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El Salvador: Second Review Under the Stand-By Arrangement—Staff Report; Informational Annex; Press Release

In the context of the second review under the stand-by arrangement, the following documents have been released and are included in this package:

- The staff report for the El Salvador - Second Review Under the Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on February 11, 2011, with the officials of El Salvador on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 17, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- Informational Annex to the Staff Report of March 17, 2011.

- A Press Release summarizing the views of the Executive Board.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
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INTERNATIONAL MONETARY FUND

EL SALVADOR

Second Review Under the Stand-By Arrangement

Prepared by Western Hemisphere Department
(In Consultation with Other Departments)

Approved by Miguel Savastano and Jan Kees Martijn

March 17, 2011

- **Arrangement.** A three-year Stand-By Arrangement (SBA), with total access of SDR 513.9 million (300 percent of quota), was approved on March 17, 2010; the first review was completed on September 15, 2010. The authorities are treating the arrangement as precautionary.

- **Policy implementation.** Program performance has been strong. All performance criteria for end-September and end-December 2010 were observed; the one on the fiscal deficit by a large margin. Progress on structural measures has gained momentum, especially in the financial sector. Inflation has stayed low and financial stability has been preserved, but domestic demand and output remain sluggish.

- **2011 Program.** The economic program for 2011 is consistent with the medium-term objectives laid out in the SBA to strengthen growth prospects and social investment, improve the fiscal position, and continue financial sector reform. The program seeks to contain the overall fiscal deficit to 3½ percent of GDP in 2011 and the public debt to about 51 percent of GDP by year-end.

- **Discussions.** A staff team comprising M. Garza (Head), D. Simard, A. Swiston (all WHD), and S. Segal (SPR), and assisted by F. Delgado (regional resident representative), visited San Salvador during January 31–February 11. The team met with Technical Secretary to the Presidency A. Segovia, Finance Minister C. Cáceres, Central Bank Governor C. Acevedo, other senior officials, members of congress, and business representatives. J. Gramajo (OED) participated in key policy meetings.

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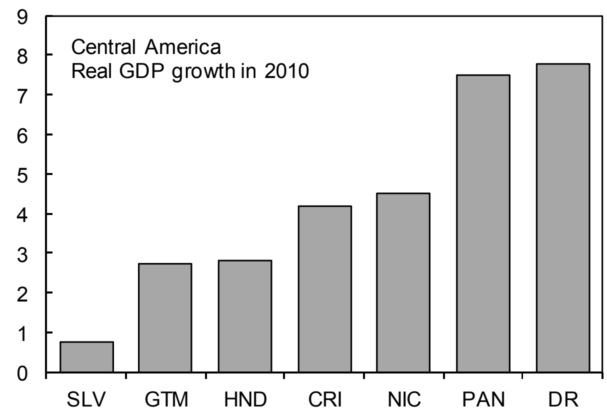
I. Developments Since the First Review[1]

1. **Macroeconomic performance in the second half of 2010 was broadly positive, but economic activity remains subdued.**

- ***Output.*** Real GDP growth in 2010 was 0.7 percent (significantly lower than in neighboring countries), mainly reflecting sluggish private investment and net exports. Consumer price inflation reached 2.1 percent by year-end, the lowest level in the region, although slightly above projections on account of higher food and fuel prices (Figure 1).



- ***Balance of payments.*** Exports and imports rebounded strongly (though remained below pre-crisis levels), but the recovery in remittances was slower. The external current account deficit reached 2.1 percent of GDP, similar to the level in 2009 and in line with projections. However, a substantial decline in inflows of FDI resulted in an overall deficit in the balance of payments (US$300 million) that was somewhat higher than envisaged (Figure 2).

- ***Fiscal.*** The overall fiscal deficit declined to 4.2 percent of GDP (5.6 percent in 2009), reflecting higher revenue from the 2009 tax reform and firm expenditure restraint, especially in the second half of the year.[2] Gross public debt reached 51½ percent of GDP by year-end, in line with projections (Figure 3).

- ***Financial system.*** Banks continued to exhibit adequate capital ratios and ample liquidity, and overdue loans remained broadly stable. Lending and deposit interest rates declined and deposits increased. Credit to the

Financial Soundness Indicators

	2008	2009	2010
Capital adequacy ratio 1/	15.1	16.5	17.6
Nonperforming loans, NPLs (percent of total)	2.8	3.7	3.9
Provisions (percent of NPLs)	110	110	108
Liquid assets to total deposits (percent)	36	41	42
Return to average equity (percent)	8.7	2.8	7.3

Source: Financial System Superintendency.
1/ Required capital is 12 percent of risk-weighted assets.

[1] Completed on September 15, 2010 (IMF Country Report No. 10/307).

[2] The 2009 tax measures, with an estimated annual yield of 0.5 percent of GDP, included: (i) an increase in excise taxes on alcoholic and carbonated beverages and tobacco, (ii) an excise tax on non-carbonated beverages, (iii) a tax on the registration of new vehicles; (iv) taxation of interest income of banks licensed abroad; and (v) removal of a tax exemption on interest income of individuals (see IMF Country Report No. 10/82).

private sector, however, remained subdued and banks used the rising liquidity to repay short-term external liabilities (Figure 4).

- ***External borrowing.*** In January 2011, the government issued a 30-year bond for $650 million in international markets at favorable terms (spread over U.S. Treasuries of 315 basis points). The resources will be used to repay a bond of similar amount maturing in July and reduced significantly external financing risks for 2011.

2. **Program performance was strong.**

- ***Performance criteria.*** All quantitative performance criteria for end-September and end-December were met. The outturns for the fiscal deficit and the increase in public debt were substantially below the ceilings set in the program, and there were no payments arrears. In addition, the sum of bank deposits and short-term external liabilities remained well above the consultation trigger.

- ***Structural.*** Progress in structural reforms gained momentum (Box 1). The subsidy reform was completed, the financial law integrating the supervisory agencies (structural benchmark reset under the first review) was approved by congress, and corporate governance norms were issued. Progress on improving tax administration was, however, more limited.

Performance Criteria

	Sept. 2010			Dec. 2010		
	Prog.	Actual		Prog.	Actual	
(million U.S. dollars, unless otherwise indicated)						
Fiscal targets						
Nonfinancial public sector balance	-700	-538	√	-1,045	-920	√
Gross nonfinancial public sector debt flows	729	140	√	1,117	646	√
External arrears	0.0	0.0	√	0.0	0.0	√
Domestic arrears	0.0	0.0	√	0.0	0.0	√
Consultation clauses						
Bank deposits and short-term liabilities	7,555	8,604	√	7,555	8,752	√
Reserve and liquid asset requirements (percent of liabilities in effective terms)	25.0	25.0	√	25.0	25.0	√

Sources: Salvadoran authorities; and Fund staff estimates.

3. **The government secured congress' support for its economic program.** Despite lacking a majority in congress, the government obtained the votes needed to approve key initiatives, including a prudent budget for 2011. Consultations with main stakeholders have been stepped up in early 2011 in an effort to maintain continued support for fiscal and financial reforms in the run-up to the congressional and municipal elections of March 2012.

II. THE ECONOMIC PROGRAM FOR 2011

A. Macroeconomic Outlook

4. **The medium-term economic outlook has been revised to incorporate changes to the external environment since the first program review.** For 2011, improved prospects for external demand and a continued recovery in domestic demand are still expected to lift output growth to 2½ percent. Meanwhile, inflation is projected to be somewhat higher than envisaged earlier (4.8 percent, y/y), owing to higher fuel and food prices; and the external current account deficit is also expected to increase (by more than 1½ percent of GDP) as a result of a higher oil import bill.

Macroeconomic Framework (In percent of GDP, unless otherwise noted)	Prel.	Projections					
	2010	2011	2012	2013	2014	2015	2016
Real GDP growth (percent)	0.7	2.5	3.0	4.0	4.0	4.0	4.0
Inflation (percent, end of period)	2.1	4.8	2.8	2.8	2.8	2.8	2.8
Nonfinancial public sector balance	-4.2	-3.5	-2.5	-2.0	-1.8	-1.5	-1.5
Public sector gross debt	51.5	51.3	51.0	49.8	48.4	47.1	45.9
External current account balance	-2.1	-3.8	-3.6	-3.5	-3.5	-3.5	-3.5

Sources: Central Reserve Bank of El Salvador; Ministry of Finance; and Fund staff estimates.

5. **The balance of risks continues to be tilted to the downside.** In the near term, weaker-than-projected remittances and private investment, and/or further increases in fuel and food prices would slow the pickup in activity and raise the fiscal deficit (through lower tax revenue). In addition, a possible lack of political support to fiscal proposals of the government could derail the process of fiscal consolidation, weakening the public debt dynamics.[3]

B. Fiscal Policy

6. **The economic program for 2011 will adhere to the fiscal consolidation path envisaged in the SBA.** The overall fiscal deficit will decline to 3½ percent of GDP, supported by improved tax collection efficiency and expenditure restraint. The deficit target would imply a reduction in the structural fiscal balance of about 0.4 percent of GDP (similar to the effort in 2010), and would keep the public debt-to-GDP ratio broadly stable (at 51.3 percent) by year-end.[4]

7. **Higher tax revenue will be critical for attaining the fiscal target.** The program assumes that tax revenue will increase by 0.7 percentage points of GDP in 2011, lifted by the pickup in economic activity and the continued effect of both the 2009 tax changes and revenue administration measures adopted in 2010. Further improvements in tax administration are also expected to result in revenue gains (Memorandum of Economic and Financial Policies, MEFP ¶5).[5] In addition, the authorities are contemplating new measures to simplify the tax system, bring it more in line with that of neighboring countries, and safeguard the revenue target if downside risks were to materialize. The measures under

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[3] Debt sustainability analysis suggests that the public debt-to-GDP ratio would exhibit an upward trend if the primary balance were to remain unchanged at the level of 2010, or if growth were much lower than projected (Table 8 and Figure 5).

[4] The primary deficit, however, is projected to decline to 0.9 percent of GDP in 2011, above the deficit of 0.4 percent projected at the time of the first program review.

[5] The internal revenue and customs agencies are improving cross-checking of tax information and control over large taxpayers. The agencies also have started reviewing registries to identify delinquency and reduce evasion in the payment of the value-added tax (MEFP ¶5).

consideration would be consistent with past Fund recommendations and could be proposed to congress later in the year.

8. **On the expenditure side, the program will continue to prioritize investment and social spending, while keeping total spending under control.** Current expenditure is projected to rise by 0.2 percentage points of GDP in 2011, largely as a result of salary increases for low-wage public employees; new hiring for security, education, and health; and high social spending (though not on untargeted subsidies).[6] These increases will be partially offset by strict control of other current spending (which is projected to decline by more than 0.5 percent of GDP), supported by recent regulations preventing carryover of monthly under-execution within ministries and government agencies, and ongoing improvements in budgeting control processes.[7] Government investment is also projected to increase by 0.2 percent of GDP, and to give greater emphasis to infrastructure and rural development projects.

9. **Placing the public debt-to-GDP ratio on a downward path and increasing social spending on a sustained basis remain the key priorities.** A fiscal pact with key stakeholders that provides broad support for a tax system reform that raises the tax intake to about 16 percent of GDP over the medium term remains the cornerstone of the consolidation strategy. Consultations on such a pact are ongoing and the authorities are confident on reaching broad agreement on key parameters of the pact well before end-2011 (MEFP ¶6). On the expenditure side, the authorities are undertaking a review to help them identify priority spending and set well-targeted spending benchmarks and ceilings in the 2012 budget and in the upcoming review of their five-year economic strategy (*Plan Quinquenal de Desarrollo*). In this regard, the role of the budget as the key tool to deliver policy objectives needs to be strengthened, along the lines of Fund advice to unify the budgets, broaden its coverage, and shift to a medium-term expenditure framework. The authorities are cognizant of the risks that delays in the envisaged pace of fiscal consolidation would carry for fiscal sustainability, and are committed to adhering to the tax and spending paths required for reducing the public debt-to-GDP ratio.

C. Financial System

10. **Efforts to enhance the resilience of the financial system will continue, following the recommendations of the 2010 FSAP Update.** In this regard, following the approval of the financial supervision law, the authorities adopted a plan aimed at shifting regulatory functions to the central bank and integrating the superintendencies of banks, pension funds, and securities by end-August. In addition, the authorities laid out a plan for the adoption of risk-based supervision that contemplates the issuance of regulations on an overall framework

[6] Higher current transfers for 2011 reflect the transitional cost (0.3 percent of GDP) to a new electricity tariff formula that will be offset by higher nontax revenue in the form of dividends from private electricity firms, and one-time outlays (0.2 percent of GDP) from the shift to the new subsidy scheme for liquefied propane gas.

[7] These include the preparation of a published statement consolidating the general budget, public enterprises, and decentralized entities, and stepping up the preparatory work for the adoption of multiyear budgeting.

for risk management by end-June, and issuance of specific regulations on credit and liquidity risks by year-end (structural benchmarks, see MEFP ¶7). Steps will also be taken to improve bank resolution processes and strengthen coordination among safety net providers, based on the findings of the bank resolution exercise finalized in February (structural benchmark). In this regard, the authorities agreed that they need to discuss with banks options to raise the reserves of the deposit insurance fund over the medium term from the present low level (1 percent of bank deposits).

11. **Mechanisms to develop the lender-of-last-resort (LOLR) function of the central bank are being explored.** Recent changes in the legislation have eased restrictions on the central bank's authority to channel its own resources to banks during periods of stress. Building on these changes, the central bank is exploring ways to further develop its LOLR function (structural benchmark). An adequate level of resources for this function needs to be determined and secured. Part of these resources could be obtained from the sale of the central bank's holdings of government debt (which were equivalent to about 8 percent of total deposits at end-2010), though the effects of this sale on the income stream of the central bank would need to be assessed carefully.

12. **Approval of the investment funds bill, to facilitate developing the local capital market, is expected by year-end.** The draft bill submitted to congress is broadly consistent with best practice, as it proposes clear rules for entry/exit of funds, sets appropriate valuation and accounting of assets, and provides a strong supervisory basis and market discipline. Staff noted, however, that the link between required capital and the level of assets under management could be strengthened.

D. Other Reforms

13. **The economic program for 2011 contains several initiatives aimed at jump-starting activity and strengthening medium-term growth.** One initiative consists of a formal framework for public-private partnerships (PPPs) to foster investment in roads, energy, airports, ports, and public transportation. The authorities recognize the importance of designing a solid framework, identifying fiscal contingencies, and assessing their possible effects on public debt, and plan to seek technical assistance from multilateral agencies on this matter. Another initiative consists of launching sectoral plans to facilitate investment and foster job creation. National programs in the areas of agriculture, tourism, and nontraditional exports were launched early in 2011. Finally, the authorities have finalized the design of a vehicle to facilitate the provision of long-term credit to productive sectors and will submit to congress legislation for this purpose by mid-2011 (Box 2). To minimize fiscal contingencies that could compromise the public debt objective of the program, the authorities plan to channel resources only to profitable projects and on a gradual and limited basis.

III. Program Modalities

14. **Looking forward, the variables subject to conditionality will remain broadly the same as in the first review and the authorities will continue to treat the SBA as precautionary** (Attachments I and II). Concretely, staff and the authorities reached understandings on the following aspects of the program for 2011 (Tables 13–14):

- ***Quantitative performance criteria.*** Quarterly ceilings for 2011 consistent with a deficit for the nonfinancial public sector of US$817 million (3.5 percent of GDP) and with a total increase of US$701 million in gross public debt have been set. The adjusters for over-performance of tax revenue and pre-financing operations included in the first review were maintained, while a new adjuster covering the issuance of sovereign guarantees has been added.

- ***Structural benchmarks.*** Actions not yet implemented on the tax administration front, (the modernization of the revenue offices and coordination in tax collection) have been pushed back (to June and December, respectively) to fully incorporate Fund recommendations, and on the approval of the draft investment funds bill has been rephased (to December). To improve the monitoring on progress in the structural reform area, the program incorporates new structural benchmarks on large taxpayer control, public sector financial management, LOLR facility, and risk-based supervision (Attachment III).

- ***Consultation clauses.*** The two consultation clauses under which the authorities commit to consult with Fund staff and reach understandings on corrective measures remain in place.

15. **The central bank is complying with the recommendations of the Safeguards Assessment Update of September 2010.** The central bank will prepare its financial statements taking into account the requirements of applicable international accounting standards and the policies adopted by other central banks and, starting in 2011, will publish these statements, including the external audit opinion every March. Also, the central bank will select in the coming months an external auditor through public tender with a contract term expiring within five years. The recent changes to the central bank organic law facilitated these changes.

IV. Staff Appraisal

16. **Macroeconomic performance under the SBA remains broadly positive.** The economy has begun to recover, albeit at a slow pace, inflation has been the lowest in the region, and financial stability has been maintained. Fiscal policy helped mitigate the effect of the economic downturn by protecting social priorities and is striking a difficult balance between ensuring fiscal sustainability and supporting the still weak domestic demand. All performance criteria for the second review were met with substantial margins and structural reforms have gained momentum.

17. **With a moderate recovery underway, the economic program for 2011 aims at continuing progress in fiscal consolidation.** The decline in the overall fiscal deficit envisaged for 2011 is consistent with the medium-term objectives of the program, while providing appropriate support to the economic recovery. However, downside risks to growth remain significant and reaching the ambitious target for government revenue may be challenging. Staff welcomes the authorities' commitment to maintaining prudent expenditure management and their intention to adopt additional revenue measures, if downside risks materialize.

18. **Improving the quality of spending remains a priority.** The program for 2011 envisages using savings from the removal of untargeted subsidies to increase social investment. This spending would help protect the most vulnerable against the impact of higher fuel and food prices. Also, the increase in the wage bill envisaged for 2011 will be of a one-off nature and be targeted to critical sectors (such as security, health, and education).

19. **The authorities remain committed to significantly strengthening the public finances by the end of the SBA.** Staff welcomes ongoing consultations with key stakeholders to achieve consensus on strategies to raise tax revenue and restrain primary spending. These consultations should also help address risks to political support needed for fiscal consolidation in the run up to the congressional election of March 2012. Ongoing efforts to overhaul the public expenditure framework and strengthen the budgeting process to enhance compliance with firm expenditure ceilings will help reduce weaknesses in the public financial management framework. Placing the public debt on a firm downward path will rebuild the buffers used since the onset of the global crisis, while creating scope to increase spending on priority areas.

20. **The reform agenda for the financial system is moving forward.** Implementation of the recently-approved law on financial supervision should be a priority. To this end, it will be important to ensure a smooth transition towards the integration of supervisory agencies and the transfer of regulatory power to the central bank. The issuance of norms to facilitate the shift to risk-based supervision will also be important. Staff welcomes plans to strengthen bank resolution processes and coordination among safety net providers, drawing from the recent resolution exercise; plans to broaden the central bank's liquidity capacity; and the intention to seek approval by congress of the draft investment funds bill to enable the development of the local capital market.

21. **Initiatives aimed at jump-starting economic activity and improving growth prospects may carry fiscal risks and should be monitored closely.** While PPPs may help stimulate private investment in infrastructure they will carry fiscal contingencies that would have to be integrated with the government's investment plan and fiscal consolidation objectives. The government's plan to facilitate the provision of long-term financing to productive sectors should also be carefully monitored to minimize fiscal risk (including through the provision of government guarantees). In this regard, it will be essential that the new public development agencies adhere to existing prudential rules and that their lending rates reflect operating costs and risk.

22. **Staff recommends the completion of the second review under the SBA.**

Box 1. El Salvador – Progress on Structural Reform

Implementation of structural measures has been satisfactory, particularly in the areas of subsidy and financial system reform.

- ***Budget.*** The 2011 budget approved by congress in November was consistent with the fiscal deficit of 3½ percent of GDP envisaged under the program.

- ***Tax administration.*** The authorities took steps to improve the large taxpayers unit, consolidate the authority of the audit department, and move to risk-based audits, as envisaged in the program. There were delays in preparing a modernization plan for the tax and customs offices and enhancing their coordination; however, progress in this area will accelerate in 2011.

- ***Subsidies.*** Agreed improvements in the targeting of subsidies were implemented, yielding annual savings of 0.4 percent of GDP. Following the adoption of scaled consumption-based tariffs for water in December 2009, electricity tariffs were fully aligned to recovery cost in October 2010 and electricity subsidies were only maintained for households with low consumption levels. Difficulties in rationalizing the subsidy on liquid propane gas (LPG) have been resolved, and the subsidy to households with low electricity consumption levels will be starting in April. The consumer price of LPG, which represented 35-40 percent of the market price, will reflect import-parity prices starting in April 2011, while the amount of the subsidy will be revised every six months.

- ***Financial system.*** The financial supervision bill to integrate supervisory agencies, strengthen their autonomy, and shift regulatory powers to the central bank was approved by congress in January 2011. In February, the authorities undertook a bank resolution simulation (with the World Bank's assistance) and issued regulations on corporate governance for the banking system.

Box 2. El Salvador – Development Credit

The authorities plan to give the government a role in the allocation of long-term credit to productive sectors, without creating excessive fiscal risks.

Scope. The authorities have developed a strategy to facilitate long-term financing to profitable projects in key economic sectors. The strategy aims at facilitating the access to credit of sectors that have been adversely affected by the decline of bank credit to private firms since 2008. The strategy will be implemented through three entities:

- ***Banco Multisectorial de Inversiones,*** a second-tier bank, will be transformed into a development bank to provide direct long-term credit to large projects in key sectors (mainly, agriculture, industry, energy, textiles, and tourism). It would also finance PPPs in infrastructure projects.

- ***Fondo de Desarrollo Económico*** will be created to provide credit to small- and medium-sized firms in labor-intensive sectors. Operations of the fund will be financed with a capital contribution (US$65 million) from the government and the central bank, and with bonds (for up to US$300 million or 1¼ percent of GDP) over a period of 2 to 3 years. The bonds will carry a government guarantee and will be eligible to meet banks' liquid asset requirements.

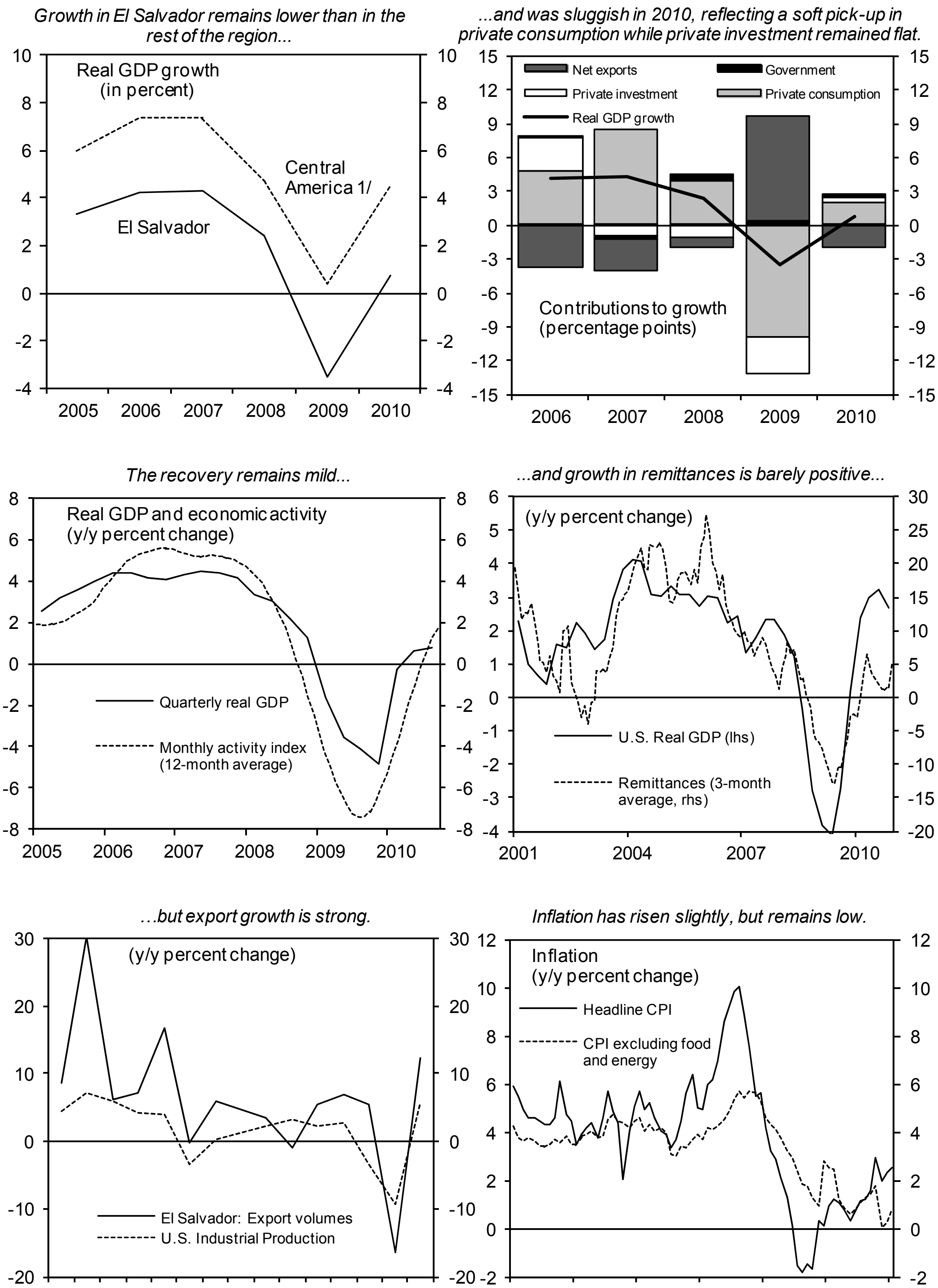
- ***Fondo Salvadoreño de Garantía,*** with an initial contribution from the government (US$20 million), will be created to issue guarantees to small firms to facilitate their access to bank credit.

Risk management. The strategy will be rolled out gradually and according to a well-defined business plan:

- ***Fiscal contingencies.*** To reduce credit risk, the new financial agencies will be subject to the same prudential measures as banks. Lending rates will reflect operating costs and risk to avoid quasi-fiscal costs. Government guarantees will be incorporated within the overall debt targets of the economic program.

- ***Liquidity risks.*** The bonds issued by the new entities will not exceed the current level of liquid asset requirements in the banking system (3 percent of deposits). The impact on the liquidity buffers of banks is expected to be small as banks currently use government bonds to meet this requirement.

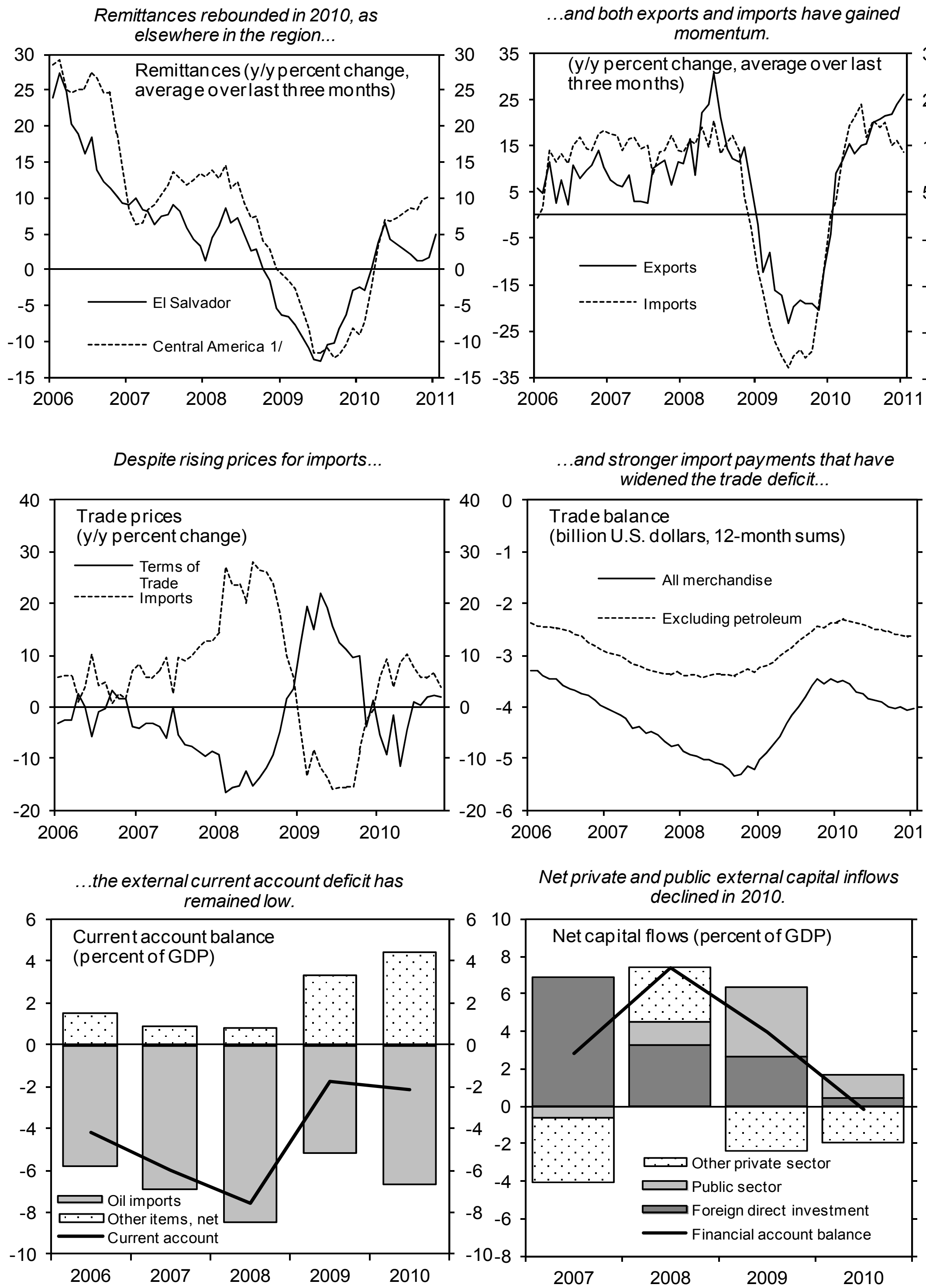
Figure 1. El Salvador: Economic Activity and Inflation



Sources: Central Reserve Bank of El Salvador; Haver Analytics; and Fund staff calculations.

1/ Simple average for 6 countries: Costa Rica, the Dominican Republic, Guatemala, Honduras, Nicaragua, and Panama.

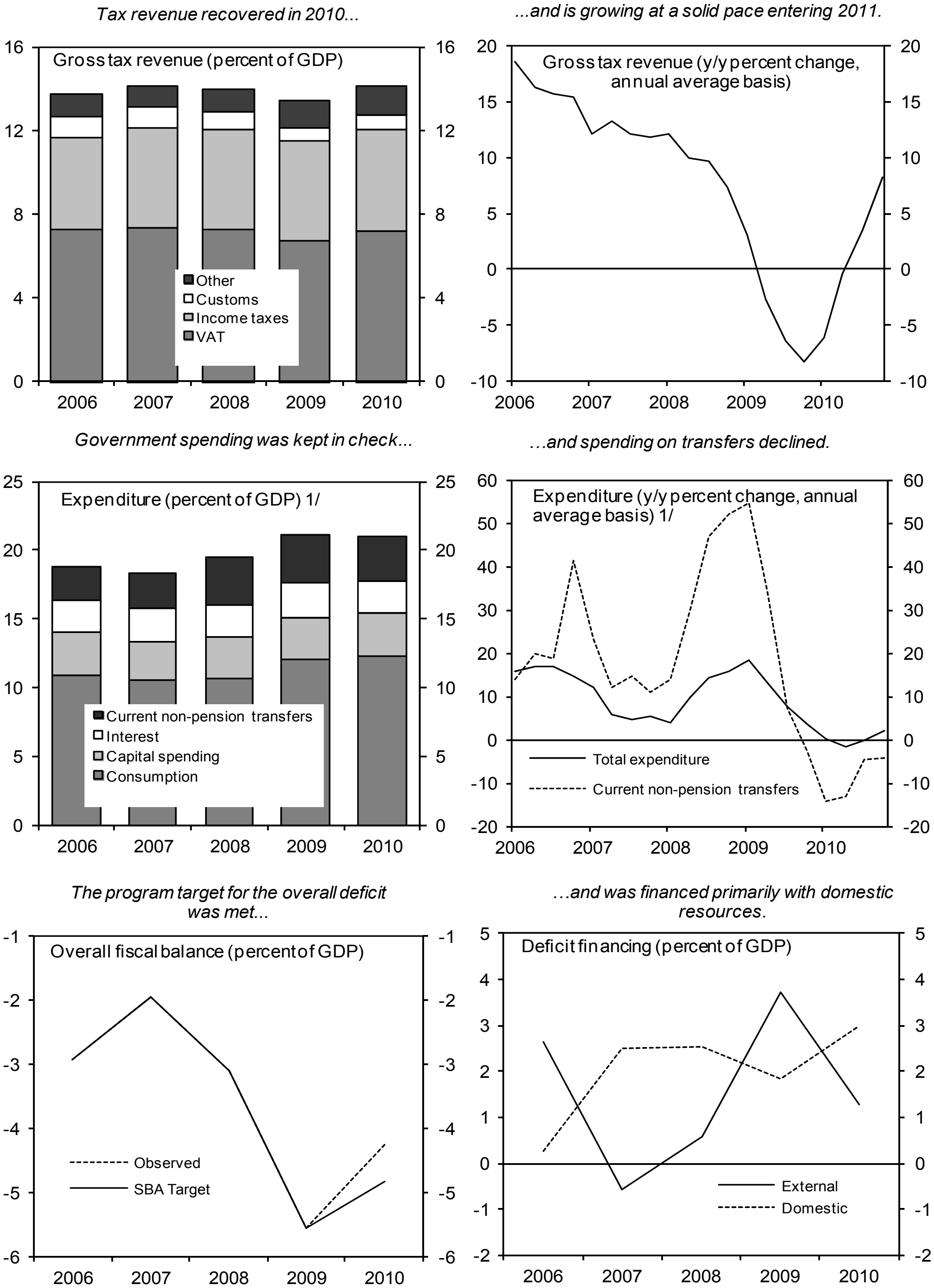
Figure 2. El Salvador: Balance of Payments Developments



Sources: Central Reserve Bank of El Salvador; Haver Analytics; National sources; and Fund staff calculations.

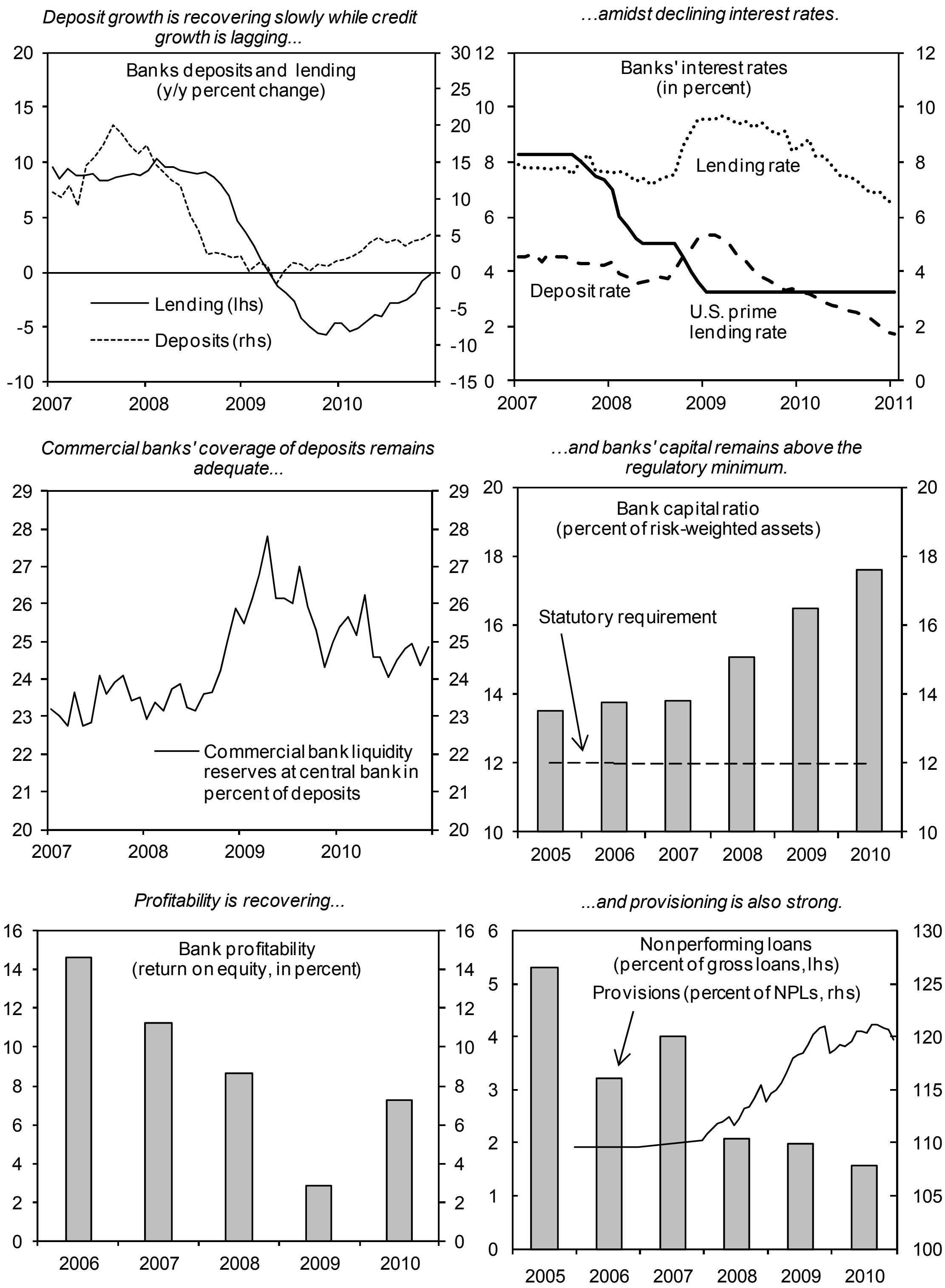
1/ Simple average for 3 countries: Guatemala, Honduras, and Nicaragua.

Figure 3. El Salvador: Fiscal Developments



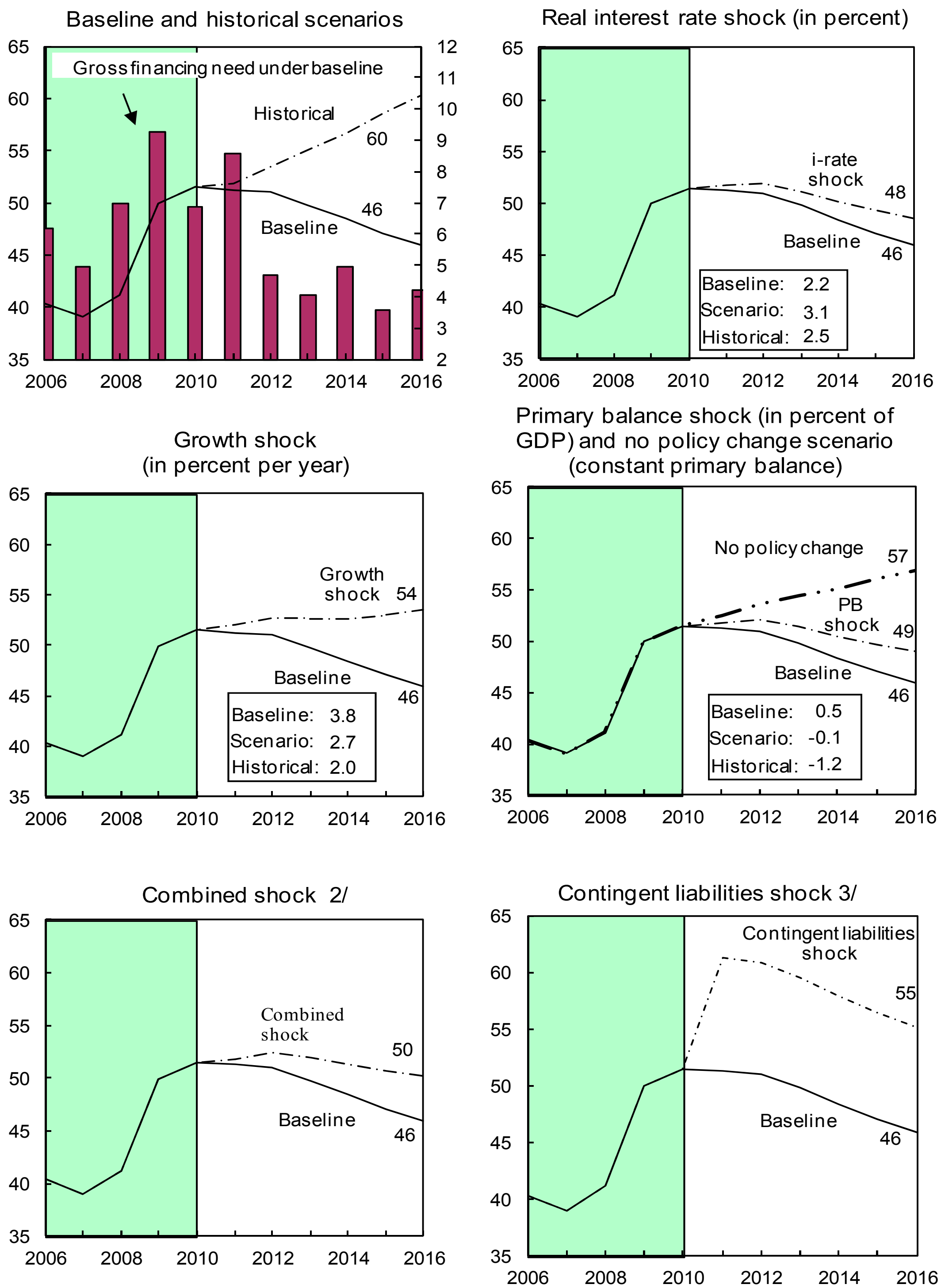
Sources: Ministry of Finance; and Fund staff calculations.
1/ Current transfers include VAT refunds and income tax refunds.

Figure 4. El Salvador: Financial Sector Developments



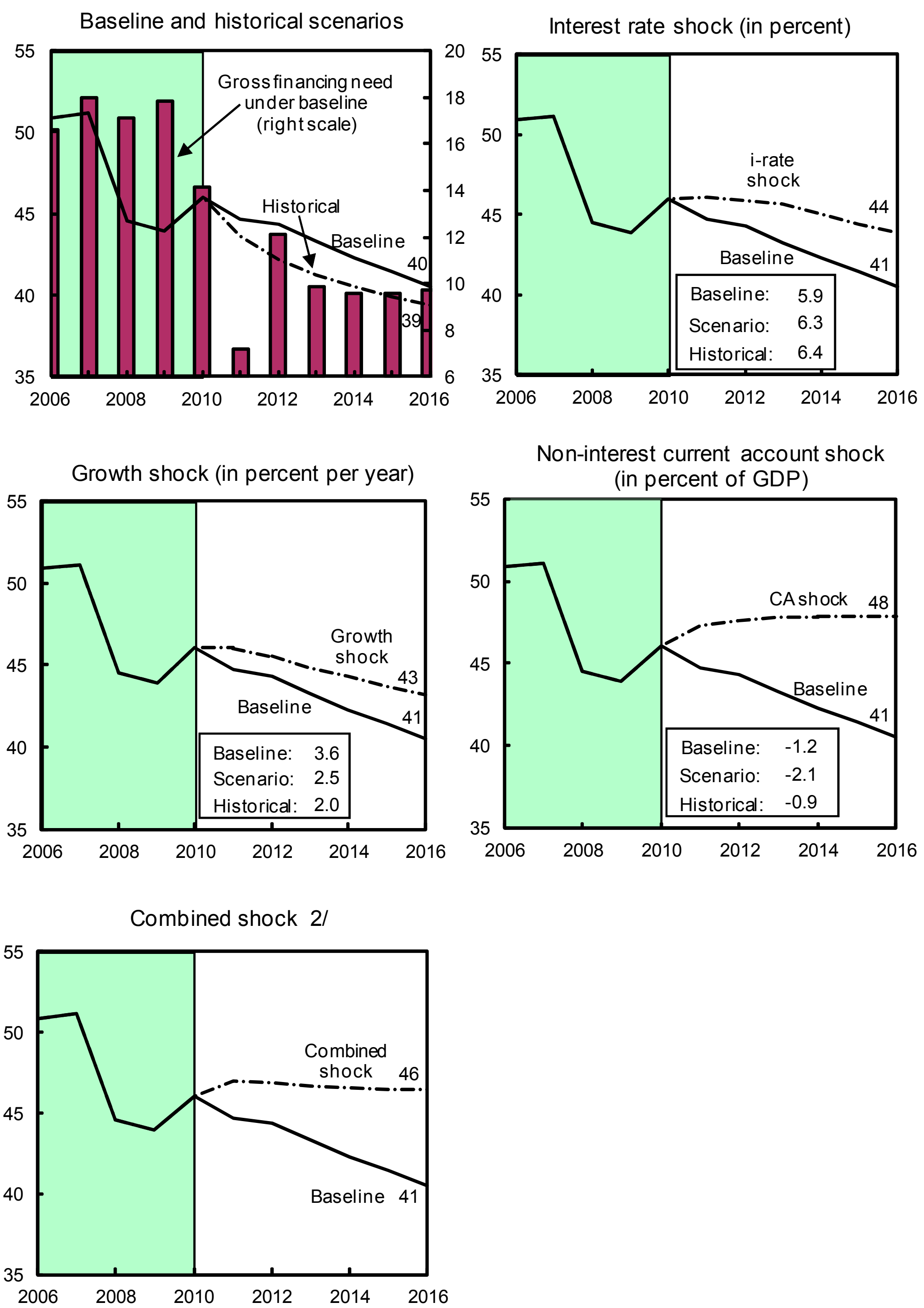
Sources: Financial System Superintendency; Central Reserve Bank of El Salvador; Haver Analytics; and Fund staff calculations.

Figure 5. El Salvador: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and Fund staff estimates.
1/ Shaded areas represent actual or estimated data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ Ten percent of GDP shock to contingent liabilities occurs in 2011.

Figure 6. El Salvador: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and Fund staff estimates.
1/ Shaded areas represent actual or estimated data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Table 1. El Salvador: Selected Economic Indicators

	2007	2008	2009	2010 SBA 1/	2010 Prel.	2011 SBA 1/	2011 Proj.
	(Period average; annual percent change, unless otherwise stated)						
Income and Prices							
Real GDP	4.3	2.4	-3.5	1.0	0.7	2.5	2.5
Consumer prices (end of period)	4.9	5.5	0.0	1.5	2.1	2.8	4.8
GDP deflator	4.2	5.9	-1.0	2.3	2.1	2.7	4.2
External Sector							
Exports of goods and services, volume	6.9	5.5	-16.4	7.2	13.2	6.2	9.5
Imports of goods and services, volume	8.4	4.7	-23.3	8.9	12.1	6.6	11.3
Terms of trade	-5.7	-10.2	11.8	-2.1	0.0	1.1	0.8
Real effective exchange rate (+ = appreciation)	-0.5	0.5	3.1	…	-0.7	…	…
External sovereign bond (spread, basis points)	163	387	378	…	222	…	…
	(Percent of GDP, unless otherwise stated)						
Money and Credit							
Credit to the private sector	42.8	41.3	41.3	39.6	40.1	39.6	39.0
Broad money	47.1	43.9	47.0	46.4	46.1	46.2	45.3
Interest rate (time deposits, percent)	4.7	4.2	4.5	…	2.8	…	…
External Sector							
Current account balance 2/	-6.0	-7.6	-1.8	-2.2	-2.1	-2.0	-3.8
Trade balance	-20.1	-19.9	-13.5	-15.1	-15.3	-15.5	-16.5
Exports (f.o.b. including *maquila*)	19.8	20.9	18.3	19.6	21.0	20.5	22.4
Imports (f.o.b. including *maquila*)	-40.0	-40.7	-31.8	-34.7	-36.3	-36.1	-38.9
Services and income (net) 2/	-4.3	-5.1	-5.2	-4.5	-4.1	-4.3	-4.4
Transfers (net)	18.4	17.3	16.9	17.5	17.3	17.8	17.1
Foreign direct investment	6.9	3.3	2.7	1.7	0.4	1.8	1.2
Nonfinancial Public Sector							
Overall balance	-1.9	-3.1	-5.6	-4.8	-4.2	-3.5	-3.5
Primary balance	0.5	-0.7	-3.0	-2.4	-1.9	-0.4	-0.9
Of which: tax revenue	13.4	13.1	12.4	13.2	13.3	13.9	14.0
Gross Public Debt 3/	39.0	41.1	50.0	51.2	51.5	52.1	51.3
Of which: external public debt 3/	24.3	23.8	29.1	27.0	29.6	27.7	29.1
Gross Nonfinancial Public Sector Debt	38.7	39.7	49.0	50.0	50.8	51.0	50.6
External public debt service (percent of exports of goods and services)	12.3	9.6	11.7	11.0	10.7	21.9	18.3
National Savings and Investment							
Gross domestic investment	15.9	14.9	13.1	12.8	13.1	13.3	13.8
Public sector	2.1	2.4	2.5	2.5	2.4	2.9	2.6
Private sector	13.8	12.5	10.6	10.2	10.6	10.4	11.2
Gross domestic saving	9.9	7.3	11.3	10.0	10.9	10.2	9.9
Public sector	0.5	-0.3	-3.0	-2.2	-1.9	-0.8	-1.1
Private sector	9.4	7.6	14.4	12.2	12.8	11.0	11.0
Net Foreign Assets of the Financial System 4/							
Millions of U.S. dollars	2,134	2,035	2,857	3,016	3,220	2,957	3,028
Percent of deposits	22.5	21.7	28.7	30.8	31.7	29.0	29.1
Memorandum Items:							
Net *maquila* exports	2.8	2.9	3.1	2.8	3.1	2.8	3.1
Nominal GDP (billions of U.S. dollars)	20.4	22.1	21.1	21.8	21.7	23.0	23.2

Sources: Central Reserve Bank of El Salvador; Ministry of Finance; and Fund staff estimates.

1/ IMF Country Report No. 10/307.

2/ Starting in 2010, reflects changes in methodology to exclude interest payments on Eurobonds held by domestic residents (0.6 percent of GDP). SBA projections have been adjusted accordingly.

3/ Includes gross debt of the nonfinancial public sector and external debt of the central bank.

4/ Beginning in 2010, gold in international reserves is valued at the price determined by the London Bullion Market (resulting in a valuation gain of US$170 million). SBA projections have been adjusted accordingly.

Table 2. El Salvador: Balance of Payments
(In millions of U.S. dollars)

				SBA 1/	Prel.	Projections					
	2007	2008	2009	2010		2011	2012	2013	2014	2015	2016
Current Account 2/	**-1,221**	**-1,682**	**-373**	**-475**	**-464**	**-891**	**-881**	**-907**	**-995**	**-1,059**	**-1,129**
Merchandise trade balance	-4,105	-4,394	-2,845	-3,292	-3,330	-3,829	-4,000	-4,251	-4,599	-4,922	-5,257
Export of goods (f.o.b.)	4,039	4,611	3,861	4,269	4,548	5,182	5,655	6,031	6,388	6,792	7,263
General merchandise	2,235	2,683	2,373	2,698	2,810	3,302	3,644	3,921	4,175	4,475	4,839
Goods for processing	1,804	1,928	1,488	1,571	1,738	1,880	2,011	2,110	2,213	2,318	2,424
Import of goods (f.o.b.)	-8,144	-9,004	-6,706	-7,561	-7,878	-9,011	-9,655	-10,282	-10,987	-11,714	-12,520
General merchandise	-6,907	-7,723	-5,867	-6,600	-6,807	-7,852	-8,415	-8,981	-9,637	-10,300	-11,041
Goods for processing	-1,237	-1,282	-839	-961	-1,072	-1,159	-1,240	-1,301	-1,350	-1,414	-1,479
Services	-291	-584	-425	-501	-498	-578	-602	-631	-666	-717	-761
Income 2/	-576	-536	-664	-490	-383	-445	-489	-560	-612	-655	-728
Current transfers	3,750	3,832	3,561	3,809	3,747	3,962	4,210	4,535	4,881	5,235	5,617
Financial and Capital Account	**732**	**1,714**	**975**	**415**	**170**	**839**	**1,065**	**1,120**	**1,212**	**1,300**	**1,400**
Capital account	151	80	130	182	207	202	131	128	126	121	121
Public sector financial flows	-115	277	785	343	274	327	264	163	177	136	122
disbursements	205	577	1,076	638	584	1,252	538	423	456	474	528
amortization	-320	-300	-291	-295	-310	-925	-275	-260	-279	-337	-406
Private sector financial flows	697	1,357	60	-110	-312	310	671	830	909	1,043	1,157
Foreign direct investment	1,408	719	562	378	97	274	429	559	616	698	811
Portfolio investment	-196	138	781	-183	-105	12	25	39	56	75	96
Other	-515	500	-1,284	-305	-304	25	218	231	237	269	249
Errors and Omissions	**821**	**302**	**-173**	**-131**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Change in Reserves (- = increase)	**-280**	**-334**	**-429**	**190**	**295**	**52**	**-184**	**-213**	**-217**	**-241**	**-271**
						(In percent of GDP)					
Current Account 2/	**-6.0**	**-7.6**	**-1.8**	**-2.2**	**-2.1**	**-3.8**	**-3.6**	**-3.5**	**-3.5**	**-3.5**	**-3.5**
Merchandise trade balance	-20.1	-19.9	-13.5	-15.1	-15.3	-16.5	-16.3	-16.2	-16.4	-16.4	-16.4
Export of goods (f.o.b.)	19.8	20.9	18.3	19.6	21.0	22.4	23.0	23.0	22.7	22.6	22.6
Net maquila exports	2.8	2.9	3.1	2.8	3.1	3.1	3.1	3.1	3.1	3.0	2.9
Import of goods (f.o.b.)	-40.0	-40.7	-31.8	-34.7	-36.3	-38.9	-39.3	-39.2	-39.1	-39.0	-39.0
Petroleum and products	-6.9	-8.4	-5.1	-6.7	-6.6	-8.8	-8.7	-8.2	-7.8	-7.6	-7.4
Services	-1.4	-2.6	-2.0	-2.3	-2.3	-2.5	-2.5	-2.4	-2.4	-2.4	-2.4
Income 2/	-2.8	-2.4	-3.1	-2.2	-1.8	-1.9	-2.0	-2.1	-2.2	-2.2	-2.3
Current transfers	18.4	17.3	16.9	17.5	17.3	17.1	17.1	17.3	17.4	17.4	17.5
Financial and Capital Account	**3.6**	**7.8**	**4.6**	**1.9**	**0.8**	**3.6**	**4.3**	**4.3**	**4.3**	**4.3**	**4.4**
Capital account	0.7	0.4	0.6	0.8	1.0	0.9	0.5	0.5	0.4	0.4	0.4
Public sector financial flows	-0.6	1.3	3.7	1.6	1.3	1.4	1.1	0.6	0.6	0.5	0.4
Private sector financial flows	3.4	6.1	0.3	-0.5	-1.4	1.3	2.7	3.2	3.2	3.5	3.6
Foreign direct investment	6.9	3.3	2.7	1.7	0.4	1.2	1.7	2.1	2.2	2.3	2.5
Portfolio investment	-1.0	0.6	3.7	-0.8	-0.5	0.1	0.1	0.2	0.2	0.3	0.3
Other	-2.5	2.3	-6.1	-1.4	-1.4	0.1	0.9	0.9	0.8	0.9	0.8
Merchandise Trade (f.o.b.)					(Annual percent change)						
Exports (nominal)	7.5	14.1	-16.3	10.6	17.8	13.9	9.1	6.7	5.9	6.3	6.9
Volume	4.8	5.5	-16.2	8.6	11.5	6.4	7.4	5.7	5.7	5.6	5.6
Price	2.5	8.2	0.0	1.8	5.6	7.0	1.6	0.9	0.2	0.6	1.3
Imports (nominal)	11.7	10.6	-25.5	12.8	17.5	14.4	7.1	6.5	6.9	6.6	6.9
Volume	2.8	-8.2	-16.7	8.4	11.2	7.7	5.7	5.5	5.6	5.5	5.7
Price	8.6	20.4	-10.6	4.0	5.7	6.2	1.4	1.0	1.2	1.1	1.2
Terms of trade	-5.7	-10.2	11.8	-2.1	0.0	0.8	0.2	-0.1	-0.9	-0.4	0.1
Memorandum Items											
Gross international reserves (US$ million) 3/	2,198	2,545	2,987	2,967	2,883	2,831	3,016	3,229	3,445	3,687	3,957
In months of imports (excluding maquila) 3/ 4/	2.8	4.3	4.3	4.1	3.7	3.4	3.4	3.4	3.4	3.4	3.4
In percent of total short-term external debt 3/	171	166	348	248	327	309	313	322	328	335	344
External debt (in percent of GDP)	44.5	43.9	46.0	45.0	46.0	44.7	44.3	43.3	42.3	41.4	40.5
Of which: public sector debt	24.3	23.8	29.1	27.0	29.6	29.1	28.5	27.3	26.1	24.9	23.7
Of which: private sector debt	20.2	20.2	16.9	18.1	16.4	15.6	15.8	16.0	16.1	16.5	16.8
External public debt servicing (US$ million)	635	545	548	569	586	1,132	501	510	540	607	687
Percent of exports of goods and services	12.3	9.6	11.7	11.0	10.7	18.3	7.5	7.1	7.1	7.6	8.0
Gross external financing requirement (US$ million)	3,487	3,945	2,984	2,096	1,670	2,974	2,584	2,699	2,885	3,116	3,381
Percent of GDP	17.1	17.8	14.1	9.6	7.7	12.8	10.5	10.3	10.3	10.4	10.5

Sources: Central Reserve Bank of El Salvador; and Fund staff estimates.

1/ IMF Country Report No. 10/307.

2/ Starting in 2010, reflects changes in methodology to exclude interest payments on Eurobonds held by domestic residents (0.6 percent of GDP). SBA projections have been adjusted accordingly.

3/ Beginning in 2010, gold in international reserves is valued at the price determined by the London Bullion Market (resulting in a valuation gain of US$170 million). SBA projections have been adjusted accordingly.

4/ Expressed in terms of following year's imports.

Table 3. El Salvador: Operations of the Nonfinancial Public Sector
(In millions of U.S. dollars)

	2007	2008	2009	SBA 1/ 2010	Prel. 2010	SBA 1/ 2011	Proj. 2011
Revenue and Grants	**3,484**	**3,732**	**3,400**	**3,745**	**3,802**	**4,223**	**4,331**
Current revenue	3,422	3,679	3,291	3,621	3,638	4,008	4,107
Tax revenue	2,720	2,886	2,609	2,881	2,882	3,195	3,233
Nontax revenue 2/	590	619	573	637	651	687	768
Operating surplus of the public enterprises	111	174	109	103	105	127	106
Official grants	62	53	109	123	164	215	224
Expenditure	**3,880**	**4,415**	**4,571**	**4,789**	**4,722**	**5,017**	**5,147**
Current expenditure	3,312	3,754	3,929	4,107	4,045	4,194	4,361
Wages and salaries 3/	1,409	1,528	1,659	1,767	1,710	1,893	1,936
Goods and services 3/	728	823	874	887	944	826	780
Interest	507	520	531	521	508	692	598
Current transfers	667	884	865	931	883	784	1,047
Nonpension payments 2/	348	563	519	580	526	398	626
Pension payments	319	321	346	350	357	386	421
Capital expenditure	568	661	642	683	677	823	786
Primary Balance	**111**	**-164**	**-640**	**-524**	**-412**	**-102**	**-218**
Overall Balance	**-396**	**-683**	**-1,171**	**-1,045**	**-920**	**-794**	**-816**
Financing	**396**	**683**	**1,171**	**1,045**	**920**	**794**	**816**
External	**-115**	**277**	**785**	**343**	**274**	**471**	**327**
Disbursements	205	577	1,076	638	584	1,400	1,252
Amortization	-320	-300	-291	-295	-310	-929	-925
Domestic	**511**	**407**	**386**	**702**	**646**	**323**	**490**
Change in deposits at central bank (- = increase)	146	26	-293	387	274	-1	105
Banking system	43	93	239	24	-67	-16	10
Private sector 4/	335	357	401	291	461	340	375
Other	-14	-69	39	-5	-22	0	0
Memorandum Items:							
Current revenue minus current expenditure	110	-75	-638	-485	-407	-186	-255
Gross financing needs	1,014	1,544	1,875	1,489	1,419	1,873	1,936
Implicit nominal interest rate (in percent)	6.7	6.5	5.8	5.0	4.8	6.2	5.4
Gross nonfinancial public sector debt	7,895	8,769	10,337	10,901	11,024	11,696	11,725
Total public sector debt (gross) 5/	7,956	9,094	10,544	11,163	11,175	11,957	11,876
Total public sector debt (net) 5/ 6/	7,096	8,344	9,427	10,433	10,306	11,226	11,112
Nominal GDP	20,377	22,107	21,100	21,796	21,700	22,953	23,169

Sources: Central Reserve Bank of El Salvador; Ministry of Finance; and Fund staff estimates.

1/ IMF Country Report No. 10/307.
2/ In 2011, nontax revenue and nonpension current transfers include dividends from electricity generation companies (US$67 million) used to fund transition to new electricity tariff formula.
3/ Starting in 2011, reclassifies cost of formerly contractual staff in education (US$73 million in 2011) from services into wages.
4/ Includes financing for education, health, and pension trust funds.
5/ Includes gross debt of the nonfinancial public sector and external debt of the central bank.
6/ Public sector gross debt less government deposits held at the central bank or commercial banks.

Table 4. El Salvador: Operations of the Nonfinancial Public Sector
(In percent of GDP)

	2007	2008	2009	2010 SBA 1/	2010 Prel.	2011 SBA 1/	2011 Proj.
Revenue and Grants	**17.1**	**16.9**	**16.1**	**17.2**	**17.5**	**18.4**	**18.7**
Current revenue	16.8	16.6	15.6	16.6	16.8	17.5	17.7
Tax revenue	13.4	13.1	12.4	13.2	13.3	13.9	14.0
Nontax revenue 2/	2.9	2.8	2.7	2.9	3.0	3.0	3.3
Operating surplus of the public enterprises	0.5	0.8	0.5	0.5	0.5	0.6	0.5
Official grants	0.3	0.2	0.5	0.6	0.8	0.9	1.0
Expenditure	**19.0**	**20.0**	**21.7**	**22.0**	**21.8**	**21.9**	**22.2**
Current expenditure	16.3	17.0	18.6	18.8	18.6	18.3	18.8
Wages and salaries 3/	6.9	6.9	7.9	8.1	7.9	8.2	8.4
Goods and services 3/	3.6	3.7	4.1	4.1	4.3	3.6	3.4
Interest	2.5	2.4	2.5	2.4	2.3	3.0	2.6
Current transfers	3.3	4.0	4.1	4.3	4.1	3.4	4.5
Nonpension payments 2/	1.7	2.5	2.5	2.7	2.4	1.7	2.7
Pension payments	1.6	1.5	1.6	1.6	1.6	1.7	1.8
Capital expenditure	2.8	3.0	3.0	3.1	3.1	3.6	3.4
Primary Balance	**0.5**	**-0.7**	**-3.0**	**-2.4**	**-1.9**	**-0.4**	**-0.9**
Overall Balance	**-1.9**	**-3.1**	**-5.6**	**-4.8**	**-4.2**	**-3.5**	**-3.5**
Financing	**1.9**	**3.1**	**5.6**	**4.8**	**4.2**	**3.5**	**3.5**
External	**-0.6**	**1.3**	**3.7**	**1.6**	**1.3**	**2.1**	**1.4**
Disbursements	1.0	2.6	5.1	2.9	2.7	6.1	5.4
Amortization	-1.6	-1.4	-1.4	-1.4	-1.4	-4.0	-4.0
Domestic	**2.5**	**1.8**	**1.8**	**3.2**	**3.0**	**1.4**	**2.1**
Change in deposits at central bank (- = increase)	0.7	0.1	-1.4	1.8	1.3	0.0	0.5
Banking system	0.2	0.4	1.1	0.1	-0.3	-0.1	0.0
Private sector 4/	1.6	1.6	1.9	1.3	2.1	1.5	1.6
Other	-0.1	-0.3	0.2	0.0	-0.1	0.0	0.0
Memorandum Items:							
Current revenue minus current expenditure	0.5	-0.3	-3.0	-2.2	-1.9	-0.8	-1.1
Gross financing needs	5.0	7.0	8.9	6.8	6.5	8.2	8.3
Implicit nominal interest rate (in percent)	6.7	6.5	5.8	5.0	4.8	6.2	5.4
Gross nonfinancial public sector debt	38.7	39.7	49.0	50.0	50.8	51.0	50.6
Total public sector debt (gross) 5/	39.0	41.1	50.0	51.2	51.5	52.1	51.3
Total public sector debt (net) 5/ 6/	34.8	37.7	44.7	47.9	47.5	48.9	48.0
Nominal GDP	20,377	22,107	21,100	21,796	21,700	22,953	23,169

Sources: Central Reserve Bank of El Salvador; Ministry of Finance; and Fund staff estimates.

1/ IMF Country Report No. 10/307.
2/ In 2011, nontax revenue and nonpension current transfers include dividends from electricity generation companies (0.3 percent of GDP) used to fund transition to new electricity tariff formula.
3/ Starting in 2011, reclassifies cost of formerly contractual staff in education (0.3 percent of GDP in 2011) from services into wages.
4/ Includes financing for education, health, and pension trust funds.
5/ Includes gross debt of the nonfinancial public sector and external debt of the central bank.
6/ Public sector gross debt less government deposits held at the central bank or commercial banks.

Table 5. El Salvador: Operations of the Nonfinancial Public Sector

(In percent of GDP)

				Prel.	Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue and Grants	**17.1**	**16.9**	**16.1**	**17.5**	**18.7**	**18.9**	**19.3**	**19.6**	**19.8**	**19.9**
Current revenue	16.8	16.6	15.6	16.8	17.7	18.2	19.0	19.4	19.6	19.7
Tax revenue	13.4	13.1	12.4	13.3	14.0	14.8	15.6	16.0	16.2	16.3
Nontax revenue 1/	2.9	2.8	2.7	3.0	3.3	2.9	2.9	2.8	2.8	2.8
Operating surplus of the public enterprises	0.5	0.8	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Official grants	0.3	0.2	0.5	0.8	1.0	0.7	0.3	0.2	0.2	0.2
Expenditure	**19.0**	**20.0**	**21.7**	**21.8**	**22.2**	**21.4**	**21.3**	**21.5**	**21.3**	**21.4**
Current expenditure	16.3	17.0	18.6	18.6	18.8	17.9	17.8	18.0	17.8	17.9
Wages and salaries 2/	6.9	6.9	7.9	7.9	8.4	8.2	8.2	8.2	8.2	8.1
Goods and services 2/	3.6	3.7	4.1	4.3	3.4	3.6	3.6	3.7	3.6	3.6
Interest	2.5	2.4	2.5	2.3	2.6	2.2	2.2	2.3	2.4	2.6
Current transfers	3.3	4.0	4.1	4.1	4.5	3.9	3.9	3.8	3.7	3.6
Nonpension payments 1/	1.7	2.5	2.5	2.4	2.7	2.1	2.1	2.1	2.1	2.0
Pension payments	1.6	1.5	1.6	1.6	1.8	1.8	1.7	1.7	1.6	1.6
Capital expenditure	2.8	3.0	3.0	3.1	3.4	3.5	3.5	3.5	3.5	3.5
Primary Balance	**0.5**	**-0.7**	**-3.0**	**-1.9**	**-0.9**	**-0.3**	**0.2**	**0.5**	**0.9**	**1.1**
Overall Balance	**-1.9**	**-3.1**	**-5.6**	**-4.2**	**-3.5**	**-2.5**	**-2.0**	**-1.8**	**-1.5**	**-1.5**
Financing	**1.9**	**3.1**	**5.6**	**4.2**	**3.5**	**2.5**	**2.0**	**1.8**	**1.5**	**1.5**
External	**-0.6**	**1.3**	**3.7**	**1.3**	**1.4**	**1.1**	**0.6**	**0.6**	**0.5**	**0.4**
Disbursements	1.0	2.6	5.1	2.7	5.4	2.2	1.6	1.6	1.6	1.6
Amortization	-1.6	-1.4	-1.4	-1.4	-4.0	-1.1	-1.0	-1.0	-1.1	-1.3
Domestic	**2.5**	**1.8**	**1.8**	**3.0**	**2.1**	**1.5**	**1.4**	**1.2**	**1.1**	**1.1**
Change in deposits at central bank (- = increase)	0.7	0.1	-1.4	1.3	0.5	0.0	0.0	0.0	0.0	0.0
Banking system	0.2	0.4	1.1	-0.3	0.0	-0.1	0.0	-0.1	-0.3	-0.3
Private sector 3/	1.6	1.6	1.9	2.1	1.6	1.6	1.4	1.3	1.4	1.4
Other	-0.1	-0.3	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:										
Current revenue minus current expenditure	0.5	-0.3	-3.0	-1.9	-1.1	0.3	1.2	1.4	1.8	1.8
Gross financing needs	5.0	7.0	8.9	6.5	8.4	4.5	3.8	3.5	3.3	3.4
Implicit nominal interest rate (in percent)	6.7	6.5	5.8	4.8	5.4	4.6	4.6	4.9	5.3	5.9
Gross nonfinancial public sector debt	38.7	39.7	49.0	50.8	50.6	50.4	49.2	47.9	46.6	45.4
Total public sector debt (gross) 4/	39.0	41.1	50.0	51.5	51.3	51.0	49.8	48.4	47.1	45.9
Total public sector debt (net) 4/ 5/	34.8	37.7	44.7	47.5	48.0	47.9	46.8	45.6	44.5	43.4
Nominal GDP (in millions of US$)	20,377	22,107	21,100	21,700	23,169	24,555	26,247	28,105	30,039	32,105

Sources: Central Reserve Bank of El Salvador; Ministry of Finance; and Fund staff estimates.

1/ In 2011, nontax revenue and nonpension current transfers include dividends from electricity generation companies (0.3 percent of GDP) used to fund transition to new electricity tariff formula.
2/ Starting in 2011, reclassifies cost of formerly contractual staff in education (0.3 percent of GDP in 2011) from services into wages.
3/ Includes financing for education, health, and pension trust funds.
4/ Includes gross debt of the nonfinancial public sector and external debt of the central bank.
5/ Public sector gross debt less government deposits held at the central bank or commercial banks.

Table 6. El Salvador: Summary Accounts of the Financial System

	2007	2008	2009	2010 SBA 1/	2010 Prel.	2011 SBA 1/	2011 Proj.
	(End of period stocks; in millions of U.S. dollars)						
	I. Central Bank						
Net Foreign Assets	**2,167**	**2,248**	**2,594**	**2,590**	**2,550**	**2,671**	**2,498**
Net international reserves 2/	2,198	2,541	2,985	2,965	2,881	3,047	2,829
Of which: "Excess" NIR 3/	50	169	573	319	427	325	314
Net Domestic Assets	**580**	**544**	**204**	**410**	**221**	**409**	**326**
Nonfinancial public sector	465	521	222	609	493	608	599
Claims	812	839	836	836	833	836	833
Deposits	347	318	614	227	340	228	235
Commercial banks	0	0	0	0	0	0	0
Nonbank financial institutions	355	255	265	274	290	274	290
Nonfinancial private sector	0	32	15	0	1	0	1
Other items (net)	-240	-264	-298	-472	-564	-472	-564
Central Bank Backed Liabilities	**2,745**	**2,791**	**2,797**	**3,000**	**2,769**	**3,081**	**2,824**
Liabilities to other depositary corporations	2,044	2,258	2,250	2,281	2,349	2,356	2,403
Other liabilities	702	533	548	719	420	725	421
	II. Commercial Banks						
Net Foreign Assets	**39**	**-98**	**376**	**476**	**697**	**336**	**557**
Net Domestic Assets	**9,681**	**9,944**	**9,665**	**9,770**	**9,510**	**10,402**	**10,152**
Net claims on nonfinancial public sector	-36	12	139	163	60	147	69
Net claims on the financial system	2,504	2,591	2,734	2,777	2,807	2,873	2,880
Claims on the private sector	8,617	8,985	8,572	8,509	8,559	8,962	8,892
Other items (net)	-1,404	-1,644	-1,780	-1,679	-1,916	-1,579	-1,690
Liabilities to the Private Sector	**9,719**	**9,845**	**10,041**	**10,246**	**10,206**	**10,738**	**10,708**
Deposits	8,641	8,646	8,841	9,088	9,276	9,525	9,653
Other	1,078	1,199	1,200	1,158	930	1,213	1,055
	III. Financial System 4/						
Net Foreign Assets	**2,134**	**2,035**	**2,857**	**3,016**	**3,220**	**2,957**	**3,028**
Net Domestic Assets	**7,186**	**7,478**	**6,698**	**6,946**	**6,395**	**7,472**	**7,050**
Nonfinancial public sector	464	610	446	859	621	847	741
Credit to private sector	8,726	9,134	8,717	8,639	8,702	9,098	9,042
Other	-2,004	-2,266	-2,465	-2,552	-2,928	-2,473	-2,732
Liabilities to the Private Sector	**9,320**	**9,513**	**9,555**	**9,962**	**9,615**	**10,430**	**10,078**
Broad money	**9,601**	**9,709**	**9,908**	**10,111**	**10,002**	**10,594**	**10,489**
Money	1,765	1,789	2,024	2,152	2,428	2,180	2,361
Quasi-money	7,836	7,921	7,884	7,959	7,574	8,414	8,127
	(Percent changes relative to previous year's broad money)						
Net domestic assets	8.1	3.0	-8.0	2.5	-3.1	5.3	6.6
Nonfinancial public sector	2.4	1.5	-1.7	4.2	1.8	-0.1	1.2
Credit to the private sector	8.6	4.2	-4.3	-0.8	-0.1	4.5	3.4
Liabilities to the private sector	17.1	2.0	0.4	4.1	0.6	4.6	4.6
	(Percent of GDP)						
Credit to the private sector	42.8	41.3	41.3	39.6	40.1	39.6	39.0
Liabilities to the private sector	45.7	43.0	45.3	45.7	44.3	45.4	43.5
Memorandum Items:	(Annual percent change, unless otherwise stated)						
Financial system credit to the private sector	8.8	4.7	-4.6	-0.9	-0.2	5.3	3.9
Private sector deposits in commercial banks	17.4	0.1	2.3	2.8	4.9	4.8	4.1
Commercial bank liquid deposits at central bank (In percent of total deposits)	23.5	25.9	25.0	24.6	24.8	24.3	24.4

Sources: Central Reserve Bank of El Salvador; and Fund staff estimates.

1/ IMF Country Report No. 10/307.

2/ Beginning in 2010, gold in international reserves is valued at the price determined by the London Bullion Market (resulting in a valuation gain of US$170 million). SBA projections have been adjusted accordingly.

3/ Excess NIR are defined as the difference between the central bank's net international reserves, which include government deposits, and its liquid liabilities with domestic residents.

4/ Includes nonbank financial institutions not included elsewhere.

Table 7. El Salvador: Selected Vulnerability Indicators
(In percent of GDP; unless otherwise indicated)

	2006	2007	2008	2009	Prel. 2010	Proj. 2011
Fiscal Indicators						
Overall balance of the nonfinancial public sector	-2.9	-1.9	-3.1	-5.6	-4.2	-3.5
Primary balance of the nonfinancial public sector	-0.5	0.5	-0.7	-3.0	-1.9	-0.9
Gross public sector financing requirement	6.2	5.0	7.0	8.9	6.5	8.4
Public sector debt (gross) 1/	40.4	39.0	41.1	50.0	51.5	51.3
Public sector external debt	27.3	24.3	23.8	29.1	29.6	29.1
External interest payments to total fiscal revenue (percent) 2/	11.2	10.3	10.0	11.0	8.5	8.7
External amortization payments to total fiscal revenue (percent)	12.6	9.2	8.0	8.6	8.2	21.4
Financial Indicators						
Broad money (percent change, end-of-period)	12.4	17.5	1.1	2.0	0.9	4.9
Private sector credit (percent change, end-of-period)	9.6	8.8	4.7	-4.6	-0.2	3.9
Ratio of capital to risk-weighted assets	13.8	13.8	15.1	16.5	17.6	…
Ratio of loans more than 90 days past due to total loans	1.9	2.1	2.8	3.7	3.9	…
Ratio of provisions to total loans	2.2	2.5	3.1	4.0	4.3	…
Ratio of provisions to loans more than 90 days past due	116.1	120.0	110.4	109.9	107.9	…
Return on average equity	14.6	11.3	8.7	2.8	7.3	…
Return on average total assets	1.5	1.2	1.0	0.3	0.9	…
Loans as percent of deposits	103.8	97.4	101.4	91.3	84.5	…
Ratio of liquid assets to total deposits	32.3	34.0	35.7	41.3	42.0	…
External Indicators						
Exports of goods and services (percent change, 12-month basis)	8.7	8.3	9.3	-16.9	16.8	12.8
Imports of goods and services (percent change, 12-month basis)	13.9	12.5	11.1	-25.1	16.9	13.7
Current account balance 3/	-4.2	-6.0	-7.6	-1.8	-2.1	-3.8
Capital and financial account balance	6.1	3.6	7.8	4.6	0.8	3.6
Gross international reserves (millions of U.S. dollars) 4/	1,908	2,198	2,545	2,987	2,883	2,831
Months of imports of goods and services, excluding maquila	2.7	2.8	4.3	4.3	3.7	3.4
Percent of short-term debt	150	171	166	348	327	309
Percent of gross external financing requirements	57	63	65	100	173	95
Percent of broad money	23.4	22.9	26.2	30.1	28.8	27.0
Total public external debt service	4.0	3.1	2.5	2.6	2.7	4.9
Total external debt to exports of goods and services (percent)	201	176	172	207	182	167
External interest payments to goods and services exports (percent)	15.4	16.2	13.1	17.1	9.4	9.4
External amortization to goods and services exports (percent)	52.8	38.4	34.1	46.5	27.4	34.5
REER, depreciation is negative (percent change, end-of-period)	-0.2	-2.3	6.6	-3.8	1.8	…

Sources: Central Bank of El Salvador; Ministry of Finance; Financial System Superintendency; and Fund staff estimates.

1/ Includes gross debt of the nonfinancial public sector and external debt of the central bank.

2/ Excludes interest payments on Eurobonds held by domestic residents.

3/ Starting in 2010, reflects changes in methodology to exclude interest payments on Eurobonds held by domestic residents (0.6 percent of GDP).

4/ Adjusted upward (by US$170 million) to reflect the revaluation of gold in international reserves at the price determined by the London Bullion Market starting in 2010.

Table 8. El Salvador: Public Sector Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual				Prel.	Projections						Debt-stabilizing primary
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	balance 9/
1 **Baseline: Public sector debt 1/**	40.4	39.0	41.1	50.0	51.5	**51.3**	**51.0**	**49.8**	**48.4**	**47.1**	**45.9**	**-0.4**
o/w foreign-currency denominated	40.4	39.0	41.1	50.0	51.5	51.3	51.0	49.8	48.4	47.1	45.9	
2 Change in public sector debt	0.0	-1.3	2.1	8.8	1.5	-0.2	-0.2	-1.2	-1.4	-1.3	-1.2	
3 Identified debt-creating flows (4+7+12)	-0.4	-1.3	0.0	7.5	2.9	0.3	-0.4	-1.3	-1.5	-1.6	-1.5	
4 Primary deficit	0.5	-0.5	0.7	3.0	1.9	0.9	0.3	-0.2	-0.5	-0.9	-1.1	
5 Revenue and grants	17.1	17.1	16.9	16.1	17.5	18.7	18.9	19.3	19.6	19.8	19.9	
6 Primary (noninterest) expenditure	17.6	16.6	17.6	19.1	19.4	19.6	19.2	19.1	19.2	18.9	18.8	
7 Automatic debt dynamics 2/	-0.9	-0.7	-0.7	4.5	1.0	-0.7	-0.7	-1.1	-1.0	-0.7	-0.4	
8 Contribution from interest rate/growth differential 3/	-0.9	-0.7	-0.7	4.5	1.0	-0.7	-0.7	-1.1	-1.0	-0.7	-0.4	
9 Of which contribution from real interest rate	0.7	0.9	0.2	3.0	1.3	0.5	0.8	0.8	0.8	1.1	1.3	
10 Of which contribution from real GDP growth	-1.6	-1.6	-0.9	1.5	-0.4	-1.2	-1.5	-1.9	-1.9	-1.8	-1.8	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	…	…	…	…	…	…	
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	0.4	-0.1	2.1	1.3	-1.3	-0.5	0.1	0.0	0.1	0.3	0.3	
Public sector debt-to-revenue ratio 1/	236.6	228.4	243.7	310.1	293.9	274.2	270.4	258.1	246.5	238.2	231.2	
Gross financing need 6/	6.2	5.0	7.0	9.2	6.9	8.6	4.7	4.1	5.0	3.6	4.2	
in millions of U.S. dollars	1163.8	1014.1	1544.1	1950.4	1497.0	1982.7	1147.0	1068.7	1399.4	1082.5	1356.9	
Scenario with key variables at their historical averages 7/						**51.9**	**53.5**	**55.0**	**56.7**	**58.5**	**60.3**	**0.3**
Scenario with no policy change (constant primary balance) in 2011-2016						**51.3**	**51.7**	**51.5**	**51.5**	**52.0**	**52.7**	**-0.5**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.2	4.3	2.4	-3.5	0.7	2.5	3.0	4.0	4.0	4.0	4.0	
Average nominal interest rate on public debt (in percent) 8/	6.5	6.7	6.5	5.8	4.8	5.4	4.6	4.6	4.9	5.3	5.9	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.0	2.5	0.6	6.9	2.7	1.2	1.7	1.8	1.9	2.5	3.1	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	…	…	…	…	…	…	
Inflation rate (GDP deflator, in percent)	4.5	4.2	5.9	-1.0	2.1	4.2	2.9	2.8	3.0	2.8	2.8	
Growth of real primary spending (deflated by GDP deflator, in percent)	7.9	-1.6	9.1	4.8	2.2	3.6	0.6	3.6	4.5	2.5	3.4	
Primary deficit	0.5	-0.5	0.7	3.0	1.9	0.9	0.3	-0.2	-0.5	-0.9	-1.1	

1/ The table covers gross debt of the non-financial public sector, external debt of the central bank, and government-guaranteed debt.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 9. El Salvador: External Debt Sustainability Framework, 2006-2016
(In percent of GDP; unless otherwise indicated)

	Actual				Prel.	Projections						Debt-stabilizing Non-interest
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Current account 5/
1 **Baseline: External debt**	**51.1**	**44.5**	**43.9**	**46.0**	**46.0**	**44.7**	**44.3**	**43.3**	**42.3**	**41.4**	**40.5**	**-2.4**
2 Change in external debt	0.2	-6.6	-0.6	2.1	0.0	-1.3	-0.4	-1.1	-1.0	-0.9	-0.9	
3 Identified external debt-creating flows (4+8+9)	-1.4	-5.0	0.9	1.2	0.4	-0.1	-0.1	-1.2	-1.5	-1.4	-1.5	
4 Current account deficit, excluding interest payments	1.0	2.6	4.9	-1.3	0.4	1.6	1.3	1.1	1.1	1.1	1.0	
5 Deficit in balance of goods and services	19.9	21.6	22.5	15.5	17.6	19.0	15.8	15.9	15.9	16.0	15.9	
6 Exports	25.5	25.4	25.6	22.3	25.3	26.7	27.4	27.3	27.0	26.8	26.7	
7 Imports	45.3	46.9	48.1	37.8	42.9	45.7	43.1	43.1	42.8	42.8	42.6	
8 Net non-debt creating capital inflows (negative)	-1.4	-6.9	-3.3	-2.7	-0.4	-0.4	-1.1	-1.6	-2.0	-2.1	-2.2	
9 Automatic debt dynamics 1/	-0.9	-0.7	-0.8	5.1	0.4	-1.2	-0.3	-0.7	-0.6	-0.4	-0.3	
10 Contribution from nominal interest rate	3.2	3.3	2.7	3.0	1.7	1.7	2.2	2.2	2.3	2.3	2.4	
11 Contribution from real GDP growth	-2.0	-2.0	-1.0	1.6	-0.3	-1.1	-1.3	-1.7	-1.6	-1.6	-1.5	
12 Contribution from price and exchange rate changes 2/	-2.2	-2.0	-2.5	0.5	-0.9	-1.8	-1.3	-1.2	-1.2	-1.1	-1.1	
13 Residual, incl. change in gross foreign assets (2-3)	1.6	-1.6	-1.5	0.9	-0.4	-1.2	-0.2	0.2	0.5	0.5	0.6	
External debt-to-exports ratio (in percent)	200.8	175.6	171.8	206.8	182.0	167.4	162.1	158.8	156.8	154.7	151.5	
Gross external financing need (in millions of US$) 3/	3,376	3,487	3,945	2,984	2,974	2,974	2,584	2,699	2,885	3,116	3,381	
in percent of GDP	18.0	17.1	17.8	14.1	13.7	12.8	10.5	10.3	10.3	10.4	10.5	
Scenario with key variables at their historical averages 4/						**43.6**	**42.2**	**41.2**	**40.5**	**39.9**	**39.4**	**-2.1**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	4.2	4.3	2.4	-3.5	0.7	2.5	3.0	4.0	4.0	4.0	4.0	
GDP deflator in US$ (change in percent)	4.5	4.2	5.9	-1.0	2.1	4.2	2.9	2.8	3.0	2.8	2.8	
Nominal external interest rate (in percent)	6.9	7.1	6.6	6.6	3.8	5.3	5.4	5.7	6.0	6.2	6.5	
Growth of exports (US$ terms, in percent)	8.7	8.3	9.3	-16.9	16.8	12.8	8.6	6.5	5.9	6.1	6.8	
Growth of imports (US$ terms, in percent)	13.9	12.5	11.1	-25.1	16.9	13.7	6.9	6.3	6.7	6.5	6.8	
Current account balance, excluding interest payments	-1.0	-2.6	-4.9	1.3	-0.4	-1.6	-1.3	-1.1	-1.1	-1.1	-1.0	
Net nondebt creating capital inflows	1.4	6.9	3.3	2.7	0.4	0.4	1.1	1.6	2.0	2.1	2.2	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and nondebt inflows in percent of GDP.

5/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP) remain at their levels of the last projection year.

Table 10. El Salvador: External Financing Requirements and Sources
(In millions of US$)

	2007	2008	2009	2010 SBA 1/	2010 Est.	2011 SBA 1/	2011 Proj.
Gross Financing Requirements 2/	**3,487**	**3,945**	**2,984**	**2,096**	**1,670**	**3,166**	**2,974**
Current account deficit 2/	1,221	1,682	373	475	464	630	891
Debt amortization	1,986	1,929	2,182	1,810	1,500	2,455	2,135
Public sector	320	300	291	295	310	929	925
Private sector	1,665	1,629	1,891	1,516	1,190	1,526	1,210
GIR accumulation	280	334	429	-190	-295	82	-52
Gross Financing Sources	**3,487**	**3,945**	**2,984**	**2,096**	**1,670**	**3,166**	**2,974**
Public sector disbursements	205	577	1,076	638	584	1,400	1,252
Private sector net inflows 2/	3,282	3,368	1,908	1,458	1,085	1,766	1,722
Foreign direct investment	1,408	719	562	378	97	402	274
Other 2/	1,874	2,649	1,347	1,080	988	1,365	1,448

Sources: Central Reserve Bank of El Salvador; and Fund staff estimates.

1/ IMF Country Report No. 10/307.

2/ Starting in 2010, reflects changes in methodology to exclude interest payments on Eurobonds held by domestic residents (US$130 million). SBA projections have been adjusted accordingly.

Table 11. El Salvador: Indicators of Fund Credit
(In units indicated)

	Projections 1/ 2011	2012	2013	2014	2015	2016
Prospective Fund credit 2/						
In millions of SDRs	406.8	492.5	513.9	377.4	157.9	40.1
In percent of exports of goods and services	10.4	11.7	11.4	7.9	3.1	0.7
In percent of public sector external debt	9.4	10.9	11.1	8.0	3.3	0.8
In percent of gross reserves	22.4	25.2	24.5	16.8	6.6	1.6
In percent of quota	237.5	287.5	300.0	220.3	92.2	23.4
Repurchases and charges due from existing and prospective drawings						
In millions of SDRs	5.1	6.2	6.9	143.1	223.8	119.3
In percent of exports of goods and services	0.1	0.1	0.2	3.0	4.4	2.2
In percent of public sector external debt service	0.7	1.9	2.1	41.2	57.3	27.0
In percent of gross reserves	0.3	0.3	0.3	6.4	9.3	4.6
In percent of quota	3.0	3.6	4.0	83.5	130.6	69.6

Sources: Central Reserve Bank of El Salvador; Ministry of Finance; and Fund staff estimates.

1/ The arrangement is being treated as precautionary and El Salvador does not currently have any credit outstanding with the Fund.

2/ End of period.

Table 12. El Salvador: Purchase Schedule and Terms Under the Stand-By Arrangement

Date	Conditions for purchase	Purchase: Million SDR	Purchase: Million US$ 1/	Purchase: Percent of Quota	Purchase: Percent of Total Access
March 17, 2010	Board approval of the SBA	171.3000	266.57	100.00	33.33
May 17, 2010	Performance criteria based on end-March 2010	21.4125	33.32	12.50	4.17
September 15, 2010	First review, based on end-June 2010 performance criteria	107.0625	166.61	62.50	20.83
November 15, 2010	Performance criteria based on end-September 2010	21.4125	33.32	12.50	4.17
March 15, 2011	Second review, based on end-December 2010 performance criteria	21.4125	33.32	12.50	4.17
May 16, 2011	Performance criteria based on end-March 2011	21.4125	33.32	12.50	4.17
September 15, 2011	Third review, based on end-June 2011 performance criteria	21.4125	33.32	12.50	4.17
November 15, 2011	Performance criteria based on end-September 2011	21.4125	33.32	12.50	4.17
March 15, 2012	Fourth review, based on end-December 2011 performance criteria	21.4125	33.32	12.50	4.17
May 15, 2012	Performance criteria based on end-March 2012	21.4125	33.32	12.50	4.17
September 17, 2012	Fifth review, based on end-June 2012 performance criteria	21.4125	33.32	12.50	4.17
November 15, 2012	Performance criteria based on end-September 2012	21.4125	33.32	12.50	4.17
March 8, 2013	Sixth review, based on end-December 2012 performance criteria	21.4125	33.32	12.50	4.17
Total 2/		513.9000	799.71	300.00	100.00

Source: Fund staff estimates.

1/ SDR/U.S. dollar exchange rate of 0.642605 as of February 15, 2011.
2/ May not reflect the sum of individual lines because of rounding.

Table 13. El Salvador: Quantitative Performance Criteria
(In millions of U.S. dollars)

	SBA 1/ End-Dec. 2010	Actual End-Dec. 2010	End-Mar. 2/ 2011	End-Jun. 2/ 2011	End-Sep. 3/ 2011	End-Dec. 3/ 2011	End-Dec. 3/ 2012
Performance criteria							
Overall balance of the nonfinancial public sector (cumulative floor) 4/	-1,047	-920	-320	-390	-575	-817	-621
Gross debt of the nonfinancial public sector (cumulative flow) 5/	1,117	646	310	365	545	701	651
External debt service arrears of the nonfinancial public sector 6/	0	0	0	0	0	0	0
Domestic payment arrears of the nonfinancial public sector 7/	0	0	0	0	0	0	0

Consultation clauses

If at any point during the arrangement the sum of private-sector bank deposits and external short-term bank liabilities falls below US$7,875 million (10 percent below the end-December 2010 level), the authorities will contact Fund staff to discuss possible remedial actions.

If at any point during the arrangement the authorities consider it necessary to modify the reserve requirements or liquid asset requirements, they will contact Fund staff to discuss such actions.

1/ IMF Country Report No. 10/307.
2/ Proposed.
3/ Indicative targets.
4/ Adjusted upward for 50 percent of overperformance of tax revenue.
5/ Adjusted upward for any debt placed for prefinancing that would result in an equivalent increase in central bank deposits, until the pre-financed liabilities mature; and for any issue of government guarantees (up to US$40 million) on the debt of the newly-created state development fund.
6/ Continuous ceiling. Defined as unpaid debt service payments by the nonfinancial public sector to nonresidents beyond 30 days after the due date.
7/ Continuous ceiling. Defined as unpaid obligations overdue by more than 60 days.

Table 14. El Salvador: Structural Measures

	Original 1/ Test Date	Rephased Test Date	Status
Prior Action			
Issuance of executive decree specifying the targeting of the LPG subsidy by April 1, 2011.			Done
Structural Benchmarks			
Tax Policy and Administration			
Strengthen the large taxpayers office at the DGII.	Jun. 30, 2010		Done
Publication of plan for the modernization of both DGII and DGA. 2/	Sep. 30, 2010	Jun. 30, 2011	Pending
Consolidate the authority of the audit department at the DGII and improve its auditing capacity.	Dec. 31, 2010		Done
Enhance coordination in the tax collection process across DGII and DGA. 2/	Feb. 28, 2011	Dec. 31, 2011	Pending
Harmonize taxpayer registry between DGII and DGA for 500 large taxpayers.	Dec. 31, 2011		New
Implement revenue measures yielding 1.5 percent of GDP.	June 30, 2012		
Subsidy Reform			
Finalize plans to improve the targeting of subsidies for electricity, water, and liquid propane gas.	May 30, 2010	Oct. 31, 2010	Done
Implement plans to improve the targeting of subsidies for electricity, water, and liquid propane gas.	Oct. 31, 2010	Dec. 31, 2010	Done
Public Financial Management			
Approve budget for 2011 consistent with deficit of 3.5 percent of GDP.	Dec. 31, 2010		Done
Create interinstitutional MTEF committee and pilot MTEF units.	Jul. 31, 2011		New
Publish a statement of approved budgets for NFPS institutions.	Feb. 29, 2012		New
Financial System Development and Supervision			
Congressional approval of financial supervision bill containing following elements:	July 31, 2010	Dec. 31, 2010	Done
i) Merge the supervisory entities for banks, pensions, and the stock exchange. ii) Enhance the autonomy of the merged supervisory institution. iii) Strengthen legal protection for supervisors. iv) Strengthen cross-border consolidated supervision. v) Empower the central bank to be the sole regulator of the financial system.			
Conduct test bank resolution exercise.	Feb. 28, 2011		Done
Issue corporate governance norms for the banking system.	Feb. 28, 2011		Done
Congressional approval of investment funds law containing following elements: 2/ i) Create clear legal framework for investment funds. ii) Specify accounting and asset valuation rules. iii) Set terms for investor entry and exit.	Mar. 31, 2011	Dec. 31, 2011	Pending
Issue umbrella norm for risk management of financial institutions.	Jun. 30, 2011		New
Agree to action plan for enhancing central bank's lender of last resort capacity.	Jul. 31, 2011		New
Issue specific norms on management of credit and liquidity risk for financial institutions.	Dec. 31, 2011		New

1/ IMF Country Report No. 10/307.
2/ Not yet implemented and rephasing of benchmarks for later date is being proposed.

Attachment I: Letter of Intent

San Salvador, March 17, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. Strauss-Kahn:

1. The economic strategy of the Government of El Salvador, supported by the three-year Stand-By Arrangement (SBA) approved on March 17, 2010, which has been treated as precautionary, is delivering positive results. The economy began to recover in 2010, albeit at a moderate pace, with trade flows rebounding to near pre-crisis levels; inflation has remained among the lowest in the region, anchored by our fully-dollarized regime; and access to the international bond market has been adequate. Also, as envisaged, we have started a process of fiscal consolidation, based on the strengthening of tax revenue, strict control of expenditure, and protection of social spending. At the same time, financial system stability has been preserved, with capital and liquidity indicators remaining strong.

2. Looking ahead, the Government of El Salvador remains committed to its medium-term strategy of safeguarding fiscal sustainability, deepening financial system reforms, and strengthening economic growth. In 2011, we plan to make further strides in reducing the fiscal deficit, placing the public debt on a firm downward path, and reorienting spending to poverty-reducing programs. We are also moving ahead with reforms in the financial system to improve its oversight and bolster its resilience to shocks, and implementing public policies to spur economic activity, including through a strategy to encourage long-term financing to key productive sectors, while containing any financial risks.

3. The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic program of the Government of El Salvador for 2011, which is consistent with our medium-term objectives laid out in the MEFP of March 1, 2010. In support of our program, we request completion of the second review under the SBA, which we will continue to treat as precautionary. We believe the SBA provides critical support for our commitment to sound macroeconomic policies and helps anchor private sector confidence; it also provides access to liquid resources that may help ease pressures in the financial system, if these were to arise.

4. We believe that the policies described in the MEFP are sufficient to meet the goals of our program and stand ready to take additional measures that may be needed for this purpose. We maintain our commitment to consult with the Fund in advance of any revisions to the described policies, as well as the adoption of additional measures, in accordance with Fund policies on such consultations and as outlined in this MEFP. We will continue to comply with all obligations of Article VIII of the IMF's Articles of Agreement and will maintain our close dialogue with Fund staff on our economic policies after the expiration of the arrangement, for as long as there are any outstanding purchases in the upper credit tranches.

Program implementation will continue to be monitored through semi-annual reviews, with the third review to be completed on or after September 15, 2011. The performance criteria, structural benchmarks, and consultation clauses under the program are set out in Tables 2 and 3.

5. We authorize the Fund to publish this Letter of Intent and its attachments, and the related staff report.

Sincerely yours,

/s/	/s/
Carlos Cáceres Minister of Finance	Carlos Acevedo President, Central Reserve Bank of El Salvador

ATTACHMENT II: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. PROGRAM IMPLEMENTATION SINCE THE FIRST REVIEW[1]

1. The government's economic program yielded important results in 2010. The economy began to recover, albeit moderately, the process of gradual fiscal consolidation started, and the stability of the financial system was maintained.

- ***Macroeconomy:*** In 2010, real GDP grew by 0.7 percent (following a contraction of 3½ percent in 2009) and inflation reached 2.1 percent, the lowest level in the region. Trade flows rebounded to nearly pre-crisis levels, with buoyant exports helping limit the external current account deficit to about 2 percent of GDP, broadly in line with program projections.

- ***Fiscal outturn:*** The tax measures taken in late 2009, together with strict expenditure control, helped reduce the fiscal deficit to 4.2 percent of GDP in 2010, well below the program target of 4.8 percent, while shifting spending toward social priorities. The public debt-to-GDP ratio rose moderately to 51 percent, slowing the sharp increase caused by the economic contraction of 2009. The outturn reflects the start of a policy of gradual fiscal consolidation that continues to support economic activity.

- ***Financial stability.*** Financial soundness indicators point to adequate capital, high liquidity, and low overdue loans. The central bank's foreign reserves remain adequate, covering about one-third of bank deposits. Deposits have been growing, although bank credit to the private sector has not yet rebounded.

2. **Performance under the program.** All quantitative performance criteria on the fiscal deficit, public debt, and payment arrears for end-September and end-December 2010 were met. Since the completion of the first review in September 2010, the pace of implementation of structural benchmarks has gained momentum.

- ***Fiscal structural benchmarks:*** In November, the government obtained congressional approval of a budget for 2011 consistent with a nonfinancial public sector deficit of 3½ percent of GDP. In addition, the government improved its auditing capacity, eliminated untargeted electricity subsidies, and issued regulations to phase out untargeted subsidies for liquid propane gas (LPG) starting in April. There were unexpected delays in completing a modernization plan for the tax and customs offices and for improving coordination between them; as explained below, the government remains committed to making progress in these areas.

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[1] Completed on September 15, 2010 with data through June 30, 2010.

- ***Financial structural benchmarks:*** In January 2011, congress approved the financial supervision bill, which among other aspects empowers the central bank as the sole regulator of the financial system and amended the central bank law to ease restrictions on its capacity to act as lender of last resort. The government also conducted a bank resolution exercise. In February, the government issued corporate governance norms for banks.

II. THE ECONOMIC PROGRAM FOR 2011

3. **Outlook:** The government's medium-term macroeconomic framework remains broadly unchanged from the time of the first review, with real GDP growth projected at 2½ percent for 2011. On account of higher global fuel and food prices, however, we have revised upward for 2011 end-year inflation to 4.8 percent and the external current account deficit to 3.8 percent of GDP. This deficit would be largely financed by FDI and public sector capital inflows. Weaker-than-expected remittances and private investment, and higher fuel and food prices, constitute important downside risks.

4. **Objectives:** The government's policies for 2011 will be guided by the strategy summarized in the Letter of Intent of March 1, 2010, which focuses on laying the foundation for strong economic growth, safeguarding debt sustainability, and deepening financial system reform. Consistent with these objectives, the government will prioritize growth-enhancing initiatives, including infrastructure projects with private sector participation. It also plans to facilitate access to bank credit for critical projects subject to strict guidelines to minimize fiscal risks. Also, on the financial system, the government will continue efforts to strengthen financial supervision, improve liquidity buffers, and enhance resolution arrangements.

5. **Fiscal policy:** The government is committed to keeping the fiscal deficit at or below 3½ percent of GDP in 2011 through a combination of tax administration measures and continued expenditure restraint, and to continue increasing spending on investment and social projects. The deficit will broadly stabilize the public debt-to-GDP ratio. Key elements of our fiscal strategy include:

- ***Revenue:*** For 2011, the government has set a tax revenue target of 14 percent of GDP (net of refunds; up from 13.3 percent last year) taking account of new revenue measures and the recovery in economic activity. In light of downside risks to growth (and tax revenues) we stand ready to implement additional measures, if necessary, to meet our revenue objective. The revenue measures envisaged for 2011 include:

  - ➢ ***Improving the revenue system:*** During 2011, following an extensive consultation process, the government will propose to congress a draft bill aligning our revenue system with regional standards.

  - ➢ ***Strengthening tax collection:*** The modernization plan for the internal revenue (DGII) and customs (DGA) agencies will be completed and published by end-June (structural benchmark), and revamped information systems will enable communication between the databases of the agencies by end-December (structural benchmark). In addition, income tax withholdings will be adjusted so as to reduce the amount of requests for small tax refunds and ease the burden on tax administration.

- ***Enhanced auditing capabilities:*** The DGII and DGA will cross check the tax records of 500 large taxpayers by end-December (structural benchmark). In addition, the value-added tax registry will be reviewed to reduce evasion, and sanctions for overdue tax obligations are being applied more consistently. We also plan to sign tax information exchange agreements with several OECD countries to facilitate the enforcement of tax obligations and strengthen tax transparency in accordance with international best practices.

- ***Expenditure policy:*** The government is committed to maintaining its prudent management of public spending, and to protect the fiscal and debt targets of the program. Within the spending ceilings of the program, we will continue to give priority to meeting long-standing social needs and fostering infrastructure projects. Concretely:

  - ***Wage policy:*** For 2011, the government intends to increase the share of public wage and pension outlays to 10.2 percent of GDP (from 9.9 of GDP in 2010). This will allow granting wage increases to low-paid public sector workers and aligning the minimum pension with the minimum wage thus remedying long-standing inequities in our public remuneration system. This will also allow some hiring of personnel in critical areas such as internal security, education, and health.

  - ***Improved quality of spending:*** Energy subsidy reform has freed resources equivalent to 0.4 percent of GDP on an annual basis that have been reoriented to social priorities, such as improved access to health care, increased conditional cash transfers to low-income households (*comunidades solidarias*), broadened low-income housing construction (*casa para todos)*; and assistance to low-income school children. In addition, the 2011 budget envisages a substantial increase in public investment (to 3½ percent of GDP), including for projects on roads, electricity generation, and rural development.

- ***Budgeting process:*** We will continue strengthening our budgeting process with a view to gradually adopting an indicative medium-term expenditure framework (MTEF) to help prioritize spending needs. Steps planned for 2011 include:

  - ***Broadening budget information:*** We plan to publish a consolidated presentation of the approved budgets of nonfinancial public sector (NFPS) institutions, including the general budget, the budgets of the 69 decentralized institutions, and the four public enterprises (structural benchmark for end-February, 2012). Moreover, we will carry out a diagnostic to determine the feasibility of including the extraordinary budget and other operations in this presentation. We will also publish a pilot mid-year report on budget execution of the NFPS.

- ***Adoption of an MTEF:*** The government will set up an inter-institutional committee chaired by the Vice-Minister of Finance to propose guidelines and a timetable for the adoption of an MTEF. Also, MTEF units will be established in the Ministry of Finance and in at least three other expenditure ministries by end-July (structural benchmark).

- ***Debt management:*** The government places a high priority on securing a debt profile that minimizes rollover risks. In 2010, we placed 20-year bonds for about 1½ percent of GDP with domestic investors, and reduced our short-term debt (LETES) to less than 1 percent of GDP. For this year, we have already secured resources to meet our refinancing requirements, with the placement of a 30-year Eurobond for $650 million and scheduled disbursements for more than US$500 million (2¼ percent of GDP) from the World Bank, IADB, and CABEI.

6. **Medium-term fiscal consolidation:** The government remains fully committed to the goals of reducing the fiscal deficit and placing debt on a firm downward path before the end of the program. To this end, we have intensified consultations with a broad range of stakeholders to agree on a "fiscal pact" that could begin in 2011 that will allow for the increase of tax revenues (net of refunds) to at least 16 percent of GDP by 2015. Key components of the pact will be used to update our medium-term fiscal framework and will be used in the formulation of the 2012 budget and the update of our government program (*2010–14 Plan Quinquenal de Desarrollo*).

7. **Financial system:** The government will further strengthen the stability of our fully-dollarized financial system with the following measures:

- ***Financial supervision law:*** The recently approved law mandates a shift of regulatory powers to the central bank and the integration of the superintendencies of banks, pensions, and securities by end-August 2011. To ensure a smooth transition, these entities will work collaboratively on the preparation of draft norms, prepare an inventory of regulatory priorities for 2012, and standardize information systems and procedures of the superintendencies.

- ***Risk-based supervision:*** Progress in this area will be made with the issuance of an umbrella norm on risk management by end-June 2011 (structural benchmark). Specific norms on management of credit and liquidity risks will be issued by end-December (structural benchmark); in addition, norms on market and operational risks in line with best international practice will be issued.

- ***Bank resolution:*** Based on the results of the bank crisis simulation exercise recently conducted, we are preparing guidelines to improve our communication, enhance our capacity to implement purchase-and-assumption schemes, and improve the coordinated response from the superintendency, the ministry of finance, the deposit insurance fund (*Instituto de Garantía de Depositos*, IGD), and the central bank. We are also reviewing the legal framework for bank resolution, for both commercial and cooperative banks. In addition, we are exploring options for improving the funding of the deposit insurance fund.

- ***Lender-of-last-resort capacity:*** We assign high priority to strengthening the central bank's role as lender of last resort of the financial system. We will explore ways to further enhance its access to liquidity and multilateral funds, as well as engage in repurchase operations (as provided by the noted revisions to the central bank law) during periods of stress. We will formulate an action plan for enhancing lender-of-last-resort capacity by end-July (structural benchmark).

- ***Investment funds law:*** The draft law is under discussion in congress, and its approval is now expected by end-December (structural benchmark).

8. **Growth-enhancing strategy:** To jumpstart private sector investment and growth, the government has launched several programs, including public-private partnerships (PPPs) and new vehicles of credit.

- ***Initiatives:*** The government plans to submit legislation to congress by end-June to strengthen the framework for PPPs, with a view to facilitating private investment in areas such as electricity, highways, ports, airports, and public transportation. Other growth-enhancing measures include a production promotion law (which eliminated an export subsidy, strengthened the scheme to refund VAT and import duties for exports in line with the guidelines of the World Trade Organization, sets up a single window for exporters and importers, and facilitates technical assistance); a strategic agricultural plan (which seeks to assist poor farmers and facilitate agro-industry projects); and a strategic tourism plan.

- ***Development banking system:*** To provide financing to these initiatives the government will shortly propose to congress legislation creating a public development banking system. This will include a development fund (*Fondo Nacional de Desarrollo*) that will finance its credit operations partly with the issuance of bonds that will carry a government guarantee, although we do not expect to issue guarantees this year. The state-owned *Banco Multisectorial de Inversiones* will be converted into a development bank (*Banco Nacional de Desarrollo*) with first-tier operations. These institutions will provide medium- and long-term credit to productive sectors. A guarantee fund (*Fondo Salvadoreño de Garantía*) will also be established to provide guarantees to small- and medium-sized enterprises. To minimize financial risks, the operations of these new institutions will be subject to the same prudential standards as banks and assessed against strict performance indicators.

9. **Safeguards assessment:** The recent revisions to the central bank law will yield important improvements to the central bank's safeguards framework. In particular, the central bank will prepare its financial statements taking into account the requirements of applicable international accounting standards and the policies adopted by other central banks, publish the financial statements and the external auditor's opinion within three months of year-end, and select an external auditor through the use of public tender, with the contract term of no more than five years. Additionally, the revisions to the BCR law include preventing the distribution of unrealized gains and specifying the dismissal criteria for Board members.

10. **Program monitoring:** Quantitative performance criteria for the Fund program will continue to be set on a quarterly basis and program reviews will remain semiannual. The phasing of access under the arrangement and the schedule of reviews are set out in Table 1. The quantitative targets and performance criteria for end-March 2011 and end-June 2011, as well as indicative targets through end-December 2012, and adjusters are set out in Table 2. The structural benchmarks of the program are set out in Table 3.

Table 1. El Salvador: Purchase Schedule and Terms Under the Stand-By Arrangement

		Purchase			
Date	Conditions for Purchase	Millions SDR	Millions US$ 1/	Percent of Quota	Percent of Total Access
March 17, 2010	Board approval of the SBA	171.3000	266.57	100.00	33.33
May 17, 2010	Performance criteria based on end-March 2010	21.4125	33.32	12.50	4.17
September 15, 2010	First review, based on end-June 2010 performance criteria	107.0625	166.61	62.50	20.83
November 15, 2010	Performance criteria based on end-September 2010	21.4125	33.32	12.50	4.17
March 15, 2011	Second review, based on end-December 2010 performance criteria	21.4125	33.32	12.50	4.17
May 16, 2011	Performance criteria based on end-March 2011	21.4125	33.32	12.50	4.17
September 15, 2011	Third review, based on end-June 2011 performance criteria	21.4125	33.32	12.50	4.17
November 15, 2011	Performance criteria based on end-September 2011	21.4125	33.32	12.50	4.17
March 15, 2012	Fourth review, based on end-December 2011 performance criteria	21.4125	33.32	12.50	4.17
May 15, 2012	Performance criteria based on end-March 2012	21.4125	33.32	12.50	4.17
September 17, 2012	Fifth review, based on end-June 2012 performance criteria	21.4125	33.32	12.50	4.17
November 15, 2012	Performance criteria based on end-September 2012	21.4125	33.32	12.50	4.17
March 8, 2013	Sixth review, based on end-December 2012 performance criteria	21.4125	33.32	12.50	4.17
Total 2/		513.9000	799.71	300.00	100.00

Source: Fund staff estimates.

1/ SDR/U.S. dollar exchange rate of 0.642605 as of February 15, 2011.

2/ May not reflect the sum of individual lines because of rounding.

Table 2. El Salvador: Quantitative Performance Criteria
(In millions of U.S. dollars)

	End-Mar.	End-Jun.	End-Sep. 1/	End-Dec. 1/	End-Dec. 1/
	2011				2012
Performance criteria					
Overall balance of the nonfinancial public sector (cumulative floor) 2/	-320	-390	-575	-817	-621
Gross debt of the nonfinancial public sector (cumulative flow) 3/	310	365	545	701	651
External debt service arrears of the nonfinancial public sector 4/	0	0	0	0	0
Domestic payment arrears of the nonfinancial public sector 5/	0	0	0	0	0

Consultation clauses

If at any point during the arrangement the sum of private-sector bank deposits and external short-term bank liabilities falls below US$7,875 million (10 percent below the end-December 2010 level), the authorities will contact Fund staff to discuss possible remedial actions.

If at any point during the arrangement the authorities consider it necessary to modify the reserve requirements or liquid asset requirements, they will contact Fund staff to discuss such actions.

1/ Indicative targets.
2/ Adjusted upward for 50 percent of any overperformance of tax revenue.
3/ Adjusted upward for any debt placed for prefinancing that would result in an equivalent increase in central bank deposits, until the pre-financed liabilities mature; and for any issue of government created guarantees (up to US$40 million) on the debt of the newly-state development fund.
4/ Continuous ceiling. Defined as unpaid debt service payments by the nonfinancial public sector to nonresidents beyond 30 days after the due date.
5/ Continuous ceiling. Defined as unpaid obligations overdue by more than 60 days.

Table 3. El Salvador: Structural Benchmarks 1/

	Test date
Prior actions	
Issuance of executive decree specifying the targeting of the LPG subsidy starting by April 1, 2011	Prior action
Revenue Measures	
Publication of plan for the modernization of both DGII and DGA	Jun. 30, 2011
Harmonize taxpayer registry between DGII and DGA for 500 large taxpayers	Dec. 31, 2011
Enhance coordination in the tax collection process across DGII and DGA	Dec. 31, 2011
Implement revenue measures yielding 1.5 percent of GDP	Jun. 30, 2012
Public Financial Management	
Creation of interinstitutional MTEF committee and pilot MTEF units	Jul. 31, 2011
Publish a statement of approved budgets for NFPS institutions	Feb. 29, 2012
Financial System Supervision and Development	
Issue umbrella norm for risk management for financial institutions	Jun. 30, 2011
Agree to action plan for enhancing central bank's lender of last resort capacity	Jul. 31, 2011
Issue specific norms on management of credit and liquidity risk for financial institutions under umbrella norm for risk management	Dec. 31, 2011
Congressional approval of investment funds law	Dec. 31, 2011

1/ Descriptions of the steps needed to meet these benchmarks are contained in the TMU.

Attachment III: Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) describes the understandings** reached between the authorities of El Salvador and IMF staff for monitoring performance under the Stand-By Arrangement (SBA). In particular, it defines concepts employed in measuring the quarterly fiscal and debt quantitative performance criteria; the continuous performance criteria on external debt and domestic payments arrears; the adjusters on performance criteria; triggers for consultation clauses; structural benchmarks; and reporting requirements under the SBA.

A. Performance Criterion on the Balance of the Nonfinancial Public Sector

2. **The fiscal balance pertains to the operations of the nonfinancial public sector (NFPS), which comprises** the central government, the rest of the general government (Instituto Salvadoreño del Seguro Social (ISSS), municipal governments, public hospitals, the national university, and other decentralized agencies), and the nonfinancial public sector enterprises (Comisión Ejecutiva Hidroeléctrica del Río Lempa (CEL), Comisión Ejecutiva Portuaria Autónoma (CEPA), Administración Nacional de Acueductos y Alcantarillados (ANDA), and Lotería Nacional de Beneficiencia (LNB)).

3. **The balance of the NFPS is measured on a cash basis from below the line**, defined as: (a) net domestic financing of the NFPS; *plus* (b) net external financing of the NFPS; *plus* (c) proceeds from exceptional sources (Table A1). They are defined as follows:

(a) **The net domestic financing of the NFPS** is the sum of: (i) the increase in net claims of the domestic financial system on the NFPS, excluding government bonds initially sold abroad; (ii) the net increase in NFPS short-term paper (LETES) and bonds held outside the domestic financial system and the NFPS, excluding bonds initially sold abroad; and (iii) floating debt of the NFPS due to expenditure operations and tax refund payments.

(b) **The net external financing of the NFPS** comprises: (i) disbursements of external loans; plus (ii) receipts from the issuance of government bonds abroad and LETES held by nonresidents; minus (iii) cash payments of principal (current maturities of loans, bonds, and LETES); minus (iv) cash payments of external arrears (principal and interest); minus (v) debt buy-backs or other prepayments of debt (at market value); and minus/plus (vi) the increase/decrease in other net foreign assets of the nonfinancial public sector.

(c) **Proceeds from exceptional sources** such as, but not limited to, privatization, the sale of licenses, and the granting of concessions are defined as: (i) the cash payments received by the Treasury from the sale of state-owned assets; plus (ii) debt-equity swaps, accounted at market values; plus (iii) up-front payments received by the Treasury for the granting of concessions for public services and capital leasing agreements.

4. **Adjuster for overperformance of tax revenue.** In the event that net tax collections exceed the program baseline of US$740 million as of end-March 2011, US$1,680 million as of end-June 2011, US$2,435 million as of end-September 2011, or US$3,234 as of end-December 2011, the performance criterion on the floor for the balance of the NFPS will be raised by 50 percent of any excess.

B. Performance Criterion on Debt Flows

5. **The performance criterion measures the sum of debt contracted by the NFPS** (as defined in paragraph 2) in the year, which shall apply to all flows of gross external debt as specified in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-00/85); all domestic gross debt flows; and any new debt with a sovereign guarantee.

6. **Adjuster for pre-financing operations.** The debt ceiling will be adjusted upward for any borrowing by the NFPS, domestic or external, raised for pre-financing purposes that will result in an equivalent increase in deposits at the central bank (BCR), until the pre-financed liabilities mature.

7. **Adjuster for sovereign guarantees.** The debt ceiling will be adjusted upward for any issuance of liabilities from the newly-created economic development fund (*Fondo de Desarrollo Económico*) that carries a central government guarantee, up to US$40 million, in 2011.

C. Non-Accumulation of External Debt or Domestic Payments Arrears

8. **The NFPS will not accumulate any external debt arrears during the program period.** For the purpose of this performance criterion, an external debt payment arrear will be defined as a payment by the NFPS that has not been made within thirty days after falling due under the contractual agreement, unless specified otherwise. The performance criterion will apply on a continuous basis.

9. **The NFPS will not accumulate any domestic payments arrears during the program period.** For the purpose of this performance criterion, a domestic payment arrear will be defined as an obligation by the NFPS that has not been paid within sixty days after falling due under the contractual agreement, unless specified otherwise. The performance criterion will apply on a continuous basis.

D. Consultation Clauses

10. **Floor on the sum of total bank deposits of the private sector and external short-term liabilities of banks.** These are defined, respectively, as deposits of the private sector in

commercial banks, and external liabilities of commercial banks with an original maturity of up to one year.[1] If at any point during the arrangement, the sum of private sector bank deposits and external short-term bank liabilities should be less than US$7,876.4 million (i.e., 10 percent below the end-2010 level), a consultation clause will be triggered, and the authorities will contact Fund staff to discuss possible remedial actions.

11. **The reserve requirements and liquid asset requirements of the banking system are defined in current regulations** (at about 22 percent and about 3 percent, in effective terms, respectively).[2] If at any point during the arrangement the authorities consider it necessary to modify the reserve requirements or liquid asset requirements, a consultation clause will be triggered, and the authorities will contact Fund staff to discuss those measures.

E. Prior Action and Structural Benchmarks

Fiscal policy

12. **Targeting of the subsidy on liquefied propane gas (LPG).** An executive decree will be issued prior to March 15, 2011 providing for the setting of retail prices of LPG in line with market prices and payment of subsidies to households with consumption of electricity less than 200 kWh per month, starting on April 1, 2011 (prior action).

13. **The authorities will publish their plan for the modernization of the Domestic Tax Administration Directorate (DGII) and the General Custom Administration Directorate (DGA).** The plan will outline steps to enhance coordination in the tax collection process across agencies (structural benchmark, June 30, 2011, rephased from September 30, 2010).

14. **Enhancing coordination of the DGII and DGA in the tax collection process,** as described in the plan for the modernization of the DGII and DGA, will allow communication between the databases of both agencies (structural benchmark, December 31, 2011, rephased from February 28, 2011.)

15. **The DGII and DGA will begin harmonization of their respective taxpayer registries** in order to allow cross-checking of the account status of 500 large taxpayers (structural benchmark, December 31, 2011).

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[1] The definition consists of the sum of line items 211 (*DEPOSITOS)* and 212108 (*PRESTAMOS PACTADOS HASTA UN AÑO PLAZO—ADEUDADO A ENTIDADES EXTRANJERAS*) of the balance sheets of banks as compiled by the Superintendency of the Financial System on a weekly basis; minus the lines noted in Table A2, which represent NPFS deposits and accrued interest. As of end-2010, the sum of private sector bank deposits and external short term liabilities of banks was US$8,751.6 million.

[2] The regulations on reserve requirements and liquid asset requirements are NPB3-06 and NPB3-11.

16. **The consolidated presentation of NFPS operations will contain the following information:** a consolidated NFPS financial statement including planned revenue, expenditure, and financing for (i) the general budget (*Presupuesto General del Estado*); (ii) the four public enterprises; and (iii) 69 decentralized institutions (*Presupuestos Especiales*; structural benchmark, February 29, 2012).

17. **In order to support efforts toward implementation of a medium-term expenditure framework (MTEF),** the authorities will (i) create an inter-institutional committee chaired by the Vice-Minister of Finance to guide progress in implementing an MTEF; and (ii) create MTEF units in the Ministry of Finance and in at least three expenditure ministries (structural benchmark, July 31, 2011).

Financial sector policy

18. **The Investment Funds Law will contain the following elements:** (i) a clear legal framework for investment funds; (ii) accounting and asset valuation rules for investment funds; and (iii) terms for investor entry and exit. Congressional passage of the law is a structural benchmark for December 31, 2011 (rephased from March 31, 2011).

19. **The authorities will issue an umbrella norm on risk management** to establish a comprehensive framework according to which future norms pertaining to the management of specific risks will be put in place (structural benchmark, June 30, 2011).

20. **The authorities will strengthen the central bank's capacity as a lender-of-last-resort.** The authorities will agree to an action plan for enhancing lender-of-last-resort capacity (structural benchmark, July 31, 2011).

21. **The authorities will adopt specific norms on risk management.** To facilitate implementation of the law on financial supervision approved by congress in January 2011, the authorities will issue norms on the management of credit and liquidity risks which are aligned with international best practices (structural benchmark, December 31, 2011).

F. Reporting Requirements

22. **To facilitate monitoring of program implementation, the government of El Salvador will prepare and send to the IMF,** by e-mail or by fax, monthly data and reports within six weeks following the end of the preceding month, and quarterly data and reports within six weeks after each test date, unless specified otherwise. Such data will include (but are not limited to) the following:

(a) The BCR will provide on a monthly basis the comprehensive monetary survey and the BCR balance sheet (electronic file);

(b) The BCR will provide on a daily basis the total bank deposits in commercial banks with a lag of at most three working days;

(c) The BCR will provide on a weekly basis the balance sheets of individual banks and the total banking system, as well as detailed information on their liquidity positions, with a lag of at most five working days;

(d) The BCR will provide quarterly balance of payments data in electronic format with a lag of a quarter;

(e) The Ministry of Finance will provide monthly data on tax revenue with a lag of at most five working days;

(f) The Ministry of Finance will provide monthly data on revenue and the execution of expenditure for the central government and the rest of the general government (ISSS, the municipal governments, public hospitals, the national university, and other decentralized agencies) with a lag of at most four weeks, and quarterly data on revenue and the execution of expenditure for the four NFPS enterprises (CEL, CEPA, ANDA, and LNB);

(g) The Ministry of Finance will provide monthly information on the financing of the NFPS and stock of debt of the NFPS (as defined above) as specified in Table A1;

(h) Indicators and other statistical data on recent economic developments, such as the household consumer price index, will be provided as they become available. In addition, the BCR will provide its quarterly reports on economic activity with a lag of at most a quarter;

(i) The authorities will provide a status report on the implementation of the structural reforms specified in Table 3 of the Memorandum of Economic and Financial Policies; and

(j) The authorities will provide any other information that IMF staff may deem necessary for the effective monitoring of the SBA.

Table A1. Financing of the Non-Financial Public Sector
(Million U.S. dollars)

	2011	Q1	Q2	Q3	Q4
A. Net domestic financing of the non-financial public sector (NFPS)					
i. Net claims of the financial system (1+2+3)					
1. Net credit of commercial banks to the NFPS:					
a. Credits					
b. Deposits					
2. Net credit of the BCR to the NFPS:					
a. Credits					
b. Deposits					
3. Net credit of the non-bank financial institutions to the NFPS 1/					
a. Credits					
b. Deposits					
ii. Stock of NFPS liabilities (including Letes) held outside the domestic financial system and the NFPS 2/					
iii. Floating debt (statistical discrepancy; -(i+ii+B+C+D))					
B. Net external financing					
i. Multilateral development banks (IADB, WB, CABEI)					
a. Disbursements					
b. Amortizations					
ii. Bilateral creditors					
a. Disbursements					
b. Amortizations					
iii. Financial institutions					
of which: bonds					
of which: LETES					
iv. Other					
C. Privatization and concessions					
D. Non-financial public sector overall balance					

1/ Includes trust funds.
2/ Includes amortization of ISTA bonds.

Table A2. Public-Sector Deposit Account Numbers

Public Sector Accounts

2110010101, 2110010102, 2110010201, 2110010202, 2110020101, 2110020102, 2110020201, 2110020202, 2111010101, 2111010102, 2111010201, 2111010202, 2111020101, 2111020102, 2111020201, 2111020202, 2111030101, 2111030102, 2111030201, 2111030202, 2111040101, 2111040102, 2111040201, 2111040202, 2111050101, 2111050102, 2111050201, 2111050202, 2111060101, 2111060102, 2111060201, 2111060202, 2111070101, 2111070102, 2111070201, 2111070202, 2111080101, 2111080102, 2111080201, 2111080202, 2111130101, 2111130102, 2111130201, 2111130202, 2111140101, 2111140102, 2111140201, 2111140202, 2111990101, 2111990102, 2111990201, 2111990202, 2112010101, 2112010102, 2112010201, 2112010202, 2112020101, 2112020102, 2112020201, 2112020202, 2112030101, 2112030102, 2112030201, 2112030202, 2112040101, 2112040102, 2112040201, 2112040202, 2114010101, 2114010102, 2114010201, 2114010202, 2114020101, 2114020102, 2114020201, 2114020202, 2114030101, 2114030102, 2114030201, 2114030202, 2114040101, 2114040102, 2114040201, 2114040202, 2114050101, 2114050102, 2114050201, 2114050202, 2114060101, 2114060102, 2114060201, 2114060202, 2114070101, 2114070102, 2114070201, 2114070202.

Accrued Interest

2110019901, 2110019902, 2110029901, 2110029902, 2111019901, 2111019902, 2111029901, 2111029902, 2111039901, 2111039902, 2111049901, 2111049902, 2111059901, 2111059902, 2111069901, 2111069902, 2111079901, 2111079902, 2111089901, 2111089902, 2111139901, 2111139902, 2111149901, 2111149902, 2111999901, 2111999902, 2112019901, 2112019902, 2112029901, 2112029902, 2112039901, 2112039902, 2112049901, 2112049902, 2114019901, 2114019902, 2114029901, 2114029902, 2114039901, 2114039902, 2114049901, 2114049902, 2114059901, 2114059902, 2114069901, 2114069902, 2114079901, 2114079902.

INTERNATIONAL MONETARY FUND

EL SALVADOR

Second Review Under the
Stand-By Arrangement—Informational Annex

Prepared by the Western Hemisphere Department
(In consultation with other departments)

March 17, 2011

Contents Page

I. Relations with the Fund
As of January 31, 2011

I. **Membership Status**: Joined March 14, 1946; Article VIII

II. **General Resources Account**:

	SDR million	%Quota
Quota	171.30	100.0
Fund holdings of currency	171.30	100.0
Reserve position in Fund	0.00	0.00

III. **SDR Department**:

	SDR million	%Allocation
Net cumulative allocation	163.81	100.0
Holdings	163.81	100.0

IV. **Outstanding Purchases and Loans**: None

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
Stand-By	Mar 17, 2010	Mar 16, 2013	513.90	0.00
Stand-By	Jan 16, 2009	Mar 16, 2010	513.90	0.00
Stand-By	Sep 23, 1998	Feb 22, 2000	37.68	0.00

VI. **Projected Obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
		2011	2012	2013	2014	2015
Principal	0.00	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00	0.00

VII. **Implementation of HIPC Initiative**: Not Applicable

VIII. **Safeguards Assessments:**

An update of the June 2009 safeguards assessment of the Central Bank of El Salvador (BCR) was completed in September 2010. The 2010 assessment found that the BCR has made progress in addressing the recommendations in the areas of internal control and legal structure. The update concluded that efforts to adopt an internationally accepted accounting framework (e.g., IFRS) should be intensified, and recommended the publication of the audit opinions of the independent audit firm, more systematic monitoring of audit recommendations and establishment of a comprehensive framework for liquidity support operations using IMF funds. The BCR has been implementing these recommendations.

IX. **Exchange Arrangements:**

The U.S. dollar is legal tender and circulates freely. The dollar is used as a unit of account and a medium of exchange, with no limitations. All payments may be made in either dollars or colones. The BCR has the obligation to exchange colones for dollars upon request from banks, at a fixed and unalterable exchange rate of C 8.75 per U.S. dollar. As a result, El Salvador has an exchange rate arrangement with no separate legal tender category. El Salvador has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

X. **Article IV Consultation:**

The 2010 Article IV consultation was concluded on September 15, 2010 (SM/08/326). The next Article IV consultation with El Salvador will be held in accordance with the July 15, 2002 decision on consultation cycles.

XI. **FSAP Participation and ROSCs:**

An FSAP Update was conducted in 2010 and the report was considered by the Executive Board on September 15, 2010. A fiscal ROSC was conducted in 2010. A data module ROSC was conducted in 2003.

XII. **Technical Assistance:**

Department	Dates	Purpose
Statistics	February 2011 August 2010 August 2009	Quarterly national accounts by expenditure and new base year for national accounts.
Statistics	August 2010	Producer price index.
Statistics	September 2009	Regional harmonization of government finance statistics.
Monetary and capital markets	December 2008	Crisis prevention and resolution.

Fiscal Affairs	February 2011	Revenue administration.
Fiscal Affairs	December 2010	Increasing tax system yield and efficiency.
Fiscal Affairs	September 2010	Budget process and medium-term expenditure framework.
Department	**Dates**	**Purpose**
Fiscal Affairs	August 2009	Revenue impact of planned tax reform.
Fiscal Affairs	December 2008	Macrofiscal and distributional implications of subsidy reform.
Fiscal Affairs	December 2008	Options for tax reform and strengthening tax administration.

XIII. **Resident Representatives**: None

II. Relations with the World Bank

1. **The IMF's El Salvador team led by Mario Garza (Mission Chief) has met on various occasions with the World Bank's El Salvador team led by Carlos Felipe Jaramillo (Country Manager)** to address macro-critical structural reforms and to coordinate the two teams' work for 2011.

2. **The teams have agreed that El Salvador's main macroeconomic challenges are achieving a durable fiscal consolidation, including by increasing revenues as a percent of GDP, and improving the investment climate to boost the growth performance of the economy.** Reducing the public debt-to-GDP ratio over time is a key priority, especially in view of the high sensitivity of the debt trajectory to negative output shocks.

3. **Based on this shared assessment, the teams have identified four structural reform areas as macro-critical,** in view of their central role in achieving fiscal consolidation and sustained growth.

- **Tax reform:** Boost tax revenue by at least 1½ percent of GDP. Such a reform would establish a sustainable resource base for financing needed infrastructure, security, and social outlays while ensuring that fiscal deficits decline and the public debt-to-GDP ratio is put on a durable downward path.

- **Public financial management reform:** Implement reforms to address shortcomings in El Salvador's budget process, including: (i) a requirement of super majorities in congress for approval of long-term financing; (ii) the absence of a medium-term expenditure framework and (iii) incomplete coverage of autonomous and decentralized institutions. These weaknesses reduce the authorities' ability to execute the investment budget, with negative consequences for long-term growth.

- **Financial sector reform:** Strengthen the financial system's crisis preparedness and enhance its role in the intermediation of credit by: (i) addressing deficiencies in the bank resolution framework; (ii) issuing norms to enhance supervision; (iii) bolstering the central bank's lender-of-last-resort (LOLR) capacity; and (iv) improving the legal framework for El Salvador's capital market.

- **Investment climate reform:** Improve the growth performance of the economy. Domestic and foreign investment in El Salvador remains low both in real terms and as compared with regional peers. Relative weaknesses in areas such as security, education, and innovation likely impact negatively on investment and growth.

4. **The teams agreed to support the authorities in these areas with the following division of labor:**

- **Tax reform:** The authorities are working toward a fiscal pact that would be implemented no later than 2012 and would include a tax reform aimed at boosting revenues by at least 1½ percent of GDP, a goal that has been incorporated as a structural benchmark in the current IMF program. The Fund is providing technical assistance on the design of revenue measures that would underpin the increase, including the possible increase in tax rates.

- **Public financial management reform:** An IMF technical assistance mission visited San Salvador in February 2011 to advise on strengthening the institutional capacity of domestic revenue and customs administration, and another mission is planned for April to follow up on a medium-term expenditure framework. The World Bank is planning technical assistance focused on strengthening tax collection agencies, modernizing public financial management, and enhancing public sector transparency. The operation is backed by a loan that is awaiting congressional approval. The World Bank is also supporting reform in this area as prior action and policy triggers in the Public Finance and Social Progress DPL.

- **Financial sector reform:** The 2010 update to El Salvador's Financial Sector Stability Assessment (FSSA) conducted by the World Bank and IMF found the financial system had withstood the global financial crisis and was well-capitalized and liquid. At the same time, the FSSA noted several vulnerabilities and opportunities for structural reforms. Some of these elements, including congressional passage of the financial supervision and regulation law, passage of an investment funds law, and approval of norms supporting risk-based supervision, are incorporated as structural benchmarks in the current IMF program. The authorities are also receiving IMF technical assistance on ways to implement the central bank's authority to undertake limited LOLR functions, and on risk-based supervision, both in line with FSSA recommendations. The World Bank is currently working with El Salvador on a crisis preparedness program consisting of a diagnostic and recommendations on how to improve government agencies' responses to financial emergencies.

- **Investment climate reform:** To spur growth and investment during the remainder of their term, the authorities plan to undertake fiscal reforms to create space for priority expenditures, assume a more active role in promoting exports, and foster "public private partnerships" to promote investment in infrastructure, including in the energy and transportation sectors. The World Bank is developing a corporate governance country assessment under the ROSC (Report on the Observance of Standards and Codes) program that will contribute to the investment climate reform agenda.

5. **The teams have the following requests for information from their counterparts:**

- The Fund team requests to be kept informed of progress in the above macro-critical structural reform areas. Timing: as needed.

- The World Bank team requests to be kept informed of progress in the above macro-critical structural reform areas. Timing: as needed.

6. **The attached table lists the teams' separate and joint work programs during 2011.**

World Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas During 2011

Title	Products	Provisional Timing of Missions	Expected Delivery Date
1. World Bank Work Program	Development Policy Loan with a CAT DDO		Feb. 2011 (board approval)
	Fiscal Management and Public Sector Performance T.A. loan		Apr. 2011 (pending congressional approval)
	Health Sector and Governance Project		Apr. 2011 (board approval)
	Public Finance and Social Progress DPL		Apr. 2011 (board approval)
	Corporate Governance ROSC		May 2011
	Financial Crisis Preparedness Program		Jul. 2011
2. Fund Work Program	TA provision:		
	Revenue administration;	Feb. 2011	Apr. 2011
	Medium-term expenditure framework;	Apr. 2011	Jun. 2011
	Central bank lender-of-last-resort capacity;	Mar. 2011	May 2011
	Staff visit for third review under the SBA	May 2011	
	Third review under the SBA and Article IV consultation	Aug. 2011	Sep. 2011

III. Relations with the Inter-American Development Bank

1. The IDB completed the last country strategy for El Salvador in 2010 for the 2011–14 period. The next country strategy for El Salvador is scheduled for completion in 2015.

2. As of January 2011, the IDB has pending disbursements for US$325 million, which correspond to public-sector guaranteed loans and which are mostly concentrated on nine programs in six sectors.

El Salvador: Relations with the Inter-American Development Bank
(As of January 31, 2011, in millions of US$)

A. Operations

Sector	Commitments	Amount Disbursed	Amount Undisbursed
Urban Dev. And Housing	174.3	69.3	105
Health	60.0	-	60.0
Water and Sanitation	49.6	29.6	20.0
Roads and Transportation	35.0	-	35.0
Modernization of the State	5.0	-	5.0
Public Finance	200.0	100.0	100.0
Total	**523.9**	**198.9**	**325.0**

B. Loan Transactions

	2003	2004	2005	2006	2007	2008	2009	2010E	2011P
Disbursements	97.4	52.0	91.6	100.2	96.1	288.1	487.3	115.9	171,5
Repayments	73.6	96.2	97.3	88.9	90.5	104.8	278.3	114.2	115,7
Net lending	**23.8**	**-44.2**	**-5.7**	**11.29**	**5.6**	**183.3**	**209**	**1.7**	**55.8**
Interest and charges					62.3	67.3	67.8	68.2	59.2
Subscriptions and contributions					-	-	-	1.2	0.2
Net transfer	**23.8**	**-44.2**	**-5.7**	**11.29**	**-56.6**	**116**	**141.2**	**-62.3**	**-3,6**

3. For 2011, the Bank will work on the preparation of seven loans (US$275 million) in the areas of climate change and energy (US$100 million), transportation and roads (US$55 million), urban development and housing (US$50 million), security and justice (US$20 million), gender (US$20 million), and export promotion (US$30 million).

IV. Statistical Issues

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate for surveillance.	
National Accounts: National accounts data are based on 1990 weights and compiled under the 1968 SNA, although a project is underway to transition to the 1993 SNA and update the series to 2005 weights. The project also envisages the publication of quarterly national accounts by expenditure, which are currently available only on an annual basis.	
II. Data Standards and Quality	
Subscriber to the Fund's Special Data Dissemination Standard (SDDS) since 1998. El Salvador is taking a flexibility option for the periodicity of the labor market and wages/earnings data category and will continue at this time to publish annual data with a timeliness of one quarter after the end of the reference year.	A data ROSC was published in December 2004.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of March 1, 2011)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality – Methodological soundness[8]	Memo Items: Data Quality – Accuracy and reliability[9]
Exchange Rates	Feb 11	Mar 11	M	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jan 11	Feb 11	M	M	M		
Reserve/Base Money	Jan 11	Feb 11	M	M	M	O, LO, LO, LO	LO, O, O, O, LO
Broad Money	Jan 11	Feb 11	M	M	M		
Central Bank Balance Sheet	18 Feb 11	24 Feb 11	W	W	M		
Consolidated Balance Sheet of the Banking System	18 Feb 11	24 Feb 11	W	W	M		
Interest Rates[2]	18 Feb 11	24 Feb 11	W	W	W		
Consumer Price Index	Jan 11	Feb 11	M	M	M	O, O,LNO, O	LNO, LO, O, O, LNO
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Jan 11	Feb 11	M	M	M	LO, LO, LNO, LO	LO, O, LO, LO, NO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Jan 11	Feb 11	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Jan 11	Feb 11	M	M	M		
External Current Account Balance	Sep 10	Dec 10	Q	Q	Q	O, LO, LNO, LO	LO, LO, O, O, LO
Exports and Imports of Goods and Services	Jan 11	Feb 11	M	M	M		
GDP/GNP	Sep 10	Dec 10	Q	Q	Q	LO, LNO, LNO, LO	LNO, LNO, LO, O, LO
Gross External Debt	Sep 10	Dec 10	Q	Q	Q		
International Investment Position[6]	Sep 10	Dec 10	Q	Q	Q		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[8] Reflects the assessment provided in the data ROSC (published in December 2004 and based on the findings of the mission that took place during August 12–28, 2003) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[9] Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment, and revision studies.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 11/107
FOR IMMEDIATE RELEASE
March 31, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Second Review under Stand-By Arrangement for El Salvador

The Executive Board of the International Monetary Fund (IMF) has completed its second review of El Salvador's economic performance under a program supported by a three-year Stand-By Arrangement. The decision was taken on a lapse of time basis (a process where the Board agrees that a proposal can be approved without convening formal discussions). The arrangement was approved on March 17, 2010 in the amount of SDR 513.9 million, equivalent to 300 percent of the country's quota in the IMF (see Press Release No. 10/95). The Salvadoran authorities are treating the arrangement as precautionary.

The Salvadoran economy has begun to recover from the impact of the global slowdown, albeit at a moderate pace; inflation remains low; and financial stability has been maintained. Fiscal policy has helped mitigate the effects of the economic downturn by protecting social priorities, and all performance criteria were met. For 2011, improved prospects for external and domestic demand are expected to lift output growth, although high global fuel and food prices will increase inflation and the external current account deficit.

The economic program for 2011 aims at achieving further progress in fiscal consolidation. The decline in the overall fiscal deficit envisaged for 2011 will continue to support the economic recovery and stabilize the public debt. At the same time, efforts to upgrade revenue administration and maintain expenditure control, along with projected savings from an improved targeting of subsidies, will enhance space for priority social spending. In the financial sector, the program envisages the integration of the supervisory agencies, shifting to risk-based supervision, and broadening the central bank's capacity to provide liquidity. The government also plans to foster long-term financing to productive sectors through several new initiatives.