performance of the revenues generated a tax burden equal to 15.9% of GDP. The taxes that registered greatest participation in collection were the VAT with 7.5% of total collections, income tax with 6.1% of total collections and tariff duties on imports 0.7% of total collections. The VAT specifically registered revenue of US$1.9 billion, representing annual increase of 0.4%, with a participation of 47.9% of the total collections. Income taxes contributed fiscally an accumulated flow of US$1.6 billion registering an annual 1.6% increase or US$25.5 million. Income taxes represented 38.2% of the total tax revenues, presenting greater progressiveness of the tax system since 2013. Income taxes contributed fiscally an accumulated flow of US$1.6 billion, registering an annual 2.9% increase. The relative tax contributions of the income taxes were 38.8% of total tax revenues.

In 2015, tax revenues amounted to US$4.1 billion, an increase of 3.2% compared to 2014. This increase was generated in part by the performance of VAT, income tax and the tax on financial operations. In 2015, tax collections as a percentage of GDP increased by 2.5%. The VAT increased to US$1,934.3 million, a 1.3% increase, compared to 2014 or US$24.3 million. VAT collection totaled 47.0% of all tax collections. Income taxes contributed US$1.6 billion an increase of 1.6%, compared to 2014 or US$25.5 million. Income taxes represented 38.2% of the total tax revenues.

In 2016 preliminary tax revenues including special contributions totaled US$4,238.0 million, a 2.9% increase compared to 2015. The VAT by specific source decreased to US$1.8 billion, a 4.2% decrease compared to 2015 or US$80.4 million, mainly due to lower oil prices and tax credits given to taxpayers. Income taxes fiscally contributed an accumulated US$1.7 billion a 7.3% increase or US$114.9 million. The income tax represented 39.9% of total taxes.

Tax Reforms

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

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

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

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

- Legislative Decree Number 764 introduces a 0.25% tax on amounts over US$1,000 paid by check or by electronic transfer within the country and a tax of 0.25% on deposit operations, payments and cash withdrawals that, individually or in the aggregate, exceed US$5,000. The Government has included provisions that seek to prevent the financial transactions tax from imposing an undue burden on the lower income segment of the population.

The Constitutional Chamber of the Supreme Court of Justice rejected on January 14, 2016, certain constitutional actions filed by seven banks operating in El Salvador, which alleged that the 0.25% tax on certain financial transactions was unconstitutional.

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

Special Tax on Fuels

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

Reforms to the Reimbursement of the Tax Credit (VAT)

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

Special Contribution for Citizen Security and Coexistence

A tax for citizen security and coexistence was enacted through Legislative Decree No. 162 dated October 29, 2015 on the procurement and/or use of telecommunications services and on transfers of any type of technological devices, terminals, equipment and accessories. The tax is to be paid by the users and re-sellers of the telecommunication services and importers, among others. The tax rate is 5.0% and is applied to a specified tax base according to the decree, the decree will be in force for five years after its enactment. In 2015, US$2.0 million was collected as a result of the tax and as of December 2016 US$48.6 million had been collected.

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

A tax on earnings was enacted through Legislative Decree No.161 dated October 29, 2015 for the purpose of fighting crime. A tax of 5% of the tax base is applied to net earnings in excess of US$500 million. The decree will have effect for five years. During 2016, US$7.0 million was collected as result of this tax.

Reforms to the Tax Code

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

Reforms to Withholding Tables (Income Tax)

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

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 customs officers to review questionable declarations, and ensuring compliance with the rules of origin applicable to goods imported into the Republic. In addition to the Republic's commitments pursuant to the DR-CAFTA, the reforms are also intended to permit the Republic to comply with its other international commitments, such as those under the *Codigo Arancelario Unificado de Centro America* ("CAUCA") and other international agreements concerning international trade of goods.

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

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

Central Government Expenditures

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

Central Government Expenditures(1)

	For the year ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
	(in millions of US dollars, except percentages)				
Education	$816.8	$857.2	$874.5	$881.4	$885.3
Public Health	495.3	564.1	553.9	549.4	550.6
Justice and Public Security	328.8	359.9	372.8	383.2	421.4
Judiciary Branch	199.4	220.2	199.7	221.5	229.0
National Defense	157.0	160.3	157.2	152.8	155.8
Presidency	139.0	154.9	131.7	119.5	117.9
Finance (2)(3)	63.8	68.3	78.1	92.1	97.1
Economy	172.2	181.0	144.9	104.0	93.5
Agriculture and Livestock	74.5	69.2	76.3	94.8	81.9
Legislative Branch	52.6	61.1	50.7	50.4	54.4
Foreign Affairs	39.4	43.9	43.6	40.8	43.5
Attorney General	34.6	39.4	42.5	43.9	42.6
Court of Accounts	33.1	36.4	33.6	33.0	33.8
General Prosecutor	20.1	21.7	23.1	23.4	23.6
Public Security	19.2	19.8	19.3	19.7	21.2
Supreme Electoral Tribunal	23.1	24.5	14.8	15.2	15.5
Labor and Social Security	13.1	14.4	14.1	14.4	13.1
Defense of Human Rights	8.1	8.9	8.2	8.0	9.5
National Council of Judiciary	5.8	5.6	5.6	5.6	5.2
Government Ethics Tribunal	0.8	1.9	1.9	1.9	2.2
Institute of Access to Public Information			1.03	1.0	1.31
Civil Service Tribunal	0.7	0.7	0.8	0.7	0.7
Public Works	**226.4**	**286.0**	**211.2**	**214.2**	**206.3**

Environmental	16.1	12.4	11.7	12.8	11.4
Tourism	11.6	17.8	15.4	15.1	17.3
Public Treasury (2)	**1,080.6**	**1,119.6**	**1,152.1**	**1,200.4**	**1,202.1**
Interests	536.3	570.1	588.3	627.0	663.6
Transfers	**176.2**	**159.0**	**162.3**	**178.2**	**144.1**
General Obligations	125.7	76.6	69.2	85.4	62.8
Other Transfers	50.6	82.4	93.1	92.7	81.3
Capital Transfers	**368.1**	**390.5**	**401.5**	**395.2**	**394.4**
Total Central Government Expenditures/Nominal GDP	**$4,032.3**	**$4,349.0**	**$4,238.7**	**$4,299.2**	**$4,336.2**
Central Government Expenditures/Nominal GDP	**16.9%**	**17.9%**	**16.9%**	**16.6%**	**N/A**

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

Source: *Ministerio de Hacienda*

In 2012, central Government expenditures increased to US$4.0 billion, or 16.9% of nominal GDP, an increase of US$47.6 million compared to 2011. In 2013, central Government expenditures increased to US$4.3 billion, or 17.9% of nominal GDP, an increase of US$316.7 million compared to 2012. In 2014, central Government expenditures decreased to US$4.2 billion or 16.9% of nominal GDP, a decrease of US$110.3 million compared to 2013. The Central Government expenditures for 2015 increased to US$4.3 billion or 16.6% of nominal GDP, an increase of US$60.5 million.

Expenditures relating to social goals, including health, education, labor, and housing, increased from US$1,352 million in 2012 to US$1,436 million in 2013, US$1,442.5 million in 2014 , US$1,445.2 million in 2015 and US$1,449.0 million in 2016 an accumulated increase of US$97.0 million in 2016 compared to 2012.

2017 Budget

The 2017 budget for the Central Government was presented to the Legislative Assembly on September 30, 2016 and enacted on January 19, 2017 for a total amount of US$4,958 million in expenditures, an increase of US$621.9 million or 14.3% compared to the 2016 results. The 2017 budget was duly approved by the Legislative Assembly with 49 votes in favor and with the abstention of all 35 ARENA Assembly members.

The principal assumptions on which the 2017 budget is based are real GDP growth of 2.3%, an inflation rate of 2.0% and nominal GDP of US$27,826.1 million. The budget contemplates total revenues of US$4,958 million and total expenditures of US$4,958 million. The budget allocates, among other expenditures, US$3,619.0 million (72.99% of total expenditures) to current costs, which include salaries and compensation, goods and services, certain financial costs and current transfers, US$752.9 million to capital costs (15.19% of total expenditures), which include public investment programs and other capital costs and US$309.6 million to financial expenditures (6.25% of total expenditures), which include amortization payments on internal and external debt.

The 2017 budget contemplates revenues of US$4,958 million, with US$4,458.1 million (89.92% of total revenues) from current revenues, which include revenues from tax and non-tax sources, US$17.4 million from capital revenues (0.35% of total revenues), which include donations and US$245.0 million from financing (4.94% of total revenues) and US$237.3 million (4.79% of total revenues) from revenues from special contributions.

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 US$17,192.1 million at December 31, 2016, compared to US$16,323.4 million at December 31, 2015, US$15,466.1 million at December 31, 2014, US$14,691.6 million at December 31, 2013, and US$14,296.2 million at December 31, 2012. The increase in public sector debt in 2016 was mainly due to the increase in stock of LETES issued by the Government and the issuance of CIPs.

Total Public Debt

	At December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
	(in millions of US$ and % of GDP)				
External Debt	$9,423.5	$9,449.5	$10,212.9	$10,096.5	$10,155.2
Internal Debt	4,872.7	5,242.1	5,253.2	6,226.9	7,036.9
Total	**14,296.2**	**14,691.6**	**15,466.1**	**16,323.4**	**17,192.1**
GDP	23,813.6	24,350.9	15,054.2	25,850.2	N/A
Debt/GDP(%)	**60.0**	**60.3**	**61.7**	**63.1**	**N/A**

Source: Ministerio de Hacienda

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

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

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

LETES

The Ministry of Finance is authorized to issue LETES to finance temporary revenue shortages. LETES, which are U.S. dollar-denominated instruments, are sold on the Salvadoran stock exchange at discounts and reflect market conditions at the time of issuance. The maximum maturity of LETES is 360 days. As of December 31, 2016, US$1,015.0 million in aggregate principal amount of LETES were outstanding.

External Debt

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

The Central Bank's external debt at December 31, 2016 was US$212.8 million, compared to US$156.2 million at December 31, 2015.

Since the signing of the Peace Accord in 1992 and to deal with the effects of extreme weather events, 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.

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

Public Sector External Debt

	At December 31,				
	2012	**2013**	**2014[1]**	**2015 [1]**	**2016 [1]**
	(in millions of U.S. dollars, except percentages)				
Central Government	$ 8,580.9	$ 8,569.0	$ 9,382.4	$ 9,309.1	$ 9,190.1
Public financial and non-financial entities	681.4	617.1	596.0	631.2	752.3
Sub-total	9,262.3	9,186.1	9,978.4	9,940.3	9,942.4
Central Bank	161.2	263.4	234.5	156.2	212.8
Total	$ 9,423.5	$ 9,449.5	$ 10,212.9	$ 10,096.5	$ 10,155.2
External public debt as a percentage of nominal GDP [1]	39.6%	38.8%	40.8%	39.1%	N/A

(1) Preliminary
Source: *Ministerio de Hacienda y Banco Central de Reserva.*

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

Public Sector External Debt by Type of Creditor

	At December 31,				
	2012	**2013**	**2014[1]**	**2015[1]**	**2016[1]**
	(in millions of US dollars)				
Central Government and public financial and non-financial entities	$ 9,262.3	$ 9,186.1	$ 9,978.4	$ 9,940.3	$ 9,942.4
Multilateral	3,754.1	3,724.5	3,680.2	3,692.3	3,699.3
Bilateral	595.1	546.3	470.0	433.8	428.9
Commercial	4,913.1	4,915.3	5,828.2	5,814.2	5,814.2
Central Bank and Notes	161.2	263.4	234.5	156.2	212.8
Multilateral	161.2	215.4	199.5	156.2	182.8
Bilateral	0.0	0.0	0.0	0.0	0.0
Commercial	0.0	48.0	35.0	0.0	30.0
Total Public Sector	$ 9,423.5	$ 9,449.5	$ 10,212.9	$ 10,096.5	$10,155.2
As a Percentage of GDP	39.6%	38.8%	40.8%	39.1%	N/A

(1) Preliminary.
Source: *Ministerio de Hacienda y Banco Central de Reserva.*

The increases in multilateral debt of the central Government and public financial and non-financial entities from December 31, 2012 to December 31, 2016 were mainly due to the impact of the disbursement of loans for strategic projects. The purpose of the loans was mainly preserve social programs and strengthen the economic development.

The issuance of external long term debt requires the approval of a two-thirds majority of the Legislative Assembly. During 2016, the government was unable to issue any new external long term debt due to the lack of support from the main opposition party, ARENA. The inability to issue long term debt caused the Government to issue additional LETES in the local market with an aggregate principal amount of US$1 billion at December 31, 2016.

At December 31, 2016, total disbursements to the non-financial public sector were US$235.9 million, oriented to income support and employability, public works including public road infrastructure, public health, local development, justice and public security, agriculture, and rural water and sanitation. The increase in commercial indebtedness from December 31, 2012 to December 31, 2016 is due primarily to the Republic's issuance of external notes to smoothing maturity profile by converting short-term debt to long-term debt.

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, 2016	
	Amount	**Percentage**
	(in millions of US dollars, except percentages)	
Fixed Rate		
0-3%	$ 493.4	4.9%
3-6%	2,054.7	20.2
6-9%	4,840.0	47.7
Floating Rate	2,767.1	27.2
Total	**$ 10,155.2**	100.0%

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

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

Public Sector External Debt Service Maturity 2017 - 2026 [1/]

	For the Year Ended December 31,									
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
	(in millions of US$ dollars)									
Central Government	**$801.6**	**$794.2**	**$1,569.0**	**$698.6**	**$657.3**	**$642.6**	**$1,402.2**	**$657.5**	**$1,291.2**	**$454.0**
Principal	285.2	286.9	1,071.0	268.5	235.8	228.4	1,026.0	319.0	987.2	178.5
Interest	516.4	507.3	498.0	430.1	421.5	414.2	376.2	338.5	304.0	275.5
Rest of Public Sector	**64.8**	**66.6**	**64.3**	**65.6**	**60.9**	**57.2**	**53.3**	**47.3**	**44.8**	**43.1**
Principal	41.2	45.4	45.4	48.8	46.3	44.6	42.6	38.5	37.7	37.7
Interest	23.6	21.2	18.9	16.8	14.6	12.6	10.7	8.8	7.1	5.4
Total Debt Service	**$866.4**	**$860.8**	**$1,633.3**	**$764.2**	**$718.2**	**$699.8**	**$1,455.5**	**$704.8**	**$1,336.0**	**$497.1**

(1) Medium-and long-term debt, with disbursements at December 31, 2016, 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 CAD $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, and in 2009, with the Government of the Federal Republic of Germany, €10.0 million of outstanding debt was reallocated to finance development projects in selected municipalities of El Salvador and €10 million more were reallocated in 2012 to finance projects to improve the quality of life in selected urban neighborhoods. Currently a new reallocation is being processed with The Federal Republic of Germany for an amount of €10 million to finance projects in the health sector.

Internal Debt

The public sector's internal debt, excluding the Central Bank, was US$7,036.9 million at December 31, 2016 compared to US$6,226.9 million at December 31, 2015, US$5,253.2 million at December 31, 2014, US$5,242.1 million at December 31, 2013, and US$4,872.1 million at December 31, 2012. 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, 2016, the outstanding principal balance of obligations related to such activity was US$705.5 million.

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

Public Sector Internal Debt

	At December 31,				
	2012	**2013**	**2014**	**2015**	**2016**[1]
	(in millions of US dollars, except percentage)				
Central Government	$2,282.5	$2,028.8	$1,631.6	$2,085.8	$2,416.0
Public non-financial entities	0.0	154.9	154.9	211.6	235.0
Public financial entities[2]	2,590.2	3,058.4	3,466.7	3,929.5	4,385.9
Total	**$4,872.7**	**$5,242.1**	**$5,253.2**	**$6,226.9**	**$7,036.9**
Internal public debt as a percentage of nominal GDP[1]	20.5%	21.5%	21.0%	24.1%	N/A

Exclude Central Bank internal debt obligations and the direct debt of Municipalities without Government guarantee.

(1) Preliminary.

(2) Includes Trust Funds: FOP Serie A.

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

Central Government internal debt increased from US$2,282.5 million at December 31, 2012 to US$2,416.0 million at December 31, 2016, due primarily to the increase of LETES issued by the Government, and the issuances of internal bonds sold in the Salvadoran Exchange Market to finance the budget.

The approval process for the issuance of new external long-term debt needs to be approved by a two-thirds majority of the Legislative Assembly. During 2016 the Government experienced a complex political scenario mainly due to the lack of support from the main opposition party in the Legislative Assembly. This caused the Government to issue additional short-term debt in the local market with a total aggregate principal amount of US$1 billion LETES at December 2016.

The increase registered in the internal debt incurred by public financial entities, is represented mainly by debt of the FOP trust fund, a financing vehicle established in 2006, used to finance pension costs. As of December 31, 2016 US$4,015.9 million in aggregate amount of FOP issued CIPs (Series A) were outstanding to cover pension payments from the public pension system.

DESCRIPTION OF THE NOTES

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

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

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

Principal, Maturity and Interest

The Notes will:

- initially be issued in an aggregate principal amount of U.S.$601,085,000;
- will mature at par on February 28, 2029;
- will bear interest from and including, February 28, 2017 to, but excluding February28, 2029, at a rate of 8.625% per annum on the principal amount thereof, payable semi-annually in arrears on February 28 and on August 28 of each year, commencing on August 28, 2017. Interest on the Notes will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed, but not more than 30 days in a month; and
- will pay interest to persons in whose names the bonds are registered at the close of business on February 27 or August 27, as the case may be, preceding each payment date.

Ranking

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

Form, Denomination and Title

The Notes will be issued in U.S. dollars, in fully registered form, in denominations of U.S.$5,000 or any amount in excess thereof, which is an integral multiple of U.S.$1,000. The Notes, and the transfer thereof, shall be registered as provided in the Indenture. As used herein, "holder," in relation to a Note, means the person in whose name a Note is registered. A person in whose name a Note is registered will, to the fullest extent permitted by law, be treated at all times, by all persons and for all purposes as the absolute owner of such Note regardless of any notice of ownership, theft or loss or of any writing thereon.

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

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

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

The Notes will not be issued in bearer form. The rights in respect of each Note issued to DTC and registered in the name of its nominee will be those of the registered nominee. Accordingly, each person having a beneficial interest in such Note must rely on the procedures of the institutions having accounts with DTC to exercise any rights of such person. As long as Notes are held through DTC's book-entry settlement system, ownership of beneficial interests in such Note will (unless otherwise required by applicable law) be shown on, and transfers of such beneficial interests may be effected only through, records maintained by (i) DTC or its registered nominee or (ii) institutions having accounts with DTC (including, without limitation, Euroclear and Clearstream, Luxembourg). Beneficial interests in the Global Notes may be held in denominations of U.S.$5,000 and integral multiples of U.S.$1,000 in excess thereof.

Replacement, Exchange and Transfer

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

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

Upon the terms and subject to the conditions set forth in the Indenture, a Note may be transferred in whole or in part (in the principal amount of U.S.$5,000 or integral multiples of U.S.$1,000 in excess thereof) by the holder or holders surrendering the Note for registration of transfer at the office of the Registrar or at the office of any Transfer Agent, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Republic and the Registrar or any such Transfer Agent, as the case may be, duly executed by the holder or holders thereof or such holder's or holders' attorney-in-fact or attorneys-in-fact duly authorized in writing.

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

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

Certain Covenants of the Republic

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

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

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

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

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

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

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

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

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

Events of Default

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

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

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

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

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

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

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

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

Collective Action Securities, Modifications, Amendments and Waivers

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

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

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

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

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

- where such proposed modification would affect a single series of debt securities, the holders of more than 75% of the aggregate principal amount of the outstanding debt securities of the series affected by the proposed modification (defined in the Indenture as "single series reserve matter modification");

- where such proposed modification would affect the outstanding debt securities of two or more series (defined in the Indenture as a "cross series modification"), the holders of more than 75% of the aggregate principal amount of the then outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, if certain "uniformly applicable" requirements are met (defined in the Indenture as "cross-series modification with single aggregated voting"); or

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

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

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

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

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

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

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

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

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

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

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

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

Certain Amendments Not Requiring Holder Consent.

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

- adding to the Republic's covenants for the benefit of the holders of the Notes;

- surrendering any right or power conferred upon the Republic with respect to the Notes;

- securing the Notes pursuant to the requirements of the Notes or otherwise;

- curing any ambiguity or curing, correcting or supplementing any defective provision in the Notes or the Indenture;

- amending the Notes or the Indenture in any manner that the Republic and the Trustee may determine and that does not materially adversely affect the interests of any holders of Notes; or

- correcting a manifest error of a formal, minor or technical nature.

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

Payments and Agents

Principal of, and interest on, the Notes will be payable by the Trustee to Noteholders. Payment of principal of the Notes (together with accrued interest) will only be made to the person in whose name such Note is registered (the "Noteholder") as of the close of business on the maturity date, following presentation and surrender of such Note at the office of any Paying Agent (as defined below), by U.S. dollar check drawn on, or by transfer to a U.S. dollar account maintained by the holder with, a bank located in New York City. Payment of interest on a Note will be made to the person in whose name such Note is registered at the close of business on the day (whether or not a Business Day) (the "Record Date") prior to the relevant due date for the payment of interest.

Payment of such interest will be made directly to holders' DTC accounts or if notes are in physical form, upon application of the holder to the Registrar not later than the relevant Record Date, by transfer of immediately available funds to a U.S. dollar account maintained by the holder with a bank in New York City. If any day for payment of principal or interest in respect of any Note is not a Business Day, the holder shall not be entitled to payment, or to any interest or other sums, in respect of such postponed payment until the next Business Day following such day in such place.

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

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

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

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

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

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

Concerning the Trustee

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

Redemption, Purchase and Cancellation

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

Additional Amounts

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

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

Republic other than the holding of the Note, the receipt of payments on the Note or the enforcement of rights with respect to the Note; or

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

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

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

Currency Indemnity

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

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

Prescription

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

Notices

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

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

Further Issues

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

Governing Law; Arbitration

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

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

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

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

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

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

Certain Definitions

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

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

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

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

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

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

PLAN OF DISTRIBUTION

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

	Principal Amount
Credit Suisse Securities (USA) LLC	US$300,542,500
Deutsche Bank Securities Inc	US$300,542,500
Total: .	**US$601,085,000**

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

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

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

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

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

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

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

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

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

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

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

It is expected that delivery of the Notes will be made against payment therefor on or about the date specified on the cover page of this Offering Circular, which will be the fifth business day following the date of pricing of the Notes (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in 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.

Sales outside of the United States

European Economic Area

This offering circular has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes.

Accordingly any person making or intending to make an offer in that Member State of Notes which are the subject of the offering contemplated in this offering circular may only do so in circumstances in which no obligation arises for El Salvador or any of the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither El Salvador nor the initial purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for El Salvador or the initial purchasers to publish a prospectus for such offer. Neither El Salvador nor the initial purchasers have authorized, nor do they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the initial purchasers, which constitute the final placement of the Notes contemplated in this offering circular.

The expression "Prospectus Directive" means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Relevant Member State concerned.

Each person in a Member State of the European Economic Area who receives any communication in respect of, or who acquires any Notes under, the offers to the public contemplated in this offering circular will be deemed to have represented, warranted and agreed to and with each initial purchaser that:

(a) it is a qualified investor within the meaning of the law in that Member State implementing Article 2(1)(e) of the Prospectus Directive; 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, (i) the Notes acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the initial purchasers has been given to the offer or resale; or (ii) where Notes have been acquired by it on behalf of persons in any Member State other than qualified investors, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

United Kingdom

This offering circular has not been approved by an authorized person for the purposes of section 21 of the UK Financial Services and Markets Act 2000. This offering circular is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This offering circular is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering circular relates is available only to relevant persons and will be engaged in only with relevant persons.

Each initial purchaser has represented and agreed that: (a) 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 FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of FSMA does not apply to El Salvador; and (b) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

BOOK-ENTRY SETTLEMENT AND CLEARANCE

Global Notes

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

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

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

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

- upon deposit of each Global Note with DTC's custodian, DTC will credit portions of the principal amount of the Global Note to the accounts of the DTC participants designated by the Joint Lead Managers and Joint Bookrunners; and
- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in each Global Note).

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

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

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

Exchanges between the Global Notes

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

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

Book-Entry Procedures for the Global Notes

All interests in the Global Notes will be subject to the operations and procedures of DTC and, if applicable, Euroclear and Clearstream, Luxembourg. The Republic provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Republic nor the Joint Lead Managers and Joint Bookrunners are 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 Joint Lead Managers and Joint Bookrunners; 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 Indenture. 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 Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee under the Indenture.

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 Indenture (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 Trustee to DTC's nominee as the registered holder of the Global Note. Neither the Republic nor the Trustee 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 Trustee 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 Trustee 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 Joint Lead Managers and Joint Bookrunners :

(1) Each prospective investor acknowledges that:

- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and

- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) Each prospective investor represents that it is not an affiliate (as defined in Rule 144 under the Securities Act) of the Republic, that it is not acting on the Republic's behalf and that either:

- it is a qualified institutional buyer (as defined in Rule 144A) and is purchasing Notes for its own account or for the account of another qualified institutional buyer, and it is aware that the Joint Lead Managers and Joint Bookrunners are selling the Notes to it in reliance on Rule 144A; or

- it is not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and it is purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) Each prospective investor acknowledges that neither the Republic nor the Joint Lead Managers and Joint Bookrunners nor any person representing the Republic or the Joint Lead Managers and Joint Bookrunners has made any representation to such prospective investor with respect to the Republic or the offering of the Notes, other than the information contained in this Offering Circular. Each prospective investor represents that it is relying only on this Offering Circular in making its investment decision with respect to the Notes. Each prospective investor agrees that it has had access to such information concerning the Republic and the Notes as it has deemed necessary in connection with its decision to purchase Notes, including an opportunity to ask questions of and request information from the Republic.

(4) Each prospective investor represents that it is purchasing Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of that investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from the registration requirements of the Securities Act. Each prospective investor agrees on its own behalf and on behalf of any investor account for which it is purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the applicable resale restriction period pursuant to Regulation S or Rule 144, the Notes may be offered, sold or otherwise transferred only:

(a) to the Republic;

(b) under a registration statement that has been declared effective under the Securities Act;

(c) for so long as the Notes are eligible for resale under Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom it has given notice that the transfer is being made in reliance on Rule 144A; or

(d) pursuant to Regulation S.

Each prospective investor also acknowledges that:

- the Republic and the Trustee reserve the right to require, in connection with any offer, sale or other transfer of Notes before the applicable resale restriction period ends pursuant to Regulation S or Rule 144 under clauses (d) and (e) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Republic and the Trustee;

- Notes (other than those issued outside the United States pursuant to Regulation S) will, until the expiration of one year from the original issuance date of the Notes (or such other date as specified in Rule 144 or as specified in another applicable exemption under the Securities Act), unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS NOTE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE ISSUER OF THIS NOTE, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (II) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THESE NOTES SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE INDENTURE.

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

- Notes issued outside the United States pursuant to Regulation S will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY IN ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE INDENTURE AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

Each prospective investor acknowledges that the Republic, the Joint Lead Managers and Joint Bookrunners and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. Each prospective investor agrees that if any of the acknowledgments, representations or agreements such prospective investor is deemed to have made by its purchase of Notes is no longer accurate, it will promptly notify the Republic and the Joint Lead Managers and Joint Bookrunners. 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 Decrees No. 388 and 534 (as published in the *Diario Oficial* on May 27, 2016 and November 11, 2016 respectively) of the Republic's Legislative Assembly., payments of principal and interest on the Notes are not subject to income or withholding tax in El Salvador. In addition, gains realized on the sale or other disposition of the Notes are not subject to income or withholding tax in El Salvador provided the transaction takes place outside El Salvador. Capital gains obtained for the purchase and sale of the Notes within El Salvador will be subject to the treatment set up in the tax legislation. There are no Salvadoran transfer, inheritance, gift or succession taxes applicable to the Notes.

United States Federal Income Taxation

Generally

The following summary of certain material 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 laws, which are subject to change, possibly with retroactive effect. No assurances can be given that any changes in these laws or authorities will not affect the accuracy of the discussions set forth in this summary. The Republic has not sought any ruling from the U.S. Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with all of such statements and conclusions.

This summary does not purport to discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor's individual circumstances, such as investors whose functional currency is not the U.S. dollar or certain types of investors subject to special tax rules (*e.g.*, financial institutions, insurance companies, dealers in securities or currencies, certain securities traders, regulated investment companies, pension plans, tax-exempt organizations and investors holding Notes as a position in a "straddle," "conversion transaction" or "constructive sale" transaction). In addition, this summary does not discuss the U.S. federal estate and gift tax, alternative minimum tax consequences or any non-U.S., state, or local tax considerations.

This summary only applies to holders of Notes that purchase the Notes at the initial sale price indicated on the cover of this Offering Circular and that hold the 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").

If a partnership (or other entity or arrangement 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. Holders of Notes that are partnerships and partners in such partnerships should consult their own tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes.

Prospective purchasers of Notes should consult their own tax advisors concerning the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes in light of their particular circumstances, as well as the effect of any relevant state, local, foreign or other tax laws.

U.S. Holders

The following discussion applies to you if you are a U.S. Holder. For purposes of this summary, the term "U.S. Holder" means a beneficial owner of a Note who is or that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (including an entity 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, the income of which 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," as defined for U.S. federal income tax purposes, have the authority to control all substantial decisions of the trust or the trust was in existence on August 20, 1996 and has in effect a valid election to be treated as a United States person.

A holder of the Notes who neither a U.S. Holder nor a partnership for U.S. federal income tax purposes is referred to herein as a "Non-U.S. Holder." If you are a non-U.S. Holder, this discussion does not apply to you and you should refer to "Non-U.S. Holders" below.

Payments of Interest and Additional Amounts

We expect, and the remainder of this summary assumes, that the Notes will be issued at par or at a discount that is de minimis for U.S. federal income tax purposes. Accordingly, payments of interest on a Note generally will be taxable to a U.S. Holder as ordinary interest income at the time they are received or accrued, depending on the U.S. Holder's regular method of tax accounting. In addition to interest on a Note, a U.S. Holder will be required to include any tax withheld from the interest payment as ordinary interest income, even though such holder did not in fact receive it, and any Additional Amounts paid in respect of such tax withheld.

Interest (and any Additional Amounts) on the Notes will constitute income from sources outside the United States. Under the 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.

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

A U.S. Holder generally will recognize gain or loss upon the sale, exchange, retirement or other taxable disposition of a Note (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 not previously included in income, which will be taxed as such) and the U.S. Holder's adjusted tax basis in the Note. The amount realized is the sum of cash plus the fair market value of any property received upon the sale, exchange, retirement or other taxable disposition of a Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the U.S. Holder's initial investment in the Note. Gain or loss generally will be capital, and will be long-term gain or loss if the Note is held for more than one year. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognized on the sale, exchange, retirement or other taxable disposition of a Note generally will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes.

Medicare Tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (i) the U.S. Holder's "net investment income" (or, in the case of an estate or trust, the "undistributed net investment income") for the relevant taxable year and (ii) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between US$125,000 and US$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally includes its interest income and its net gains from the disposition of a Note, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders should consult their own tax advisors regarding the applicability of the Medicare tax to the income and gain in respect of their investment in the Notes.

Information with Respect to Foreign Financial Assets

Owners of "specified foreign financial assets" with an aggregate value in excess of US$50,000 on the last day of the taxable year, or US$75,000 at any time during the taxable year generally will be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the holder's circumstances, higher threshold amounts may apply. "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. The Notes may be treated as specified foreign financial assets and U.S. Holders may be subject to this information reporting regime. Failure to file information reports may subject U.S. Holders to penalties. U.S. Holders should consult their own tax advisors regarding their obligation to file information reports with respect to the Notes.

Non-U.S. Holders

Payments of Interest and Additional Amounts

Subject to the discussion below of backup withholding, payments of interest and any Additional Amounts on the Notes generally are not subject to U.S. federal income tax, including withholding tax, if paid to a "non-U.S. Holder", 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.

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

Subject to the discussion below of backup withholding, a non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, retirement or other taxable disposition of a Note unless: (1) the gain is effectively connected with the conduct by such non-U.S. Holder of a trade or business within the United States (and, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base maintained by the non-U.S. holder in the United States), or (2) such non-U.S. Holder is a nonresident alien individual, who is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met. Non-U.S. Holders who are described under (1) above generally will be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder and, if the non-U.S. Holder is a foreign corporation, such holder may also be subject to the branch profits tax as described above under "-Payments of Interest and Additional Amounts." Non-U.S. Holders described under (2) above generally will be subject to a flat 30% tax on the gain derived from the sale, exchange, retirement or other taxable disposition of Notes, which may be offset by certain U.S. capital losses (notwithstanding the fact that such holder is not considered a U.S. resident for U.S. federal income tax purposes). Any amount attributable to accrued but unpaid interest on the Notes generally will be treated in the same manner as payments of interest, as described above under "—Payments of Interest and Additional Amounts."

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of principal and interest and any Additional Amounts on the Notes made to non-corporate U.S. Holders if such payments are made within the United States. Such payments will be considered made within the United States if transferred to an account maintained in the United States or mailed to a United States address, and the amount is paid by or through a custodian or nominee that is a "U.S. Controlled Person," as defined below. Backup withholding will apply to such payments if a non-corporate U.S. Holder (i) fails to provide an accurate taxpayer identification number or, (ii) in the case of interest payments, fails to certify that it is not subject to backup withholding or (iii) is notified by the IRS that it has failed to report all interest and dividends required to be shown on its U.S. federal income tax returns.

Non-U.S. Holders are generally exempt from these withholding and reporting requirements, but non-U.S. Holders may be required to comply with certification and identification procedures in order to prove their exemption. The payment of proceeds of a sale or redemption of Notes effected at the U.S. office of a broker generally will be subject to the information reporting and backup withholding rules, unless such non-U.S. Holder establishes an exemption. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a non-U.S. office of a broker that is a U.S. Controlled Person, as defined below, unless the broker has documentary evidence that the holder or beneficial owner is not a U.S. Holder (and has no actual knowledge or reason to know to the contrary) or the holder or beneficial owner otherwise establishes an exemption.

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

- a "United States person;"
- a controlled foreign corporation for U.S. federal income tax purposes;
- a non-U.S. person 50% or more of whose gross income is derived for 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 IRS in a timely manner.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by Douglas Arquimides Melendez Ruiz, the *Fiscal General* (the "Attorney General") of the Republic and by Consortium Legal, Salvadoran counsel to the Republic, and by Arnold & Porter Kaye Scholer LLP, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the Joint Lead Managers and Joint Bookrunners by Latamlex-Guandique Segovia Quintanilla, Salvadoran counsel to the Joint Lead Managers and Joint Bookrunners, and by Shearman & Sterling LLP, U.S. counsel to the Joint Lead Managers and Joint Bookrunners. As to all matters of Salvadoran law, Arnold & Porter Kaye Scholer LLP will rely on the opinions of the Attorney General and Consortium Legal, and Shearman & Sterling LLP will rely upon the opinion of Latamlex-Guandique Segovia Quintanilla.

GENERAL INFORMATION

1. The Regulation S Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg and the Restricted Global Note has been accepted for clearance through DTC. The CUSIP numbers for the Regulation S Global Note and the Restricted Global Note are P01012 BX3 and 283875 BW1, respectively. The common codes for the Regulation S Global Note and the Restricted Global Note are 157242083 and 157312162, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are USP01012BX31 and US283875BW13, 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 Decrees No. 388 and 534 (as published in the *Diario Oficial* on May 27, 2016 and November 11, 2016 respectively) of the Republic's Legislative Assembly.

3. The Republic is currently involved in three pending arbitration proceedings: *Pac Rim Cayman LLC v. Republic of El Salvador*, *Enel Green Power S.p.A. v. Republic of El Salvador*, and *Costa Rica v. El Salvador* (DR-CAFTA).

First, regarding *Pac Rim Cayman LLC v. Republic of El Salvador*, arbitration proceedings were filed by PacRim Cayman, a company based in the state of Nevada with its headquarters in Canada, with a claim initially of US$77.0 million based on a concession for the exploitation of a gold mine in San Isidro, El Salvador, in the Department of Cabañas. In 2012, the arbitration tribunal, constituted at the International Centre for Settlement of Investment Disputes of the World Bank ("ICSID"), declared that it had jurisdiction pursuant to the Investment Law of the Republic of El Salvador. PacRim Cayman has since increased the amount claimed to US$314.0 million. In October 14, 2016, the tribunal found in favor of the Government of El Salvador and granted respondent an award of US$8 million to cover its legal fees and costs.

Second, in relation to *Enel Green Power S.p.A. v. Republic of El Salvador*, the Paris Court of Appeals upheld the ruling of the Court of Arbitration of the International Chamber of Commerce ("ICC") that resulted from the international arbitration proceeding undertaken by Enel Green Power against *Inversiones Energéticas, S.A. de C.V.* ("INE"). INE is owned by the *Central Hidroeléctrica del Río Lempa*, a state-owned company. The decision of the Paris Court of Appeals affirmed that investments by Enel Green Power in LaGeo, a Salvadoran geothermal power company and joint venture between INE and Enel Green Power, qualified as contributions to equity that entitled Enel Green Power to additional shares in LaGeo that would position Enel Green Power as the controlling shareholder. Enel Green Power has filed a claim against El Salvador at ICSID with respect to the ICC arbitral award and subsequent decision of the Paris Court of Appeals. On September 14, 2015 the arbitration tribunal declared the proceedings closed and rendered an award that incorporated an agreement to settle reached by the parties.

Third, in *Costa Rica v. El Salvador*, the Republic of Costa Rica has sued El Salvador under the DR-CAFTA. Costa Rica alleges that El Salvador misinterprets the DR-CAFTA by not applying certain tax exceptions and preferential tariff terms to goods produced in and exported from Costa Rica. El Salvador maintains that the DR-CAFTA provides tariff waivers only on goods imported from the United States and not necessarily goods imported from other DR-CAFTA nations. On November 18, 2014, the tribunal ruled that El Salvador had not breached the terms of DR-CAFTA.

4. On August 11, 2016, Moody's Investor's Service downgraded El Salvador's ratings to B1 from Ba3 and placed the ratings on review for further downgrade. Later, on November 7, 2016, Moody's Investors Service changed El Salvador's issuer and long-term debt ratings to B3 from B1 and assigned a negative outlook to the ratings, concluding the previously initiated review for possible downgrade. Moody's Investor's Service stated that the downgrade to B3 was based on a significant increase in liquidity risks and a political impasse in the Legislative Assembly.

On January 26, 2016, Standard & Poor's indicated that its Ratings Direct research update affirmed El Salvador ratings of B+, with a stable outlook. Such report supplemented and affirmed sovereign ratings as communicated through Standard & Poor's press release on December 22, 2015. On October 13, 2016, Standard & Poor's Global Ratings lowered its long-term sovereign credit ratings on the Republic of El Salvador to 'B' from 'B+'. The ratings on El Salvador remained on CreditWatch with negative implications. On December 8, 2016, Standard & Poor's Global Ratings issued a Ratings Direct research update indicating it lowered its long-term foreign and local currency sovereign credit ratings on El Salvador to 'B-' from 'B'. At the same time, Standard & Poor's removed the ratings from CreditWatch with negative implications. The outlook is negative. On February 1, 2017 Fitch Ratings downgraded El Salvador's ratings to 'B' from 'B+'. The rating outlook was revised to negative from stable.

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 Indenture 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, 2016.

ISSUER

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The Republic of El Salvador

US$601,085,000

8.625% Notes due 2029

Credit Suisse Securities **Deutsche Bank Securities**

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February 21, 2017