INTERNATIONAL MONETARY FUND

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# EL SALVADOR

October 2011

## THIRD REVIEW UNDER THE STAND-BY ARRANGEMENT—STAFF REPORT; PRESS RELEASE ON THE EXECUTIVE BOARD DISCUSSION; AND STATEMENT BY THE EXECUTIVE DIRECTOR

In the context of the El Salvador – Third Review under the Stand-By Arrangement, the following documents have been released and are included in this package:

- **Staff Report** for the Third Review under the Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on August 18, 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 September 12, 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.

- **Press Release** summarizing the views of the Executive Board as expressed during its September 30, 2011 discussion of the staff report that completed the request and/or review.

- **Statement by the Executive Director** for El Salvador.

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

El SALVADOR

# Third Review Under the Stand-By Arrangement

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

Approved by Miguel Savastano and Jan Kees Martijn

September 12, 2011

- **Program review**. The program remains on track, despite less favorable external conditions and a moderate output recovery. All performance criteria for end-March and end-June were met, and structural measures in support of fiscal and financial sector reforms are moving ahead. The three-year stand-by arrangement is expected to remain precautionary.

- **Outlook**. The economy is expected to recover at a slower pace than envisaged at the time of the second review, reflecting the downward revision in the outlook for the United States, high world fuel and food prices, and sluggish private investment. Headline inflation is projected to rise to 7 percent by end-2011, but would decline rapidly in 2012, while capital inflows will remain subdued.

- **Program objectives and policies**. Reducing the overall fiscal deficit to 3½ percent of GDP in 2011 and 2½ percent in 2012 and increasing the resilience of the fully-dollarized financial system remain the key objectives of the economic program. The policies agreed for the remainder of 2011 are consistent with these objectives and include formulating a budget for 2012 with strengthening revenues and restraining expenditures.

- **Discussions**. A staff team comprising M. Garza (Head), D. Simard, A. Swiston (all WHD), and S. Segal (SPR) visited San Salvador during August 8–19. 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 the final meetings.

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## I. Developments since the Second Review[1]

1. **The economic recovery remains moderate**. Real GDP grew by 1.7 percent (y/y) in the first-quarter of 2011, with manufacturing and agriculture particularly sluggish. High world fuel and food prices pushed up headline inflation to 6¾ percent (y/y) in August, though core inflation stayed subdued. In response to the price shock, the private sector proposed to move forward the wage negotiation scheduled for early-2012, and the minimum wage was increased by 8 percent.

2. **Energy subsidies were increased temporarily**. To soften the impact of rising world energy prices on households, in April–May the government decided to increase subsidies on electricity and transportation, and to suspend an excise tax on gasoline temporarily. The fiscal cost of these measures, which will be undone before year-end, is estimated at 0.2 percent of GDP in 2011.

3. **In spite of the higher spending on subsidies, the fiscal targets have been met**. Supported by strong tax revenue, the overall fiscal deficit in the first-half of 2011 was in line with program targets. Under execution of investment spending helped offset overruns in current primary spending (largely on account of goods and services). In July, the government repaid a maturing international bond (US$650 million) that had been pre-financed with the placement in January of a 30-year bond (see IMF Country Report No. 11/90).

4. **The external current account deficit is in line with projections, despite the higher oil import bill**. Net capital inflows, however, are lower than projected owing to a shortfall in official disbursements and a decline in bank deposits (see below).

5. **The banking system remains sound**. Banks are well capitalized and profitability has rebounded to pre-crisis levels, despite a decline in bank deposits (of about 3 percent through mid-July). The decline was concentrated in large banks, which kept lowering interest rates on deposits to reduce their excess liquidity given the modest prospects for a pick up in the demand for credit.

6. **Overall, program performance has been satisfactory**. All quantitative performance criteria for end-March and end-June and all structural benchmarks were met. On the latter, the authorities concluded a modernization plan for tax agencies; issued risk-based supervision norms; completed an action plan for setting up a lender-of-last-resort (LOLR) facility; and created a special committee and ministerial units to adopt a medium-term expenditure framework (MTEF).

7. **Congress remains broadly supportive of the government's agenda**. The Assembly is expected to approve legislation related to public-private partnerships (PPPs) and development banking before year-end. At the same time, the authorities have intensified consultations with political parties and the private sector to secure support for a budget

[1] Completed on March 31, 2011 (IMF Country Report No. 11/90).

for 2012 consistent with the program. The proximity of the March 2012 congressional and municipal elections, however, may erode political support in the coming months.

## II. POLICY DISCUSSIONS

8. **It was agreed that the near-term outlook was somewhat less favorable than anticipated during the second review**. The weaker-than-expected recovery of the U.S. economy and high world prices of energy and food have deteriorated somewhat the outlook for growth and inflation. In light of this, real GDP growth for 2011 was revised downwards to 2 percent while year-end inflation was raised to 7 percent. In addition, the projection for the external current account deficit for 2011 was kept at 3.8 percent of GDP, but the deficit in the overall balance of payments was increased to reflect the weaker prospects for net capital inflows.

**Macroeconomic Framework**
(Percent of GDP, unless otherwise noted)

| | 2010 | 2011 SBA 1/ | 2011 Proj. | 2012 SBA 1/ | 2012 Proj. |
|---|---|---|---|---|---|
| Real GDP growth (percent) | 1.4 | 2.5 | 2.0 | 3.0 | 2.5 |
| Inflation (percent, end of period) | 2.1 | 4.8 | 7.0 | 2.8 | 3.0 |
| Nonfinancial public sector balance | -4.3 | -3.5 | -3.6 | -2.5 | -2.5 |
| Nonfinancial public sector debt | 52.1 | 50.6 | 52.0 | 50.4 | 50.9 |
| External current account balance | -2.3 | -3.8 | -3.8 | -3.6 | -3.5 |

Sources: Salvadoran authorities and Fund staff estimates.
1/ IMF Country Report No. 11/90.

9. **Discussions focused on the policy adjustments needed to keep the key objectives of the program for 2011 and 2012 within reach**. The authorities reiterated their commitment to comply with the fiscal deficit target previously set for 2011 and to frame the budget for 2012 within the medium-term fiscal strategy of the program—which envisages a substantial decline in the fiscal deficit and keeping expenditure as a share of GDP stable after 2012. In light of the revised outlook, the envisaged adjustment would create needed space for priority spending and place the public debt ratio on a downward path. Staff highlighted the sensitivity of fiscal and public debt projections to small changes in key parameters and encouraged the authorities to resist pressures to delay adjustments in revenues and expenditures.

### A. Fiscal Policy

10. **It was agreed that the fiscal deficit target of US$817 million (about 3½ percent of GDP) for 2011 remains appropriate**. The authorities committed to exercise strict control over current spending in the second half of the year to attain this target, which would keep the public debt ratio at about last year's level by end-2011. Staff noted that expenditure restraint was critical to absorb the cost of the transitory energy measures and speed up investment spending in the remainder of the year, particularly on infrastructure to supplement ongoing initiatives to jump-start private investment. The authorities indicated that they had instructed ministries and other agencies to tighten current spending limits and defer low-priority projects. Staff supported this measure and encouraged the authorities to maintain well-targeted support for the poor (including through existing energy and gas subsidies) and allow the full pass-through of energy prices for other consumers. The authorities confirmed their intention to let the temporary energy subsidies lapse by year-end (LOI ¶2).

11. **Maintaining the buoyancy of tax revenues will also be important**. The authorities will continue to strengthen revenue administration by improving control of large taxpayers

and enhancing coordination among revenue agencies (LOI ¶3). In addition, with support from multilateral banks, they have created a new vice-ministry of revenue to oversee the modernization of tax agencies. They expect that these measures will help lower evasion and have an important impact on collections (Box 1).

12. **The authorities agreed to formulate a budget for 2012 consistent with an overall fiscal deficit of 2½ percent of GDP**. An adjustment of that size would require a continued strengthening of revenues, an austere wage policy, and the phasing out of one-time outlays in 2011 equivalent to almost 1 percent of GDP. These efforts will be supported by the review of spending priorities under the five-year development plan (*Plan Quinquenal de Desarrollo*), which is to be finalized before year-end; and by the ongoing consultations with key stakeholders on a "fiscal pact" conducive to raising tax revenues to 16 percent of GDP by 2015.

**One-time Outlays in 2011**
(Percent of GDP)

| | % of GDP |
|---|---|
| **Total** | **0.8** |
| Energy subsidies | 0.2 |
| LPG subsidy targeting | 0.2 |
| Electricity tariff transition | 0.3 |
| Other | 0.1 |

Source: IMF staff calculations.

## B. Financial Sector

13. **It was agreed that the recent decline in bank deposits had not compromised financial stability, but that stepped-up monitoring was warranted**. The authorities noted that the decline in bank deposits had not caused stress and that all banks continued complying with required reserves. They also reported that deposits recently recovered somewhat, after banks had brought excess liquidity to desired levels. Nonetheless, the authorities agreed that a shrinking deposit base would not be desirable and noted that they plan to continue monitoring the situation closely, conduct stress tests regularly, and strengthen their liquidity policy (Box 2). It was agreed that, notwithstanding recent developments, the current level of liquidity requirements (about 25 percent of deposits) remains appropriate.

14. **Steps to strengthen the financial safety net will continue**. An action plan to set up an LOLR facility to assist banks with temporary liquidity needs has been finalized (LOI ¶5) and is scheduled to become operational at end-2012. The plan aims at gradually providing coverage for the equivalent of 8 percent of deposits over the next four years, with envisaged resources from contingent lines of credit and the central bank's holdings of government securities. Also, following the bank crisis simulation exercise of early 2011, the authorities have defined steps to improve their capacity to take corrective actions, clarify the role and coordination among providing agencies, and facilitate private involvement in resolution processes through purchase-and-assumption operations.

15. **The shift to risk-based supervision is proceeding as planned**. The authorities have issued a number of regulations on risk management in 2011 and plan to adopt pending norms on liquidity and market risks by year-end. They will also improve their capacity to supervise banks on the basis of risk assessments. For the remainder of the year, priority will be given to strengthening capacities following the integration of supervisory agencies and the transfer of regulatory power to the central bank. The authorities expect congress to approve a framework to develop investment funds by year-end.

## III. Other Reforms

16. **Government initiatives to jump-start private investment are advancing**. Staff agreed that the draft bill sent to congress aimed at facilitating investment through PPPs is broadly aligned with best practices, and recommended strengthening the role of the Ministry of Finance in the selection of projects and in the proper recording of all contingent liabilities. The authorities indicated that they would be giving greater priority to improving domestic security and productivity, areas identified as major obstacles to growth in the context of the partnership for growth with the United States. They also reiterated their expectation that the approval by congress of the framework for development banking would promote an increase in long-term lending by public financial institutions. The authorities reaffirmed their commitment to minimizing potential fiscal contingencies and financial distortions from these initiatives (LOI ¶6).

## IV. Program Modalities

17. **The Fund arrangement through end-2011 will maintain the modalities approved at the time of the second review**. Indicative targets for end-September and end-December proposed in the second review will become performance criteria (LOI and Table 13). In addition, new structural benchmarks will be added for end-December: (i) the phasing out of energy measures adopted in April–May; and (ii) the approval by congress of a budget for 2012 consistent with an overall fiscal deficit target of 2½ percent of GDP (Table 14). Staff has revised historical data for the balance of payments and national income accounts derived from methodological upgrades recommended by the Fund.

18. **Safeguard assessment recommendations**. The central bank began to publish this year its financial statements, including the external audit opinion, and will adopt in 2012 international accounting standards. Also, in early 2011, an external auditor was selected through public tender for a period of five years, and will prepare an assessment of internal control.

## V. Staff Appraisal

19. **Performance under the Fund’s Stand-by Arrangement continues to be favorable, despite the sluggish economic recovery**. Strong policy implementation on the fiscal and financial fronts have arrested the deterioration in the public debt trajectory and increased the financial system’s resilience. Difficult external conditions, however, continue to affect the recovery and have led to a downward revision in near-term growth prospects and an upward revision in inflation projections. Domestic private investment remains subdued.

20. **The fiscal consolidation strategy envisaged in the program remains appropriate**. The gradual decline in the overall fiscal deficit contemplated under the program is critical to achieve debt sustainability and regain the fiscal space necessary to enable the authorities to respond effectively to future adverse shocks. Staff commends the authorities for their resolution to adhere to the fiscal targets through prudent expenditure policies and new revenue initiatives despite the sluggish recovery. It also supports the authorities’ continued efforts to secure consensus on a fiscal pact to significantly strengthen the fiscal position.

21. **Strict control over current expenditure in the second-half of the year will be critical to meet the fiscal targets for 2011**. Such restraint will allow absorbing the cost of the transitory energy subsidies enacted in the second-quarter without creating further delays on investment spending, which could hurt initiatives to jump-start private investment. The tax buoyancy observed in the first half of the year is largely a result of measures on tax administration made under the program and should be maintained. Staff supports plans for modernizing tax administration and for improving public expenditure management. These strategies will help reduce tax evasion and improve the quality and flexibility of public spending.

22. **The budget for 2012 must aim at a significant decline in the fiscal deficit**. The budget should contemplate a further strengthening of revenues supported by appropriate revenue measures. It should also eliminate completely the energy subsidies adopted in early-2011, which are largely untargeted. Staff welcomes the authorities' intention to allow the full pass-through of energy prices to consumers, since recent subsidy reforms (on transportation, water, electricity, and liquefied propane gas) have made it possible to improve the targeting of subsidies to the neediest.

23. **Staff welcomes continued progress in strengthening the financial system**. To enhance the resilience of the fully-dollarized financial system to shocks, the authorities' efforts are rightly focused on reinforcing the safety net and shifting towards risk-based supervision. Staff urges the authorities to make rapid progress in setting up their planned lender-of-last-resort facility and improving bank resolution processes. Issuing pending risk management norms and upgrading capacity to supervise banks on the basis of risk assessments would also be important. Staff welcomes the authorities' plan to secure approval by congress of the draft investment funds bill.

24. **The authorities' initiatives to promote domestic investment are expected to be in place before year-end**. Recognizing that PPPs and long-term development lending may help foster private investment, staff urges the authorities to set up safeguard mechanisms that keep fiscal risks contained and allow a proper recording of fiscal contingencies.

25. **Staff recommends the completion of the third review under the SBA**.

**Box 1. El Salvador—Fiscal Reforms**

***To support the fiscal consolidation strategy, the authorities are strengthening the fiscal framework in the areas of tax compliance and expenditure management***.

Key reforms underway include:

- ***Revenue administration***. The modernization plan for tax administration is aimed at reducing tax evasion and comprises three elements: (i) the creation of a special unit to monitor large taxpayers (accounting for two-thirds of tax revenue); (ii) increased coordination between the tax and customs agencies; and (iii) reorganizing the tax agency along functional lines, while providing the audit division with increased resources and functional independence. In the area of customs administration, efforts are geared at shifting to risk-based inspections and improving coordination with customs agencies in neighboring countries.

- ***Treasury single account (TSA)***. Plans to adopt a TSA by 2013 are underway. Adoption of a TSA would enhance expenditure control, shorten the lag between the rendering of services and payments, and reduce cash balances of public institutions.

- ***Medium-term expenditure framework (MTEF)***. The recently-created oversight committee and pilot ministerial units are developing expertise on programmatic coverage of the budget and preparing staff and technology platforms to adopt an MTEF starting in 2013. Adoption of this framework will facilitate the allocation of resources to key priorities; reduce inertia in spending plans; and ensure consistency between new initiatives, available resources, and macroeconomic objectives.

- ***Budget reforms***. The authorities are developing a plan to gradually unify the budgets for various government entities with the goal to achieving universal coverage and improving the analytical content of budget documents. The process will require legal changes and help better align expenditure with policy priorities.

**Box 2. El Salvador—Increasing Liquidity Buffers**

***The authorities plan to set up a lender-of-last-resort (LOLR) facility during 2012 as part of their strategy to improve the liquidity defenses of their fully-dollarized financial system***.

The strategy, which follows recommendations of Fund's technical assistance, comprises the following elements:

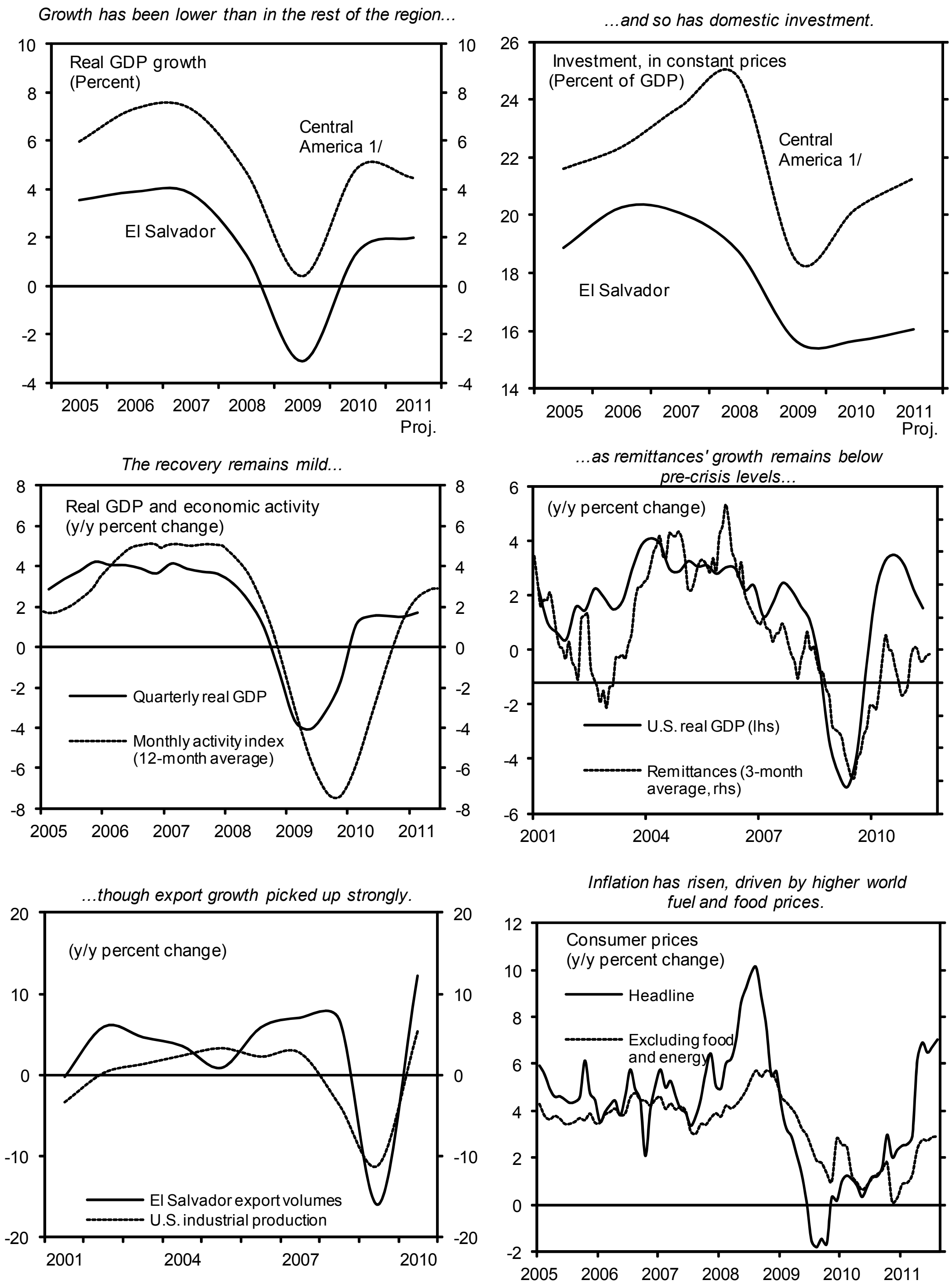
- **Upgrading liquidity regulations**. The goal is to minimize liquidity risks by banks, including through curbing maturity mismatches of assets and liabilities and shifting the application of required reserves to a remaining maturity basis.

- **Creating a liquidity fund**. The plan is to pool a fraction of current reserve requirements (3 percent of deposits) into a liquidity fund. In principle, the fund would provide liquidity to solvent banks facing liquidity pressures for up to 90 days (with up to one renewal) and charge interest penalties. Access would be limited to a maximum of 5 percent of the bank's deposits or 25 percent of the fund's resources. Access to the fund would be restricted to banks that have already drawn on the first and second tranches of their own reserve requirements (11 percent of deposits), and would be collateralized with investment grade assets. Creation of this fund requires congressional approval.

- **Establishing of LOLR facility**. This facility would gradually provide coverage for up to 8 percent of total deposits (over the next four years) and grant emergency liquidity for up to 90 days— (renewable once) to banks that have accessed the liquidity fund. The maximum liquidity provided to any single bank would be limited to one-time its capital, with 120 percent collateral. The facility would be funded with contingent lines of credit from abroad and the use of the central bank's holdings of tradable government bonds (including repo operations of those bonds with international banks). In order to lend to banks, the central bank also plans to adopt regulations to allow repo operations with government securities and temporary purchases of banks' assets.

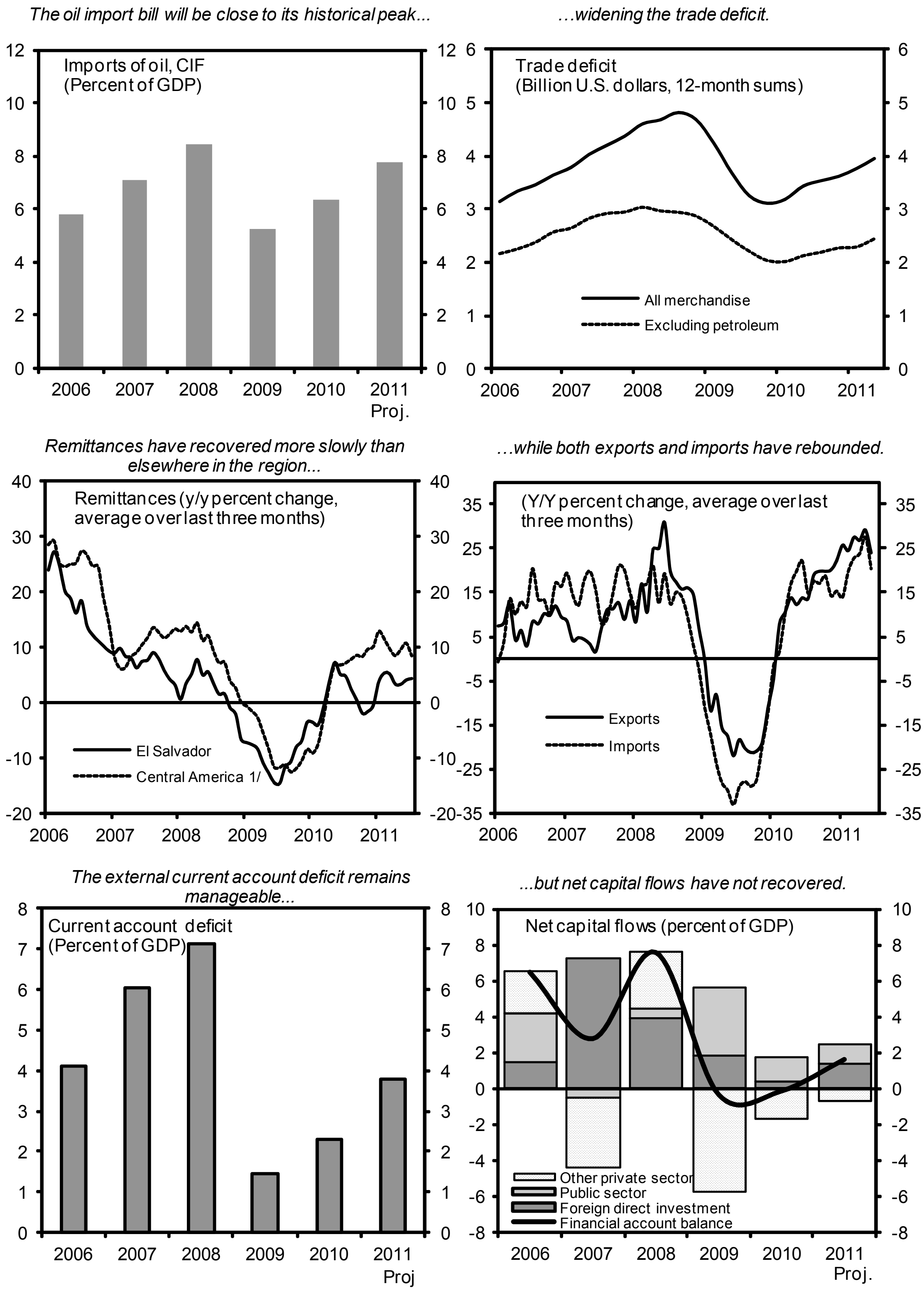
**Size of the buffer**. With the new facilities, the coverage of liquid reserves of the banking system would increase from the current level of 25 percent of deposits to 33 percent, and (unlike now) the authorities will be able to channel liquidity to banks experiencing pressures. Over time, these new facilities would be extended to all deposit-taking institutions, in line with the broadening of the perimeter of supervision.

## Figure 1. El Salvador: Economic Activity and Inflation



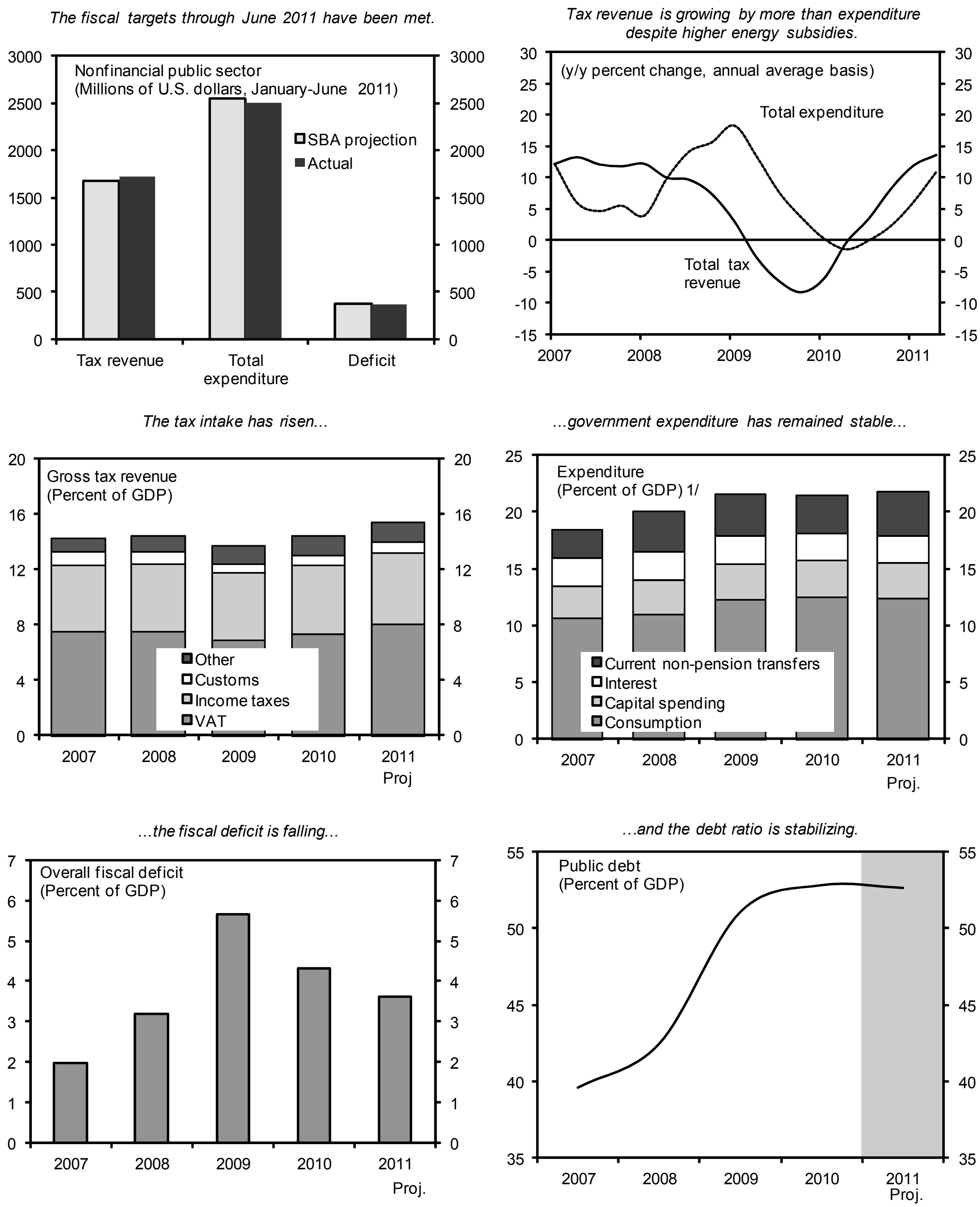

Sources: Central Reserve Bank of El Salvador; Haver Analytics; and Fund staff calculations.
1/ Simple average for six countries: Costa Rica, the Dominican Republic, Guatemala, Honduras, Nicaragua, and Panama.

## Figure 2. El Salvador: Balance of Payments Developments



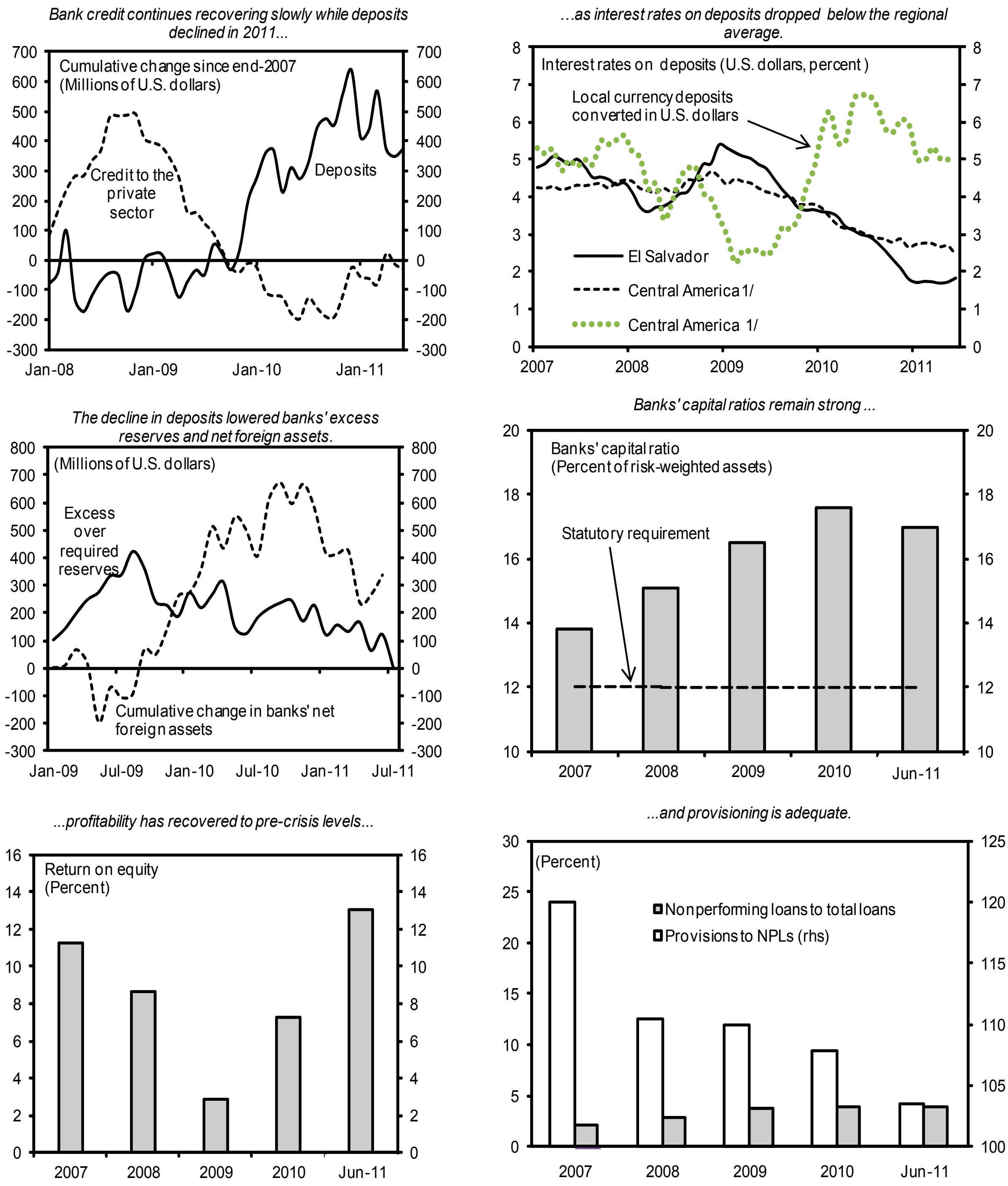

Sources: Central Reserve Bank of El Salvador; Haver Analytics; and Fund staff calculations.
1/ Simple average of the Dominican Republic, Guatemala, Honduras, and Nicaragua.

## Figure 3. El Salvador: Fiscal Developments




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

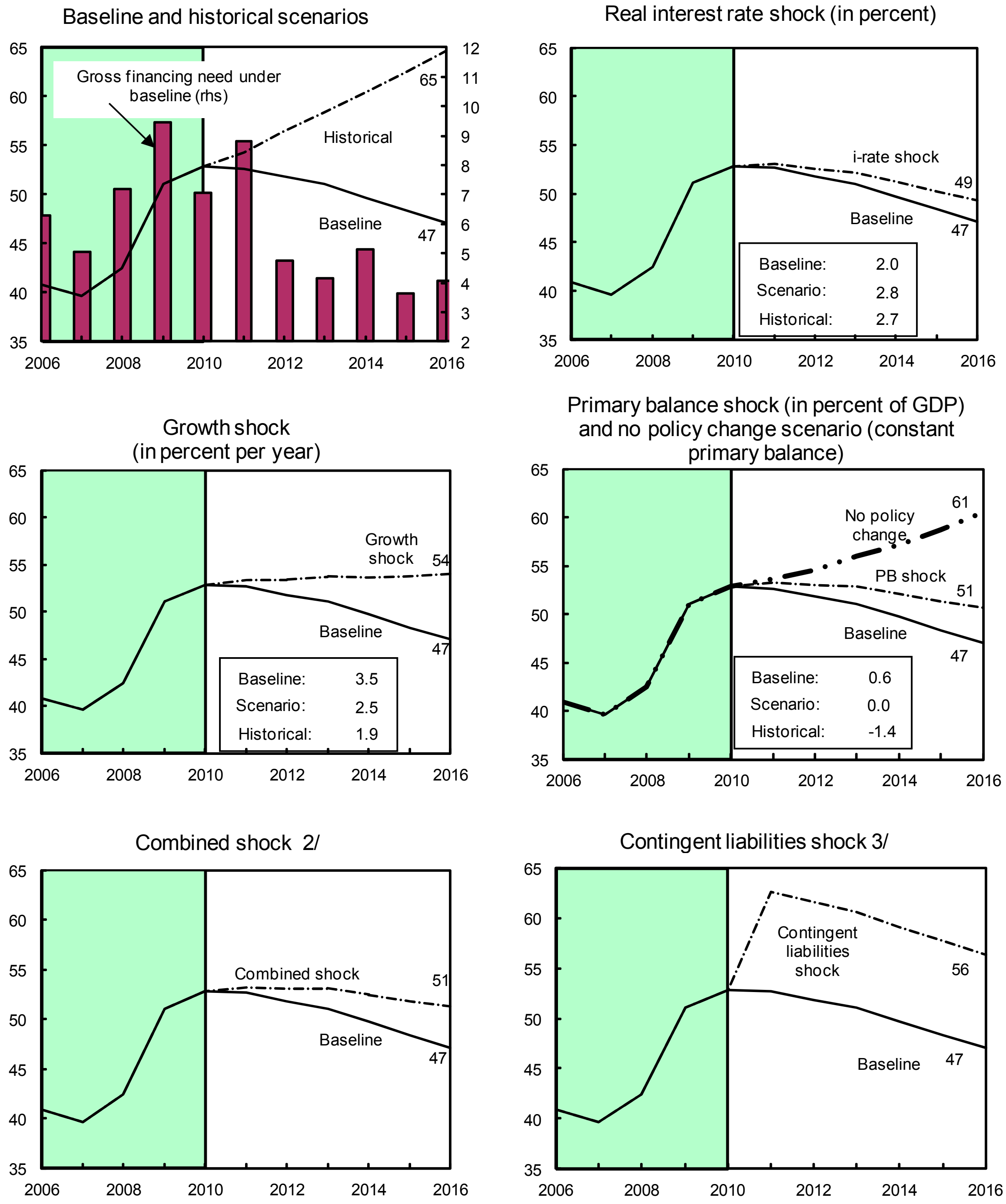
Figure 4. El Salvador: Financial Sector Developments




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

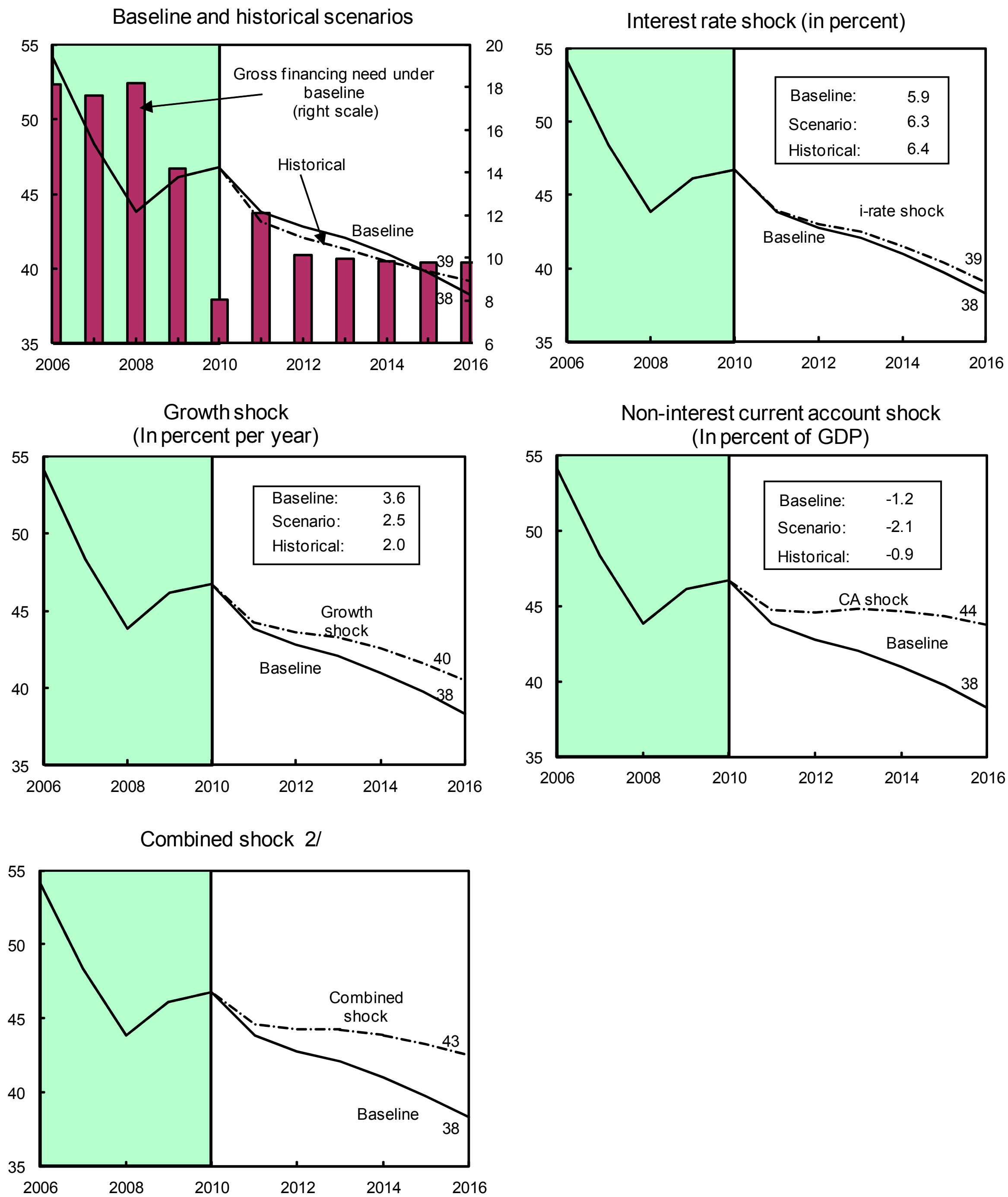
1/ Simple average for Costa Rica, Dominican Republic, Guatemala, Honduras, Nicaragua, and Panama.

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 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

I. Social Indicators

| | | | |
|---|---|---|---|
| Rank in UNDP Development Index 2010 (of 182) | 90 | Population (million) | 6.2 |
| Per capita income (U.S. dollars) | 3,442 | Life expectancy at birth in years | 71 |
| Percent of pop. below poverty line (2009) | 38 | Infant mortality (per 1,000 live births) | 15 |
| Gini index | 47 | Primary education completion rate (percent) | 89 |

II. Economic Indicators

| | 2007 | 2008 | 2009 | 2010 | 2011 SBA 1/ | 2011 Proj. | 2012 SBA 1/ | 2012 Proj. |
|---|---|---|---|---|---|---|---|---|
| | (Annual percent change, unless otherwise stated) | | | | | | | |
| **Income and Prices 2/** | | | | | | | | |
| Real GDP | 3.8 | 1.3 | -3.1 | 1.4 | 2.5 | 2.0 | 3.0 | 2.5 |
| Consumer prices (end of period) | 4.9 | 5.5 | 0.0 | 2.1 | 4.8 | 7.0 | 2.8 | 3.0 |
| GDP deflator | 4.4 | 5.2 | -0.5 | 1.3 | 4.2 | 4.5 | 2.9 | 5.0 |
| **External Sector 2/** | | | | | | | | |
| Exports of goods and services, volume | 7.1 | 6.9 | -16.0 | 12.3 | 9.5 | 8.5 | 6.0 | 3.8 |
| Imports of goods and services, volume | 8.8 | 3.3 | -24.8 | 11.1 | 11.3 | 8.7 | 4.6 | 2.9 |
| Terms of trade | -4.6 | -9.5 | 14.5 | -6.3 | 0.8 | 0.8 | 0.2 | 1.1 |
| Real effective exchange rate (+ = appreciation, as of July 2011) | -1.3 | -0.4 | 3.3 | -2.4 | … | -4.4 | … | … |
| External sovereign bond (Spread, basis points, as of August 2011) | 163 | 387 | 378 | 222 | … | 225 | … | … |
| | (Percent of GDP, unless otherwise stated) | | | | | | | |
| **Money and Credit** | | | | | | | | |
| Credit to the private sector | 43.4 | 42.6 | 42.2 | 41.0 | 39.0 | 38.5 | 39.3 | 37.7 |
| Broad money | 47.8 | 45.3 | 48.0 | 47.1 | 45.3 | 44.2 | 45.5 | 43.6 |
| Interest rate (time deposits, percent, as of June 2011) | 4.7 | 4.2 | 4.5 | 2.9 | … | 2.1 | … | … |
| **External Sector 2/** | | | | | | | | |
| Current account balance | -6.1 | -7.1 | -1.5 | -2.3 | -3.8 | -3.8 | -3.6 | -3.5 |
| Trade balance | -21.7 | -21.8 | -15.0 | -17.0 | -16.5 | -18.0 | -16.3 | -17.4 |
| Exports (f.o.b. including *maquila*) | 20.2 | 21.9 | 19.0 | 21.6 | 22.4 | 23.6 | 23.0 | 23.4 |
| Imports (f.o.b. including *maquila*) | -42.0 | -43.8 | -34.1 | -38.6 | -38.9 | -41.6 | -39.3 | -40.7 |
| Services and income (net) | -3.0 | -2.8 | -3.1 | -2.2 | -4.4 | -2.7 | -4.4 | -2.7 |
| Transfers (net) | 18.6 | 17.5 | 16.7 | 17.0 | 17.1 | 16.9 | 17.1 | 16.5 |
| Foreign direct investment | 7.2 | 3.8 | 1.8 | 0.4 | 1.2 | 1.3 | 1.7 | 1.5 |
| **Nonfinancial Public Sector** | | | | | | | | |
| Overall balance | -2.0 | -3.2 | -5.7 | -4.3 | -3.5 | -3.6 | -2.5 | -2.5 |
| Primary balance | 0.6 | -0.8 | -3.1 | -1.9 | -0.9 | -1.2 | -0.3 | -0.1 |
| *Of which:* tax revenue | 13.5 | 13.5 | 12.6 | 13.6 | 14.0 | 14.3 | 14.8 | 14.7 |
| Gross public debt 3/ | 39.6 | 42.5 | 51.1 | 52.8 | 51.3 | 52.6 | 51.0 | 51.8 |
| *Of which:* external public debt 3/ | 24.9 | 24.5 | 30.0 | 28.8 | 29.1 | 28.1 | 28.5 | 27.3 |
| Gross nonfinancial public sector debt | 39.3 | 41.0 | 50.1 | 52.1 | 50.6 | 52.0 | 50.4 | 51.2 |
| External public debt service (Percent of exports of goods and services) | 12.2 | 8.2 | 10.1 | 8.7 | 18.3 | 17.8 | 7.5 | 7.4 |
| **National Savings and Investment 2/** | | | | | | | | |
| Gross domestic investment | 16.3 | 15.2 | 13.4 | 13.3 | 13.8 | 13.5 | 13.7 | 13.9 |
| Public sector | 2.2 | 2.4 | 2.2 | 2.1 | 2.6 | 2.1 | 2.7 | 2.2 |
| Private sector | 14.1 | 12.8 | 11.2 | 11.2 | 11.2 | 11.4 | 11.1 | 11.7 |
| Gross domestic saving | 10.3 | 8.1 | 12.0 | 11.0 | 9.9 | 9.7 | 10.2 | 10.4 |
| Public sector | 0.5 | -0.4 | -3.1 | -1.9 | -1.1 | -1.5 | 0.3 | -0.1 |
| Private sector | 9.7 | 8.4 | 15.0 | 12.9 | 11.0 | 11.2 | 9.9 | 10.5 |
| **Net Foreign Assets of the Financial System 4/** | | | | | | | | |
| Millions of U.S. dollars | 2,134 | 2,035 | 2,857 | 3,220 | 3,028 | 2,765 | 3,072 | 2,953 |
| Percent of deposits | 23.3 | 22.4 | 30.6 | 32.8 | 29.1 | 28.2 | 27.9 | 28.5 |
| **Memorandum Items: 2/** | | | | | | | | |
| Net *maquila* exports | 1.6 | 1.7 | 1.6 | 1.8 | 3.1 | 2.0 | 3.1 | 1.9 |
| Nominal GDP (billions of U.S. dollars) | 20.1 | 21.4 | 20.7 | 21.2 | 23.2 | 22.6 | 24.6 | 24.3 |

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

1/ IMF Country Report No. 11/90.

2/ Historical data has been revised to incorporate methodological improvements to the national income accounts and the balance of payments (consistent with BPM6). Program columns are not strictly comparable.

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).

## Table 2. El Salvador: Balance of Payments 1/

(In millions of U.S. dollars)

| | | | | | SBA 2/ | Proj. | Projections | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | | 2012 | 2013 | 2014 | 2015 | 2016 |
| **Current Account** | **-1,217** | **-1,532** | **-304** | **-488** | **-891** | **-857** | **-848** | **-847** | **-923** | **-928** | **-976** |
| Merchandise trade balance | -4,365 | -4,677 | -3,108 | -3,612 | -3,829 | -4,069 | -4,225 | -4,479 | -4,821 | -5,101 | -5,452 |
| Export of goods (f.o.b.) | 4,070 | 4,703 | 3,930 | 4,577 | 5,182 | 5,338 | 5,689 | 6,062 | 6,507 | 6,993 | 7,510 |
| General merchandise | 2,845 | 3,334 | 2,984 | 3,442 | 3,302 | 4,090 | 4,369 | 4,680 | 5,054 | 5,460 | 5,894 |
| Goods for processing | 1,225 | 1,368 | 945 | 1,134 | 1,880 | 1,249 | 1,320 | 1,382 | 1,453 | 1,532 | 1,616 |
| Import of goods (f.o.b.) | -8,434 | -9,380 | -7,038 | -8,189 | -9,011 | -9,407 | -9,914 | -10,541 | -11,328 | -12,094 | -12,962 |
| General merchandise | -7,535 | -8,374 | -6,433 | -7,436 | -7,852 | -8,602 | -9,063 | -9,650 | -10,391 | -11,106 | -11,920 |
| Goods for processing | -900 | -1,005 | -605 | -753 | -1,159 | -805 | -852 | -891 | -937 | -988 | -1,042 |
| Services | -141 | -213 | -90 | -94 | -578 | -114 | -112 | -131 | -142 | -161 | -171 |
| Income | -456 | -389 | -548 | -381 | -445 | -498 | -536 | -572 | -624 | -668 | -720 |
| Current transfers | 3,746 | 3,747 | 3,442 | 3,599 | 3,962 | 3,823 | 4,025 | 4,334 | 4,665 | 5,003 | 5,367 |
| **Financial and Capital Account** | **713** | **1,702** | **69** | **209** | **839** | **602** | **1,016** | **1,058** | **1,126** | **1,158** | **1,218** |
| Capital account | 153 | 80 | 131 | 232 | 202 | 232 | 132 | 129 | 126 | 121 | 121 |
| Public sector financial flows | -115 | 127 | 785 | 274 | 327 | 249 | 283 | 202 | 491 | 107 | 298 |
| Disbursements | 205 | 427 | 1,076 | 584 | 1,252 | 1,181 | 560 | 461 | 769 | 421 | 626 |
| Amortization | -320 | -300 | -291 | -310 | -925 | -932 | -277 | -259 | -279 | -314 | -328 |
| Private sector financial flows | 675 | 1,495 | -847 | -297 | 310 | 121 | 601 | 727 | 509 | 930 | 799 |
| Foreign direct investment | 1,455 | 824 | 366 | 78 | 274 | 298 | 365 | 491 | 553 | 664 | 787 |
| Portfolio investment | -167 | 131 | 758 | -70 | 12 | 77 | 40 | 60 | 65 | 71 | 77 |
| Other | -614 | 541 | -1,971 | -305 | 25 | -254 | 196 | 177 | -109 | 196 | -64 |
| **Errors and Omissions** | **783** | **164** | **658** | **-15** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Change in Reserves (- = increase)** | **-279** | **-333** | **-423** | **295** | **52** | **255** | **-168** | **-211** | **-203** | **-230** | **-242** |
| | | | | | (In percent of GDP) | | | | | | |
| **Current Account** | **-6.1** | **-7.1** | **-1.5** | **-2.3** | **-3.8** | **-3.8** | **-3.5** | **-3.3** | **-3.3** | **-3.1** | **-3.1** |
| Merchandise trade balance | -21.7 | -21.8 | -15.0 | -17.0 | -16.5 | -18.0 | -17.4 | -17.3 | -17.4 | -17.3 | -17.3 |
| Export of goods (f.o.b.) | 20.2 | 21.9 | 19.0 | 21.6 | 22.4 | 23.6 | 23.4 | 23.5 | 23.5 | 23.7 | 23.9 |
| Net maquila exports | 1.6 | 1.7 | 1.6 | 1.8 | 3.1 | 2.0 | 1.9 | 1.9 | 1.9 | 1.8 | 1.8 |
| Import of goods (f.o.b.) | -42.0 | -43.8 | -34.1 | -38.6 | -38.9 | -41.6 | -40.7 | -40.8 | -41.0 | -41.0 | -41.2 |
| Petroleum and products | -7.1 | -8.4 | -5.3 | -6.4 | -8.8 | -7.8 | -7.3 | -7.1 | -7.0 | -6.8 | -6.6 |
| Services | -0.7 | -1.0 | -0.4 | -0.4 | -2.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 |
| Income | -2.3 | -1.8 | -2.7 | -1.8 | -1.9 | -2.2 | -2.2 | -2.2 | -2.3 | -2.3 | -2.3 |
| Current transfers | 18.6 | 17.5 | 16.7 | 17.0 | 17.1 | 16.9 | 16.5 | 16.8 | 16.9 | 17.0 | 17.1 |
| **Financial and Capital Account** | **3.5** | **7.9** | **0.3** | **1.0** | **3.6** | **2.7** | **4.2** | **4.1** | **4.1** | **3.9** | **3.9** |
| Capital account | 0.8 | 0.4 | 0.6 | 1.1 | 0.9 | 1.0 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| Public sector financial flows | -0.6 | 0.6 | 3.8 | 1.3 | 1.4 | 1.1 | 1.2 | 0.8 | 1.8 | 0.4 | 0.9 |
| Private sector financial flows | 3.4 | 7.0 | -4.1 | -1.4 | 1.3 | 0.5 | 2.5 | 2.8 | 1.8 | 3.2 | 2.5 |
| Foreign direct investment | 7.2 | 3.8 | 1.8 | 0.4 | 1.2 | 1.3 | 1.5 | 1.9 | 2.0 | 2.3 | 2.5 |
| Portfolio investment | -0.8 | 0.6 | 3.7 | -0.3 | 0.1 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other | -3.1 | 2.5 | -9.5 | -1.4 | 0.1 | -1.1 | 0.8 | 0.7 | -0.4 | 0.7 | -0.2 |
| **Merchandise Trade (f.o.b.)** | | | | | (Annual percent change) | | | | | | |
| Exports (nominal) | 7.6 | 15.6 | -16.4 | 16.5 | 13.9 | 16.6 | 6.6 | 6.6 | 7.3 | 7.5 | 7.4 |
| Volume | 6.0 | 7.4 | -16.7 | 14.2 | 6.4 | 7.2 | 4.6 | 5.0 | 7.0 | 7.0 | 5.9 |
| Price | 1.5 | 7.6 | 0.4 | 2.0 | 7.0 | 8.8 | 1.9 | 1.5 | 0.3 | 0.5 | 1.4 |
| Imports (nominal) | 13.7 | 11.2 | -25.0 | 16.4 | 14.4 | 14.9 | 5.4 | 6.3 | 7.5 | 6.8 | 7.2 |
| Volume | 6.8 | -6.5 | -14.4 | 6.9 | 7.7 | 6.4 | 4.6 | 5.8 | 6.9 | 6.3 | 6.7 |
| Price | 6.4 | 18.9 | -12.3 | 8.9 | 6.2 | 8.0 | 0.8 | 0.5 | 0.5 | 0.5 | 0.5 |
| Terms of trade | -4.6 | -9.5 | 14.5 | -6.3 | 0.8 | 0.8 | 1.1 | 1.0 | -0.2 | 0.0 | 0.9 |
| **Memorandum Items** | | | | | | | | | | | |
| Gross international reserves (US$ million) 3/ | 2,198 | 2,545 | 2,987 | 2,883 | 2,831 | 2,628 | 2,796 | 3,007 | 3,210 | 3,441 | 3,683 |
| In months of imports (excluding maquila) 4/ | 2.7 | 4.1 | 4.2 | 3.6 | 3.4 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 |
| In percent of total short-term external debt | 168 | 158 | 329 | 343 | 309 | 312 | 316 | 326 | 334 | 346 | 360 |
| External debt (in percent of GDP) | 48.4 | 43.8 | 46.1 | 46.7 | 44.7 | 43.8 | 42.8 | 42.1 | 41.0 | 39.8 | 38.3 |
| *Of which*: public sector debt | 24.9 | 24.5 | 30.0 | 28.8 | 29.1 | 28.1 | 27.3 | 26.5 | 26.5 | 25.2 | 24.6 |
| *Of which*: private sector debt | 23.5 | 19.3 | 16.1 | 17.9 | 15.6 | 15.7 | 15.5 | 15.6 | 14.5 | 14.5 | 13.7 |
| External public debt servicing (US$ million) | 635 | 475 | 486 | 483 | 1,132 | 1,127 | 495 | 489 | 527 | 589 | 618 |
| Percent of exports of goods and services | 12.2 | 8.2 | 10.1 | 8.7 | 18.3 | 17.8 | 7.4 | 6.8 | 6.9 | 7.2 | 7.0 |
| Gross external financing requirement (US$ million) | 3,537 | 3,895 | 2,937 | 1,703 | 2,974 | 2,738 | 2,464 | 2,552 | 2,705 | 2,803 | 2,942 |
| Percent of GDP | 17.6 | 18.2 | 14.2 | 8.0 | 12.8 | 12.1 | 10.1 | 9.9 | 9.8 | 9.5 | 9.3 |

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

1/ Data has been revised to reflect methodological improvements consistent with the sixth edition of the IMF's Balance of Payments Manual (BPM6). Program columns are not strictly comparable.

2/ IMF Country Report No. 11/90.

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).

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 | 2010 | Prog. 1/ Jan.-Jun. 2011 | Outturn Jan.-Jun. 2011 | SBA 1/ 2/ 2011 | Proj. 2011 | SBA 2/ 2012 | Proj. 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue and Grants** | **3,484** | **3,732** | **3,400** | **3,805** | **2,167** | **2,134** | **4,331** | **4,282** | **4,633** | **4,583** |
| Current revenue | 3,422 | 3,679 | 3,291 | 3,640 | 2,065 | 2,043 | 4,107 | 4,042 | 4,466 | 4,383 |
| Tax revenue | 2,720 | 2,886 | 2,609 | 2,883 | 1,678 | 1,715 | 3,233 | 3,236 | 3,627 | 3,568 |
| Nontax revenue 3/ | 590 | 619 | 573 | 652 | 351 | 288 | 768 | 735 | 704 | 681 |
| Operating surplus of the public enterprises | 111 | 174 | 109 | 106 | 36 | 40 | 106 | 71 | 135 | 134 |
| Official grants | 62 | 53 | 109 | 164 | 102 | 92 | 224 | 240 | 166 | 199 |
| **Expenditure** | **3,879** | **4,415** | **4,571** | **4,722** | **2,546** | **2,505** | **5,147** | **5,098** | **5,253** | **5,200** |
| Current expenditure | 3,312 | 3,754 | 3,929 | 4,045 | 2,163 | 2,185 | 4,361 | 4,389 | 4,404 | 4,412 |
| Wages and salaries 4/ | 1,409 | 1,528 | 1,659 | 1,710 | 922 | 899 | 1,936 | 1,959 | 2,005 | 2,068 |
| Goods and services 4/ | 728 | 823 | 874 | 944 | 377 | 458 | 780 | 833 | 888 | 821 |
| Interest | 507 | 520 | 531 | 508 | 286 | 249 | 598 | 548 | 545 | 585 |
| Current transfers | 667 | 884 | 865 | 883 | 578 | 579 | 1,047 | 1,048 | 966 | 939 |
| Nonpension payments 3/ | 348 | 563 | 519 | 526 | 380 | 388 | 626 | 632 | 527 | 499 |
| Pension payments | 319 | 321 | 346 | 357 | 198 | 192 | 421 | 417 | 440 | 440 |
| Capital expenditure | 567 | 661 | 642 | 677 | 383 | 320 | 786 | 709 | 850 | 788 |
| **Primary Balance** | **112** | **-164** | **-640** | **-409** | **-93** | **-122** | **-218** | **-268** | **-76** | **-33** |
| **Overall Balance** | **-395** | **-683** | **-1,171** | **-917** | **-379** | **-371** | **-816** | **817** | **-621** | **-617** |
| *Adjusted for tax revenue performance* | … | … | … | … | **-373** | **-371** | … | … | … | … |
| **Financing** | **395** | **683** | **1,171** | **917** | **379** | **371** | **816** | **817** | **621** | **617** |
| **External** | **-115** | **127** | **785** | **274** | **771** | **558** | **327** | **249** | **264** | **283** |
| Disbursements | 205 | 427 | 1,076 | 584 | 901 | 689 | 1,252 | 1,181 | 538 | 560 |
| Amortization | -320 | -300 | -291 | -310 | -130 | -131 | -925 | -932 | -275 | -277 |
| **Domestic** | **510** | **557** | **386** | **643** | **-392** | **-187** | **490** | **567** | **357** | **335** |
| Change in deposits at central bank (- = increase) | 146 | 26 | -293 | 274 | -606 | -490 | 105 | 105 | -7 | -9 |
| Banking system | 43 | 93 | 239 | -67 | 34 | 91 | 10 | 112 | -23 | -41 |
| Private sector 5/ | 335 | 507 | 401 | 461 | 180 | 204 | 375 | 342 | 388 | 385 |
| Other | -14 | -69 | 39 | -25 | 0 | 8 | 0 | 8 | 0 | 0 |
| **Memorandum Items:** | | | | | | | | | | |
| Current revenue minus current expenditure | 110 | -75 | -638 | -404 | -97 | -142 | -255 | -347 | 62 | -29 |
| Gross financing needs | 1,013 | 1,544 | 1,950 | 1,494 | 603 | 597 | 1,936 | 1,990 | 1,095 | 1,151 |
| Implicit nominal interest rate (in percent) | 6.7 | 6.5 | 5.8 | 4.8 | 5.2 | 4.5 | 5.4 | 4.9 | 4.6 | 4.9 |
| Gross nonfinancial public sector debt | 7,904 | 8,778 | 10,347 | 11,053 | 11,418 | 11,969 | 11,725 | 11,754 | 12,376 | 12,459 |
| Total public sector debt (gross) 6/ | 7,965 | 9,104 | 10,553 | 11,205 | … | … | 11,876 | 11,905 | 12,528 | 12,610 |
| Total public sector debt (net) 6/ 7/ | 7,105 | 8,367 | 9,436 | 10,335 | … | … | 11,112 | 11,151 | 11,757 | 11,769 |
| Nominal GDP | 20,105 | 21,431 | 20,661 | 21,215 | … | … | 23,169 | 22,616 | 24,555 | 24,342 |

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

1/ Not adjusted for performance of tax revenue.
2/ IMF Country Report No. 11/90.
3/ In 2011, SBA row for nontax revenue and nonpension current transfers includes dividends from electricity generation companies (US$67 million) that were to be used to fund transition to new electricity tariff formula.
4/ Starting in 2011, reclassifies cost of formerly contractual staff in education (US$73 million in 2011) from services into wages.
5/ Includes financing for education, health, and pension trust funds.
6/ Includes gross debt of the nonfinancial public sector and external debt of the central bank.
7/ 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 | Prog. 1/ Jan.-Jun. 2011 | Outturn 1/ Jan.-Jun. 2011 | SBA 2/ 2011 | Proj. 2011 | SBA 2/ 2012 | Proj. 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue and Grants** | **17.3** | **17.4** | **16.5** | **17.9** | **9.4** | **9.4** | **18.7** | **18.9** | **18.9** | **18.8** |
| Current revenue | 17.0 | 17.2 | 15.9 | 17.2 | 8.9 | 9.0 | 17.7 | 17.9 | 18.2 | 18.0 |
| Tax revenue | 13.5 | 13.5 | 12.6 | 13.6 | 7.2 | 7.6 | 14.0 | 14.3 | 14.8 | 14.7 |
| Nontax revenue 3/ | 2.9 | 2.9 | 2.8 | 3.1 | 1.5 | 1.3 | 3.3 | 3.2 | 2.9 | 2.8 |
| Operating surplus of the public enterprise: | 0.6 | 0.8 | 0.5 | 0.5 | 0.2 | 0.2 | 0.5 | 0.3 | 0.5 | 0.6 |
| Official grants | 0.3 | 0.2 | 0.5 | 0.8 | 0.4 | 0.4 | 1.0 | 1.1 | 0.7 | 0.8 |
| **Expenditure** | **19.3** | **20.6** | **22.1** | **22.3** | **11.0** | **11.1** | **22.2** | **22.5** | **21.4** | **21.4** |
| Current expenditure | 16.5 | 17.5 | 19.0 | 19.1 | 9.3 | 9.7 | 18.8 | 19.4 | 17.9 | 18.1 |
| Wages and salaries 4/ | 7.0 | 7.1 | 8.0 | 8.1 | 4.0 | 4.0 | 8.4 | 8.7 | 8.2 | 8.5 |
| Goods and services 4/ | 3.6 | 3.8 | 4.2 | 4.4 | 1.6 | 2.0 | 3.4 | 3.7 | 3.6 | 3.4 |
| Interest | 2.5 | 2.4 | 2.6 | 2.4 | 1.2 | 1.1 | 2.6 | 2.4 | 2.2 | 2.4 |
| Current transfers | 3.3 | 4.1 | 4.2 | 4.2 | 2.5 | 2.6 | 4.5 | 4.6 | 3.9 | 3.9 |
| Nonpension payments 3/ | 1.7 | 2.6 | 2.5 | 2.5 | 1.6 | 1.7 | 2.7 | 2.8 | 2.1 | 2.1 |
| Pension payments | 1.6 | 1.5 | 1.7 | 1.7 | 0.9 | 0.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Capital expenditure | 2.8 | 3.1 | 3.1 | 3.2 | 1.7 | 1.4 | 3.4 | 3.1 | 3.5 | 3.2 |
| **Primary Balance** | **0.6** | **-0.8** | **-3.1** | **-1.9** | **-0.4** | **-0.5** | **-0.9** | **-1.2** | **-0.3** | **-0.1** |
| **Overall Balance** | **-2.0** | **-3.2** | **-5.7** | **-4.3** | **-1.6** | **-1.6** | **-3.5** | **-3.6** | **-2.5** | **-2.5** |
| *Adjusted for tax revenue performance* | … | … | … | … | **-1.6** | **-1.6** | … | … | … | … |
| **Financing** | **2.0** | **3.2** | **5.7** | **4.3** | **1.6** | **1.6** | **3.5** | **3.6** | **2.5** | **2.5** |
| **External** | **-0.6** | **0.6** | **3.8** | **1.3** | **3.3** | **2.5** | **1.4** | **1.1** | **1.1** | **1.2** |
| Disbursements | 1.0 | 2.0 | 5.2 | 2.8 | 3.9 | 3.0 | 5.4 | 5.2 | 2.2 | 2.3 |
| Amortization | -1.6 | -1.4 | -1.4 | -1.5 | -0.6 | -0.6 | -4.0 | -4.1 | -1.1 | -1.1 |
| **Domestic** | **2.5** | **2.6** | **1.9** | **3.0** | **-1.7** | **-0.8** | **2.1** | **2.5** | **1.5** | **1.4** |
| Change in deposits at central bank (- = increase) | 0.7 | 0.1 | -1.4 | 1.3 | -2.6 | -2.2 | 0.5 | 0.5 | 0.0 | 0.0 |
| Banking system | 0.2 | 0.4 | 1.2 | -0.3 | 0.1 | 0.4 | 0.0 | 0.5 | -0.1 | -0.2 |
| Private sector 5/ | 1.7 | 2.4 | 1.9 | 2.2 | 0.8 | 0.9 | 1.6 | 1.5 | 1.6 | 1.6 |
| 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 | -0.4 | -3.1 | -1.9 | -0.4 | -0.6 | -1.1 | -1.5 | 0.3 | -0.1 |
| Gross financing needs | 5.0 | 7.2 | 9.4 | 7.0 | 2.6 | 2.6 | 8.3 | 8.8 | 4.4 | 4.7 |
| Implicit nominal interest rate (in percent) | 6.7 | 6.5 | 5.8 | 4.8 | 5.2 | 4.5 | 5.4 | 4.9 | 4.6 | 4.9 |
| Gross nonfinancial public sector debt | 39.3 | 41.0 | 50.1 | 52.1 | 49.3 | 52.9 | 50.6 | 52.0 | 50.4 | 51.2 |
| Total public sector debt (gross) 6/ | 39.6 | 42.5 | 51.1 | 52.8 | … | … | 51.3 | 52.6 | 51.0 | 51.8 |
| Total public sector debt (net) 6/ 7/ | 35.3 | 39.0 | 45.7 | 48.7 | … | … | 48.0 | 49.3 | 47.8 | 48.3 |
| Nominal GDP | 20,105 | 21,431 | 20,661 | 21,215 | … | … | 23,169 | 22,616 | 24,555 | 24,342 |

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

1/ In percent of annual GDP.

2/ IMF Country Report No. 11/90.

3/ In 2011, SBA row for nontax revenue and nonpension current transfers includes dividends from electricity generation companies (0.3 percent of GDP) that were to be used to fund transition to new electricity tariff formula.

4/ Starting in 2011, reclassifies cost of formerly contractual staff in education (0.3 percent of GDP in 2011) from services into wages.

5/ Includes financing for education, health, and pension trust funds.

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

7/ 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)

| | 2007 | 2008 | 2009 | 2010 | Projections 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue and Grants** | **17.3** | **17.4** | **16.5** | **17.9** | **18.9** | **18.8** | **19.2** | **19.5** | **19.5** | **19.7** |
| Current revenue | 17.0 | 17.2 | 15.9 | 17.2 | 17.9 | 18.0 | 18.9 | 19.3 | 19.4 | 19.5 |
| Tax revenue | 13.5 | 13.5 | 12.6 | 13.6 | 14.3 | 14.7 | 15.6 | 15.9 | 16.0 | 16.2 |
| Nontax revenue | 2.9 | 2.9 | 2.8 | 3.1 | 3.2 | 2.8 | 2.8 | 2.8 | 2.8 | 2.7 |
| Operating surplus of the public enterprises | 0.6 | 0.8 | 0.5 | 0.5 | 0.3 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Official grants | 0.3 | 0.2 | 0.5 | 0.8 | 1.1 | 0.8 | 0.3 | 0.2 | 0.2 | 0.2 |
| **Expenditure** | **19.3** | **20.6** | **22.1** | **22.3** | **22.5** | **21.4** | **21.3** | **21.3** | **21.0** | **21.1** |
| Current expenditure | 16.5 | 17.5 | 19.0 | 19.1 | 19.4 | 18.1 | 18.0 | 18.1 | 17.8 | 17.9 |
| Wages and salaries 1/ | 7.0 | 7.1 | 8.0 | 8.1 | 8.7 | 8.5 | 8.6 | 8.4 | 8.2 | 8.2 |
| Goods and services 1/ | 3.6 | 3.8 | 4.2 | 4.4 | 3.7 | 3.4 | 3.3 | 3.5 | 3.3 | 3.3 |
| Interest | 2.5 | 2.4 | 2.6 | 2.4 | 2.4 | 2.4 | 2.3 | 2.4 | 2.6 | 2.7 |
| Current transfers | 3.3 | 4.1 | 4.2 | 4.2 | 4.6 | 3.9 | 3.8 | 3.8 | 3.7 | 3.6 |
| Nonpension payments 2/ | 1.7 | 2.6 | 2.5 | 2.5 | 2.8 | 2.1 | 2.1 | 2.1 | 2.0 | 2.0 |
| Pension payments | 1.6 | 1.5 | 1.7 | 1.7 | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 |
| Capital expenditure | 2.8 | 3.1 | 3.1 | 3.2 | 3.1 | 3.2 | 3.3 | 3.2 | 3.2 | 3.3 |
| **Primary Balance** | **0.6** | **-0.8** | **-3.1** | **-1.9** | **-1.2** | **-0.1** | **0.3** | **0.6** | **1.1** | **1.3** |
| **Overall Balance** | **-2.0** | **-3.2** | **-5.7** | **-4.3** | **-3.6** | **-2.5** | **-2.0** | **-1.8** | **-1.5** | **-1.5** |
| **Financing** | **2.0** | **3.2** | **5.7** | **4.3** | **3.6** | **2.5** | **2.0** | **1.8** | **1.5** | **1.5** |
| **External** | **-0.6** | **0.6** | **3.8** | **1.3** | **1.1** | **1.2** | **0.8** | **1.8** | **0.4** | **0.9** |
| Disbursements | 1.0 | 2.0 | 5.2 | 2.8 | 5.2 | 2.3 | 1.8 | 2.8 | 1.4 | 2.0 |
| Amortization | -1.6 | -1.4 | -1.4 | -1.5 | -4.1 | -1.1 | -1.0 | -1.0 | -1.1 | -1.0 |
| **Domestic** | **2.5** | **2.6** | **1.9** | **3.0** | **2.5** | **1.4** | **1.3** | **0.0** | **1.1** | **0.5** |
| 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 | 1.2 | -0.3 | 0.5 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 |
| Private sector 3/ | 1.7 | 2.4 | 1.9 | 2.2 | 1.5 | 1.6 | 1.5 | 0.2 | 1.4 | 0.8 |
| 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 | -0.4 | -3.1 | -1.9 | -1.5 | -0.1 | 1.0 | 1.1 | 1.6 | 1.6 |
| Gross financing needs | 5.0 | 7.2 | 9.4 | 7.0 | 8.8 | 4.7 | 4.2 | 5.1 | 3.6 | 4.1 |
| Implicit nominal interest rate (in percent) | 6.7 | 6.5 | 5.8 | 4.8 | 4.9 | 4.9 | 4.7 | 5.1 | 5.5 | 6.0 |
| Gross nonfinancial public sector debt | 39.3 | 41.0 | 50.1 | 52.1 | 52.0 | 51.2 | 50.5 | 49.2 | 47.8 | 46.6 |
| Total public sector debt (gross) 4/ | 39.6 | 42.5 | 51.1 | 52.8 | 52.6 | 51.8 | 51.0 | 49.7 | 48.3 | 47.1 |
| Total public sector debt (net) 4/ 5/ | 35.3 | 39.0 | 45.7 | 48.7 | 49.3 | 48.3 | 47.6 | 46.3 | 44.9 | 43.5 |
| Nominal GDP (in millions of US$) | 20,105 | 21,431 | 20,661 | 21,215 | 22,616 | 24,342 | 25,842 | 27,656 | 29,498 | 31,465 |

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

1/ Starting in 2011, reclassifies cost of formerly contractual staff in education (0.3 percent of GDP in 2011) from services into wages.

2/ In 2011, nonpension current transfers include (0.3 percent of GDP) stemming from the transition to new electricity tariff formula.

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 | 2011 SBA 1/ | 2011 Proj. | 2012 Proj. |
|---|---|---|---|---|---|---|---|
| | (End of period stocks; in millions of U.S. dollars) | | | | | | |
| | I. Central Bank | | | | | | |
| **Net Foreign Assets** | **2,167** | **2,248** | **2,594** | **2,550** | **2,498** | **2,295** | **2,463** |
| Net international reserves 2/ | 2,198 | 2,541 | 2,985 | 2,882 | 2,829 | 2,627 | 2,795 |
| *Of which*: "Excess" NIR 3/ | 50 | 169 | 573 | 429 | 314 | 286 | 313 |
| **Net Domestic Assets** | **580** | **544** | **204** | **221** | **326** | **320** | **311** |
| Nonfinancial public sector | 465 | 521 | 222 | 493 | 599 | 598 | 589 |
| Claims | 812 | 839 | 836 | 833 | 833 | 833 | 833 |
| Deposits | 347 | 318 | 614 | 340 | 235 | 235 | 245 |
| Commercial banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Nonbank financial institutions | 355 | 255 | 265 | 290 | 290 | 292 | 292 |
| Nonfinancial private sector | 0 | 32 | 15 | 1 | 1 | 1 | 1 |
| Other items (net) | -240 | -264 | -298 | -564 | -564 | -571 | -571 |
| **Central Bank Backed Liabilities** | **2,745** | **2,791** | **2,797** | **2,769** | **2,824** | **2,615** | **2,773** |
| Liabilities to other depositary corporations | 2,044 | 2,258 | 2,250 | 2,349 | 2,403 | 2,255 | 2,356 |
| Other liabilities | 702 | 533 | 548 | 420 | 421 | 360 | 417 |
| | II. Commercial Banks | | | | | | |
| **Net Foreign Assets** | **39** | **-98** | **376** | **697** | **557** | **497** | **517** |
| **Net Domestic Assets** | **9,681** | **9,944** | **9,665** | **9,510** | **10,152** | **9,699** | **10,314** |
| Net claims on nonfinancial public sector | -36 | 12 | 139 | 60 | 69 | 172 | 131 |
| Net claims on the financial system | 2,504 | 2,591 | 2,734 | 2,807 | 2,880 | 2,747 | 2,877 |
| Claims on the private sector | 8,617 | 8,985 | 8,572 | 8,559 | 8,892 | 8,552 | 9,008 |
| Other items (net) | -1,404 | -1,644 | -1,780 | -1,916 | -1,690 | -1,772 | -1,702 |
| **Liabilities to the Private Sector** | **9,719** | **9,845** | **10,041** | **10,206** | **10,708** | **10,195** | **10,831** |
| Deposits | 8,641 | 8,646 | 8,841 | 9,276 | 9,653 | 9,276 | 9,770 |
| Other | 1,078 | 1,199 | 1,200 | 930 | 1,055 | 920 | 1,060 |
| | III. Financial System 4/ | | | | | | |
| **Net Foreign Assets** | **2,134** | **2,035** | **2,857** | **3,220** | **3,028** | **2,765** | **2,953** |
| **Net Domestic Assets** | **7,186** | **7,478** | **6,698** | **6,395** | **7,050** | **6,720** | **7,170** |
| Nonfinancial public sector | 464 | 610 | 446 | 621 | 741 | 843 | 798 |
| Credit to private sector | 8,726 | 9,134 | 8,717 | 8,702 | 9,042 | 8,702 | 9,165 |
| Other | -2,004 | -2,266 | -2,465 | -2,928 | -2,732 | -2,825 | -2,793 |
| **Liabilities to the Private Sector** | **9,320** | **9,513** | **9,555** | **9,615** | **10,078** | **9,485** | **10,123** |
| **Broad money** | **9,601** | **9,709** | **9,908** | **10,002** | **10,489** | **9,992** | **10,607** |
| Money | 1,765 | 1,789 | 2,024 | 2,428 | 2,361 | 2,443 | 2,352 |
| Quasi-money | 7,836 | 7,921 | 7,884 | 7,574 | 8,127 | 7,549 | 8,255 |
| | (Percent changes relative to previous year's broad money) | | | | | | |
| Net domestic assets | 8.1 | 3.0 | -8.0 | -3.1 | 6.6 | 3.2 | 4.5 |
| Nonfinancial public sector | 2.4 | 1.5 | -1.7 | 1.8 | 1.2 | 2.2 | -0.4 |
| Credit to the private sector | 8.6 | 4.2 | -4.3 | -0.1 | 3.4 | 0.0 | 4.6 |
| Liabilities to the private sector | 17.1 | 2.0 | 0.4 | 0.6 | 4.6 | -1.3 | 6.4 |
| | (Percent of GDP) | | | | | | |
| Credit to the private sector | 43.4 | 42.6 | 42.2 | 41.0 | 39.0 | 38.5 | 37.6 |
| Liabilities to the private sector | 46.4 | 44.4 | 46.2 | 45.3 | 43.5 | 41.9 | 41.6 |
| | (Annual percentage change, unless otherwise noted) | | | | | | |
| **Memorandum Items:** | | | | | | | |
| Financial system credit to the private sector | 8.8 | 4.7 | -4.6 | -0.2 | 3.9 | 0.0 | 5.3 |
| Private sector deposits in commercial banks | 17.4 | 0.1 | 2.3 | 4.9 | 4.1 | 0.0 | 5.3 |
| Commercial bank liquid deposits at central bank (In percent of total deposits) | 23.5 | 25.9 | 25.0 | 24.8 | 24.4 | 23.2 | 23.1 |

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

1/ IMF Country Report No. 11/90.

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).

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.

## Table 7. El Salvador: Selected Vulnerability Indicators

(In percent of GDP; unless otherwise indicated)

| | 2007 | 2008 | 2009 | 2010 | Proj. 2011 |
|---|---|---|---|---|---|
| **Fiscal Indicators** | | | | | |
| Overall balance of the nonfinancial public sector | -2.0 | -3.2 | -5.7 | -4.3 | -3.6 |
| Primary balance of the nonfinancial public sector | 0.6 | -0.8 | -3.1 | -1.9 | -1.2 |
| Gross public sector financing requirement | 5.0 | 7.2 | 9.4 | 7.0 | 8.8 |
| Public sector debt (gross) 1/ | 39.6 | 42.5 | 51.1 | 52.8 | 52.6 |
| Public sector external debt | 24.9 | 24.5 | 30.0 | 28.8 | 28.1 |
| External interest payments to total fiscal revenue (percent) | 10.2 | 10.0 | 11.0 | 8.5 | 8.0 |
| External amortization payments to total fiscal revenue (percent) 2/ | 9.2 | 8.0 | 8.6 | 8.1 | 21.8 |
| **Financial Indicators 3/** | | | | | |
| Broad money (percent change, end-of-period) | 17.5 | 1.1 | 2.0 | 0.9 | -0.1 |
| Private sector credit (percent change, end-of-period) | 8.8 | 4.7 | -4.6 | -0.2 | 0.0 |
| Ratio of capital to risk-weighted assets | 13.8 | 15.1 | 16.5 | 17.6 | 17.0 |
| Ratio of loans more than 90 days past due to total loans | 2.1 | 2.8 | 3.7 | 3.9 | 3.9 |
| Ratio of provisions to total loans | 2.5 | 3.1 | 4.0 | 4.3 | 4.1 |
| Ratio of provisions to loans more than 90 days past due | 120.0 | 110.4 | 109.9 | 107.9 | 103.5 |
| Return on average equity | 11.3 | 8.7 | 2.8 | 7.3 | 13.1 |
| Return on average total assets | 1.2 | 1.0 | 0.3 | 0.9 | 1.6 |
| Loans as percent of deposits | 97.4 | 101.4 | 91.3 | 84.5 | 86.5 |
| Ratio of liquid assets to total deposits | 34.0 | 35.7 | 41.3 | 42.0 | 38.9 |
| **External Indicators 4/** | | | | | |
| Exports of goods and services (percent change, 12-month basis) | 8.5 | 10.7 | -16.8 | 15.9 | 13.8 |
| Imports of goods and services (percent change, 12-month basis) | 12.9 | 9.7 | -25.0 | 15.9 | 13.4 |
| Current account balance | -6.1 | -7.1 | -1.5 | -2.3 | -3.8 |
| Capital and financial account balance | 3.5 | 7.9 | 0.3 | 1.0 | 2.7 |
| Gross international reserves (millions of U.S. dollars ) 5/ | 2,198 | 2,545 | 2,987 | 2,883 | 2,628 |
| Months of imports of goods and services, excluding maquila | 2.7 | 4.1 | 4.2 | 3.6 | 3.1 |
| Percent of short-term debt | 168 | 158 | 329 | 343 | 312 |
| Percent of gross external financing requirements | 62 | 65 | 102 | 169 | 96 |
| Percent of broad money | 22.9 | 26.2 | 30.1 | 28.8 | 26.3 |
| Total public external debt service 2/ | 3.2 | 2.2 | 2.4 | 2.3 | 5.0 |
| Total external debt to exports of goods and services (percent) | 187 | 163 | 199 | 179 | 157 |
| External interest payments to goods and services exports (percent) | 14.2 | 9.5 | 12.6 | 8.6 | 8.9 |
| External amortization to goods and services exports (percent) 2/ | 39.2 | 35.2 | 46.1 | 27.2 | 33.8 |
| REER, depreciation is negative (percent change, end-of-period) | -3.2 | 6.9 | -4.4 | -0.7 | … |

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/ Estimate for 2011 includes the amortization of an external bond financed with a bond placement made in January.

3/ Data for 2011 corresponds to end-June.

4/ Data has been revised to reflect methodological improvements consistent with the sixth edition of the IMF's Balance of Payments Manual (BPM6). Program columns are not strictly comparable.

5/ 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 | | | | | Projections | | | | | | Debt-stabilizing primary |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | balance 9/ |
| 1 **Baseline: Public sector debt 1/** | 40.9 | 39.6 | 42.5 | 51.1 | 52.8 | **52.6** | **51.8** | **51.0** | **49.7** | **48.3** | **47.1** | **-0.3** |
| o/w foreign-currency denominated | 40.9 | 39.6 | 42.5 | 51.1 | 52.8 | 52.6 | 51.8 | 51.0 | 49.7 | 48.3 | 47.1 | |
| 2 Change in public sector debt | 0.1 | -1.2 | 2.9 | 8.6 | 1.7 | -0.2 | -0.8 | -0.8 | -1.3 | -1.4 | -1.3 | |
| 3 Identified debt-creating flows (4+7+12) | -0.3 | -1.2 | 0.7 | 7.3 | 3.0 | 0.3 | -1.2 | -1.0 | -1.5 | -1.6 | -1.6 | |
| 4 Primary deficit | 0.5 | -0.6 | 0.8 | 3.1 | 1.9 | 1.2 | 0.1 | -0.3 | -0.6 | -1.1 | -1.3 | |
| 5 Revenue and grants | 17.5 | 17.3 | 17.4 | 16.5 | 17.9 | 18.9 | 18.8 | 19.2 | 19.5 | 19.5 | 19.7 | |
| 6 Primary (noninterest) expenditure | 18.0 | 16.8 | 18.2 | 19.6 | 19.9 | 20.1 | 19.0 | 19.0 | 18.9 | 18.5 | 18.4 | |
| 7 Automatic debt dynamics 2/ | -0.7 | -0.6 | 0.0 | 4.2 | 1.1 | -0.8 | -1.3 | -0.7 | -0.9 | -0.5 | -0.3 | |
| 8 Contribution from interest rate/growth differential 3/ | -0.7 | -0.6 | 0.0 | 4.2 | 1.1 | -0.8 | -1.3 | -0.7 | -0.9 | -0.5 | -0.3 | |
| 9 Of which contribution from real interest rate | 0.7 | 0.8 | 0.4 | 2.8 | 1.8 | 0.1 | -0.1 | 0.8 | 1.0 | 1.3 | 1.5 | |
| 10 Of which contribution from real GDP growth | -1.5 | -1.4 | -0.5 | 1.4 | -0.7 | -1.0 | -1.2 | -1.5 | -1.9 | -1.9 | -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 | 0.4 | 0.2 | 0.2 | 0.3 | 0.3 | |
| Public sector debt-to-revenue ratio 1/ | 234 | 229 | 244 | 310 | 294 | 278 | 275 | 265 | 255 | 247 | 239 | |
| **Gross financing need 6/** | 6.3 | 5.0 | 7.2 | 9.4 | 7.0 | 8.8 | 4.7 | 4.2 | 5.1 | 3.6 | 4.1 | |
| In millions of U.S. dollars | 1,164 | 1,013 | 1,544 | 1,950 | 1,494 | 1,990 | 1,151 | 1,076 | 1,415 | 1,067 | 1,285 | |
| **Scenario with key variables at their historical averages 7/** | | | | | | **54.3** | **56.4** | **58.4** | **60.4** | **62.5** | **64.7** | **0.5** |
| **Scenario with no policy change (constant primary balance) in 2011-2016** | | | | | | **52.6** | **54.6** | **56.0** | **57.1** | **58.6** | **60.5** | **-0.4** |
| **Key Macroeconomic and Fiscal Assumptions Underlying Baseline** | | | | | | | | | | | | |
| Real GDP growth (in percent) | 3.9 | 3.8 | 1.3 | -3.1 | 1.4 | 2.0 | 2.5 | 3.0 | 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 | 4.9 | 4.9 | 4.7 | 5.1 | 5.5 | 6.0 | |
| Average real interest rate (nominal rate minus change in GDP deflator, in percen | 2.1 | 2.3 | 1.3 | 6.3 | 3.6 | 0.4 | -0.1 | 1.6 | 2.2 | 2.9 | 3.5 | |
| 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) | 4.4 | 4.4 | 5.3 | -0.5 | 1.2 | 4.5 | 5.0 | 3.1 | 2.9 | 2.6 | 2.6 | |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 9.3 | -3.0 | 9.8 | 4.2 | 3.0 | 3.3 | -3.4 | 3.1 | 3.4 | 1.8 | 3.6 | |
| Primary deficit | 0.5 | -0.6 | 0.8 | 3.1 | 1.9 | 1.2 | 0.1 | -0.3 | -0.6 | -1.1 | -1.3 | |

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; $\pi$ = growth rate of GDP deflator; g = real GDP growth rate; $\alpha$ = share of foreign-currency denominated debt; and e = 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 | | | | | Projections | | | | | | Debt-stabilizing Non-interest |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Current account 5/ |
| 1 **Baseline: External debt** | **54.2** | **48.4** | **43.8** | **46.1** | **46.7** | **43.8** | **42.8** | **42.1** | **41.0** | **39.7** | **38.3** | **-2.6** |
| 2 Change in external debt | 1.5 | -5.8 | -4.5 | 2.3 | 0.6 | -2.9 | -1.0 | -0.7 | -1.1 | -1.2 | -1.5 | |
| 3 Identified external debt-creating flows (4+8+9) | -1.5 | -5.4 | 0.3 | 1.3 | 0.7 | -0.4 | -1.1 | -1.1 | -1.4 | -1.7 | -1.9 | |
| 4 Current account deficit, excluding interest payments | 1.2 | 3.0 | 4.9 | -1.0 | 0.1 | 1.5 | 1.2 | 0.9 | 0.9 | 0.7 | 0.6 | |
| 5 Deficit in balance of goods and services | 20.5 | 22.4 | 22.8 | 15.5 | 17.5 | 18.5 | 17.8 | 17.8 | 17.9 | 17.8 | 17.9 | |
| 6 Exports | 25.9 | 25.9 | 26.9 | 23.2 | 26.2 | 27.9 | 27.6 | 27.6 | 27.7 | 27.8 | 27.9 | |
| 7 Imports | 46.3 | 48.3 | 49.7 | 38.7 | 43.6 | 46.4 | 45.4 | 45.5 | 45.6 | 45.6 | 45.8 | |
| 8 Net non-debt creating capital inflows (negative) | -1.4 | -7.2 | -3.8 | -1.8 | -0.4 | -1.3 | -1.5 | -1.9 | -2.0 | -2.3 | -2.5 | |
| 9 Automatic debt dynamics 1/ | -1.2 | -1.1 | -0.7 | 4.2 | 0.9 | -0.6 | -0.8 | -0.2 | -0.4 | -0.1 | 0.0 | |
| 10 Contribution from nominal interest rate | 2.9 | 3.1 | 2.3 | 2.5 | 2.2 | 2.3 | 2.3 | 2.3 | 2.4 | 2.5 | 2.5 | |
| 11 Contribution from real GDP growth | -1.9 | -1.9 | -0.6 | 1.4 | -0.6 | -0.9 | -1.0 | -1.2 | -1.6 | -1.5 | -1.5 | |
| 12 Contribution from price and exchange rate changes 2/ | -2.2 | -2.3 | -2.4 | 0.2 | -0.6 | -2.0 | -2.1 | -1.3 | -1.2 | -1.0 | -1.0 | |
| 13 Residual, incl. change in gross foreign assets (2-3) | 2.9 | -0.5 | -4.8 | 1.0 | -0.1 | -2.5 | 0.1 | 0.4 | 0.3 | 0.4 | 0.4 | |
| External debt-to-exports ratio (in percent) | 210 | 187 | 163 | 199 | 179 | 157 | 155 | 152 | 148 | 143 | 137 | |
| **Gross external financing need (in millions of US$) 3/** | 3,361 | 3,537 | 3,895 | 2,937 | 1,703 | 2,738 | 2,461 | 2,556 | 2,714 | 2,875 | 3,065 | |
| in percent of GDP | 18.1 | 17.6 | 18.2 | 14.2 | 8.0 | 12.1 | 10.1 | 9.9 | 9.8 | 9.7 | 9.7 | |
| **Scenario with key variables at their historical averages 4/** | | | | | | **43.1** | **42.1** | **41.3** | **40.5** | **39.8** | **39.1** | **-2.2** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | | | | | | | |
| Real GDP growth (in percent) | 3.9 | 3.8 | 1.3 | -3.1 | 1.4 | 2.0 | 2.5 | 3.0 | 4.0 | 4.0 | 4.0 | |
| GDP deflator in US$ (change in percent) | 4.4 | 4.4 | 5.3 | -0.5 | 1.2 | 4.5 | 5.0 | 3.1 | 2.9 | 2.6 | 2.6 | |
| Nominal external interest rate (in percent) | 6.0 | 6.2 | 5.0 | 5.5 | 4.8 | 5.2 | 5.6 | 5.8 | 6.1 | 6.4 | 6.8 | |
| Growth of exports (US$ terms, in percent) | 8.8 | 8.5 | 10.7 | -16.8 | 15.9 | 13.8 | 6.4 | 6.2 | 7.2 | 7.1 | 7.2 | |
| Growth of imports (US$ terms, in percent) | 13.5 | 12.9 | 9.7 | -25.0 | 15.9 | 13.4 | 5.3 | 6.2 | 7.4 | 6.7 | 7.1 | |
| Current account balance, excluding interest payments | -1.2 | -3.0 | -4.9 | 1.0 | -0.1 | -1.5 | -1.2 | -0.9 | -0.9 | -0.7 | -0.6 | |
| Net nondebt creating capital inflows | 1.4 | 7.2 | 3.8 | 1.8 | 0.4 | 1.3 | 1.5 | 1.9 | 2.0 | 2.3 | 2.5 | |

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 U.S. dollars)

| | 2007 | 2008 | 2009 | 2010 | 2011 SBA 1/ | 2011 Proj. | 2012 SBA 1/ | 2012 Proj. |
|---|---|---|---|---|---|---|---|---|
| **Gross Financing Requirements 2/** | **3,537** | **3,895** | **2,937** | **1,703** | **2,974** | **2,738** | **2,584** | **2,464** |
| Current account deficit | 1,217 | 1,532 | 304 | 488 | 891 | 857 | 881 | 848 |
| Debt amortization 3/ | 2,041 | 2,030 | 2,210 | 1,510 | 2,135 | 2,136 | 1,519 | 1,448 |
| Public sector | 320 | 300 | 291 | 310 | 925 | 932 | 275 | 277 |
| Private sector | 1,721 | 1,729 | 1,919 | 1,200 | 1,210 | 1,204 | 1,244 | 1,171 |
| GIR accumulation | 279 | 333 | 423 | -295 | -52 | -255 | 184 | 168 |
| **Gross Financing Sources** | **3,537** | **3,895** | **2,937** | **1,703** | **2,974** | **2,738** | **2,584** | **2,464** |
| Public sector disbursements | 205 | 427 | 1,076 | 584 | 1,252 | 1,181 | 538 | 560 |
| Private sector inflows 2/ | 3,332 | 3,468 | 1,861 | 1,119 | 1,722 | 1,557 | 2,046 | 1,904 |
| Foreign direct investment | 1,455 | 824 | 366 | 78 | 274 | 298 | 429 | 365 |
| Other | 1,877 | 2,645 | 1,495 | 1,041 | 1,448 | 1,259 | 1,617 | 1,538 |

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

1/ IMF Country Report No. 11/90.

2/ Data has been revised to reflect methodological improvements consistent with the sixth edition of the IMF's Balance of Payments Manual (BPM6). Program columns are not strictly comparable.

3/ Estimate for 2011 includes the amortization of an external bond financed with a bond placement made in January.

## 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 | 465.7 | 246.2 | 40.2 |
| In percent of exports of goods and services | 10.3 | 11.7 | 11.5 | 9.8 | 4.8 | 0.7 |
| In percent of public sector external debt | 10.2 | 11.8 | 12.0 | 10.1 | 5.3 | 0.8 |
| In percent of gross reserves | 24.8 | 28.2 | 27.4 | 23.3 | 11.5 | 1.7 |
| In percent of quota | 237.5 | 287.5 | 300.0 | 271.9 | 143.7 | 23.4 |
| **Repurchases and charges due from existing and prospective drawings** | | | | | | |
| In millions of SDRs | 2.7 | 6.4 | 7.1 | 55.3 | 225.2 | 208.6 |
| In percent of exports of goods and services | 0.1 | 0.2 | 0.2 | 1.2 | 4.4 | 3.8 |
| In percent of public sector external debt service | 0.4 | 2.1 | 2.3 | 16.8 | 61.2 | 54.1 |
| In percent of gross reserves | 0.2 | 0.4 | 0.4 | 2.8 | 10.5 | 9.1 |
| In percent of quota | 1.6 | 3.7 | 4.1 | 32.3 | 131.4 | 121.8 |

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

| | | Purchase | | | | | |
|---|---|---|---|---|---|---|---|
| Date | Conditions for purchase | Million SDR | Million US$ 1/ | Percent of Quota | Percent of Total Access | Available (million SDR) | Drawn |
| March 17, 2010 | Board approval of the SBA | 171.30 | 274.64 | 100.00 | 33.33 | 171.30 | 0.0 |
| May 17, 2010 | Performance criteria based on end-March 2010 | 21.41 | 34.33 | 12.50 | 4.17 | 192.71 | 0.0 |
| September 15, 2010 | First review, based on end-June 2010 performance criteria | 107.06 | 171.65 | 62.50 | 20.83 | 299.78 | 0.0 |
| November 15, 2010 | Performance criteria based on end-September 2010 | 21.41 | 34.33 | 12.50 | 4.17 | 321.19 | 0.0 |
| March 15, 2011 | Second review, based on end-December 2010 performance criteria | 21.41 | 34.33 | 12.50 | 4.17 | 342.60 | 0.0 |
| May 16, 2011 | Performance criteria based on end-March 2011 | 21.41 | 34.33 | 12.50 | 4.17 | 364.01 | 0.0 |
| September 15, 2011 | Third review, based on end-June 2011 performance criteria | 21.41 | 34.33 | 12.50 | 4.17 | 385.43 | 0.0 |
| November 15, 2011 | Performance criteria based on end-September 2011 | 21.41 | 34.33 | 12.50 | 4.17 | 406.84 | 0.0 |
| March 15, 2012 | Fourth review, based on end-December 2011 performance criteria | 21.41 | 34.33 | 12.50 | 4.17 | 428.25 | 0.0 |
| May 15, 2012 | Performance criteria based on end-March 2012 | 21.41 | 34.33 | 12.50 | 4.17 | 449.66 | 0.0 |
| September 17, 2012 | Fifth review, based on end-June 2012 performance criteria | 21.41 | 34.33 | 12.50 | 4.17 | 471.08 | 0.0 |
| November 15, 2012 | Performance criteria based on end-September 2012 | 21.41 | 34.33 | 12.50 | 4.17 | 492.49 | 0.0 |
| March 8, 2013 | Sixth review, based on end-December 2012 performance criteria | 21.41 | 34.33 | 12.50 | 4.17 | 513.90 | 0.0 |
| Total 2/ | | 513.90 | 823.93 | 300.00 | 100.00 | 513.90 | 0.0 |

Source: Fund staff estimates.

1/ SDR/U.S. dollar exchange rate of 0.62372 as of August 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)

| | 2011 | | | | | | | | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| | SBA 1/ | Adjusted PC End-Mar. | Actual | SBA 1/ | Adjusted PC End-Jun. | Actual | End-Sep. | End-Dec. | End-Dec. 2/ |
| **Performance criteria** | | | | | | | | | |
| Overall balance of the nonfinancial public sector (Cumulative floor) 3/ | -320 | -306 | -263 | -390 | -373 | -371 | -575 | -817 | -617 |
| Gross debt of the nonfinancial public sector (Cumulative flow) 4/ | 310 | 964 | 870 | 365 | 1,019 | 916 | 545 | 701 | 627 |
| External debt service arrears of the nonfinancial Public sector 5/ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic payment arrears of the nonfinancial Public sector 6/ | 0 | 0 | 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$7,732.9 million (10 percent below the end-June 2011 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. 11/90.
2/ Indicative targets.
3/ Adjusted upward for 50 percent of overperformance of tax revenue.
4/ 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.
5/ Continuous ceiling. Defined as unpaid debt service payments by the nonfinancial public sector to nonresidents beyond 30 days after the due date.
6/ Continuous ceiling. Defined as unpaid obligations overdue by more than 60 days.

## Table 14. El Salvador: Structural Measures 1/

| | Test Date | Status | Comments |
|---|---|---|---|
| **Tax Policy and Administration** | | | |
| Publication of plan for the modernization of both DGII and DGA. | Jun. 30, 2011 | Done | Published July 29, 2011 |
| Enhance coordination in the tax collection process across DGII and DGA. | Dec. 31, 2011 | … | |
| Harmonize taxpayer registry between DGII and DGA for 500 large taxpayers. | Dec. 31, 2011 | … | |
| Implement revenue measures yielding 1.5 percent of GDP. | June 30, 2012 | … | |
| **Public Financial Management** | | | |
| Create inter-institutional MTEF committee and pilot MTEF units. | Jul. 31, 2011 | Done | Decree issued July 29, 2011 |
| Publish a statement of approved budgets for NFPS institutions. | Feb. 29, 2012 | … | |
| Congressional approval of budget for 2012 consistent with deficit of 2.5 percent of GDP. | Dec. 31, 2011 | New | |
| Phase out temporary energy measures. 2/ | Dec. 31, 2011 | New | |
| **Financial System Development and Supervision** | | | |
| Issue umbrella norm for risk management of financial institutions. | Jun. 30, 2011 | Done | Issued on February 8, 2011 |
| Agree to action plan for enhancing central bank's lender of last resort capacity. | Jul. 31, 2011 | Done | Agreed on August 17, 2011 |
| Issue specific norms on management of credit and liquidity risk for financial institutions under umbrella norm for risk management. | Dec. 31, 2011 | … | Credit risk norm issued on May 4, 2011 |
| Congressional approval of investment funds law. | Dec. 31, 2011 | … | |

1/ Measures are described in TMU of March 2011 (IMF Country Report No. 11/90) unless otherwise noted.

2/ Consists of the following actions: (i) the subsidy to transport operators returns to levels prevailing before April 2011 by end-October 2011; (ii) electricity tariffs for consumers of more than 100 kWh per month reflect the price formula in effect before April 12, 2011 by October 13, 2011; and (iii) the excise tax on fuel is restored to the level of April 2011 by January 1, 2012.

## Attachment I: Letter of Intent

San Salvador, September 13, 2011

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Ms. Lagarde:

1. Performance under our three-year stand-by arrangement with the Fund approved in March 2010 continues to be satisfactory. All quantitative performance criteria for end-March and end-June 2011 have been met, and no consultation clause under the program has been activated as financial stability has been maintained. Also, since the completion of the second review in March 2011, all structural benchmarks on financial sector reform and the public finances have been met.

2. High world energy and food prices have widened the trade deficit and slowed the economic recovery, with the cost of imported fuel projected to rise by 1½ percent of GDP in 2011. While exports and tax revenues have rebounded strongly, the near-term outlook has weakened. Owing to the deterioration in external conditions, real GDP growth for 2011 is now projected at 2 percent, while annual inflation may rise to 7 percent. To mitigate the effect of the adverse price shock on the incomes of the population, the Government adopted in recent months temporary relief measures. In particular, it raised the subsidy to public transport operators, expanded the coverage of the electricity subsidy, and suspended an excise tax on fuel. The measures are estimated to cost 0.2 percent of GDP in 2011, and are scheduled to expire by the end of the year.

3. We remain committed to reducing the overall fiscal deficit to US$817 million (about 3½ percent of GDP) in 2011. This would allow us to stabilize the public debt-to-GDP ratio at 52 percent, after the large increase following the onset of the 2008 global crisis. We intend to sustain the good performance of tax revenues by further enhancing control of large taxpayers and improving coordination among tax agencies. Also, the newly-created vice-ministry of revenue will be in charge of strengthening tax administration. Strict expenditure restraint will support the efforts on the revenue side, while we continue work on building a medium-term expenditure framework to improve the management of public spending.

4. Later this year, we will seek congressional approval of a budget for 2012 consistent with an overall fiscal deficit of about 2½ percent of GDP, in line with the objectives of our program. We will continue to seek broad agreement on a "fiscal pact" to achieve our goal of increasing net tax revenue to 16 percent of GDP by 2015.

5. We will take further actions to bolster the resilience of the financial system to adverse shocks. Building on recommendations from recent Fund technical assistance, we have developed an action plan to set up a limited lender-of-last-resort facility and identified its possible sources of funding. Also, the central bank will issue pending norms on risk-based

supervision and strengthen bank resolution processes, including by improving coordination among financial safety net providers. As provided by the financial law approved in January 2011, the supervisory agencies have been fully integrated and their regulatory powers shifted to the central bank. To further develop the financial system, we will seek congressional approval by year-end of a bill that creates a framework for investment funds.

6. Our initiatives to boost economic growth are moving ahead. We have submitted to congress a proposal for the operation of a major port (*Puerto de la Unión*) by private operators and a framework for public-private partnerships, which together with El Salvador's participation in a Partnership for Growth with the United States, are expected to foster private investment, including in infrastructure projects. We anticipate prompt congressional approval of a scheme to encourage long-term lending by state financial institutions. The modalities of this scheme were discussed at the time of the previous review and will be implemented in line with the program, so as to minimize any fiscal risk. We expect that these initiatives will help raise domestic investment from the low levels seen in recent years.

7. In light of this performance and our commitment to the program, we request the completion of the third review under the Stand-By Arrangement. Our intention is to continue treating the arrangement as precautionary. The quarterly performance criteria, consultation clauses, and indicative targets under the program are set out in Table 1. New structural benchmarks have been added regarding the phasing out of temporary energy measures and congressional approval of both a fiscal budget for 2012 consistent with the program and the revenue effort described above (Table 2). Program implementation will continue to be monitored through semi-annual reviews.

8. We believe that the policies set forth in this letter, which supplement our letter and Memorandum of Economic and Financial Policies of March 1, 2010, our letter of September 1, 2010, and our letter of March 17, 2011, are adequate to meet the objectives of our economic program. We stand ready to take additional measures that may be needed for this purpose and will maintain the usual close and proactive policy dialogue with the Fund.

Sincerely yours,

/s/

Alexander Ernesto Segovia
Technical Secretary of the Presidency

/s/

Carlos Enrique Cáceres
Minister of Finance

/s/

Carlos Acevedo
President of the Central Reserve Bank of El Salvador

## Table 1. El Salvador: Quantitative Performance Criteria

(In millions of U.S. dollars)

| | SBA 1/ | Adjusted PC End-Mar. | Actual | SBA 1/ | Adjusted PC End-Jun. | Actual | End-Sep. | End-Dec. | End-Dec. 2/ |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | | 2012 |
| **Performance criteria** | | | | | | | | | |
| Overall balance of the nonfinancial public sector (cumulative floor) 3/ | -320 | -306 | -263 | -390 | -373 | -371 | -575 | -817 | -617 |
| Gross debt of the nonfinancial public sector (cumulative flow) 4/ | 310 | 964 | 870 | 365 | 1,019 | 916 | 545 | 701 | 627 |
| External debt service arrears of the nonfinancial public sector 5/ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic payment arrears of the nonfinancial public sector 6/ | 0 | 0 | 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$7,732.9 million (10 percent below the end-June 2011 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. 11/90.
2/ Indicative targets.
3/ Adjusted upward for 50 percent of overperformance of tax revenue.
4/ 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.
5/ Continuous ceiling. Defined as unpaid debt service payments by the nonfinancial public sector to nonresidents beyond 30 days after the due date.
6/ Continuous ceiling. Defined as unpaid obligations overdue by more than 60 days.

Table 2. El Salvador: Structural Benchmarks 1/

| | Test Date |
|---|---|
| **Tax Policy and Administration** | |
| Enhance coordination in the tax collection process across DGII and DGA | Dec. 31, 2011 |
| Harmonize taxpayer registry between DGII and DGA for 500 large taxpayers | Dec. 31, 2011 |
| Implement revenue measures yielding 1.5 percent of GDP. | June 30, 2012 |
| **Public Financial Management** | |
| Publish a statement of approved budgets for NFPS institutions | Feb. 29, 2012 |
| Congressional approval of budget for 2012 consistent with deficit of 2.5 percent of GDP | Dec. 31, 2011 |
| Phase out temporary energy measures 2/ | Dec. 31, 2011 |
| **Financial System Development and Supervision** | |
| Issue specific norms on management of liquidity risk for financial institutions | Dec. 31, 2011 |
| Congressional approval of investment funds law | Dec. 31, 2011 |

1/ Measures are described in TMU of March 2011 (IMF Country Report No. 11/90) unless otherwise noted.

2/ Consists of the following actions: (i) the subsidy to transport operators returns to levels prevailing before April 2011 by end-October 2011; (ii) electricity tariffs for consumers of more than 100 kWh per month reflect the price formula in effect before April 12, 2011 by October 13, 2011; and (iii) the excise tax on fuel is restored to the level of April 2011 by January 1, 2012.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 11/352
FOR IMMEDIATE RELEASE
September 30, 2011

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Completes Third Review of El Salvador's Stand-By Arrangement**

The Executive Board of the International Monetary Fund (IMF) today completed the third review of the program with El Salvador supported by the three-year Stand-By Arrangement (SBA) approved in March 2010 (see Press Release No. 10/95). Upon completion of the review, a total equivalent to SDR 385.43 million (about US$602 million) has become available to El Salvador, but the authorities intend to continue treating the arrangement as precautionary and not draw the resources.

Following the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

"Program implementation has been strong, despite challenging external conditions and a slow economic recovery. The public debt-to-GDP ratio has stabilized, and financial stability has been maintained. The authorities' policies remain focused on regaining fiscal space and enhancing the resilience of the fully-dollarized financial system.

"The fiscal consolidation strategy envisaged under the program aims to place the public debt ratio on a downward trajectory. Continued expenditure restraint, including the phasing out of broad-based energy subsidies, and further revenue mobilization are needed to meet the lower 2012 deficit target. Securing a consensus on a fiscal pact will be critical to strengthen tax revenues and the overall fiscal position over the medium term.

"The financial system's reform agenda is appropriately focused on upgrading the safety net and shifting toward risks-based supervision. Preparations for setting up a lender-of-last-resort facility and improving bank resolution procedures are also under way," Mr. Zhu said.

Statement by Carlos Pérez-Verdia, Executive Director for El Salvador
and Mr. Cosenza-Jiménez. Senior Advisor to the Executive Director
September 30, 2011

We would like to thank staff for their balanced report and for their constructive dialogue with our authorities. We concur with the report´s main messages and would like to emphasize the following points:

1. **Program Performance:** All quantitative performance criteria and structural benchmarks for end-March and end-June were met. As the report points out, the authorities prepared a modernization plan for the internal revenue agencies, issued risk-based supervision standards and norms, completed the preparation of an action plan for implementing a lender-of-last-resort facility and created a special committee to develop a medium-term expenditure framework. In addition, as the report states, the banking system is sound and the external current account deficit is consistent with projections. These goals have been achieved in the context of a deteriorating international situation which renders the performance all the more remarkable.

2. **Temporary Subsidies:** While meeting the fiscal targets, the government adopted temporary subsidies for electricity tariffs and for public transportation. It also suspended, temporarily, an excise tax on gasoline. These measures were designed to reduce the impact of rising fuel prices on the population and will be rescinded in due time.

3. **Program support:** The program continues to enjoy the support of congress. Congress recently enacted legislation to foster development financing and the authorities expect that before year-end congress will also pass legislation to promote and facilitate public-private partnerships, PPPs, and approve a framework for the development of investment funds. The authorities also expect support for their 2012 budget proposal, to be submitted to congress today and which has been prepared in line with the program.

4. **Economic growth challenge:** The international environment, lower growth in the developed countries and higher fuel and food prices, has forced a downward revision of real GDP growth. It is now expected that real growth will only be 2 percent in 2011, underscoring the need for growth-enhancing measures, such as those mentioned in the previous paragraph (PPPs, development banking, and investment funds enabling legislation). Congress has also passed new legislation that will lead to hiring a private company to operate one of the main ports (La Unión). Finally, the authorities are engaged in the Partnership for Growth initiative promoted by the United States of America, which is expected to foster private investment, including in infrastructure projects.

5. **Fiscal Space:** The authorities are committed to creating the fiscal space necessary to address any future exogenous shock. To this end, the 2012 budget includes the reduction of the overall deficit to 2.5 percent of GDP. The authorities will also enhance control over large taxpayers and improve coordination among tax agencies and will continue to restrain expenditure. All these measures will reduce the debt to GDP ratio and provide the fiscal space that might be needed to manage exogenous shocks.

6. Finally, we believe that the proposed policies are adequate to meet the objectives of the authorities' economic and social programs and we are certain that the authorities also stand ready to take additional measures, in consultation with the Fund, should that prove necessary. We also feel that the SBA, which the authorities continue to view as precautionary, will be instrumental in supporting El Salvador's macroeconomic stability and its economic recovery and growth going forward.