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OFFERING CIRCULAR

The Republic of El Salvador

US$800,000,000
6.375% Notes due 2027

The Republic of El Salvador (the "Republic" or "El Salvador") is offering US$800,000,000 aggregate principal amount of its 6.375% Notes due January 18, 2027 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on January 18 and July 18 of each year commencing on January 18, 2015. The Notes will mature on January 18, 2027. 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 provisions, commonly known as "collective action clauses", regarding acceleration and voting on future amendments, modifications and waivers that differ from those applicable to certain of the Republic's outstanding Public External Indebtedness (as defined herein). Under these provisions, which are described in the sections entitled "Terms and Conditions of the Notes — Events of Default" and "— Modifications, Amendments and Waivers", the Republic may amend the payment provisions of the Notes and certain other terms with the consent of the holders of 75% of the aggregate amount of the outstanding Notes.

Except as described herein, payments on the Notes will be made without deduction for or on account of withholding taxes imposed by the Republic. Application will be 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 September 18, 2014

Delivery of the Notes will be made on or about September 18, 2014.

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

Citigroup **Deutsche Bank Securities**

The date of this Offering Circular is September 11, 2014

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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NOTICE TO NEW HAMPSHIRE RESIDENTS

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

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

Public External Indebtedness (as defined herein) of the Republic; *provided, however*, that the Republic shall have no obligation to effect equal or ratable payment(s) at any time with respect to any such other Public External Indebtedness and, in particular, shall have no obligation to pay other Public External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.

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

The Republic has taken reasonable care to ensure that the information contained in this Offering Circular is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Notes, would make this 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 implementing a new statistical methodology following the 1993 United Nations System of National Accounts recommendations. Some information in this Offering Circular is preliminary and in the process of updating.

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

The Republic has represented that it has no right to immunity on the grounds of sovereignty or otherwise, from the execution of any judgment in El Salvador, or from the execution or enforcement in El Salvador of any arbitral award (except, in each case, for the limitation on alienation of public property) in respect of any proceeding or any other matter arising out of or relating to its obligations contained in the Notes. The enforcement by a Salvadoran court of a foreign arbitral award is subject to recognition by the *Corte Suprema de Justicia* (the "Supreme Court") of the Republic, which will recognize such award if all of the required formalities are observed and the award does not contravene Salvadoran national sovereignty, constitutional rights or public policy and compliance with the obligations stated in the award is lawful in El Salvador. Under the laws of the Republic, public property *(bienes de uso público)* of the Republic located in El Salvador is not subject to execution or attachment, either prior to or after judgment. The execution of a judgment against the Republic in El Salvador is only available in accordance with 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 2009.

In 2012, El Salvador had nominal gross domestic product ("GDP") of approximately US$23.8 billion and real GDP grew by 1.9%. The highest growth rates by economic sector for the year were 3.5% in agriculture, livestock and fishing, 2.8% in mining, 2.8% in real estate and business services, 2.6% in trade, restaurant and hotels and 2.6% in government services. The only sector to register a contraction was finance and insurance (2.8%), caused by lower short-term and long-term interest rates, which reduced bank profits. In 2013, nominal GDP was approximately US$24.3 billion and real GDP grew by 1.7%. The highest growth rates by economic sector were 3.8% in finance and insurance, 3.3% in government services, 2.8% in real estate and business services and 2.2% in transportation, storage and communications. The only sector to register a contraction in 2013 was agriculture, livestock and fishing (0.4%), caused by reduced coffee production and lower international coffee prices. Preliminary real GDP figures reflect growth of 2.0% for the three-month period ended March 31, 2014, as compared to 1.3% for the same period in 2013.

According to the United Nations Human Development Report 2014, El Salvador's per capita gross national income ("GNI") based on 2013 figures and adjusted for purchasing power parity was US$7,240.

Recent Political and Economic Developments

In his inaugural speech, President Sánchez Cerén announced the priorities of his administration. The administration's policies will address three main priorities: security, employment and education. The government's initiatives will promote greater international integration, for example, by building on the Managua Declaration, in which the presidents of El Salvador, Honduras and Nicaragua declared their intention to improve economic and social cooperation among the three countries. President Sánchez Cerén also discussed entering the Petrocaribe alliance as a full member state and his desire to develop deeper economic ties with the United States, including through a continuation of the Partnership for Growth. His administration also will undertake initiatives to combat corruption and tax evasion. Additionally, President Sánchez Cerén reaffirmed the government's commitment to achieve final approval for a second grant program from the United States Millennium Challenge Corporation ("MCC") to fund *Proyeto Fomilenio II*, which would include investments in improving El Salvador's business climate, infrastructure and human capital. Separately, the president has reaffirmed his commitment to the *El Salvador Adelante* ("Forward El Salvador") plan comprising 33 strategies and 85 commitments for increasing employment opportunities, reducing the cost of living, increasing the well-being of Salvadorans, improving education and security, protecting the environment and launching further initiatives to improve governance.

Fiscal Sustainability Agreement

In October 2012, the government entered into the *Acuerdo para la Sostenibilidad Fiscal*, (the "Fiscal Sustainability Agreement") with support from all the political parties represented in the Legislative Assembly. The Fiscal Sustainability Agreement aims to achieve fiscal sustainability without compromising social development.

Within the framework of the Fiscal Sustainability Agreement, the government has taken the following measures:

- repayment of US$600 million of internal short term notes ("LETES") and use of US$200 million to finance necessary current expenditures, such as the 2014 elections, purchases of medications, and certain subsidies (*e.g*., for electricity, liquid petroleum gas and public transportation).

- implementation of a third phase of fiscal reforms, including new measures to improve income and reduce expenditures. This third phase included the Fiscal and Social Responsibility Act, which sets limits on the fiscal deficit and on the level

of public indebtedness. Additional expenditure measures include voluntary retirement of public sector employees; a 2013 savings and austerity policy that restricted increase in wages and the creation of new public sector jobs and reduced public procurement by 10%; a new payment mechanism for the liquid petroleum gas subsidy; a 50% reduction of the public transportation subsidy; and a restriction on the authorization of current expenditures.

- implementation of reforms to the Income Tax Law to incorporate a minimum payment of income tax of 1% of net assets. The reforms also eliminated a tax exemption under the Printing Law that exempted publishers and printers from taxes in connection with activities related to the production, distribution and sale of newspapers, magazines, other printed media (other than books, for which the tax exemption remains in effect). The reforms also adopted guidelines from the Organization for Economic Cooperation and Development ("OECD") on transfer pricing and provide for the development of control mechanisms for equipment used in processing credit and debit card payments. The reforms include amendments to the Tax Code designed to reduce tax evasion. Finally, a financial transactions tax law 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. See "Public Sector Finances — Tax Reforms."

In May 2010, the government published its *Plan Quinquenal de Desarrollo 2010-2014* ("Five-Year Development Plan"). The Five-Year Development Plan contains the vision, priorities, objectives and goals of the government for the medium- and long-term periods and includes an outlook through 2024. Its main purpose is to help ensure consistency and coordination of government action and to provide a strategic framework for productive socio-economic development. The strategy for achieving the objectives of the Five-Year Plan is based on implementing the following: (i) a universal social protection system and other social policies related to health, education and housing; (ii) the development of a financial system that extends credit to the various productive sectors of the economy, particularly the micro, small- and medium-sized businesses and entrepreneurs and farmers and producers in the agricultural sector; (iii) policies directed at a sustainable macroeconomic environment and inclusive of various sectors of society; (iv) a productive development strategy that reorients government resources and services to promote innovation and entrepreneurial initiatives and creates new ways of enabling access to financial resources and quality management; (v) policies on internal security, democratic coexistence and international relations; and (vi) public investments in strategic programs that address (a) equity, social inclusion and poverty reduction, (b) economic recovery, (c) sustainable development and (d) internal security. The plan was further revised in 2011, altering certain financial targets and the priority of certain government programs.

The Technical and Planning Secretariat of the Presidency is currently drafting the Five-Year Development Plan for the period 2014-2019 and plans to finish and publish the document by the end of 2014. This plan will continue to build on the work of the previous administration and will focus on creating employment with sustained growth, providing education with greater social integration and providing Salvadorans with effective security from violence and crime.

El Salvador implemented a set of actions aimed at strengthening security, increasing productivity and investments and sustaining growth and employment. These include the Partnership for Growth Agreement (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 U.S. President Obama's visit to El Salvador and was signed in November 2011. The program's goal is to identify key issues and barriers to economic growth and to unify efforts of both governments to remove such barriers. The agreement is expected to cover five years. During the first year, an interagency commission identified two binding constraints to economic growth in El Salvador, namely (i) crime and security and (ii) low productivity in tradable goods. A joint action plan was prepared 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. As of May 2014, the Fifth Semiannual Report discloses that 17 of the 20 goals are on target and the remaining three goals are behind target.

Proyecto Fomilenio II

In December 2011, the MCC selected El Salvador as eligible to develop proposals for a second funding program with the United States Millennium Challenge Account. This second funding program, which the MCC calls a "compact," is contingent on continued good policy performance and 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 proposed investments of a second compact. During 2013 and 2014, the MCC financed activities to assess the expected impact of the proposed investments, to further design activities and to develop implementation strategies. In September 2013, the MCC's Board approved the second compact for El Salvador in the amount of US$277 million, which is pending final signature upon confirmation by the MCC that all conditions have been fulfilled.

Preliminary plans for the second MCC compact, which in El Salvador is referred to as *Proyecto Fomilenio II,* include 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.

2014 Budget

The 2014 budget was approved by the Legislative Assembly on October 31, 2013. The 2014 budget contemplates a non-financial public sector deficit of 1.8% of GDP, excluding obligations related to the pension system. Among the main assumptions considered for its formulation were a 3.2% inflation rate, real GDP growth of 2.6%, international oil barrel price of US$105.3, international coffee prices at US$170.1 per quintal and a 2.6% growth rate for the U.S. economy.

Economic Performance

El Salvador's real GDP increased at an average annual rate of 0.8% from 2009 to 2013. Real GDP contracted 3.1% in 2009 due to the Global Economic Crisis. In the past four years, El Salvador has experienced a slow recovery from the Global Economic Crisis, achieving real GDP growth of 1.4%, 2.2%, 1.9% and 1.7% for 2010, 2011, 2012 and 2013, respectively. Estimated GDP growth for the three-month period ended March 31, 2014 was 2.0%, compared to 1.3% for the same period in 2013.

Inflation was (0.2)% in 2009 as a result of decreased internal and external demand. In 2010, inflation increased to 2.1% primarily due to price increases in food, beverages and transportation. In 2011, inflation was 5.1%, 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 utilities prices resulting from adjustments in government subsidies. In both 2012 and 2013, inflation was 0.8% as the prices of food, clothes, footwear and oil-derived products declined. As of July 31, 2014, 12-month inflation was 1.8%, primarily driven by increased food and beverage prices and restaurants and hotel prices, compared to a year-on-year inflation of 1.1% as of July 31, 2013.

Remittances from Salvadoran workers abroad are an important source of income for the Salvadoran economy, representing US$4.0 billion, or 16.3% of GDP in 2013. For the seven months ended July 31, 2014, remittances increased by approximately 8.1% as compared to the same period in 2013. See "Foreign Trade and Balance of Payments — Current Account."

Manufacturing is a key sector of the Salvadoran economy. Since 2009, manufacturing has generated an annual average of 18.6% of El Salvador's nominal GDP. Manufacturing activity contracted by 3.0% in 2009, due to the effect of the Global Economic Crisis, which generated weak external demand, leading to decreased exports, and reduced remittances that consequently reduced internal income and demand. During 2010, 2011, 2012 and 2013, manufacturing activity experienced a gradual recovery, with annual growth rates of 1.9%, 2.7%, 1.3% and 2.1%, respectively. During the three-month period ended March 31, 2014, the manufacturing sector increased 2.1%, compared to growth of 1.9% for the same period in 2013.

In recent years, *maquila* (assembly for re-export) has been one of the most important areas in the manufacturing sector, contributing an average of 9.2% of total production in the manufacturing sector in real terms from 2009 to 2013. According to the Ministry of Economy, as of July 31, 2014, there were 240 companies that benefitted from the free trade zones law, of which 136 were located in free trade zones, with the remaining 104 operating outside the free trade zones boundaries. Over half of the 240 beneficiaries produce apparel and linens; 92 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 86,000 jobs during the 2012/2013 harvest. During the 2013/2014 harvest, the coffee industry generated approximately 35,000 jobs, with coffee rust (a coffee plant disease) and drought among the factors responsible for the decline from 2012/2013. In 2010, 2011, 2012 and 2013, coffee accounted for 74.5%, 79.9%, 71.5% and 66.7% of agricultural exports and 4.7%, 8.7%, 5.6% and 4.3% of total exports of goods, respectively. The decline in coffee production and exports in

2012 and 2013 were due to coffee rust and drought, as well as decreases in international coffee prices of 8.0% in 2012 and 24.4% in 2013. Currently, approximately 139,779 hectares are devoted to the cultivation of coffee, representing approximately 6.6% of the country's land.

Net international reserves decreased from US$2,983.4 million at December 31, 2009 to US$2,720.7 million at December 31, 2013, driven mainly by a decrease of term deposits in the banking sector in 2010 and 2011. As of July 31, 2014, net international reserves stood at US$2,697.5 million.

In 2013, the non-financial public sector deficit (excluding pension system expenses) totaled US$537.1 million, or US$27.1 million below the target set forth in the 2013 budget, but US$142.6 million higher than 2012. The non-financial public sector deficit was 2.2% of nominal GDP in 2013, below the 2.3% target set for that year, as a result of lower expenditures than projected. Reforms implemented from 2009 to 2011 have increased the tax burden to approximately 16%; although revenue targets were achieved, expenditure performance was lower, leading to the lower deficit.

During the six-month period ended June 30, 2014, the non-financial public sector registered a surplus equal to US$86 million, equivalent to 0.3% of estimated nominal GDP. During the six-month period ended June 30, 2013, the non-financial public sector recorded a deficit equal to US$144.5 million, equivalent to 0.6% of estimated nominal GDP. The non-financial public sector deficit as of June 30, 2014 reflected revenues of US$2.646 billion and total expenditures of US$2.560 billion.

During the six-month period ended June 30, 2014, non-financial public sector expenses decreased to 10.1% of estimated nominal GDP, compared to 11.3% of nominal GDP, or US$109 million, for the same period in 2013.

The Republic's ratio of public external debt to GDP was 38.7% in 2009 and increased to 39.0% in 2013, primarily due to increased central government debt. See "Public Debt — External Debt".

The ratio of total public sector debt to GDP increased slightly from 60.0% of GDP at December 31, 2012 to 60.6% of GDP at December 31, 2013. This increase was mainly due to the issuance of US$684.8 million in LETES; the issuance of US$442.3 million of "*Certificados de Inversión Previsional*" (Pension Investment Certificates, "CIPs"); and the disbursement of loans from the Inter-American Development Bank ("IADB") (US$97.3 million), from the Central American Bank of Economic Integration ("CABEI") (US$69.6 million), and from the International Bank for Reconstruction and Development ("World Bank") (US$28.3 million) to support public investment programs. As of June 2014, total public sector debt was US$13,930.8 million (53.1% of GDP).

On November 5, 2012, Moody's Investors Service downgraded the Republic's long-term government bond ratings from "Ba2" to "Ba3" with a stable outlook. On December 16, 2013, Moody's Analysis affirmed the rating of "Ba3" with a stable outlook, as did Moody's Credit Opinion on June 11, 2014. On December 21, 2012, Standard & Poor's Ratings Services changed the outlook of the Republic's foreign currency issuer credit rating from "BB-" with a stable outlook to "BB-" with a negative outlook. Standard & Poor's maintained this rating and outlook in research updates dated January 31, 2013 and December 19, 2013 (and in a research update supplement dated January 8, 2014). On July 16, 2013, the Republic's long-term issuer default rating by Fitch Ratings changed from "BB" with a negative outlook to "BB-" with a negative outlook. Fitch Ratings maintained the "BB-" rating with a negative outlook on July 11, 2014.

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

Selected Economic Indicators

	For the Year Ended December 31,				
	2009	2010	2011	2012	2013
	(in millions of US dollars, except percentages and where noted)				
The Economy					
Nominal GDP[1]	$20,661.0	$21,418.3	$23,139.0	$23,813.6	$24,259.1
Real GDP (in millions of US dollars)[1][2]	$8,953.8	$9,076.0	$9,277.2	$9,451.7	$9,610.1
Real GDP growth[1][2]	(3.1)%	1.4%	2.2%	1.9%	1.7%
Annual inflation[3]	(0.2)%	2.1%	5.1%	0.8%	0.8%
Unemployment	7.3%	7.1%	6.6%	6.1%	5.9%
Balance of Payments					
Exports (FOB goods and services)[1]	$4,215.8	$4,971.1	$5,878.6	$6,093.8	$6,402.6
Imports (FOB goods and services)[1]	$7,413.8	$8,595.0	$10,201.7	$10,512.7	$11,113.2
Trade and services balance[1]	$(3,198.1)	$(3,623.9)	$(4,323.1)	($4,419.0)	($4,710.6)
Current account surplus (deficit) of the balance of payments[1]	$(312.2)	$(532.8)	$(1,111.8)	($1,288.1)	($1,576.6)
As % of GDP[1][4]	(1.5)%	(2.5)%	(4.8)%	(5.4%)	(6.5%)
Net international reserves	$2,983.4	$2,880.7	$2,502.0	$3,172.9	$2,720.7
Non-Financial Public Sector					
Total revenues	$3,626.0	$3,993.8	$4,513.6	$4,759.2	$4,877.0
Total expenditures	$4,451.7	$4,553.7	$5,014.6	$5,153.8	$5,414.2
Primary balance surplus (deficit)	$(640.3)	$(409.1)	$(388.7)	$(277.5)	$(385.6)
As % of GDP[1]	(3.1%)	(1.9%)	(1.7%)	(1.2%)	(1.6%)
Surplus (deficit)[4]	$(1,171.2)	$(917.0)	$(906.6)	$(813.9)	$(979.4)
As % of GDP[1]	(5.7%)	(4.3%)	(3.9%)	(3.4%)	(4.0%)
Public Sector Debt[5]					
Total public debt	$11,103.2	$11,702.9	$12,740.8	$14,296..2	$14,691.6
Internal debt[7]	$3,107.9	$3,490.6	$4,252.6	$4,872.7	$5,242.1
External debt[7]	$7,995.3	$8,212.3	$8,488.2	$9,423.5	$9,449.5
Total public debt (as % of GDP)[1]	53.7%	54.6%	55.1%	60.0%	60.6%
Public internal debt (as % of GDP)[1]	15.0%	16.3%	18.4%	20.5%	21.6%
Public external debt (as % of GDP)[1]	38.7%	38.3%	36.7%	39.6%	39.0%
External debt service (as % of exports of goods and services)[1][6]	13.6%	12.7%	21.3%	11.6%	11.1%

(1) Preliminary figures for 2009 to 2013.
(2) At constant 1990 prices.
(3) As measured by the variation in the *Índice de Precios al Consumidor* (Consumer Price Index or the "CPI") published by the National Bureau of Statistics and Census. December 2009 = 100 base index.
(4) Including foreign aid.
(5) Including debt of the Central Bank.
(6) Exports (FOB goods and services). Calculation does not include Central Bank debt service.

Sources: *Banco Central de Reserva de El Salvador and Ministerio de Hacienda.*

THE OFFERING

Issuer	The Republic of El Salvador.
Issue Amount	US$800,000,000 aggregate principal amount.
Issue Price	100.000% of the principal amount of the Notes, plus accrued interest, if any, from September 18, 2014.
Issue Date	September 18, 2014.
Maturity Date	January 18, 2027.
Interest	The Notes will bear interest from September 18, 2014 at the rate of 6.375% per annum payable semi-annually in arrears on January 18 and July 18 of each year, commencing on January 18, 2015.
Withholding Tax; Additional Amounts	Principal of and interest on the Notes are payable by the Republic without withholding or deduction for or on account of taxes imposed by El Salvador to the extent described herein. In the event that the Republic is required by law to deduct or withhold taxes, duties, assessments or governmental charges, the Republic will pay Additional Amounts (as defined herein) as necessary to enable holders of Notes to receive such amounts after such deduction or withholding as they would have received absent such deduction or withholding, subject to certain exceptions. See "Terms and Conditions of the Notes — Payment of Additional Amounts".
Status	The Notes will be direct, general, unsecured and unconditional obligations of the Republic. The Notes will at all times rank equally without any preference among themselves and at least equally with all other present and future unsecured and unsubordinated Public External Indebtedness of the Republic; *provided, however*, that the Republic shall have no obligation to effect equal or ratable payment(s) at any time with respect to any such other Public External Indebtedness and, in particular, shall have no obligation to pay other Public External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa. See "Terms and Conditions of the Notes — General", "— Negative Pledge" and "— Covenants".
Negative Pledge and Certain Covenants	The Terms and Conditions of the Notes contain certain covenants and restrictions on the creation or subsistence of any Security (as defined herein) securing Public External Indebtedness, with certain exceptions. See "Terms and Conditions of the Notes — Negative Pledge" and "— Covenants".
Use of Proceeds	The cash proceeds from the issuance and sale of the Notes, after deduction of the commissions payable by the Republic to the Joint Lead Managers and Joint Bookrunners and the net expenses payable by the Republic, will be approximately US$799,440,000. The proceeds from the issuance and sale of the Notes will be used by the Republic for the repayment of LETES.
Collective Action Clauses	The Notes will contain provisions, commonly known as "collective action clauses", regarding acceleration and voting on future amendments, modifications and waivers that differ from those applicable to the Republic's outstanding Public External Indebtedness. Under these provisions, which are described in the sections entitled "Terms and Conditions of the Notes — Events of Default" and "— Modifications, Amendments and Waivers", the Republic may amend the payment provisions of the Notes and certain other terms with the consent of the holders of 75% of the aggregate amount of the outstanding Notes.

Form of Notes	The Notes will be issued in the form of global notes without coupons, registered in the name of a nominee of The Depository Trust Company and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.
Denominations	Each Note will be issued in minimum denominations of US$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 will be 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 and execution by the Republic, as well as the bringing of any actions and the enforcement of any judgment against the Republic in the courts of the Republic, will be governed by the laws of the Republic.
Arbitration	Any dispute, controversy or claim arising out of or relating to the Notes, including the performance, interpretation, construction, breach, termination or invalidity thereof, will be finally settled by arbitration in New York, New York, in accordance with the UNCITRAL Arbitration Rules. Any arbitral tribunal constituted under the terms of the Notes will be required to make its decisions entirely on the basis of the substantive law of the State of New York as provided above. The Republic's consent to arbitration will not preclude a holder of any Note from instituting legal proceedings against the Republic in the courts of El Salvador. The Republic has represented that it has no right to immunity on the grounds of sovereignty or otherwise from the execution of any judgment in El Salvador, or from the execution or enforcement in El Salvador of any arbitral award in El Salvador (except for the limitation on alienation of public property). The enforcement by a Salvadoran court of a foreign arbitral award is subject to recognition by the Supreme Court of Justice of the Republic and the execution of any judgment against the Republic in El Salvador is only available in accordance with 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.
Fiscal Agent, Principal Paying Agent, Registrar and Transfer Agent	The Bank of New York Mellon.

Luxembourg Transfer and Paying Agent	The Bank of New York Mellon (Luxembourg) S.A.

RISK FACTORS

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

Risk Factors Relating to the Notes

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

El Salvador has been advised by the 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 will be 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 "Terms and Conditions of the Notes — Events of Default" and "— Modifications, Amendments and Waivers", the Republic of El Salvador may amend the payment provisions of the Notes and certain other terms with the consent of the holders of 75% of the aggregate amount of the outstanding Notes.

The Notes specify that while the Notes will rank equally with the Republic's other present and future unsecured and unsubordinated Public External Indebtedness, the Republic shall have no obligation to effect equal or ratable payment(s) at any time to Noteholders in proportion to payments made with respect to any other Public External Indebtedness.

In ongoing litigation in federal courts in New York captioned NML Capital, Ltd. v. Republic of Argentina, the U.S. Court of Appeals for the Second Circuit has ruled that the equal payment obligation clause in bonds issued by Argentina prevents Argentina from making payments in respect of certain performing bonds issued in a restructuring of Argentina's debt unless it makes pro rata payments on defaulted debt that ranks *pari passu* with the performing bonds.

If the Republic were to breach the equal ranking clause set forth in the "Terms and Conditions of the Notes" in this Offering Circular, you may be able to accelerate your Notes, but you would not be entitled to payment in an equal proportion to payments made on the Republic's other Public External Indebtedness.

Risk Factors Relating to El Salvador

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

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

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

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

- interest rates in the United States and financial markets outside El Salvador;
- changes in economic or tax policies in El Salvador;
- the imposition of trade barriers by El Salvador's trade partners;
- general economic and business conditions in El Salvador and the global economy;
- the ability of El Salvador to effect key economic reforms;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy;
- internal security issues relating to crime; and

- the decisions of international financial institutions regarding the terms of their financial assistance to El Salvador.

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

On November 5, 2012, Moody’s Investors Service downgraded the Republic’s long-term government bond ratings from “Ba2” to “Ba3” with a stable outlook. On December 16, 2013, Moody’s Analysis affirmed the rating of “Ba3” with a stable outlook, as did Moody’s Credit Opinion on June 11, 2014. On December 21, 2012, Standard & Poor’s Ratings Services changed the outlook of the Republic’s foreign currency issuer credit rating from “BB-” with a stable outlook to “BB-” with a negative outlook. Standard & Poor’s maintained this rating and outlook in research updates dated January 31, 2013 and December 19, 2013 (and in a research update supplement dated January 8, 2014). On July 16, 2013, the Republic’s long-term issuer default rating by Fitch Ratings changed from “BB” with a negative outlook to “BB-” with a negative outlook. Fitch Ratings maintained the “BB-” rating with a negative outlook on July 11, 2014.

Ratings address the creditworthiness of El Salvador and the likelihood of timely payment of El Salvador’s long-term government bonds. 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.

USE OF PROCEEDS

The cash proceeds from the issuance and sale of the Notes, after deduction of the commissions payable by the Republic to the Joint Lead Managers and Joint Bookrunners and the net expenses payable by the Republic, will be approximately US$799,440,000. The proceeds from the issuance and sale of the Notes will be used by the Republic for the repayment of LETES.

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 and 2013.

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 approval of definitive maps of each country.

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. 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.

The population of El Salvador was an estimated 6.3 million people in 2013, according to the *Dirección General de Estadística y Censos* (the "National Bureau of Statistics and Census"), a division of the Ministry of Economy. In 2013, approximately 62.2% of the population resided in urban areas and 37.8% resided in rural areas. In addition, more than 1.5 million Salvadorans are believed to be living and working outside of the country, principally in the United States. Salvadorans abroad make a significant contribution to the Republic's economy through remittances to their families in El Salvador. 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 354,174 in 2013. 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]	$ 7,240	$ 4,266	$ 4,138	$ 6,866	$ 13,012	$ 16,379	$ 52,308
Average life expectancy[2]	72.6	74.8	73.8	72.1	79.9	77.6	78.9
Adult literacy rate[3]	84.5%	78.0%	85.1%	75.9%	96.3%	94.1%	N.A.
Mean years of schooling[4]	6.5	5.8	5.5	5.6	8.4	9.4	12.9
Expected years of schooling[4]	12.1	10.5	11.6	10.7	13.5	12.4	16.5

(1) Gross National Income in 2013, adjusted for 2011 purchasing power parity.
(2) In years, at 2013
(3) Percentage of persons ages 15 years and older. Data refer to the most recent year available during the 2005-2012 period.
(4) Data refer to 2012 or the most recent year available.

Source: *Human Development Report 2014, 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 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, triggered extensive emigration, displaced hundreds of thousands of persons within the country and caused widespread destruction to the country's infrastructure and economy.

Former President Duarte was succeeded in the 1989 presidential election by Alfredo Cristiani of the *Alianza Republicana Nacionalista* ("ARENA"). The Cristiani administration implemented a number of changes designed to reinvigorate the economy.

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

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

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.

In the most recent legislative elections held on March 11, 2012, ARENA increased its representation in the Legislative Assembly from 32 to 33 seats, becoming the largest party in the Legislative Assembly, but falling short of a simple majority. FMLN won 31 seats, securing veto power over legislation that requires a two-thirds vote. *Gran Alianza por la Unidad Nacional* ("GANA"), a political party created in May 2010 by 12 former members of ARENA, won 11 seats in the March 2012 elections, emerging as the third largest party. In November 2012, four ARENA members of the Legislative Assembly were excluded from their political party and in 2013 one ARENA member of the Legislative Assembly left the party. None of them is required by law to relinquish their seats. These five ex-ARENA members have created a legislative group named *Unidos por El Salvador*. As a result, no single party has control over the Legislative Assembly. Legislative matters must be resolved, as they were prior to the 2012 legislative elections, through the creation of coalitions by ARENA or FMLN with one or more of the other minority parties.

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. In the most recent municipal council elections held in March 2012, concurrently with legislative elections, ARENA candidates won in 116 municipalities, while FMLN and the *Concertación Nacional* ("CN") candidates won in 85 and 24 municipalities, respectively. Candidates from GANA won in 17 municipalities.

The current political party composition of the Legislative Assembly and municipalities is described in the following table.

Legislative Assembly
Composition by Political Party

Political Party	Number of Members	Number of Mayors
FMLN	31	85
ARENA	28	116
GANA	10	17
Concertación Nacional (CN)	7	24
*Unidos por El Salvador**	5	0
Partido Demócrata Cristiano (PDC)	1	4
Cambio Democrático (CD)	1	3
Independent	1	0
Coalitions	0	13
Total	84	262

*This is not a political party; it is a legislative group within the Legislative Assembly.

Source: *Ministerio de Hacienda*.

Under existing laws, the next legislative elections are scheduled to be held in March 2015. 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 determined 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, but in October 2013 the Supreme Court determined that the appointment of one of the Supreme Court Justices by the Legislative Assembly was unconstitutional because he was found to be affiliated with the FMLN. In July 2014, the Legislative Assembly filled the vacancy.

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 and CABEI, among other international institutions.

Recent Developments in Foreign Relations

At the July 2010 Extraordinary Summit of Heads of State and Government of the member countries of the Central American Integration System, the Presidents of the member countries announced the re-launch of the Central American Integration Process based on a new agenda focused on five strategic areas: social integration, economic integration, regional security, climate change and disasters, and strengthening of the regional and national institutional framework.

On March 8, 2010, President Funes was the first Central American president to meet President Obama in the United States and was one of few Latin American heads of state to meet with leaders from both chambers of Congress. At their meeting, the two Presidents discussed ways that both countries can continue to improve their trade relationship, including expanding the use of biofuels and energy development, as well as security issues in the region, including drug trafficking and gang violence. On March 22, 2011, President Obama met with President Funes in El Salvador. The presidents discussed the importance of regional efforts to combat drug trafficking and gang violence in Central America, to increase trade and investment, and the economic prospects of

other regions. The relationship between El Salvador and the United States continues to be highly beneficial, especially in areas of trade, economy, security, and migration.

Within the past five years, El Salvador has reestablished diplomatic relationships with Cuba and established new diplomatic relationships with eleven nations: Cambodia, Vietnam, Indonesia, Sri Lanka, Tuvalu, the Solomon Islands, Dominica, Moldova, Montenegro, Palestine State, and Kazakhstan. In addition, Kosovo was recognized by El Salvador as a state. To date, El Salvador maintains relationships with 124 States, of which 121 states are member states of the United Nations. Furthermore, three new embassies were inaugurated in Cuba, Russia and Australia.

On June 2, 2014, at the 13th Ministerial Council of Petrocaribe, the member states of Petrocaribe unanimously approved El Salvador's request to join Petrocaribe. Petrocaribe is an international treaty for energy cooperation founded by the Bolivarian Republic of Venezuela. The fundamental purpose of the Petrocaribe agreement is to contribute to energy security, social-economic development and to foster integration among Caribbean and Latin American countries.

The Petrocaribe alliance was inaugurated in June 2005 when 14 countries entered into the Petrocaribe Energy Cooperation Agreement. El Salvador has not yet signed and ratified the Petrocaribe Energy Cooperation Agreement, a process that is required to become a full member and that may extend to mid-2015.

Membership under Petrocaribe will permit El Salvador to enter into trade agreements and energy agreements under preferential financing conditions, as well as permit exploration of cooperation mechanisms to implement social projects in El Salvador. El Salvador views Petrocaribe as a complement to its objectives to improve its energy mix by fostering new investments in renewable energy sources that will facilitate reductions of energy tariffs.

THE SALVADORAN ECONOMY

Economic and Social Policies

Beginning in 2009, the Funes administration implemented a series of measures to strengthen the Salvadoran economy in light of the Global Economic Crisis. In an effort to counteract its effects, President Funes and his administration developed the *Plan Global Anti-Crisis* ("Global Anti-Crisis Plan"), a program that sought to 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.

As a result of the execution of the Global Anti-Crisis Plan, the Republic enacted the following reforms: (i) 7,000 senior citizens over 70 years of age living in poor municipalities now receive a basic pension of US$50 a month and regular medical care; (ii) the unemployed have been given three additional months of social insurance coverage; (iii) new jobs have been generated as a result of the enactment of sectoral policies and the investment in economic and social infrastructure; (iv) creation of new institutions that promote the participation of organized groups in the formulation of public policy; (v) elimination of fees in public hospitals; (vi) 1,386,767 students in 4,968 schools have received free school supplies; (vii) implementation of a substantial housing program for low income families; and (viii) extension of approximately 4,000 land titles to an equal number of families.

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

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

- reverse the trend of increasing poverty in recent years and expand the coverage of basic social services in both rural and urban areas, especially for the most vulnerable citizens and women;
- protect the purchasing power of the population and improve the rationalization of subsidies to benefit sectors in need;
- steadily increase domestic food production for domestic consumption, for export and for an efficient import substitution, so as to reduce the country's dependence on food and food related agricultural imports;
- reverse the trend of increasing unemployment and underemployment and promote the creation of jobs;
- increase tax revenues, make efficient and transparent use of such resources and reduce the level of external debt by reducing government spending and adequately managing its debt portfolio;
- significantly reduce the levels of violence and crime throughout the country;
- promote political reform in order to strengthen democracy and the rule of law;
- promote administrative reform of the central government to reduce its concentration and to progressively decentralize some administrative functions to other levels of government;
- rebuild the productive and social infrastructure damaged by natural phenomena and establish a civil protection system with an effective early warning system and risk management procedures; and
- expand economic and social infrastructure, primarily in rural areas of the country.

The strategy for achieving the objectives of the Five-Year Plan is based on implementing the following: (i) a universal social protection system and other social policies related to health, education and housing; (ii) the development of a financial system that would extend credit to the various productive sectors of the economy, particularly the micro, small- and medium-sized businesses

and entrepreneurs and farmers and producers in the agricultural sector; (iii) policies directed at a sustainable macroeconomic environment and inclusive of various sectors of society; (iv) a productive development strategy that reorients government resources and services to promote both innovation and entrepreneurial initiatives of women and men involved in production and business activities and creating new ways of enabling access to financial resources and quality management; (v) policies on internal security, democratic coexistence and international relations; and (vi) public investments in strategic programs and projects that address (a) equity, social inclusion and poverty reduction, (b) economic recovery, (c) sustainable development and (d) internal security. The plan was further revised in 2011, altering certain financial targets and the priority of certain government programs.

The Technical and Planning Secretariat of the Presidency is currently drafting the Five-Year Development Plan for the period 2014-2019 and plans to finish and publish the document by the end of 2014. This plan will continue to build on the work of the previous administration and will also focus 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.

The Fiscal Sustainability Agreement

In October 2012, the government entered into the Fiscal Sustainability Agreement with support from all the political parties represented in the Legislative Assembly. The Fiscal Sustainability Agreement aims at fiscal sustainability and social development without compromising funding for social programs.

The Fiscal Sustainability Agreement included following initiatives:

- establishing a legal environment conducive to fiscal responsibility for sustainability and social development, including rules that limit the public sector deficit and debt levels, as well as qualitative measures of social responsibility, in line with the government's priority projects;
- targeting a non-financial public sector fiscal deficit of 2.7% GDP by 2013, aimed at establishing medium-term sustainability in public finances, and introducing laws targeted at increasing revenues and controlling expenditures;
- reducing expenditures, controlling new hiring and eliminating vacant positions except those essential and related to social development and security; and
- incorporating all revenues and expenditures into the country's general budget and reducing the current authorized amount of LETES from 40% to 20% of current revenues.

Within the framework of the Fiscal Sustainability Agreement, the government has taken the following measures:

- repayment of US$600 million of LETES and use of US$200 million to finance necessary current expenditures, such as the 2014 elections, purchases of medications, and certain subsidies (*e.g*., for electricity, liquid petroleum gas and public transportation).
- implementation of a third phase of fiscal reforms, including new measures to improve income and reduce expenditures. This third phase included the Fiscal and Social Responsibility Act, which sets limits on the fiscal deficit and level of public indebtedness. Additional expenditure measures include voluntary retirement of public sector employees; a 2013 savings and austerity policy that restricted increase in wages and the creation of new public sector jobs and reduced public procurement by 10%; a new payment mechanism for the liquid petroleum gas subsidy; a 50% reduction of the public transportation subsidy; and a restriction on the authorization of current expenditures.
- implementation of reforms to the Income Tax Law to incorporate a minimum payment of income tax of 1% of net assets. The reforms also eliminated a tax exemption under the Printing Law that exempted publishers and printers from taxes in connection with activities related to the production, distribution and sale of newspapers, magazines, other printed media (other than books, for which the tax exemption remains in effect). The reforms also adopted guidelines from the OECD on transfer pricing and provide for the development of control mechanisms for equipment used in processing credit and debit card payments. The reforms include amendments to the Tax Code designed to reduce tax evasion. Finally, a financial transactions tax law 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. See "Public Sector Finances — Tax Reforms."

El Salvador implemented a set 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 U.S. President Obama's visit to El Salvador and was 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. The agreement is expected to cover five years. 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. As of May 2014, the Fifth Semiannual Report disclosed that 17 of the 20 goals achieved interim targets.

The Sánchez Cerén administration continues to implement the development strategies initiated by the prior administration. These initiatives include the following:

- the Partnership for Growth;
- the Public-Private Partnership Act, which was enacted in June 2013 and allows the government to confiscate illicit money and goods, including money and goods found to have been used in money laundering, narco-trafficking or other illegal activities, and to allocate the proceeds to public-private partnership projects. The Act was recently amended so that public works may be pursued through private partnerships under the act. Additionally, all projects with private partnerships under the act must be approved by the Legislative Assembly and must meet a fiscal ceiling of 3% of GDP. The act also now excludes projects related to water for human consumption.
- An amendment to the Domain Extinction Law of October 2013, which permits money and goods acquired in an illicit manner to be confiscated by the government (i.e., civil forfeiture). It also establishes a priority in which such money and goods are distributed. Under the law, goods and services are distributed in the following order: (a) 15% to the *Consejo Nacional para la Administración de Bienes* (National Board of Goods Administration or CONAB), (b) 35% to the Ministry of Justice and Public Security; (c) 35% to the office of the Attorney General of the Republic; (d) 10% to the Ministry of National Defense; and (e) 5% to the Procuradoria General de la Republica.
- Legislative Decree No. 663 of April 9, 2014, which created the *Organismo Promotor de Exportaciones e Inversiones* de El Salvador (PROESA), an institution to promote exports and investment in the country.

Other legislation recently enacted

- The *Ley de Zonas Francas Industriales* (Industrial Free Zone Act) was amended in February 2013 in order 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 outside of the San Salvador metropolitan area and to promote development of the nation as a whole. Businesses have been making adjustments and are responding positively to the incentives provided under amendment to the law.
- The *Reforma a la Ley de Servicios Internacionales* (Reform to International Services Act) was approved 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

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.

Gross Domestic Product

As measured by real GDP growth, economic growth in El Salvador averaged 0.8% per year from 2009-2013. Private consumption decreased in real terms by an average of 0.6% per year for the same period, affected by a 10.3% contraction in private consumption in 2009.

Real GDP contracted by 3.1% in 2009. Private consumption contracted 10.3% due to reduced remittances and an overall reduction in production activities that resulted in increased unemployment, while public consumption saw an increase of 5.8%. Fixed capital formation contracted 19.2% due to an unfavorable credit environment as a result of increased risk aversion from commercial banks and reduced foreign investments. Exports contracted 16.0% due to reduced international demand that impacted *maquila's* sector performance. Imports decreased 24.8%, mainly caused by reduced imports of consumption, intermediate and capital goods.

For 2010, real GDP increased by 1.4%, reflecting the slight recovery of the economy following the Global Economic Crisis. Internal demand experienced a modest recovery after the sharp decrease in 2009, showing a 2.2% increase in consumption and a 2.4% increase in fixed capital formation.

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. This consumption growth rate was higher in 2011, compared to growth of 2.2% in 2010. The increased consumption in 2011 was reflected as higher growth in real terms of 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 2.5% 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 7.5%.

Real GDP increased by 1.7% in 2013 as result of a recovery in fixed capital formation, which registered a 9.7% growth rate. Consumption increased by 0.8% and exports expanded by 4.6%.

In the three-month period ended March 31, 2013 and 2014, real GDP registered growth rates of 1.3% and 2.0%, respectively, as a result of higher growth rates in the trade, restaurant and hotels, financial services and real estate, social, personal and domestic services.

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,				
	2009(1)	**2010** (1)	**2011**(1)	**2012**(1)	**2013**1)
Real GDP (in millions of US dollars)(2)	$8,953.8	$9,076.0	$9,277.2	$9,451.7	$9,610.1
Real GDP growth(2)	**(3.1)%**	**1.4%**	**2.2%**	**1.9%**	**1.7%**
Real GDP growth by sector:					
Manufacturing	(3.0)%	1.9%	2.7%	1.3%	2.1%
Trade, restaurants and hotels	(5.4)%	1.5%	2.3%	2.6%	2.1%
Agriculture, livestock and fishing	(2.9)%	3.1%	(2.5)%	3.5%	(0.4)%
Transportation, storage and communications	(5.9)%	(0.2)%	4.6%	1.6%	2.2%
Residential leasing	0.2%	0.5%	0.9%	0.5%	0.6%
Government services(3)	1.3%	2.1%	5.1%	2.6%	3.3%
Community, social, personal, and domestic services(4)	1.4%	1.5%	1.6%	2.3%	2.2%
Construction	(2.8)%	(5.0)%	8.9%	0.3%	0.0%
Finance and insurance	(5.4)%	4.4%	3.0%	(2.8)%	3.8%
Real estate and business services(5)	(0.2)%	2.6%	2.7%	2.8%	2.8%
Electricity, gas and water	(1.0)%	(0.6)%	0.4%	0.8%	1.0%
Mining	(15.4)%	(11.5)%	13.7%	2.8%	0.1%

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

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

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

Real GDP by Expenditure

	For the Year Ended December 31,				
	2009(1)	**2010**(1)	**2011**(1)	**2012**(1)	**2013**(1)
	(in millions of dollars)				
Consumption					
Public Sector Consumption	$711.2	$727.0	$755.1	$773.8	$820.4
Private Consumption	8,306.1	8,491.5	8,694.0	8,915.9	8,946.9
Total Consumption	**9,017.3**	**9,218.5**	**9,449.1**	**9,689.7**	**9,767.3**
Gross Investment					
Public Sector	186.7	212.7	220.0	219.3	232.2
Private Sector	1,211.8	1,219.2	1,409.3	1,386.9	1,529.6
Fixed Capital Formation	1,398.5	1,431.9	1,629.4	1,606.2	1,761.9
Variation in Stocks	0.0	0.0	0.0	0.0	0.0
Total Gross Investment	**1,398.5**	**1,431.9**	**1,629.4**	**1,606.2**	**1,761.9**
Exports of goods and services	3,363.6	3,754.2	4,102.6	3,796.9	3,973.4
Imports of goods and services	4,825.7	5,328.7	5,903.9	5,641.0	5,892.5
Net exports/(imports)	(1,462.1)	(1,574.4)	(1,801.3)	(1,844.1)	(1,919.1)
Real GDP	**8,953.8**	**9,076.0**	**9,277.2**	**9,451.7**	**9,610.1**

(1) Preliminary.

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

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

Real GDP Growth by Expenditure

	For the year ended December 31,				
	2009[1]	**2010**[1]	**2011**[1]	**2012**[1]	**2013**[1]
	(percent change, based on constant 1990 prices)				
Consumption:					
Public sector consumption	5.8%	2.2%	3.9%	2.5	6.0
Private consumption	(10.3)	2.2	2.4	2.6	0.3
Total Consumption	**(9.2)**	**2.2**	**2.5**	**2.5**	**0.8**
Gross Investment:					
Public sector	(15.8)	13.9	3.4	(0.3)	5.9
Private sector	(19.7)	0.6	15.6	(1.6)	10.3
Fixed capital formation	(19.2)	2.4	13.8	(1.4)	9.7
Exports of goods and services	(16.0)	11.6	9.3	(7.5)	4.6
Imports of goods and services	(24.8)	10.4	10.8	(4.5)	4.5
Real GDP	**(3.1)%**	**1.4%**	**2.2%**	**1.9%**	**1.7%**

(1) Preliminary.

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

Principal Sectors of the Economy

After centuries of dependence on agricultural products, the Salvadoran economy has come to rely on manufacturing activity, which totaled US$4.5 billion and accounted for 18.4% of nominal GDP in 2013. The manufacturing sector has generated an annual average of 18.6% of the country's nominal GDP and from 2009 to 2013 increased at an average annual rate of 1.0% in real terms over this period despite a contraction of 3.0% in 2009. However, a considerable portion of the manufacturing sector remains linked to agriculture, livestock and fishing since it consists of food processing. From 2010 to 2013, the manufacturing sector has grown at an average annual rate of 2.0%

The trade, restaurants and hotels sector has been an increasingly significant factor for El Salvador's growth in recent years. In 2013 the trade, restaurants and hotels sector contributed US$5.0 billion to nominal GDP and accounted for 20.5% of El Salvador's nominal GDP, compared to approximately US$4.1 billion, or approximately 20.0% in 2009. The annual growth rate of real GDP for the trade, restaurants and hotels sector decreased by 5.4% in 2009 driven by a reduction of 10.3% in private consumption level. As private consumption and the external demand recovered, the sector expanded from 2010 to 2013 at a 2.1% annual average growth rate. Real GDP growth for trade, restaurants and hotels sector increased by 1.5%, 2.3%, 2.6% and 2.1% in 2010, 2011, 2012 and 2013, respectively.

In 2013, the agricultural, livestock and fishing sector represented 9.9% of the country's nominal GDP, compared to 11.5% in 2009. Real GDP for this sector contracted by 2.9% in 2009 driven by a reduction in coffee and basic grains production, increased by 3.1% in 2010 driven by a expansion in poultry and coffee productions. In 2011, this sector decreased by 2.5% driven by a reduction in coffee, basic grains and livestock productions. In 2012, the sector increased by 3.5% driven by expansion in production of sugar cane and basic grains, and in 2013 the sector decreased by 0.4% as a result of reduced coffee production and lower international coffee prices. See "—Agriculture, Livestock and Fishing".

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

Nominal GDP by Economic Sector

	For the Year Ended December 31,									
	2009[1]	**% of GDP**	**2010[1]**	**% of GDP**	**2011[1]**	**% of GDP[1]**	**2012[1]**	**% of GDP[1]**	**2013[1]**	**% of GDP[1]**
	(in thousands of millions of US dollars, except for percentages)									
Trade, restaurants and hotels	$4.1	20.0%	$4.3	19.9%	$4.6	19.9%	$4.8	20.2%	$5.0	20.5%
Manufacturing	3.9	19.0	4.0	18.8	4.3	18.5	4.4	18.5	4.5	18.4
Agriculture, livestock and fishing	2.4	11.5	2.5	11.6	2.7	11.5	2.6	10.9	2.4	9.9
Government services	1.6	7.5	1.6	7.6	1.9	8.0	1.9	8.1	2.1	8.5
Transportation, storage and communications	1.7	8.0	1.7	7.9	1.8	7.8	1.9	7.9	1.9	7.9
Community, social, personal, and domestic services	1.7	8.3	1.8	8.2	1.8	7.9	1.9	7.9	2.0	8.1
Residential leasing	1.4	6.8	1.5	6.8	1.5	6.5	1.5	6.4	1.5	6.4
Finance and insurance	0.9	4.5	1.0	4.5	1.1	4.6	1.0	4.4	1.1	4.5
Real estate and business services	0.9	4.5	1.0	4.5	1.0	4.4	1.1	4.5	1.1	4.6
Construction	0.8	3.9	0.8	3.6	0.9	3.9	0.9	3.9	0.9	3.9
Electricity, gas and water	0.4	2.0	0.4	2.1	0.5	2.1	0.5	2.2	0.5	2.2
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	1.5	7.4	1.7	7.9	2.0	8.4	2.0	8.5	2.1	8.7
Less: imputed financial services[2]	0.8	3.6	0.8	3.7	0.9	3.8	0.9	3.7	0.9	3.8
Total nominal GDP	**20.7**	**100.0%**	**21.4**	**100.0%**	**23.1**	**100.0%**	**23.8**	**100.0%**	**24.3**	**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.*

Trade, Restaurants and Hotels

The trade, restaurants and hotels sector contributed US$5.0 billion of nominal GDP in 2013 and accounted for an average of 20.1% of El Salvador's nominal GDP from 2009 to 2013. In 2009, the number of passengers that entered El Salvador by air decreased by 5.6%. Consequently, the sector contracted by 5.4% in 2009. The trade, restaurants and hotels sector grew by 1.5%, 2.3%, 2.6% and 2.1% in real terms in 2010, 2011, 2012 and 2013, respectively. During the 2010-2013 period, the growth in this sector was attributed to an increase in both trade and in restaurant and hotel activities.

During the three-month period ended March 31, 2014, the trade, restaurants and hotels sector increased 2.8%, as compared to 1.7% for the same period in 2013.

Manufacturing

Manufacturing is a key sector of the Salvadoran economy. Since 2009, the manufacturing sector has generated an annual average of 18.6% of El Salvador's nominal GDP. This sector contracted by 3.0% in 2009, due to the effect of the Global Economic Crisis, which generated weak external demand, leading to decreased exports and reduced remittances that consequently reduced internal available income and demand. During 2010 and 2011, manufacturing activity experienced a gradual recovery, with annual growth rates of 1.9% and 2.7%, respectively, driven mainly by growth in activities related to food, beverages, textiles,

paper and chemical products. In 2012 and 2013, this sector grew at annual rates of 1.3% and 2.1%, respectively. During the three-month period ended March 31, 2014, the manufacturing sector increased 2.1%, as compared to 1.9% for the same period in 2013.

Maquila is one of the most important areas in the manufacturing sector, representing 8.7% of total manufacturing activity in 2013, or US$191.4 million, in real terms. *Maquila* production decreased by approximately 7.9% in 2009 compared to 2008 due to a reduction in *maquila* exports of approximately 30.9% resulting from lower global demand, particularly from the United States, as part of the effects of the Global Economic Crisis. In 2010, *maquila* production increased 6.9%, but it 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 1.6% as the U.S. economy recovered at a faster pace in the second half of 2013 and sales of *maquila* exports improved.

Other important manufacturing subsectors include chemicals, baked goods and beverages, representing 10.3%, 9.9% and 8.8% of manufacturing activity in 2013 in real terms, respectively.

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

Principal Manufacturing Activities

	For the Year Ended December 31,				
	2009[1]	**2010**[1]	**2011**[1]	**2012**[1]	**2013**[1]
	(in millions of US dollars)[2]				
Chemicals	$196.0	$202.9	$212.4	217.3	225.4
Baked goods	192.4	199.2	203.5	209.0	216.4
Beverages	173.7	180.3	185.9	188.8	193.4
Maquila (assembly for re-export)	191.0	204.2	200.4	188.3	191.4
Other processed foods	149.5	158.5	164.6	167.4	175.4
Sugar	153.8	151.2	153.0	175.9	187.6
Printing and related industries	118.9	119.5	122.1	124.7	128.5
Textiles	109.6	116.3	122.0	125.3	130.1
Metallic mineral products	98.3	101.8	102.8	100.0	105.6
Leather and related products	78.8	79.4	82.5	83.8	88.2
Non-metallic mineral products	84.8	80.2	80.5	81.6	87.7
Transport supplies and diverse manufacturing products	73.3	74.9	76.1	77.7	79.4
Refined oil products	78.6	71.1	74.1	62.3	22.4
Paper and cardboard	64.1	65.6	72.2	73.7	76.8
Milk products	62.1	57.0	59.0	58.5	60.5
Machinery and equipment	55.7	56.3	57.7	58.9	59.6
Plastic products	50.4	52.5	55.4	57.0	59.3
Apparel	36.5	37.1	39.1	40.4	42.4
Meat packaging and related products	34.7	35.0	35.7	35.2	37.6
Lumber and related products	24.8	23.6	23.8	23.8	26.8
Other	0.4	0.3	0.3	0.4	0.4
Total	**$2,027.5**	**$2,066.8**	**$2,123.3**	**$2,150.2**	**$2,194.9**

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

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

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 July 31, 2014, there were 240 companies that benefitted from the free trade zones law, of which 136 were located in free trade zones, with the remaining 104 operating outside the free trade zones boundaries. Over half of the 240 beneficiaries produce apparel and linens; 92 of them are *maquila* plants.

Agriculture, Livestock and Fishing

The agriculture, livestock and fishing sector accounted for US$2.4 billion in nominal GDP in 2013 and accounted for an average of 11.1% of El Salvador's nominal GDP from 2009 to 2013. This sector has grown at irregular rates during the past five years, showing growth of 3.1% and 3.5% in 2010 and 2012, respectively, and negative growth rates of 2.9%, 2.5% and 0.4% in 2009, 2011 and 2013. The decrease in 2013 resulted from a 37.7% decline in coffee production.

In 2009, the agriculture, livestock and fishing sector contracted by 2.9% resulting from reduced agricultural production, in particular coffee, sugar and basic grains, due to the effect of Hurricane Ida. In 2010, the agriculture, livestock and fishing sector grew by 3.1% due to increased coffee production, despite the loss registered in basic grains production due to storms Agatha and Matthew. 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 2010, 2011, 2012, and 2013 increased by 5.6%, 4.0%, 16.2% and 7.6%, respectively, reflecting growth in exports of 44.7%, 3.8%, 25.8% and 14.0%, respectively. For the 2013/2014 harvest season, sugar cane production decreased by 1.5% due to a decrease in yield of 4.8%. The area devoted to sugar cane cultivation during the 2013/2014 harvest season amounted to 75,779 hectares.

Coffee is the Republic's principal agricultural export and is an important source of employment in El Salvador. The coffee industry generated approximately 75,000 jobs during the 2009/2010 harvest, 128,000 jobs during the 2010/2011 harvest, 81,000 jobs during the 2011/2012 harvest, 86,000 jobs during the 2012/2013 harvest, and 35,000 jobs during the 2013/2014 harvest. In 2009, coffee accounted for 76.9% of agricultural exports and 6.0% of total exports of goods. In 2010 and 2011, coffee accounted for 74.5% and 79.9% of agricultural exports and 4.7% and 8.7% of total exports of goods, respectively. Due to declines in international coffee prices, coffee rust (a coffee plant disease) and drought, coffee production and exports have reduced their share in the sector and in total exports in 2012 and 2013. Coffee production decreased 12.3% in 2012 and 37.7% in 2013. For the same years, coffee exports accounted for 71.5% and 66.7% of agricultural exports and 5.6% and 4.3% of total exports, respectively. Currently, there are approximately 139,779 hectares devoted to the cultivation of coffee, representing approximately 6.6% of the country's land.

In July 2000, the Legislative Assembly created the *Fondo de Emergencia para el Café* (the "Coffee Emergency Fund") to revitalize the coffee production industry and extend financing to coffee producers to enable them to repay debts related to their coffee production, thereby freeing funds for further investment in the coffee industry. The Coffee Council, an autonomous public organization consisting of representatives from the government and private trade organizations, administers the Coffee Emergency Fund. As of August 2014, the Coffee Emergency Fund had outstanding obligations to the Republic of US$0.54 million.

With the exception of coffee, which is mainly export-oriented, most agricultural production is for domestic consumption. El Salvador generally permits the importation of most agricultural products that meet established health standards, with the exception of poultry products 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,				
	2009 (1)	2010(1)	2011(1)	2012(1)	2013(1)
	(in millions of US dollars)(2)				
Basic grains	$212.4	$197.6	$196.4	$245.6	$256.5
Other agricultural	289.2	289.2	274.8	276.1	281.7
Livestock	216.9	222.1	219.0	221.2	226.7
Poultry	144.4	155.4	157.4	159.1	165.9
Coffee	110.2	146.2	128.5	112.7	70.2
Forestry	71.4	72.1	72.9	64.1	66.6
Sugar cane	51.6	54.5	56.7	65.9	70.9
Fishing	34.0	28.4	31.1	31.4	32.3
Cotton	0.0	0.0	0.1	0.2	0.2
	$1,130.3	**$1,165.6**	**$1,136.9**	**$1,176.2**	**$1,171.0**

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

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

Government Services

The government services sector contributed US$2.1 billion of nominal GDP in 2013 and accounted for an average 8.0% of El Salvador's nominal GDP from 2009 to 2013.

In 2009, the government services sector grew by 1.3% due to increased government consumption generated as part of the Global Anti-Crisis Plan, partially offset by reduced government employment. In 2010 and 2011 the government services sector grew by 2.1% and 5.1%, respectively, 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. 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. During the three-month period ended March 31, 2014, the government services sector increased by 2.5%, compared to the 3.1% growth rate for the same period in 2013, due to slower growth in goods and services expenditures, wages and salaries and a decrease in public investment.

Transportation, Storage and Communications

The transportation, storage and communications sector accounted for US$1.9 billion of nominal GDP for 2013 and accounted for an average of 7.9% of El Salvador's nominal GDP from 2009 to 2013.

In 2009, the transportation, storage and communications sector contracted 5.9% due mainly to lower levels of passenger and cargo transportation as a result of a decrease in international trade activities that affected related services and a contraction in the communications sector. Transportation growth was limited due to an increase in freight costs, operating costs and a decrease in air transportation. In 2010, the transportation, storage and communications sector contracted slightly by 0.2%, reflecting the slow recovery of the economy, partially offset by a contraction of 5.0% in the communications subsector. In 2011, the transportation, storage and communications sector grew by 4.5% due mainly to growth of 8.8% in the communications sector. In 2012 and 2013, the transportation, storage and communications sector grew by 1.6% and 2.2%, respectively, driven mainly by the transportation and storage activities, while growth in communications subsector slowed.

During the three-month period ended March 31, 2014, the transportation, storage and communications sector increased 2.0%, which is 0.1 percentage points higher than the growth of 1.9% for the same period in 2013.

Currently, there are 10 fixed line telecommunications companies, 5 mobile telecommunications companies, and 8 international long distance companies authorized to operate in El Salvador.

El Salvador has approximately 3,615.2 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 the world maritime trade. As of June 2011, La Union seaport is being operated by CEPA.

The El Salvador International Airport, *Monseñor Oscar Arnulfo Romero y Galdámez International Airport*, is located 50 kilometers south of San Salvador. There are 13 different international carriers that fly to El Salvador International Airport. The main air carrier operating in El Salvador is TACA, which merged with Avianca Airlines from Colombia in 2009 and now operates as AVIANCA-TACA, and is one of the leading air carriers in the region.

CEPA began a modernization project for El Salvador International Airport in 2014, which is expected to be complete 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 will begin in November 2014 and is expected to be complete by March 2015 at an estimated cost of US$6.1 million. The second transitional project is the construction of new passenger lounges, so that there will be an increase from 15 lounges to 20 lounges. This project is scheduled to commence in September 2014 and to finish by March 2015, at an estimated to cost of US$1.9 million.

Work under the modernization project master plan will proceed in four phases. The first phase, a passenger capacity expansion, is projected to commence in 2015 and to finish by 2017. The second phase, spanning 2018 to 2022, contemplates a transfer of the AVIANCA-TACA 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 aircraft. The master plan was conceived to proceed in a modular format that is expected to allow construction to proceed without interruptions to airport operations.

Community, Social, Personal, and Domestic Services

The community, social, personal, and domestic services sector accounted for US$2.0 billion of nominal GDP for 2013 and represented an average of 8.0% of the country's nominal GDP from 2009 to 2013. From 2009 to 2013, this sector recorded an average real growth of 1.8%. In 2009, 2010, 2011, 2012 and 2013, the community, social, personal and domestic services sector grew by 1.4%, 1.5%, 1.6%, 2.3% and 2.2%, respectively. In 2012 and 2013, domestic services activities registered lower growth as compared to growth of the community, social and personal services activities which were due to a higher amount of private consumption.

During the three-month period ended March 31, 2014, the community, social, personal and domestic services sector increased 4.5%, as compared to 1.0% for the same period in 2013.

Finance and Insurance

The finance and insurance sector accounted for US$1.1 billion of nominal GDP in 2013 and represented on average 4.5% of the country's nominal GDP from 2009 to 2013. As a consequence of the Global Economic Crisis, uncertainties in the global financial markets, reduction of lending in the private sector and lower economic activity, the finance and insurance sector

contracted by 5.4% in 2009. The finance and insurance sector grew by 4.4% in 2010 and 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 activities. In 2013, and the finance and insurance sector grew by 3.8%. as a result of recovery in economic activity.

During the three-month period ended March 31, 2014, the finance and insurance services sector increased 4.1%, as compared to 2.6% for the same period in 2013.

Construction

The construction sector accounted for US$0.9 billion of nominal GDP in 2013 and represented an average of 3.8% of the country's nominal GDP from 2009 to 2013. Construction activity contracted by 2.8% in 2009 and 5.0% in 2010, due to the combined effect of low levels of public and private investment in 2009, particularly in infrastructure, and higher costs for raw materials for construction and lower activity in the transportation, storage and communication and mining sectors in 2010. 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 only marginally in 2013 due to a reduction in private investment.

During the three-month period ended March 31, 2014, the construction sector decreased 0.1%, an improvement of 1.7 percentage points from the decrease of 1.8% during the same period in 2013.

Electricity, Water and Gas Sector

In 2009, the electricity, water and gas sector contributed US$0.5 billion of nominal GDP in 2013 and represented an average of 2.1% of nominal GDP from 2009 to 2013.

The sector experienced a contraction of 1.0% and 0.6% in 2009 and 2010, respectively, as a consequence of the contraction in the economy following the Global Economic Crisis. 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 0.8% and 1.0% as the manufacturing and trade, restaurant and hotel sectors maintained their annual growth.

During the three-month period ended March 31, 2014, the electricity, gas and water sector increased 1.5%, 0.1 percentage points higher than the growth of 1.4 % for the same period in 2013.

By December 2013, El Salvador had an installed capacity for generating electric power of 1,536.7 MW. Of total capacity, 472.6 MW is generated from hydroelectric energy, 204.4 MW from geothermal energy, 755.1 MW from thermal energy, and the rest coming from sugar and biomass equaling 104.5 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 and has increased by an annual average of 200 MW since 2000.

Currently, 13 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, several companies, including CAESS, DELSUR, AES-CLESA, DEUSEM and EEO, among others, are engaged in the energy distribution sector.

Employment and Wages

The unemployment rate decreased from 7.3% in 2009 to 5.9% in 2013. In 2009, as a result of the slowdown in the economy, the unemployment rate increased to 7.3%. The unemployment rate in 2010 was 7.1%. 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 2009 to 2013 were finance and insurance, real estate, and business services (25,704 jobs) and trade, restaurants, and hotels (13,200 jobs). The economic sector that registered job losses during the period from 2009 to 2013 was community, social, personal and domestic services (4,230 jobs). In 2013, employment increased by 28,068 jobs, with almost all sectors experiencing an increase, led by the finance and insurance, real estate, and business services sector (16,974 jobs).

El Salvador's labor law provides for a daily minimum wage. A council composed of representatives from the government, the private sector and labor organizations sets minimum wages. Minimum wages for each major sector of the economy are set taking

into account the evolution of real wages and the overall economic situation. The legal workday is eight hours and the legal workweek is 44 hours. The law prohibits employment of minors under the age of 14 unless such employment is necessary for family sustenance and does not interfere with schooling.

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

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

Daily Minimum Wages by Economic Sector

	Agriculture, Livestock and Fishing[1]	*Maquila*	Industry	Commerce and Services	Construction[2]
			(in US dollars)		
2009	3.24	5.79	6.77	6.92	8.79
2010	3.24	5.79	6.77	6.92	8.79
2011[5]	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

[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 (01/07/2014).
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, 2013, 34.5% of households in urban areas and 50.1% of households in rural areas lived below the poverty line. The percentage of households living in extreme poverty decreased to 7.1% in 2013 from 21.9% in 1996. In 2012, overall poverty levels declined to 34.5% 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. As of December 31, 2013, the program has been renamed *Comunidades Solidarias Rurales* 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, 2013, this program covered 25 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			Relative Poverty			Total poverty		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total

2009	9.2%	17.5%	12.0%	24.1%	29.0%	25.8%	33.3%	46.5%	37.8%
2010	9.1%	15.1%	11.2%	23.9%	28.1%	25.3%	33.0%	43.2%	36.5%
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%	36.5%
2013	5.7%	9.8%	7.1%	20.5%	26.2%	22.5%	26.2%	36.0%	29.6%

Source: *Encuesta de Hogares de Propósitos Múltiples, EHPM, Dirección General de Estadística y Censos (DIGESTYC).*

Social Security

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

Retirement and death benefits for public and private sector workers who remained in the public pension system after the pension reform in 1998 are provided by the *Instituto Nacional de Pensiones de los Empleados Públicos* (the "National Public Pension Institute") and the Salvadoran Social Security Institute through a separate governmental system. The government provides medical services to the population not covered by the Salvadoran Social Security Institute or the National Public Pension Institute through a network of 30 hospitals and 589 health facilities across the country.

The social security system is financed by a combination of contributions from workers and employers. Since January 1, 2003, all employees, except for teachers in the public sector and self-employed individuals, contribute 3.0% of their salary and employers contribute 7.5% of their total payroll for accident, illness, maternity and disability benefits. Teachers in the public sector contribute the same percentage to the *Instituto Salvadoreño de Bienestar Magisterial* (the "National Education Professionals Social Security"), created in 2007, for the same benefits provided by the Salvadoran Social Security Institute. For retirement and death benefits, private sector employees contribute 7.0% of their salary and employers contribute 7.0% of their total payroll to the Salvadoran Social Security Institute. Public sector employees contribute 7.0% of their salary and their employers contribute 7.0% of their total payroll to the National Public Pension Institute.

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,									
	2009		2010		2011		2012[1]		2013[2]	
	Number	%	Number	%	Number	%	Number	%	Number	%
Manufacturing	151,086	27.4	156,272	28.0	161,752	28.3	161,190	27.4	168,037	27.3
Trade, restaurants and hotels	135,822	24.6	132,597	23.7	138,671	24.3	142,883	24.3	149,022	24.2
Finance and insurance, real estate and business services	115,530	21.0	118,125	21.1	120,271	21.1	124,260	21.1	141,234	22.9
Community, social, personal, and domestic services	77,762	14.1	75,849	13.6	70,376	12.3	76,118	13.0	73,532	11.9
Construction	23,146	4.2	23,663	4.2	24,040	4.2	24,489	4.2	24,770	4.0
Transportation, storage and communication	31,144	5.6	34,444	6.2	37,241	6.5	39,871	6.8	39,800	6.5
Agriculture, livestock and fishing[3]	12,315	2.2	12,619	2.3	13,297	2.3	13,188	2.2	13,378	2.2
Electricity, gas and water	3,996	0.7	4,664	0.8	4,846	0.8	4,882	0.8	5,146	0.8
Mining	612	0.1	599	0.1	667	0.1	662	0.1	692	0.1

Total	551,413	100.0%	558,832	100.0%	571,161	100.0%	587,543	100.0%	615,611	100.0%

(1) Revised.
(2) Preliminary.
(3) 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 established by law 226, adopted in December 2009. Pursuant to law 226, new funding for FOSALUD will come from the national budget approved 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 twenty million dollars (US$20.0 million) per year.

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 Funes administration focused its efforts on the reform of the health sector through the implementation of the *Equipos Comunitarios de Salud* (Community Heath Teams – "ECOS") aimed at giving primary affordable health services throughout the country to the poor. From 2009 to 2013, 481 family ECOS were formed to address primary health and 36 specialized ECOS located in 164 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 1,894,866 inhabitants have been treated, representing 377,483 families.

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. All workers 35 years old or younger were required to affiliate with a private pension company by April 15, 1999. Men between the ages of 36 and 55 and women between the ages of 36 and 50 had the option of continuing with the prior public pension system, or switching to the new private pension system, while women over the age of 50 and men over the age of 55 were not eligible to participate in the new private pension system and were required to remain in the prior public pension system. All workers entering the work force since April 15, 1998 have been required to participate in the private pension system, regardless of age. As of June 30, 2014, 2.56 million workers, or 74.3% of the Salvadoran workforce, were affiliated with this private pension system, including 659,516 active workers. As of June 30, 2014, there were 13,825 active workers registered in the public pension system.

Beginning January 1, 2002, employees participating in the private pension system were required to contribute 6.25% of their salary on a monthly basis to a private pension fund (a portion of the 6.25% monthly contribution payments made by employees represented commissions to the AFPs). Employers are required to contribute an additional 6.75% of each worker's salary to each worker's private pension fund account on a monthly basis. On December 21, 2005, the Legislative Assembly approved an amendment to the pension system law, that became effective January 2006, which reduced the maximum commission that AFPs may charge from 3.0% to 2.7% and required that such commissions be deducted from employer contributions rather than employee contributions. Under the new law, employees continue to contribute 6.25% of their salary on a monthly basis; however, commissions are not deducted from employee contributions, but instead are deducted from contributions by employers, who continue to contribute 6.75%. Only men who are 60 years old and women who are 55 years old, and who have contributed to the

pension system for 25 years, are eligible to receive a monthly pension. As of January 2005, the option of retiring after contributing to the pension system for 30 years, regardless of age, is no longer available for those employees who did not meet the 30 years of service requirement by December 31, 2004.

When employees who transferred to the private pension system retire, the government issues *Certificados de Traspaso* ("Certificates of Transfer" or "CTs") to the relevant private pension fund in order to credit the employees for their prior contributions to the public pension system. Beginning in January 2002, 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 *Certificado de Traspaso Complementario* (the "Complementary Certificates of Transfer") that would compensate them for any difference between the value of the monthly pensions they would have received had they stayed in the prior public pensions system and the value of the monthly pensions if they shifted to the new private pension system.

Beginning October 2006, the government has 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 Complementary Recognition Bonds ("CRBs"). 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 CRBs. CIPs are issued as Series A to pay pensions in the public pension system and as Series B to substitute CTs and CRBs. As of December 31, 2013, *Banco de Desarrollo de El Salvador* ("BANDESAL"), formerly *Banco Multisectorial de Inversiones,* had issued US$2,701.7 million, or 11.1% of GDP, in Series A CIPs to pay the public pension system's obligations. See "Public Debt — Internal Debt."

The government currently estimates that the difference between contributions to the public pension system and benefits payable to retirees under the public pension system plus partial benefits payable to retirees who switched to the private pension system for the time they were covered by the public pension system was 1.8% of GDP in 2013, having reached a peak deficit of 1.9% of GDP in 2005 and 2006. The accumulated deficit for the period 2007 to 2013 reached US$2.61 billion, 10.7% of GDP for 2013.

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. These resources, in turn, may be used to finance affordable housing projects for low income families.

The government of El Salvador is in the process of studying the current pension system to develop additional policy measures to improve and strengthen the system.

Infrastructure Investments

Puerto La Unión

The government completed construction of a major port facility at La Unión in April 2009. The project cost a total of approximately US$170.0 million. Approximately US$90.0 million of the project costs were financed through a credit facility provided by the Japan Bank for International Cooperation. Approximately US$45.0 million of the project costs were financed through government funds and the balance was financed through additional credit facilities. Currently the port is being operated by CEPA.

On September 8, 2011, the Legislative Assembly approved a law that allows the government to grant a concession for a container specialized multipurpose port terminal at Puerto La Union under certain conditions, including, among others: (i) the concessionaire will acquire CEPA's existing operational equipment at Puerto La Unión, through a public tender process; (ii) the term of the concession will be 30 years; and (iii) the initial investment plan is expected to amount US$30 million within the first five years of the concession. The CEPA Board of Directors approved the rules for international bidding for the *Puerto de la Union* concession. Bidding has not yet commenced as additional terms, conditions, documents and actions are necessary or being developed, including: a) technical and legal support from the *Autoridad Marítima Portuaria*; b) endorsement from *Unidad Normativa de Adquisiciones y Contrataciones* of the Ministry of Finance; and, c) a no objection letter from the *Agencia de Cooperación Internacional de Japón*. On September 4, 2014, President Sánchez Cerén opened the international bidding process to

businesses prequalified to operate *Puerto de la Union*. CEPA has provided a three-month period for the businesses to submit final bids.

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 be conducted. A prequalification selection process commenced on December 5, 2013, with two companies entering the process to gain the contract to finalize the project, Constructora Norberto Odebrecht S.A., a Brazilian company, and Sinohydro Corporation, Ltd., a Chinese company.

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). 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 that once completed will generate up to 355 MW. The project is expected to be completed in 2018 and the plant is expected to be in service for 20 years. The estimated cost of the project is US$1 billion. As of December 2013, the project to increase the installed capacity of a hydroelectric plant (*5 de Noviembre*) by up to 80 MW, was 92.8% complete with an estimated cost of US$63.3 million. Once completed it will provide electric power to approximately 110,000 homes around the country.

Proyecto Fomilenio II

With a US$461.0 million grant from the United States Millennium Challenge Account approved 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. 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 the compact. In September 2013, the MCC’s Board approved the Second Compact for El Salvador, in the amount of US$277 million, which is pending final signature by the MCC upon confirmation by the MCC that all conditions have been fulfilled.

Preliminary plans for the second MCC compact, which in El Salvador is referred to as *Proyecto Fomilenio II,* include 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.

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 is expected to ease 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. The segments consist of 3.97 kilometers of six-lane highway. Segment II-A connects a point located 370 meters east of the Merliot City interchange to a point 280 meters east of San Salvador Jerusalén Avenue interchange. Segment II-B connects a point located 280 meters east of the Jerusalén Avenue interchange to a point east of the main entrance to Central American University on Próceres Boulevard. It is estimated that 471,696 inhabitants have used the highway and that it has generated 2,896 jobs. The daily transit is composed of private vehicles and commercial and public passenger transports. The municipalities that benefit directly from this project are Santa Tecla, Antiguo Cuscatlán, and San Salvador.

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 was US$425.1 million in 2012 and decreased to US$448.1 million in 2013. In 2013, investments included urban community development for US$210.2 million, drinkable water supply and sewage systems for 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.

Program of Hospital Reconstruction

The government has implemented a program to renovate the facilities of eight hospitals. The total cost of the program is expected to be approximately US$200 million, mostly financed through loan facilities from multilateral banks.

In 2010 and 2011, the construction and equipment of several hospitals was completed. The total cost of construction and equipment was US$90.1 million of which US$72.0 million was financed with a World Bank loan facility and US$18.1 million with funding from the general government's budget.

The construction of the new *Hospital de la Mujer*, former *Hospital de Maternidad*, started in December 2011 and was completed in May 10, 2014. At its inauguration, the hospital was 85% equipped and the total cost of construction was US$46.3 million.

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 transform the current deficient public transportation service into an efficient, safe and good quality service, with the introduction of new and high capacity vehicles.

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 started in 2013 and is scheduled to be complete in December 2014.

Reconstruction Projects

During 2010 and 2011, four reconstruction projects, amounting to US$5.4 million, were undertaken by the government, aimed at assisting the poorest families affected by natural events such as Hurricanes Ida and Agatha and tropical depression E-12. In addition, the government carried out other disaster mitigation projects and repaired infrastructure damaged by these natural events. From 2010 to October 2012, investments for reconstruction totaled US$52.5 million.

Promotion of Tourism

The government believes that tourism represents a potential area of growth for the Salvadoran economy and has implemented measures designed to foster development of the tourism sector. On December 15, 2005, the Legislative Assembly enacted a tourism law (the "*Ley de Turismo*" or "Tourism Law"), which sets forth a framework for the development of the tourism sector. The tourism law imposes a special contribution levy of US$7.00 for each person leaving the country through the international airport and a special contribution levy of 5.0% on lodging. In 2013, revenues from the tourism tax were US$9.0 million. These funds have been used in accordance with the Tourism Law to promote tourism in El Salvador. Of this amount, approximately 44.4% was directed toward marketing in countries such as Spain, Italy, Argentina, the United States, Costa Rica, Guatemala and Honduras; 24.4% was spent toward domestic marketing in El Salvador; 11.1% was spent toward international events, market research, tourism promotion products and services; and the remaining 20% was spent on small tourism infrastructure projects, municipal development, and capacity-building.

The Tourism Law also provides economic incentives for companies that engage in certain tourism activities. 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. As of June 30, 2014, the NTR records more than 200 businesses categorized as lodging, restaurants, tourism operators, tourism transportation, recreational parks, event organizers, convention centers and golf course operators. Among those 200 businesses, 27 have applied for benefits under the Tourism Law: 13 were granted benefits between May 2009 and June 2014 and 11 applications currently are under review.

Education Initiatives

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

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

Under its *Plan Nacional de Educación 2021* (National Education Plan 2021), the government increased education expenditures from 2.9% to 3.6% of GDP during the period from 2005 to 2009. For 2010, government expenditures in education increased to US$698.2 million and in 2011 to US$753.8 million.

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

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

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

The Social-Educational Plan 2009-2014, "Let's Go to School," featured the *Programa Escuela Inclusiva de Tiempo Pleno* (Inclusive Full Time School, "IFTS"), to improve 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 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 pedagogical 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* reached US$19.2 million and had been implemented in 1,511 school centers, benefitting 414,000 students.

FOREIGN TRADE AND BALANCE OF PAYMENTS

General

In 2013, merchandise imports accounted for 44.4% of nominal GDP, mostly in the form of intermediate goods (42.9% of total imports) and consumer goods (36.4% of total imports). Exports have grown at an average yearly rate of 9.2% from 2009 to 2013, primarily due to an average annual growth rate of over 11.9% of exports in manufacturing products such as textiles, plastic, rubber and their byproducts, shoes and footwear, mineral products and food, beverages and tobacco, despite a contraction of 16.7% in 2009 due to lower international demand resulting from the Global Economic Crisis.

The current account deficit of the balance of payments increased from 1.5% of nominal GDP in 2009 to 6.5% of nominal GDP in 2013 due to the increase in imports of goods and services as the economy recovered from the adverse effects of the Global Economic Crisis in 2009. The trade and services deficit increased from 15.5% of nominal GDP during 2009 to 19.4% of nominal GDP during 2013.

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 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 Canada, Peru, Ecuador, Belize and Trinidad and Tobago;
- 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, which 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. This free trade agreement with Mexico does not apply to trade between El Salvador and Guatemala or Honduras. On March 6, 2002, El Salvador and Panama entered into a free trade agreement that became effective on April 11, 2003.

El Salvador entered into an agreement with Guatemala to accelerate the completion of the customs union process between both countries. As a result, they have established a comprehensive plan aimed at facilitating the areas of commerce, free trade 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, achieving the fusion of three different agreements between Costa Rica and Mexico, Nicaragua and Mexico and Guatemala, Honduras, El Salvador (the "Northern Triangle") and Mexico. The government expects this unification 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. This 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	
	2009	2010[1]	2011[1]	2012[1]	2013[1]	2009	2013[1]
	(in millions of US dollars, except percentages)						
North America							
United States	$1,796.1	$2,161.1	$2,425.4	$2,469.9	$2,490.3	46.5%	45.4%
Mexico	59.2	76.2	86.1	83.4	81.9	1.5%	1.5%
Canada	33.2	67.7	70.8	54.4	76.7	0.9%	1.4%
Central America and Belize							
Honduras	519.5	579.4	698.1	761.0	793.3	13.4%	14.4%
Guatemala	541.5	628.9	736.3	714.7	721.8	14.0%	13.1%
Nicaragua	213.0	244.0	294.8	320.2	323.8	5.5%	5.9%
Costa Rica	137.1	161.4	213.6	230.5	229.2	3.5%	4.2%
Belize	13.3	10.2	9.5	9.9	11.3	0.3%	0.2%
South America and the Caribbean							
Panama	110.9	102.4	108.7	124.6	121.7	2.9%	2.2%
Dominican Republic	67.4	84.2	68.3	80.0	74.8	1.7%	1.4%
Chile	7.5	9.4	30.2	46.3	31.2	0.2%	0.6%
Puerto Rico	6.5	12.9	19.3	18.6	20.1	0.2%	0.4%
Jamaica	7.6	14.6	17.6	18.6	19.1	0.2%	0.3%
Colombia	1.6	5.1	2.6	6.3	13.8	0.0%	0.3%
Venezuela	10.5	12.3	11	11.9	12.8	0.3%	0.2%
Rest of South America and the Caribbean	23.5	28.8	36.0	35.2	45.1	0.6%	0.8%
Europe							
Spain	65.3	51.7	76.0	79.9	79.3	1.7%	1.4%
Germany	89.8	81.9	140.3	69.8	57.8	2.3%	1.1%
Italy	10.8	11.6	24.3	22.5	21.7	0.3%	0.4%
Netherlands	14.8	8.7	10.1	11.3	20.5	0.4%	0.4%
Rest of Europe	66.1	60.2	75.0	61.2	64.0	1.7%	1.2%
Asia							
Taiwan	14.8	14.7	33.4	7.7	46.9	0.4%	0.9%
Japan	19.1	18.7	49.5	32.4	36.6	0.5%	0.7%
Republic of Korea	3.8	16.2	28.6	32.0	15.6	0.1%	0.3%
Rest of Asia	26.5	32.7	36.9	30.7	73.6	0.7%	1.3%

Other	6.6	4.2	5.7	6.1	8.3	0.2%	0.2%
Total	**$3,866.1**	**$4,499.2**	**$5,308.2**	**$5,339.1**	**$5,491.1**	**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 2013, 37.9% of El Salvador's merchandise exports went to Central American countries, compared to 36.8% in 2009. 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 3.5% in 2009 and 3.4% in 2013. Exports to the United States decreased from 46.5% of the country's total exports in 2009 to 45.4% in 2013, primarily due to the decline in *maquila* production. Exports to the United States consist primarily of *maquila* products, coffee, sugar, shrimp, apparel and textiles.

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

Merchandise Exports (FOB) by Groups of Products

	For the Year Ended December 31,					Percentage of Total Exports	
	2009	**2010**	**2011**	**2012[(1)]**	**2013[(1)]**	**2009**	**2013[(1)]**
	(in millions of US dollars, except percentages)						
Maquila	$945.2	$1,028.7	$1,068.6	$1,106.0	$1,158.2	24.4%	21.1%
Agricultural products							
Coffee	230.3	213.2	464.0	300.0	233.9	6.0	4.3
Other	69.1	73.1	116.9	119.7	116.7	1.8	2.1
Manufacturing							
Paper	228.0	232.9	284.2	286.1	297.0	5.9	5.4
Textiles	822.8	1,115.8	1,287.0	1,350.9	1,482.9	21.3	27.0
Shoes and footwear	30.9	36.3	41.7	46.1	48.3	0.8	0.9
Food, beverages and tobacco	513.0	616.5	666.3	755.4	802.9	13.3	14.6
Chemicals	242.3	225.1	240.4	245.9	252.0	6.3	4.6
Mineral products	118.2	144.3	184.9	194.5	139.5	3.1	2.5
Base metals and similar byproducts	181.2	224.7	294.9	282.1	290.4	4.7	5.3
Plastic, rubber and their byproducts	193.9	241.0	276.5	302.8	316.4	5.0	5.8
Animal products							
Shrimp	7.6	4.6	0.8	0.4	0.9	0.2	0.0
Other	38.0	40.0	44.8	42.8	51.5	1.0	0.9
Other	245.7	303.1	337.2	306.3	300.4	6.4	5.5
Total	**$3,866.1**	**$4,499.2**	**$5,308.2**	**$5,339.1**	**$5,491.1**	**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 2009 to 2013, exports increased at an average annual rate of 9.2%. Within manufacturing exports, textiles, food, beverage and tobacco; base metal and articles; and plastic, rubber and their byproducts each grew at average annual gross rates of at least 11.9%.

In 2009, total exports decreased by 16.7%, primarily due to a decreased global demand in *maquila*, coffee, chemicals, mineral products and base metals and similar byproducts exports. In 2009, *maquila* exports decreased sharply to US$945.2 million, primarily due to lower global demand for products, specifically a lower demand in clothing produced by *maquila* factories.

Total exports experienced growth of 16.4%, 18.0%, 0.6%, and 2.8% in 2010, 2011, 2012 and 2013, respectively, totaling US$4.5 billion, US$5.3 billion, US$5.3 billion and US$5.5 billion in 2010, 2011, 2012 and 2013, respectively. The results for 2010 and 2011 were driven mainly by the recovery of textile exports, which grew 35.6% in 2010 and 15.3% in 2011, and growth in 2011 of coffee exports, base metals and their byproducts, mineral products, and plastic, rubber and their byproducts, which grew 117.7%, 31.2%, 28.1% and 14.7%, respectively.

Coffee exports increased by an average growth rate of 0.4% from 2009 to 2013, rising from US$230.3 million in 2009 to US$233.9 million in 2013. In 2011 and 2012, high international coffee prices contributed to the increase of exports, in particular in 2011 when coffee prices reached 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 return to lower levels approximating export levels of 2010.

Despite a slight contraction of 0.7% in 2009 in exports of food, beverages and tobacco due to the contraction of global trade during the Global Economic Crisis, the country's exports of food, beverages and tobacco increased from 2009 to 2013 at an average annual rate of 11.9% from US$513.0 million in 2009 to US$802.9 million in 2013, due to the increase in exports of food and beverages to Central American countries, Panamá, the Dominican Republic and the United States.

Non-traditional exports increased at an average annual rate of 10.7% from 2009 to 2013. The most significant non-traditional exports were underwear, outerwear, prepared medicines, iron, steel and their products, plastic boxes, bags, 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.

During the first six months of 2014, exports amounted to US$2.7 billion and experienced a decrease of 5.5% compared to the same period in 2013. This decrease was mainly attributable to low levels of coffee, *maquila* products, and non-traditional exports. Traditional exports decreased, primarily due to a decrease in coffee exports, partially offset by an increase in non-traditional exports to regions other than Central America of 3.9%, compared to the same period in 2013. *Maquila* products decreased by 8.5% during the first of 2014 as compared to the same period in 2013, due to lower international trade, in particular exports to the United States.

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	
	2009	2010	2011	2012[(1)]	2013[(1)]	2009	2013[(1)]
	(in millions of US dollars, except percentages)						
North America							
United States	$2,636.0	$3,109.2	$3,799.9	$3,873.7	$4,186.3	36.0%	38.9%
Mexico	546.3	735.1	740.4	694.6	746.0	7.5	6.9
Canada	46.5	52.6	48.0	49.1	48.5	0.6	0.5
Central America and Belize							
Guatemala	752.6	806.9	989.6	997.6	935.4	10.3	8.7
Honduras	351.8	373.6	467.3	463.7	560.5	4.8	5.2
Costa Rica	225.2	261.1	293.2	296.2	282.9	3.1	2.6
Nicaragua	195.6	181.9	195.7	209.8	202.8	2.7	1.9
Belize	1.4	0.3	0.7	0.8	0.5	0.0	0.0
South America and the Caribbean							
Venezuela	97.5	132.2	232.7	211.6	286.8	1.3	2.7
Antillas Holandesas	90.1	158.4	55.2	100.8	198.6	1.2	1.8
Colombia	94.2	84.9	182.7	328.9	170.3	1.3	1.6
Panama	179.7	225.2	203.0	179.4	159.3	2.5	1.5
Brasil	177.3	117.4	167.9	218.4	157.3	2.4	1.5
Ecuador	223.2	254.1	255.8	187.5	76.4	3.0	0.7
Rest of South America and the Caribbean	290.4	183.3	238.8	280.6	264.5	4.0	2.5
Europe							
Germany	110.6	134.2	138.6	151.4	167.8	1.5	1.6
Spain	72.5	74.7	95.6	91.2	124.1	1.0	1.2
Italy	65.6	60.9	60.6	51.6	64.6	0.9	0.6
Rest of Europe[(2)]	365.0	362.5	416.8	376.1	448.3	5.0	4.2
Asia							
China	335.5	477.6	552.2	603.5	703.0	4.6	6.5
Japan	102.7	150.6	210.0	172.9	178.0	1.4	1.7
South Korea	61.1	86.8	121.4	149.1	202.5	0.8	1.9
Taiwan	87.5	97.8	139.8	157.4	168.8	1.2	1.6
India	26.6	29.6	43.9	67.0	98.0	0.4	0.9
Hong Kong	38.8	54.2	87.5	100.2	95.3	0.5	0.9
Rest of Asia	106.1	132.2	166.6	177.3	198.6	1.4	1.8
Other							
Total	**$7,325.4**	**$8,416.2**	**$9,964.5**	**$10,258.1**	**$10,772.0**	**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 2009 to 2013, the average annual rate of growth for imports was 10.1%. In 2009, imports decreased at 25.4% as domestic output declined by 3.1% and the demand of foreign goods lowered in manufacturing, agricultural, construction, trade, restaurant and hotel and transportation sectors. In 2010, 2011, 2012 and 2013 imports recovered, totaling US$10,772.0 million in 2013, at a level above to pre-crisis amounts. From 2009 to 2013, the average annual rate for total imports was 10.1%, for consumer goods was 9.3%, for intermediate goods was 11.9% , for capital goods was 9.4%, and for maquila was 5.6%.

From 2009 to 2013, El Salvador's trade deficit with the United States increased from US$839.9 million in 2009 to US$1,696.0 million in 2013. In 2009, the deficit declined to US$839.9 million as imports were at a lower level than exports during the Global Economic Crisis. As domestic economic activity recovered, imports also gained growth in 2010, 2011, 2012 and 2013 resulting in a larger trade deficit compared to the 2009 trade deficit. This increased trade deficit was also due primarily to a decline in *maquila* exports and an increase in the import of consumer goods attributable in part to a recovery in remittances from Salvadoran workers in the United States in 2010 and 2011. The United States is the principal source of El Salvador's imports. Imports from the United States in 2013 consisted primarily of heavy oils, corn, transmission and reception apparatus for radio broadcasting or television and their parts, polymers in primary forms, automatic data processing machines and units thereof, wheat, underwear clothing for baby and accessories, prepared medicines, lubricating oils and greases, flours and meals of soybeans, and petroleum gases and other gaseous hydrocarbons.

Maquila imports, as a percentage of total imports of goods, decreased from 8.3% in 2009 to 7.0% in 2013 following the decreasing tendency of maquila exports.

For the first six months of 2014, imports of consumer goods and capital goods increased by 4.8% and 0.4%, respectively, and intermediate goods and *maquila* decreased by 4.7% and 3.9%, respectively, from the same period in 2013. Total imports have decreased by 0.7% as compared to the same period in 2013.

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	
	2009	2010	2011	2012(1)	2013(1)	2009	2013(1)
	(in millions of US dollars, except percentages)						
Consumer Goods							
Non-durable	$2,363.3	$2,621.8	$3,041.5	$3,154.2	$3,375.4	32.3	31.3
Durable	382.8	441.8	474.9	511.7	547.4	5.2	5.1
Intermediate Goods							
Manufacturing	2,384.8	2,956.7	3,647.4	3,742.2	3,748.7	32.6	34.8
Agriculture, livestock and fishing	209.5	230.4	308.7	303.4	282.2	2.9	2.6
Construction	290.4	402.5	485.3	471.8	496.7	4.0	4.6
Other	60.2	62.8	83.0	82.4	92.0	0.8	0.9
Capital Goods							
Manufacturing	377.2	403.8	447.5	443.2	504.4	5.1	4.7
Transport	328.2	336.4	399.0	439.7	510.2	4.5	4.7
Agriculture, livestock and fishing	17.6	24.2	39.5	28.8	27.8	0.2	0.3
Construction	77.7	78.2	107.5	87.3	100.9	1.1	0.9
Other	229.2	244.0	293.4	276.1	333.9	3.1	3.1
Maquila	604.7	613.6	636.8	717.2	752.4	8.3	7.0
Total	**$7,325.5**	**$8,416.2**	**$9,964.5**	**$10,258.1**	**$10,772.0**	**100.0%**	**100.0%**

(1) Preliminary.

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

Balance of Payments

The current account of the Republic's balance of payments for the past five years has been characterized by deficits, which have been financed in most years by capital and financial account surpluses. For 2009, the current account deficit decreased by US$1,220.0 million, or 79.6%, compared with the previous year due to the impact of the Global Economic Crisis and the slowdown of the domestic economy reflected in variables such as trade, prices and remittances. For 2010, the current account deficit continued widening while the financial account registered a US263.4 million surplus. For 2011, the current account deficit recovered to pre-crisis levels at US$1,111.8 million, representing an increase of 108.8%, compared with the previous year due to

the recovery of the merchandise trade balance deficit and a 5.0% growth in remittances. The current account deficit registered US$1,288.1 million and US$1,576.6 million in 2012 and 2013, respectively.

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

Balance of Payments

	For the year Ended December 31,				
	2009	2010	2011	2012[1]	2013[1]
	(in millions of US dollars)				
Current Account	**$(312.2)**	**$(532.8)**	**$(1,111.8)**	**$(1,288.1)**	**$(1,576.6)**
Trade and services balance	**(3,198.1)**	**(3,623.9)**	**(4,323.1)**	**(4,419.0)**	**(4,710.6)**
Exports (FOB goods and services)	4,215.8	4,971.1	5,878.6	6,093.8	6,402.6
Imports (FOB goods and services)	7,413.8	8,595.0	10,201.7	10,512.7	11,113.2
Primary Income	(556.0)	(538.3)	(618.2)	(889.7)	(965.7)
Secondary Income	**3,441.8**	**3,629.3**	**3,829.5**	**4,020.6**	**4,099.6**
Personal Transfers (Remittances)	3,387.2	3,455.3	3,627.5	3,893.8	3,953.6
Other Private Transfers	36.8	80.2	119.9	92.6	119.3
General Government (Public)	17.9	93.9	82.1	34.1	26.7
Capital Account	**131.2**	**232.0**	**266.4**	**201.2**	**101.1**
Net lending/Net borrowing (from current and capital account)	**(181.0)**	**(300.8)**	**(845.4)**	**(1,086.9)**	**(1,475.5)**
Net lending/Net borrowing (from financial account)	**512.2**	**(263.9)**	**(1,190.0)**	**(1,264.2)**	**(1,178.1)**
Financial account	512.2	(263.9)	(1,190.0)	(1,264.2)	(1,178.1)
Direct Investment	(365.7)	225.6	(218.4)	(483.6)	(137.1)
Net acquisition of financial assets	3.0	112.4	(95.9)	(35.9)	59.7
Net liabilities	368.7	(113.2)	122.5	447.7	196.8
Portfolio Investment	(747.1)	121.4	(98.6)	(868.2)	(33.1)
Net acquisition of financial assets	(350.2)	118.2	(97.6)	(31.9)	(40.9)
Net liabilities	396.9	(3.2)	1.0	836.3	(7.8)
Other Investment	1,202.5	(314.6)	(458.8)	(563.2)	(681.2)
Net acquisition of financial assets	646.1	(106.5)	99.4	91.4	(54.4)
Net liabilities	(556.4)	208.1	558.2	654.6	626.8
Reserve assets	422.6	(296.3)	(414.1)	650.7	(326.7)
Net acquisition of financial assets	422.6	(296.3)	(414.1)	650.7	(326.7)
Errors and omissions	**$693.2**	**$36.9**	**$(344.5)**	**$(177.4)**	**$297.5**

(1) Preliminary.

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

Current Account

The trade and services deficit increased from US$3,198.1 million in 2009 to approximately US$4,710.6 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. In 2009 and 2010, the increase in food prices and the import of intermediate goods contributed to the rise of total imports. In 2009, the trade and services deficit decreased by 34.6% to US$3,198.1 million. Imports in 2009 declined 23.6% to US$7,413.8 million compared with 2008 and exports in 2009 declined 12.3% to US$4,215.8 million. The services deficit in 2009 resulted from lower payments for freight, insurance and personal travel. The trade and services deficit increased from US$3,623.9 million in 2010 to approximately US$4,323.1 million in 2011. The trade and services deficit increased from US$4,419.0 million in 2012 to approximately US$4,710.6 million in 2013. Imports increased primarily due to increased consumer goods imports related to increased remittances, and increased intermediate and capital goods imports. Oil imports grew by 25.5%.

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 2013, remittances represented approximately 37.0% 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 2009 through 2013, except for 2009. In 2009, remittances were affected by the increase in Hispanic unemployment in the United States and totaled approximately US$3,387.2 million, a decrease of 9.5% compared to 2008. In 2010, remittances recorded a slight recovery of 2.0%, and in 2011 they reached pre-crisis levels, growing 5.0% compared to 2010, from US$3,455.3 million to US$3,627.5 million. Remittances totaled US$3,893.8 million in 2012 and US$3,953.6 million in 2013, representing 16.4% and 16.3% of GDP, respectively. In the seven-month period ended July 31, 2014 remittances reached US$2,464 million, representing a growth of 8.1% compared to the same period in 2013.

During the three-month period ended March 31, 2014, the current account registered a deficit of US$355.4 million, decreasing 0.3% compared to the same period in 2013, largely due to growth of 7.8% in remittances and an expansion of 64.9% in the services surplus, compared to the same period in 2013.

Capital and Financial Account

From 2009 to 2013, the capital account and the financial account registered a surplus each year except 2009 due mainly to inflows from foreign direct investment, portfolio investment and issuances by the government of external notes and loans to private banks. In 2013, net levels of the financial account reached over US$1.1 billion, due to foreign direct investment inflows and other investment related to commercial credit.

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 2009 was invested primarily in the finance, *maquila*, manufacturing and trade sectors. FDI registered US$219 million in 2011, representing an increase from US$(230) million in 2010, resulting from investments in manufacturing, trade and communication. In 2012, FDI registered US$482 million primarily from investments in manufacturing, trade and communication. In 2013, FDI totaled US$140 million as a result of investments in manufacturing, electricity and financial services activities.

FDI totaled US$(52.2) million for the first three-month period ended March 31, 2014, representing an decrease of 160.0% compared to the same period in 2013. The government believes that foreign investors may have deferred investment decisions while the first and second rounds of the presidential election were pending in February 2014 and March 2014, respectively.

From 2009 to 2013, portfolio investments were mainly driven by government issues of new indebtedness. For 2009, portfolio investments were primarily affected by the government issuance of external notes amounting to US$800 million. In 2010, portfolio investments recorded a net outflow of US$121.4 million mainly due to the lack of any new issues of government 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$868.2 million. In 2013, the government issued no new indebtedness and net inflows of portfolio investment accordingly declined to $33.1 million.

During the three-month period ended March 31, 2014, the financial account showed a US$158.9 million net inflow, representing a decrease of 50.3% from the same period in 2013. External assets increased to US$56.4 million, resulting from portfolio investment and an increase in reserve assets while liabilities increased US$215.3 million, mostly from loans and commercial credits obtained by resident units.

Foreign Currency Reserves

At December 31, 2013, net international reserves ("NIRs") totaled US$2,720.7 million, a decrease of 14.3% from December 31, 2012. This reduction in NIRs resulted from a decrease in assets, particularly deposits abroad, and from an increase in liabilities. At December 31, 2013, 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 2010, 2011, and 2012, the Central Bank held reserves equivalent to 4.4, 3.2, and 4.0 months worth of goods imports, excluding *maquila*, respectively. As of July 31, 2014, NIRs totaled US$2,697.5 million.

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

Net International Reserves

	At December 31,				
	2009	**2010**	**2011**	**2012**[1]	**2013**[1]
	(in millions of US dollars)				
Assets:					
Gold[2]	$117.5	$313.6	$351.3	$369.8	$268.7
Foreign currencies	2,610.4	2,315.8	1,899.9	2,552.3	2,221.2
Cash	37.2	97.2	96.2	32.4	120.4
Deposits abroad	698.7	317.8	435.7	1,176.4	33.2
Investments	1,874.5	1,900.8	1,368.0	1,343.6	2,067.6
Special drawing rights	257.1	252.3	251.5	252.5	255.0
Other	0.1	0.1	0.1	0.1	0.0
Liabilities:					
Total liabilities	1.8	1.1	0.8	1.8	24.2
Net international reserves	**$2,983.4**	**$2,880.7**	**$2,502.0**	**$3,172.9**	**$2,720.7**

(1) Preliminary
(2) For 2007, 2008, 2009 and 2010 gold was valued at US$398.00/troy ounce, US$456.59/troy ounce, US$526.73/troy ounce and US$1405.5 /troy ounce, respectively. For 2011, gold was valued at US$1,574.5/troy ounce.

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

MONETARY SYSTEM

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

Created in 1934, the Central Bank was reorganized in 1991 with the objectives of controlling inflation, preserving the internal and external value of the national currency and maintaining adequate levels of liquidity in the financial system. The Central Bank is prohibited from financing, directly or indirectly, the government or any state-owned entities, or from investing in securities issued by any of them. 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 5 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 July 31, 2014, a principal amount of approximately US$25.8 million of CENELIs were outstanding, which was the US$74.1 million outstanding at December 31, 2013. At July 31, 2014, a principal amount of approximately US$2.1 million of *Bonos BCs* was outstanding, which was the same amount of outstanding *Bonos BCs* at December 31, 2013.

In September 2009, the Republic reached a preliminary stand-by agreement ("SBA") with the IMF, which was approved by the Executive Board of the International Monetary Fund in March 2010. The SBA is a 36-month, US$790 million loan for the Republic in order to help mitigate the adverse effects of the Global Economic Crisis. This SBA, which authorities of the Republic have treated as a precautionary backup measure, replaced the 15-month SBA approved on January 16, 2009. The main objectives of the Republic's economic program are to accelerate the economic recovery, reduce poverty, preserve financial stability and secure debt sustainability. In addition, the economic program includes the implementation of a countercyclical fiscal policy in 2010, which includes modernizing the country's roads and increasing electricity generation.

The Republic did not deem a withdrawal funds under the SBA to be necessary. The SBA agreement was under review due to the temporary underperformance of the Republic's fiscal targets in 2011 and 2012 because of the accumulated negative effects of natural disasters and the volatility of international conditions that, despite the positive result of the implementation of economic policies and tax reforms, limited economic and fiscal performance. The SBA concluded in the first quarter of 2013 and the current administration is not considering a new similar agreement.

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, 2013, the aggregate value of deposits in the system was approximately US$9.9 billion, including deposits held by the two state-owned banks, representing an increase of 4.1% compared to 2012. As of the first six months of 2014, the aggregate value of deposits in the system was approximately US$9.9 billion, similar to the level as of December 31, 2013.

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$10,000 (as of January 1, 2014) and has the authority to contribute funds to banks with liquidity problems. It was originally funded by the government and currently receives obligatory contributions from banks operating in the financial system. The Banking Law also governs the transparency and reporting requirements of banks, imposes audit standards and limits related party loans and other transactions to increase the responsibility of the banks. Subsequent amendments to the Banking Law provide greater protections to depositors by creating stricter capital and risk management requirements and granting broader authority to the Superintendency of the Financial System with respect to troubled financial institutions.

Effective as of July 2009, the Superintendency of the Financial System raised the paid-in capital for banks requirement to US$16.0 million. As of July 2011, the paid-in capital requirement for banks established 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.

In an effort to strengthen the financial system's ability to withstand shocks, the Legislative Assembly approved in January 2011 the Financial Sector Supervision and Regulatory Law. The law merged the supervisory entities for pensions and securities into the supervisory entity for financial institutions (banks, insurance companies and savings and loan companies - Superintendency of the Financial System). 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 June 30, 2014, the Salvadoran banking system had a total of 13 banking institutions, of which 11 were foreign-owned banks and two were state-owned banks, excluding BANDESAL. As of December 31, 2013 the amount of assets in the private banking sector amounted to US$13.2 billion. As of June 30, 2014, the amount of assets in the private banking sector amounted to US$13.4 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,				
	2009	2010	2011	2012	2013
Total assets (in billions of US dollars)	$12.4	$12.2	$12.0	$12.5	$13.2
Non-performing loans (as % of total loans)	3.7%	4.0%	3.7%	3.0%	2.4%

(1) Excluding the two state-owned banks and BANDESAL. As of December 31, 2013, the aggregate assets and non-performing loans as a percentage of total loans of the two state-owned banks were US$1.0 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. As of July 2014, Banco Azul is in the process of obtaining authorization to initiate operations in El Salvador.

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

Cooperative Banks and Savings and Loans Companies

The financial system in El Salvador also includes five cooperative banks and three 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*., a savings and loan company.

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, Mortgage Bank of El Salvador and the Rural Development Bank, had total assets of US$1,016.8 million and total liabilities of US$909.6 million as of December 31, 2013, while BANDESAL had total assets of US$537.7 million and total liabilities of US$325.7 million. At December 31, 2013, the Social Housing Fund had approximately US$808.9 million in total assets and approximately US$517.1 million in total liabilities.

The Rural Development Bank, the Mortgage Bank, BANDESAL, and the Social Housing Fund are part of the state development banking system that began operations in 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 approved 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.

From 2009 to 2011, most trading on Salvadoran primary capital markets involved the purchase and sale of government securities. In 2012 and 2013, private securitization transactions and financial sector issues led the market. Securitization transactions have added dynamism to the primary market since 2010. The secondary market has grown during the past five years: after experiencing lower trading activity during 2010, the secondary market registered increased activity in 2011, 2012 and 2013 due to trading generated mainly by pension funds.

Repo trading represents the largest share of trading transactions, dominated by banks. Repo trading contracted during 2009 but recorded a slight recovery in traded volumes in 2010 and 2011. Repo trading decreased in 2012 but increased in 2013. 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,				
	2009	**2010**	**2011**	**2012**	**2013**
	(in millions of US dollars)				
Repos	$1,263.9	$1,772.9	$2,234.8	$1,876.9	$1,990.9
Other	$1,429.7	$818.0	$1,322.9	$1,548.0	$1580.1
Total	**$2,693.6**	**$2,590.9**	**$3,557.8**	**$3,418.9**	**$3,571.0**

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

The Legislature approved the Investment Funds Law on August 20, 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.

From January 1, 2014 to August 31, 2014, nine commercial banks, 14 private companies, four public institutions, four municipalities, two savings and loan institutions, 11 sovereign states and 57 international entities executed transactions on the El Salvador Stock Exchange. In 2013, US$3.6 billion worth of securities were traded on the El Salvador Stock Exchange, representing an increase compared with the US$3.4 billion of the securities traded in 2012. As of August 30, 2014, approximately US$2.1 billion worth of securities were traded on the El Salvador Stock Exchange, representing a decrease compared to the US$2.2 billion of the securities traded as of June 30, 2014.

Interest Rates and Money Supply

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

Average Interest Rates

	2009	**2010**	**2011**	**2012**	**2013**
	(in percentages)				
Loans					
Short-term	9.3%	7.6%	6.0%	5.6%	5.7%
Long-term	10.9	10.2	9.4	8.8	9.9
Deposits					
30-day	4.4	2.6	1.6	2.1	2.8
180-day	4.5	2.9	1.8	2.5	3.4

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

In 2009, interest rates on short-term and long-term loans peaked at 9.3% and 10.9%, respectively as the result of the volatility of international prices during the first three months of 2009, which in turn was one of the consequences of the Global Economic Crisis. Average interest rates on short-term and long-term loans decreased to 7.6% and 10.2% in 2010 and further to 6.0% and 9.4% in 2011, continued decreasing to 5.6% and 8.8% in 2012 and increased to 5.7% and 9.9% in 2013, following in 2009-2012 the declining trend of international interest rates as well as an excess supply of liquidity in the domestic market that resulted from

increased levels of deposits and distribution of fewer loans, also reflecting the slow recovery of the El Salvadoran economy after the 2009 economic contraction.

Weighted monthly average interest rates on long-term loans decreased slightly to 10.04% in July 2014, while weighted monthly average interest rates on short-term loans for the respective period increased to 6.11% in July 2014, following the same trend. However, in July 2014, the weighted monthly average passive interest rate for deposits (passive basic rate - 180 days) increased from 3.34% in June 2013 to 3.78% in July 2014, reflecting the slow recovery of the economy and increased domestic liquidity.

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

Principal Monetary Indicators

	At December 31,				
	2009	**2010**	**2011**	**2012[(1) (2)]**	**2013[(1)]**
	(in millions of US dollars)				
Currency in circulation	$32.8	$4.7	$4.5	$4.2	$4.0
Demand deposits	2,279.7	2,637.1	2,776.5	2,792.2	2,887.9
M1	**2,312.5**	**2.641.7**	**2,780.9**	**2,796.4**	**2,892.0**
M2 (M1 plus savings plus term deposits)	**9,341.9**	**9,744.3**	**9,671.7**	**9,847.2**	**10,156.5**
Deposits in foreign currency	0.0	0.0	0.0	0.0	0.0
Others	1,422.1	1,035.2	859.7	793.5	715..4
M3 (M2 plus deposits in foreign currency plus others)	**$10,763.9**	**$10,779.5**	**$10,531.4**	**$10,640.7**	**$10,871.9**

(1) Preliminary.
(2) Since December 2012, the Central Reserve Bank of El Salvador has implemented harmonized monetary and financial statistics, which are based on methodologies in the Monetary and Financial Statistics Manual from the International Monetary Fund (2000).

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

The reserve requirements applicable to checking accounts, savings accounts and deposit certificates are currently 25.0%, 20.0% and 20.0%, respectively.

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

Inflation

El Salvador has experienced moderate levels of inflation, even during episodes of unfavorable economic conditions. The highest rate of inflation registered in El Salvador was 31.9%, which occurred in 1985. The establishment of an independent Central Bank caused this rate to decline substantially and, from 1991 to 2000, the rate of inflation continued to decline. The enactment of the Monetary Integration Act initially caused El Salvador’s inflation to approach the inflation levels of the United States, although in 2003 it began to diverge 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,				
	2009	**2010**	**2011**	**2012**	**2013**
Inflation	(0.2)%	2.1%	5.1%	0.8%	0.8%

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

In 2009, there was deflation of 0.2% due to a reduction in various expenditure categories measuring inflation, including food and beverage, restaurants and hotels and services. In 2010, inflation was 2.1%. In 2011, inflation increased to 5.1%, 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 utilities prices as a consequence of adjustments in government subsidies. In 2012 and 2013, the inflation rate decreased to 0.8% as food, clothes and footwear and oil-derived products prices registered a decline in their rate of growth.

As of July 31, 2014, 12-month inflation increased to 1.8%, compared to year-on-year inflation of 1.1% as of July 31, 2013, driven primarily by increasing prices of food and beverages and restaurants and hotels.

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 entity, with such modifications as the Ministry of Finance deems appropriate. Pursuant to the Constitution, at least 6.0% of the central government's current revenues contained in the General Budget must be allocated to the judiciary and, pursuant to the *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 approved by January 1, the budget for the prior year remains in effect until the Legislative Assembly approves the new budget. Expenditures are capped at the levels in the budget approved by the Legislative Assembly.

At the end of each fiscal year, the Executive Branch must submit a report on the 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;
- implement the *Sistema de Proteccion Social Universal* (System of Universal Social Protection) and strengthen the program *Comunidades Solidarias Rurales* (Rural Solidarity Communities), formerly known as *Programa Red Solidaria* (the Solidarity Network), to encourage extremely poor families to send their 5- to 16-year old children to pre-school and primary school, fully immunize children younger than 5, and regularly monitor the health and nutrition status of pregnant mothers and infants, and implement *Comunidades Solidarias Urbanas* (Urban Solidarity Communities), a program to

strengthen and introduce new benefits to families such as basic pensions for elderly people, nutrition and health programs, employment stability programs, temporary income protection and urban slum improvement; and

- increase expenditures in the healthcare sector to, among other things, increase the availability of healthcare services throughout the country, principally in rural areas to eliminate out of pocket expenses by those in need of such services. In 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).

Non-Financial Public Sector Revenues and Expenditures

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

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

Revenues	For the Year Ended December 31,					
	2009	2010	2011	2012	2013	2014 Budgeted [2]
	(in millions of US dollars, except percentages)					
Current revenues[3]	$3,517.6	$3,829.2	$4,299.6	$4,581.1	$4,806.2	$4,864.8
Capital revenues	0.1	0.2	0.2	0.2	0.0	0.0
Foreign aid	108.8	164.4	213.9	178.0	70.8	38.5
Total revenues	$3,626.4	$3,993.8	$4,513.6	$4,759.2	$4,877.0	$4,903.3
Expenditures						
Current expenditures[3]	$3,809.5	$3,876.4	$4,346.2	$4,370.4	$4,624.7	$4,626.0
Consumption	2,533.3	2,653.9	2,860.0	2,894.7	3,176.8	3,180.7
Interest	530.9	507.9	517.9	536.4	593.8	615.8
Transfers	745.2	714.6	968.2	939.3	854.2	929.5
Capital expenditures	643.1	677.8	668.8	783.9	790.0	807.3
Gross investment	581.3	621.1	619.1	727.3	726.5	741.8
Capital transfers	61.8	56.7	49.6	56.5	63.5	65.5
Net lending	(0.9)	(0.5)	(0.3)	(0.5)	(0.6)	(0.0)
Total expenditures	$4,451.7	$4,553.7	$5,014.6	$5,153.8	$5,414.2	$5,433.3
Current account surplus (deficit) [4]	**(291.9)**	**(47.2)**	**(46.6)**	**210.7**	**181.5**	**238.8**
Surplus (deficit) excluding foreign aid	**(934.0)**	**(724.3)**	**(714.9)**	**(572.5)**	**(608.0)**	**(568.5)**
Surplus (deficit) including foreign aid	**(825.2)**	**(559.9)**	**(501.0)**	**(394.6)**	**(537.1)**	**(530.0)**
External Financing	785.1	274.1	121.2	912.3	121.2	1,132.9
Internal Financing[5]	40.1	285.8	379.8	517.8	379.8	(271.7)
Current account surplus (deficit)/Nominal GDP	**(1.4)%**	**(0.2)%**	**(0.2)%**	**0.9%**	**0.7%**	**0.9**
Surplus (deficit) excluding foreign aid/Nominal GDP	**(4.5)%**	**(3.4)%**	**(3.1)%**	**(2.4)%**	**(2.5)%**	**(2.2)%**
Surplus (deficit) including foreign aid/Nominal GDP	**(4.0)%**	**(2.6)%**	**(2.2)%**	**(1.7)%**	**(2.2)%**	**(2.1)%**
Nominal GDP	**$20,661.0**	**$21,418.3**	**$23,139.0**	**$23,813.6**	**$24,259.1**	**$25,337.9**
Deficit including foreign aid and Pensions	**(1,171.2)**	**(917.0)**	**(906.6)**	**(813.9)**	**(979.4)**	**(1,016.7)**
Deficit as a percent of GDP	**(5.7)%**	**(4.3)%**	**(3.9)%**	**(3.4)%**	**(4.0)%**	**(4.0)%**

(1) All figures are presented on a cash basis.
(2) Budgeted figures are based on amounts contained in the 2014 budget approved by the Legislative Assembly and its amendments.
(3) Current revenues and current expenditures are presented on a gross basis.
(4) The current account equals current revenues less current expenditures.
(5) Includes pension costs.

Source: *Ministerio de Hacienda.*

In 2009, the non-financial public sector deficit totaled US$825.2 million, or US$513.7 million above the target set forth in the 2008 budget. The non-financial public sector deficit was 4.0% of nominal GDP in 2009, above the 1.3% target set forth in the 2009 budget. The non-financial public sector deficit figure for 2009 reflected total revenues of US$612.5 million below the 2009 budget projections, which were partially offset by expenditures of US$98.8 million below the 2009 budget projections. The decrease in total revenues was primarily due to the effects of the Global Economic Crisis on the public finances. On the expenditure side, expenditures below those that were budgeted were mainly the result of decreases in gross public investment (US$143.7 million), cost of subsidies for cooking gas (US$53.4 million), electricity (US$92.7 million), due to lower oil prices than in 2008; offset by increased expenditures for social programs by the government.

In 2010, as a result of the positive performance of revenue collections and reduced expenditures, the non-financial public sector recorded a deficit of US$559.9 million, or 2.6% of nominal GDP, a decrease of US$265.3 million with respect to the deficit in 2009. The non-financial public sector deficit figure for 2010 reflected total revenues of US$3.993 million, US$367.4 million more than in 2009. This performance was due to an increase in income taxes as a consequence of the economic recovery after the Global Economic Crisis.

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 from 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 from the non-financial public sector amounted to US$5,153.8 million, an increase of 139.2 million from the previous year.

In 2013, the non-financial public sector deficit totaled US$537.1 million, or 2.2% of the 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 following table shows the composition of the central government's revenues and foreign aid for the periods presented.

Central Government Revenues and Foreign Aid[1]

	For the Year Ended December 31.				
	2009	2010	2011	2012	2013
	(in millions of US dollars)				
Tax revenues [2]					
Income	$1,003.8	$1,051.4	$1,192.8	$1,317.4	$1,506.4
Property transfers	13.4	16.1	16.3	19.9	20.7
Imports	138.0	150.5	167.3	179.6	199.2
Consumption	99.7	119.7	140.4	146.1	145.1
Value added tax	1,423.2	1,566.3	1,801.5	1,860.9	1,901.7
Others	47.3	56.3	56.0	45.4	45.1
Special contributions (FOVIAL) [3]	68.1	69.0	68.9	71.2	72.1
Special contributions (AZUCAR)	0.7	0.5	0.5	0.9	0.6
Special contributions (TURISMO)	7.6	7.4	8.2	8.4	9.0
Special contributions (TRANSPORTE)	34.1	34.6	34.5	35.7	36.2
Special contributions (FONAT) [5]	0.0	0.0	0.0	0.0	8.1
Total tax revenues	2,836.0	3,071.8	3,486.6	3,685.4	3,944.1
Non-tax revenues [4]	132.8	179.4	136.5	142.1	144.6
Total current revenues	2,968.8	3,251.2	3,623.1	3,827.4	4,088.7
Capital revenues	0.0	0.2	0.2	0.2	0.0

Foreign aid.	19.0	16.6	43.0	30.0	25.3
Total revenues	$2,987.9	$3,268.0	$3,666.3	$3,857.3	$4,114.0

(1) All figures are presented on a cash basis.
(2) Tax revenues are presented on a gross basis.
(3) In 2001, the government imposed a levy, the *Fondo de Conservación Vial* (Road Maintenance Fund or "FOVIAL"), of US$0.20/gallon on gasoline and diesel which is specifically used for road maintenance and improvements.
(4) Includes fines, license fees, plate issuance fees, passport fees, and gasoline related revenues.
(5) During year 2013 the *Ley para la Atención de Víctimas de Accidentes de Tránsito* (Attention of Victims of Traffic Accidents Act) was passed. This law imposed a tax which was later determined unconstitutional by the Supreme Court of Justice and thus repealed.

Source: *Ministerio de Hacienda.*

The value added tax assists the government in collecting revenues from certain transactions in which the informal sector engages.

Taxation and Customs

The Constitution authorizes the levy and collection of taxes by tax authorities at the national level. The central government collects taxes on personal and corporate income and on transfers of real estate. In addition, it collects import duties and a 13% value added tax on tangible assets and services. Approximately 96.2% of the central government's current revenues came from various forms of taxation in 2011.

Tax revenues decreased 8.2% in 2009. In 2010, tax revenues increased 8.3% compared to 2009. In 2011, tax revenues were US$3.5 billion, an increase of 13.5% compared to tax revenues in 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 value added taxes), and improved efficiency in tax and customs administration and in tax audits.

The main pillars on which the Salvadoran tax system is based, are the value added tax, income tax, import duties and consumption taxes. These four tax categories in year 2013 represented 95.1% of total tax revenues, including special contributions. The Salvadoran tax system relies more on the collection of indirect taxes, such as the value added tax, than on direct taxes. The value added tax applies to the sale of most tangible goods as well as most services, except those related to education, public transportation and cultural services, among others. Continuing the trend that began in 1992, the value added tax was the principal source of tax revenues for year 2013, generating approximately 48.2% of total of tax revenues. Due to the impact of the Global Economic Crisis, revenues from the value added tax fell 11.9% during 2009 compared to 2008. For 2010, value added taxes collected totaled US$1.6 billion, representing an increase of 10.1% compared to 2009. For 2011, value added taxes collected totaled US$1.8 billion, representing an increase of 15.0% compared to 2010. For 2012, the value added taxes collected totaled US$1.9 million, representing an increase of 3.3% compared to 2011. For 2013, the value added tax collected totaled US$1.9 billion, showing an increase of 2.2% compared to 2012.

The second largest component of tax revenues is the income tax, which accounted for 38.2% of total tax revenues for year 2012. Such income tax is in effect for natural persons, residents and non-residents, who declare in the Republic, go from 0% to 30.0%. A fixed rate of 30.0% is applied to non-resident taxpayers and corporate entities. Import duties, the third main component of tax revenues, represented 5.1% of total revenues for year 2012.

Tax Reforms

In 2009, a tax reform was approved by the Legislative Assembly aimed at: (i) closing loopholes, reducing tax evasion and broadening the tax base; (ii) internationalizing the tax system; and (iii) strengthening the tax administration and customs capabilities, providing them with more effective tools to control the fulfillment of tax obligations. As a result of the enactment of this reform, tax revenues increased by US$137.6 million, or 0.6% GDP, and the ratio of tax revenue to GDP increased to 14.3% and 15.1% of GDP at December 31, 2010 and 2011, respectively.

In addition, in December 2011 a second tax reform was enacted, in effect as of January 1, 2012, 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 was increased from 25% to 30%, the general rate of tax withholding on gross sales increased from 1.5% to

1.75%, a minimum income tax of 1% gross income and a 5% tax withholding on dividend distribution were established. Tax revenues are expected to increase by US$137.8 million, or 0.6% of GDP, as a result of this reform.

Furthermore, in 2010, the Congress approved an *ad valorem* tax at a rate of 8% and the updating of specific rates for alcoholic beverages.

In December 2011, a reform on the Income Tax Law and the Tax Code was approved by the Legislative Assembly, in effect starting in 2012. The reform on the Income Tax Law has the objective of 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; establish a larger tax burden to higher income sectors; equalizing corporate income taxation to regional standards.

On December 14, 2012, the *Fondo para la Atención de Accidentes de Tránsito* (Fund for the Attention of Traffic Accidents) pursuant to Legislative Decree No. 232 was enacted, and became effective during 2013. The law establishes a tax in order to provide medical care and economic compensation in certain circumstances to persons that become disabled and/or certain beneficiaries, if the injury or death occurred due to a traffic accident. On June 26, 2013, the Constitutional Court of the Supreme Court of Justice agreed to hear an appeal on the constitutionality of the tax. On February 7, 2014 the Supreme Court of Justice declared the tax unconstitutional. The application of the tax has been suspended.

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 approved 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 with activities related to the production, distribution and sale of newspapers, magazines, books and other printed media. However, an exemption as to these activities as they relate to books is still available. This decree also provided for a minimum payment of 1% of net assets.

- Legislative Decree Number 763 included reforms to the tax code with the purpose of lessening 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.

These three approved reforms are projected to generate resources amounting to approximately 0.45% of GDP in 2015.

The Constitutional Court of the Supreme Court of Justice is currently reviewing the admission of certain constitutional actions filed by seven banks operating in El Salvador, which allege that the 0.25% tax on certain financial transactions is unconstitutional. The Supreme Court of Justice has not yet decided whether it will hear the case.

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

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 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, included 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$18.0 per operation for the entrance and exit of merchandise to the Republic;
- facilitates and simplify 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 periods presented.

Central Government Expenditures[(1)]

	For the Year Ended December 31,				
	2009	2010	2011	2012	2013
	(in millions of US dollars, except percentages)				
Education	$745.0	$698.2	$753.8	$816.8	$857.2
Public Health	382.0	422.3	476.7	495.3	564.1
Justice and Branch of Public Security	284.1	311.3	335.6	328.8	359.9
Public Works	204.0	178.3	223.1	226.4	286.0
Judiciary.	179.2	175.2	183.4	199.4	220.2
Economy	26.9	135.0	166.9	172.2	181.0
Defense	135.3	145.0	167.2	157.0	160.3
Presidency	101.7	125.2	136.1	139.0	154.9
Finance [(2)] [(3)]	59.6	58.4	59.5	63.8	69.7
Agriculture, Livestock and Fishing	73.5	51.2	85.9	74.5	69.2
Legislature	36.8	48.9	47.6	52.6	61.1
Foreign Relations	39.9	37.4	41.1	39.4	43.9
Attorney General	39.1	37.1	38.2	34.6	39.4
Controller	32.3	31.7	33.4	33.1	36.4
Electoral Tribunal	14.0	19.6	16.8	23.1	24.5
General Prosecutor	19.9	19.1	19.4	20.1	21.7
Public Security	15.1	17.6	21.3	19.2	19.8
Tourism	11.6	13.9	15.7	11.6	17.8
Labor	9.6	11.8	12.7	13.1	14.4
Environmental	9.8	8.7	17.1	16.1	12.4
Defense of Human Rights	6.3	6.6	8.0	8.1	8.9
National Judiciary Council	4.7	5.2	5.5	5.8	5.6
Government Ethics Tribunal	1.2	1.4	1.2	0.8	1.9
Civil Services Tribunal	0.6	0.6	0.7	0.7	0.7
Public Treasury [(4)]	1,147.2	1,104.2	1,117.6	1,080.6	1,126.9
Interest Payments	504.7	505.3	531.7	536.3	570.1
Current Transfers	377.9	318.3	258.7	176.2	166.3
General Obligation	142.3	112.1	119.2	125.7	75.1
Other Obligations	235.6	206.2	139.5	50.6	91.1
Capital Transfers	264.6	280.6	327.2	368.1	390.5
Total	$3,579.4	$3,663.8	$3,984.7	$4,032.3	$4,357.7
Central Government Expenditure/Nominal GDP	17.3%	17.1.0%	17.2%	16.9%	18.0%

(1) All figures are presented on a cash basis.
(2) Includes operating expenses of the Ministry of Finance.
(3) Excludes amortizations.
(4) Excludes Pensions Debt and Debt Capital Repayments

Source: *Ministerio de Hacienda.*

In 2009, central government expenditures as a percentage of nominal GDP increased to 17.0%, primarily due to current transfers and larger payments in remunerations and goods and services. Overall expenses increased to approximately US$3.6

billion in 2009 compared to approximately US$3.3 billion in 2008. In 2010, central government expenditures as a percentage of nominal GDP increased to 16.0%, primarily due to increased consumer goods, remunerations and capital expenditures. Overall expenses increased to US$3.7 billion in 2010. In 2011, central government expenditures amounted to US$4.0 billion, or 17.4%, nominal GDP, corresponding to an increase of US$320.9 million compared to 2010. In 2012, central government expenditures amounted to US$4.0 billion, or 16.9% of nominal GDP, corresponding to an increase of US$47.6 million compared to 2011. In 2013, central government expenditures amounted to US$4.3 billion, or 18.0% of nominal GDP, corresponding to an increase of US$325.4 million compared to 2012. The 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.

During the six-month period ended June 30, 2014, non-financial public sector expenses decreased to 10.1% of estimated nominal GDP, or US$2,560 billion, compared with 11.3% of nominal GDP, or US$2,749 million, for the same period in 2013.

2014 Budget

The General Budget of the State for year 2014 was presented to the Legislative Assembly during September 2013 and approved in October 31, 2013. The 2014 budget contemplates a deficit of 2.2% of the GDP for the Non-Financial Public Sector, excluding liabilities related to the pensions system, which were estimated at 1.8% of GDP. The main assumptions made for year 2014 budget include an inflation rate of 3.2%, a real GDP growth of 2.6%, the price of crude oil barrel at US$105.3, stable coffee prices at US$170.1 per quintal, and a rate of growth of the US economy of 2.6%.

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$14,691.6 million at December 31, 2013 compared to US$14,296.2 million at December 31, 2012, US$12,740.8 million at December 31, 2011, US$11,702.9 million at December 31, 2010 and US$11,103.2 million at December 31, 2009. The increase in public sector debt in 2013 was mainly due to the issuance of CIPs, and the issuance of asset securitization bonds from FOVIAL, CEPA and FONAVIPO. The ratio of total public sector debt to GDP increased from 60.0% at December 31, 2012 to 60.6% at December 31, 2013. As of June 30, 2014, total public sector debt was US$14,890.7 million (58.8% of GDP) mainly due to higher estimated GDP for 2014.

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

Because all AFI-governed public debt must comply with the public indebtedness policies adopted by the executive branch, a non-financial public sector entity must obtain the prior written approval of the Ministry of Finance before entering into any negotiations with respect to borrowing. Any contract executed by such entities without the approval of the Ministry of Finance is null and void and unenforceable and may give rise to civil and criminal liability for the individuals involved. Once approval of the Ministry of Finance is obtained, the entity may proceed to negotiate the terms and conditions of the obligations to be incurred, provided that its own charter gives it the authority to conduct such negotiations on its own behalf; otherwise, the Ministry of Finance conducts the negotiations 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, 2013, US$607.4 million in aggregate principal amount of LETES were outstanding. As of June 30, 2014, US$710.6 million in aggregate principal amount of LETES were outstanding.

External Debt

External debt obligations of El Salvador are to multilateral organizations, bilateral institutions and commercial lenders, as well as investors in the international capital markets. The total external debt of the public sector in El Salvador, excluding the Central Bank, was US$9,186.1 million at December 31, 2013 compared to US$9,262.3 million at December 31, 2012, US$8,341.2 million at December 31, 2011, US$8,060.9 million at December 31, 2010 and US$7,788.4 million at December 31, 2009. As of June 30, 2014, total public sector external debt, excluding the Central Bank, was US$9,138.8 million.

The Central Bank's external debt at December 31, 2013 was US$263.4 million, compared to US$161.2 million at December 31, 2012. As of June 30, 2014, the Central Bank's external debt was US$239.9 million.

Since the signing of the Peace Accord in 1992, most of the external debt of the Republic has been entered into with multilateral organizations, and the funds borrowed have been used primarily for the reconstruction and improvement of physical infrastructure.

In April 2012, El Salvador entered into a US$200 million loan agreement with the IDB to fund initiatives to promote sustainability and reduce climate change effects.

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

Public Sector External Debt

	At December 31,				
	2009	2010	2011	2012 [(1)]	2013 [(1)]
	(in millions of dollars, except percentages)				
Central Government	$ 7,243.4	$ 7,510.3	$ 7,660.7	$ 8,580.9	$ 8,569.0
Public financial and non-financial entities	545.0	550.6	680.5	681.4	617.1
Sub-total	7,788.4	8,060.9	8,341.2	9,262.3	9,186.1
Central Bank	206.9	151.4	147.0	161.2	263.4
Total	$ 7,995.3	$ 8,212.3	$ 8,488.2	$ 9,423.5	$ 9,449.5
External public debt as a percentage of nominal GDP [(1)]	38.7%	38.3%	36.7%	39.6%	39.0%

(1) GDP figures for 2012 -2013 are 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,				
	2009	2010	2011	2012 [(1)]	2013 [(1)]
	(in millions of US dollars)				
Central government and public financial and non-financial entities	$ 7,788.4	$ 8,060.9	$ 8,341.2	$ 9,262.3	$ 9,186.1
Multilateral	3,056.9	3,359.3	3,557.3	3,754.1	3,724.5
Bilateral	682.8	661.6	659.2	595.1	546.3
Commercial	4,048.7	4,040.0	4,124.7	4,913.1	4,915.3
Central Bank	206.9	151.4	147.0	161.2	263.4
Multilateral	141.9	151.4	147.0	161.2	215.4
Bilateral	0.0	0.0	0.0	0.0	0.0
Commercial	65.0	0.0	0.0	0.0	48.0
Total Public Sector	$ 7,995.3	$ 8,212.3	$ 8,488.2	$ 9,423.5	$ 9,449.5

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

The increase in multilateral debt of the central government and public financial and non-financial entities from December 31, 2009 to December 31, 2013 was due mainly to the impact of the disbursement of loans for strategic projects and policy based loans; the latter are for budgetary support, such as the disbursements of US$500 million from the IDB and US$200 million from the IBRD. The purpose of the loans were to strengthen public finances and preserve social programs, support the policy reform process of the electricity sector, create fiscal space for needed social investment, and strengthen the capacity to implement the natural disaster and climate change risk management program.

For the six months ended June 30, 2014, total disbursements to the non-financial public sector were US$71.9 million, oriented to income support and employability, public works, public health, justice and public security, agriculture, and rural water and sanitation. As of June 30, 2013, total indebtedness of the government and the public financial and non-financial entities owed to multilateral institutions was US$3,599.2 million.

The increase in commercial indebtedness from December 31, 2009 to December 31, 2013 is due primarily to the Republic's issuance of external notes to improve its debt 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, 2013		At December 31, 2012	
	Amount	Percentage	Amount	Percentage
	(in millions of US dollars, except percentages)		(in millions of US dollars, except percentages)	

Fixed Rate				
0-3%	$ 1,005.0	10.6%	$ 1,041.9	11.0%
3-6%	1,842.1	19.5	1,848.2	19.6
6-9%	4,039.9	42.8	4,040.0	42.9
Floating Rate	2,562.5	27.1	2,493.4	26.5
Total	**$ 9,449.5**	100.0%	**$ 9,423.5**	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 2014-2023[(1)]

	For the Year Ending December 31,									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(in millions of dollars)									
Central government	**$ 681.0**	**$ 683.0**	**$ 702.0**	**$ 694.0**	**$ 686.0**	**$ 1,461.0**	**$ 592.0**	**$553.0**	**$ 540.0**	**$ 1,301.0**
Principal	225.0	234.0	260.0	260.0	260.0	1,042.0	239.0	206.0	198.0	996.0
Interest	456.0	449.0	442.0	434.0	426.0	419.0	353.0	347.0	342.0	305.0
Rest of Public Sector	**48.0**	**49.0**	**46.0**	**44.0**	**44.0**	**43.0**	**42.0**	**37.0**	**35.0**	**32.0**
Principal	30.0	32.0	31.0	30.0	32.0	32.0	32.0	29.0	28.0	26.0
Interest	18.0	17.0	15.0	14.0	12.0	11.0	10.0	8.0	7.0	6.0
Total Debt Service	**$ 729.0**	**$ 732.0**	**$ 748.0**	**$ 738.0**	**$ 730.0**	**$ 1,504.0**	**$ 634.0**	**$ 590.0**	**$ 575.0**	**$ 1,333.0**

(1) Medium and long term external debt disbursed as of December 31, 2013, excluding Central Bank´s debt service.
Source: *Ministerio de Hacienda.*

Debt Record

Since 1993, El Salvador has not rescheduled any loans and has not defaulted on any of its indebtedness.

During the civil war, El Salvador was unable to service a portion of its international debt. Between 1990 and 1993, El Salvador successfully negotiated the rescheduling of certain loans totaling US$382.5 million and forgiveness of certain other obligations with some of its international creditors. In 1993, the U.S. Agency for International Development, upon its own initiative, forgave US$463.9 million of the Republic's outstanding debt and Canada converted Cnd$8.1 million of outstanding debt to an obligation of the government to use amounts which would have been applied to service this debt for environmental projects. In 1999, the government of France, upon its own initiative, forgave FF133.0 million of the country's outstanding debt. The funds previously allocated to repay El Salvador's outstanding debt to France have been reallocated to establish the *Fondo Franco-Salvadoreño*, a fund that provides financing for infrastructure projects. In 2006, with the government of Spain, US$10 million of outstanding debt was reallocated to finance projects in the education sector, 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 €10.0 million more was reallocated in 2012 to finance projects to improve the quality of life in selected urban neighborhoods.

Internal Debt

The public sector's internal debt, excluding the Central Bank, was US$5,242.1 million at December 31, 2013 compared to US$4,872.7 million at December 31, 2012, US$4,252.6 million at December 31, 2011, US$3,490.6 million at December 31, 2010 and US$3,107.9 million at December 31, 2009. 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, 2013, the outstanding principal balance of obligations related to such activity was US$707.3 million. No interest obligations were outstanding at such date.

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

Public Sector Internal Debt[(1)]

	At December 31,				
	2009	2010	2011	2012[(1)]	2013[(1)]

	(in millions of US dollars, except percentage)				
Central government	$ 1,588.5	$ 1,634.1	$ 2,014.0	$ 2,282.5	$ 2,028.8
Public non-financial entities	0.0	0.0	0.0	0.0	154.9
Public financial entities[3]	1,519.4	1,856.5	2,238.6	2,590.2	3,058.4
Total	**$ 3,107.9**	**$ 3,490.6**	**$ 4,252.6**	**$ 4,872.7**	**$ 5,242.1**
Internal public debt as a percentage of nominal GDP[2]	15.0%	16.3%	18.4%	20.5%	21.6%

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

Central government internal debt increased from US$1,588.5 million at December 31, 2009 to US$2,028.8 million at December 31, 2013, due primarily to the increases in stock of LETES issued by the government, issuances of internal bonds sold in the Salvadoran exchange market to finance the budget including several projects aimed to the social area and to invest in education, social peace and security citizen. 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, 2013 US$2,608.3 million in aggregate amount of FOP Pension Investment Certificates were outstanding to cover pension payments from the public pension system. In 2013, Public non-financial entities (FOVIAL and CEPA) issued US$154.9 million of asset securitization bonds (non-sovereign debt guarantee). As of June 30, 2014, the total Public Sector Internal Debt, excluding the Central Bank, was US$5,512.0 million.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes that will appear on the reverse of each of the Notes (the "Terms and Conditions"). Certain provisions of the Notes refer to and are subject to the Fiscal Agency Agreement to be dated as of September 18, 2014 among the Republic, The Bank of New York Mellon, as Fiscal Agent, Principal Paying Agent, Registrar and Transfer Agent and the paying agents and the transfer agents named therein.

1. General. (a) This Note is one of a duly authorized issue of 6.375% Notes due 2027 (the "Notes") of the Republic, limited to the aggregate principal amount of US$800,000,000 (except as otherwise provided below) issued pursuant to a Fiscal Agency Agreement dated as of September 18, 2014 (the "Fiscal Agency Agreement"), among the Republic, The Bank of New York Mellon, as fiscal agent (the "Fiscal Agent"), principal paying agent (the "Principal Paying Agent"), registrar (the "Registrar") and transfer agent (the "Transfer Agent"), which expressions shall include any successors thereto, in its capacity as such, and The Bank of New York Mellon (Luxembourg) S.A., as transfer agent (the "Luxembourg Transfer Agent") and paying agent (the "Luxembourg Paying Agent" and together, the "Agents", which term shall include the Fiscal Agent, the Paying Agents, the Registrar and the Transfer Agents). If not previously redeemed in accordance with Condition 7 below, the entire principal amount of the Notes, together with accrued interest thereon, is payable on January 18, 2027.

(b) The Notes are direct, general and unconditional obligations of the Republic. The Notes shall at all times rank equally without any preference among themselves and at least pari passu with all other present and future unsecured and unsubordinated Public External Indebtedness (as defined herein) of the Republic; provided, however, that the Republic shall have no obligation to effect equal or ratable payment(s) at any time with respect to any such other Public External Indebtedness and, in particular, shall have no obligation to pay other Public External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.

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

(d) The issue of the Notes is authorized under Legislative Decree No. 711 (as published in the *Diario Oficial* on June 13, 2014) of the Republic's Legislative Assembly.

2. Form, Denomination and Title. (a) Each Note will be issued in minimum denominations of US$5,000 and integral multiples of US$1,000 in excess thereof. The Notes, and the transfer thereof, shall be registered as provided in Condition 9 below and in the Fiscal Agency Agreement. In this Note, "Noteholder" and (in relation to a Note) "holder" mean the person in whose name a Note is registered in the Register. A Noteholder may (to the fullest extent permitted by law) be treated at all times, by all persons and for all purposes, as the absolute owner of such Note, regardless of any notice of ownership, theft or loss or of any writing thereon.

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

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

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

Registration of title to Notes initially represented by the Regulation S Global Notes in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless (i) such depositary notifies the Republic that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Regulation S Global Notes or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the

Republic is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (ii) following a failure to pay principal in respect of any Note at maturity or upon acceleration of any Note, and the Fiscal Agent has received a request from the registered holder of the Regulation S Global Notes requesting exchange of the Regulation S Global Notes for individual note certificates (the "Regulation S Note Certificates" and together with the Restricted Note Certificates, the "Note Certificates").

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

3. Interest. (a) Interest on the Notes will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

(b) The Notes will bear interest from and including September 18, 2014 to, but excluding, January 18, 2027 at the rate of 6.375% per annum on the principal amount thereof payable semi-annually in arrears on January 18 and July 18 of each year commencing on January 18, 2015. Each Note will cease to bear interest from and including the due date for redemption unless, upon due presentation and surrender, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (ii) the day seven days after the Fiscal Agent or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes (except to the extent that there is failure in the subsequent payment to the relevant holders).

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

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

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

5. Payment of Additional Amounts. (a) All payments by the Republic in respect of the Notes shall be made without withholding or deduction for or on account of any present or future taxes, duties, fines, penalties, assessments or other governmental charges of whatsoever nature (or interest on any taxes, duties, fines, penalties, assessments or other governmental charges of whatsoever nature) imposed or levied by or on behalf of the Republic or any political subdivision or authority thereof or therein having power to tax, unless the Republic is compelled by law to deduct or withhold such taxes, duties, fines, penalties, assessments or governmental charges (or interest on any taxes, duties, fines, penalties, assessments or other governmental

charges). In such event, the Republic shall make such withholding, make payment of the amount so withheld to the appropriate governmental authority (and promptly forward to each holder of a Note an official receipt (or a certified copy) or other documentation evidencing such payment) and forthwith pay such additional amounts ("Additional Amounts") as may be necessary to ensure that the net amounts receivable by the holders of Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Notes in the absence of such withholding or deduction. No such Additional Amounts shall be payable:

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

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

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

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

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

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

7. Redemption and Purchase; Further Issues. (a) The entire principal amount of the Notes together with accrued interest thereon is payable on January 18, 2027. The Notes will not be redeemable prior to maturity at the option of the Republic or (except on acceleration following an Event of Default) the Noteholders.

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

(c) The Republic may, without the consent of Noteholders, create and issue additional notes having the same terms and conditions as the Notes (or the same except for the amount of the first interest payment) in accordance with applicable law; provided that such additional notes do not have, for purposes of U.S. federal income taxation (regardless of whether any holders of such notes are subject to the U.S. federal tax laws), a greater amount of original issue discount than the Notes have as of the date of the issue of such notes. The Republic may consolidate the additional notes to form a single series with the outstanding Notes.

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

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

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

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

(d) as a result of any default or event of default resulting from the failure to make any payment of principal or of interest thereunder when due contained in any agreement or instrument related to any External Indebtedness (as defined herein) of the Republic in excess of US$25,000,000, such External Indebtedness becomes due and payable prior to the stated maturity thereof or if the Republic defaults in the payment or repayment of any of its External Indebtedness in excess of US$25,000,000 on the maturity thereof as extended by any applicable days of grace or any guarantee or indemnity given by the Republic of any External Indebtedness in excess of US$25,000,000 of others shall not be honored when due and called or within any period of grace applicable thereto;

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

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

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

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

(b) Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, and subject to Condition 9(e) below, a Note or Notes may be exchanged for a Note or Notes of equal aggregate principal amount, but in such different authorized denominations as may be requested by the holder, by surrender of such Note or Notes to the office of the Registrar, or to the office of any Transfer Agent, together with a written request for the exchange.

(c) Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, and subject to Condition 9(e) below, a Note may be transferred in whole or in part (in the principal amount of US$5,000 and integral multiples of US$1,000 in excess thereof) by the holder or holders surrendering the Note for registration of transfer at the office of the Registrar or at the office of any Transfer Agent, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Republic and the Registrar or any such Transfer Agent, as the case may be, duly executed by, the holder or holders thereof or such holder's or holders' attorney-in-fact or attorneys-in-fact duly authorized in writing.

(d) The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions, except for the expenses of delivery by other than regular mail (if any) and except, if the Republic shall so require, the payment of a sum sufficient to cover any tax or other governmental charge or insurance charges that may be imposed in relation thereto or, in connection with Condition 9(a) above, the fees and expenses of the Registrar or Fiscal Agent, will be borne by the Republic.

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

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

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

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

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

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

(iv) any Security securing Public External Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project or any renewal or extension of such Security, provided that (A) the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project or the proceeds of insurance thereon as the principal source of repayment of such Public External Indebtedness and (B) the property over which such Security is granted consists solely of such assets and revenues; and

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

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

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

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

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

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

(v) "Security" means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance including, without limitation, any equivalent created or arising under the laws of the Republic.

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

(a) Ranking: ensure that its obligations under the Notes will at all times constitute direct, general and unconditional obligations of the Republic ranking at all times *pari passu* without any preference among themselves and at least equally with all other present and future unsecured and unsubordinated Public External Indebtedness of the Republic; *provided, however*, that the Republic shall have no obligation to effect equal or ratable payment(s) at any time with respect to any such other Public External Indebtedness and, in particular, shall have no obligation to pay other Public External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.
; and

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

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

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

13. Notices. All notices to holders of Notes will be valid if (a) given in writing and mailed to the holders of Notes at their respective addresses shown in the Register and (b) (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require) published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or in such other publication or city or cities as specified in the Fiscal Agency Agreement. Notices

may also be published on the website of the Luxembourg Stock Exchange at http://www.bourse.lu. Any such notice shall be deemed to have been given (x) on the date of mailing, in the case of mailed notice, and (y) on the date of such publication or, if published more than once, on the first date on which publication is made, in the case of published notice.

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

15. Governing Law. These Notes are governed by, and construed in accordance with, the law of the State of New York, except that all matters concerning authorization and execution by the Republic, as well as the bringing of any actions and the enforcement of any judgment against the Republic in the courts of the Republic, will be governed by the laws of the Republic.

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

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

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

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

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

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

18. Judgment Currency. All payments required to be made hereunder by the Republic shall be in U.S. dollars, regardless of any law, rule, regulation or statute, whether now or hereafter in existence or in effect in any jurisdiction, which affects or purports to affect such obligations. The obligation of the Republic in respect of any such amount due hereunder shall, notwithstanding any

payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount of US dollars that any of the Agents may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which any of the Agents receives such payments. If the amount in U.S. dollars that may be so purchased for any reason falls short of the amount originally due, the Republic shall pay such additional amounts, in U.S. dollars, as may be necessary to compensate for such a shortfall. Any obligation of the Republic not discharged by such payment shall be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect.

SUBSCRIPTION AND SALE

Citigroup Global Markets Inc. and Deutsche Bank Securities Inc. are acting as Joint Lead Managers and Joint Bookrunners of this offering. Subject to the terms and conditions in the subscription agreement dated the date of this Offering Circular (the "Subscription Agreement"), the Joint Lead Managers and Joint Bookrunners will agree to purchase severally, and the Republic will agree to sell to the Joint Lead Managers and Joint Bookrunners, the respective principal amount of the Notes set forth opposite its name below.

	Principal Amount
Citigroup Global Markets Inc.	US$400,000,000
Deutsche Bank Securities Inc.	US$400,000,000
Total:	**US$800,000,000**

The Subscription Agreement provides that the obligations of the Joint Lead Managers and Joint Bookrunners to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Joint Lead Managers and Joint Bookrunners must purchase all the Notes if they purchase any of the Notes.

The Republic has been advised that the Joint Lead Managers and Joint Bookrunners 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 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 Joint Lead Managers and Joint Bookrunners have agreed that, except as permitted by the Subscription Agreement and set forth in "Transfer Restrictions", they will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons as part of the distribution of the Notes.

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

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

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons or, if the Relevant Member State has implemented the relevant provision of the PD Amending Directive (as defined below), 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive subject to obtaining the prior consent of the Lead Managers; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes shall require the Issuer or any Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. provided that no such offer of Notes shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or of a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

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

For the purpose of the above provisions, the expression "an offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer of any Notes to be offered so as to enable an investor to decide to purchase any Notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71 EC (including that Directive as amended, in the case of Early Implementing Member States) and includes any relevant implementing measure in each Relevant Member State and "2010 PD Amending Directive" means 2010/73/EU.

Each of the Joint Lead Managers and Joint Bookrunners will represent and agree in the Subscription Agreement that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act (the "FSMA")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Republic; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

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

Although application will be made to list the Notes on the Luxembourg Stock Exchange and to have the Notes trade on the Euro MTF Market, the listing does not assure that a trading market for the Notes will develop. The Joint Lead Managers and Joint Bookrunners 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 the Republic or the Joint Lead Managers and Joint Bookrunners that would or is intended to permit an offering of the Notes or the possession, circulation or distribution of this Offering Circular in preliminary or final form, or any other offering material relating to the Republic or the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, and neither this Offering Circular nor any circular, prospectus, form of application, other offering material or advertisement relating to the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with all applicable laws and regulations of any such country or jurisdiction.

In connection with the offering, the Joint Lead Managers and Joint Bookrunners may purchase and sell Notes in the open market. These transactions may include over-allotment, covering transactions and stabilizing transactions. Over-allotment

involves sales of Notes in excess of the principal amount of Notes to be purchased by the Joint Lead Managers and Joint Bookrunners in this offering, which creates a short position for the Joint Lead Managers and Joint Bookrunners. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Joint Lead Managers and Joint Bookrunners may conduct these transactions in the over-the-counter market or otherwise. If the Joint Lead Managers and Joint Bookrunners commence any of these transactions, they may discontinue them at any time.

The Joint Lead Managers and Joint Bookrunners 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 Joint Lead Managers and Joint Bookrunners against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Joint Lead Managers and Joint Bookrunners may be required to make because of any of those liabilities.

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

BOOK-ENTRY SETTLEMENT AND CLEARANCE

Global Notes

The Notes will initially be issued in the form of 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 Fiscal Agent (as defined in "Terms and Conditions of the Notes") as custodian for DTC and registered in the name of a nominee of DTC.

Ownership of beneficial interests in each Global Note will be limited to persons who have accounts with DTC (which we refer to in this Offering 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 Fiscal Agent may require the seller to provide certain written certifications in the form provided in the Fiscal Agency Agreement (as defined in "Terms and Conditions of the Notes").

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

Book-Entry Procedures for the Global Notes

All interests in the Global Notes will be subject to the operations and procedures of DTC and, if applicable, Euroclear and Clearstream, Luxembourg. The Republic provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Republic nor the 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 Fiscal Agency Agreement. Except as provided below, owners of beneficial interests in a Global Note:

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

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

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

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

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

Cross-market transfers between DTC participants, on the one hand, and participants in Euroclear or Clearstream, Luxembourg, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream, Luxembourg. To deliver or receive an interest in a Global Note held in a Euroclear or Clearstream, Luxembourg account, an investor must send transfer instructions to Euroclear or Clearstream, Luxembourg, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream, Luxembourg, as the case may be, will send instructions to its DTC depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream,

Luxembourg participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream, Luxembourg.

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

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

Certificated Notes

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

- DTC notifies the Republic at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;

- DTC ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934 and a successor depositary is not appointed within 90 days; or

- the Fiscal Agent receives a notice from the registered holder of the Global Note requesting exchange of a specified amount for individual note certificates following a failure to pay at maturity or upon acceleration of any Note.

TRANSFER RESTRICTIONS

The Notes are subject to the following restrictions on transfer. By purchasing Notes, each prospective investor will be deemed to have made the following acknowledgments, representations to and agreements with the Republic and the 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;

(d) pursuant to Regulation S; or

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

Each prospective investor also acknowledges that:

- the Republic and the fiscal agent reserve the right to require, in connection with any offer, sale or other transfer of Notes before the applicable resale restriction period ends pursuant to Regulation S or Rule 144 under clauses (d) and (e) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Republic and the fiscal agent;
- Notes (other than those issued outside the United States pursuant to Regulation S) will, until the expiration of one year from the original issuance date of the Notes (or such other date as specified in Rule 144 or as specified in another applicable exemption under the Securities Act), unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

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

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

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

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

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

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

Each prospective investor acknowledges that the Republic, the 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 Decree No. 711 (as published in the *Diario Oficial* on June 13, 2014), 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 U.S Holders (as defined below) 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 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:

- 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 is not a U.S. Holder or 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. Therefore, a U.S. Holder may not be able to claim a credit for any Salvadoran tax imposed upon a disposition of a Note unless (subject to special limits) such holder has other income from foreign sources and certain other requirements are met.

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).

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 (or, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base 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. 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 to non-corporate U.S. Holders if such payments are made within the United States or by or through a custodian or nominee that is a "U.S. Controlled Person," as defined below. Backup withholding will apply to such payments if a U.S. Holder fails to provide an accurate taxpayer identification number or, in the case of interest payments and the accrual of interest, fails to certify that it is not subject to backup withholding or is notified by the 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 (assuming that the gain or income is otherwise exempt from U.S. federal income tax), but non-U.S. Holders may be required to comply with certification and identification procedures in order to prove their exemption. If a non-U.S. Holder holds a Note through a foreign partnership, these certification procedures would generally be applied to such holder as a partner. 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.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), Member States are required to provide to the tax or other relevant authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, deducting tax at the rate of 35% (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and certain dependent or associated territories of certain Member States have agreed to adopt similar measures (either provision of information or transitional withholding). Luxembourg has announced that it will no longer apply the withholding system as from January 1, 2015 and will provide details of payments of interest and other similar income as from that date.

On March 24, 2014 the Council of the European Union adopted a directive amending Council Directive 2003/48/EC, which, when implemented, will amend and broaden the scope of the requirements above. Member States have until January 1, 2016 to adopt the national legislation necessary to comply with this amending directive. Noteholders are advised to consult their independent professional advisers in relation to the implications of the changes.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by Luís Antonio Martínez González, the *Fiscal General* (the "Attorney General") of the Republic and by Leyes y Finanzas S.A. de C.V., Salvadoran counsel to the Republic, and by Arnold & Porter LLP, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the Joint Lead Managers and Joint Bookrunners by 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 LLP will rely on the opinions of the Attorney General and Leyes y Finanzas S.A. de C.V., and Shearman & Sterling LLP will rely upon the opinion of Guandique Segovia Quintanilla.

GENERAL INFORMATION

1. The Regulation S Global Note will be accepted for clearance through Euroclear and Clearstream, Luxembourg and the Restricted Global Note will be accepted for clearance through DTC. The CUSIP numbers for the Regulation S Global Note and the Restricted Global Note are P01012 AT3 and 283875 AS1, respectively. The common codes for the Regulation S Global Note and the Restricted Global Note are 111168075 and 111168059, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are USP01012AT38 and US283875AS10, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of El Salvador in connection with the issue and performance of the Notes. The issue of the Notes is authorized under Legislative Decree No. 711 (as published in the *Diario Oficial* on June 13, 2014) 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. The tribunal has not issued a decision on the merits.

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.

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. The proceedings, which aim only to clarify the terms of the DR-CAFTA and will not lead to any monetary award, are pending.

4. On November 5, 2012, Moody's Investors Service downgraded the Republic's long-term government bond ratings from "Ba2" to "Ba3" with a stable outlook. On December 16, 2013, Moody's Analysis affirmed the rating of "Ba3" with a stable outlook, as did Moody's Credit Opinion on June 11, 2014. On December 21, 2012, Standard & Poor's Ratings Services changed the outlook of the Republic's foreign currency issuer credit rating from "BB-" with a stable outlook to "BB-" with a negative outlook. Standard & Poor's maintained this rating and outlook in research updates dated January 31, 2013 and December 19, 2013 (and in a research update supplement dated January 8, 2014). On July 16, 2013, the Republic's long-term issuer default rating by Fitch Ratings changed from "BB" with a negative outlook to "BB-" with a negative outlook. Fitch Ratings maintained the "BB-" rating with a negative outlook on July 11, 2014.

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 will be made to list the Notes on the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. So long as any of the Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent and transfer agent in Luxembourg.

6. Copies of the following documents may be obtained on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Notes are listed on the Luxembourg Stock Exchange:

(a) the Fiscal Agency Agreement incorporating the forms of Global Notes and Note Certificates;

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

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

7. Other than as disclosed herein, there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Notes since December 31, 2013.

ISSUER

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The Republic of El Salvador

US$800,000,000
6.375% Notes due 2027

Citigroup **Deutsche Bank Securities**

Offering Circular

September 11, 2014