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**Statement by Mr. Subramanian and Mr. Amarasekara on El Salvador
(Preliminary)
Executive Board Meeting
March 20, 2023**

We thank staff for the well written reports and Mr. Guerra and Mr. Chicas Cienfuegos for the helpful buff statement.

El Salvador is recovering from the effects of the pandemic, with notable progress in the vaccination drive. The economy has grown by around 2.8 percent in 2022, following the growth of 10.3 percent in the previous year. Escalation of global commodity prices has added renewed challenges to the economy, and inflation has remained above 7 percent in recent months. We congratulate the authorities for the achievements in relation to fiscal consolidation since 2020. In spite of these improvements in the fiscal sector, pressures on external reserves and concerns on debt sustainability have remained.

In this context, while agreeing with the staff appraisal and observations on the outlook, we offer the following comments:

We note that staff has assessed that El Salvador's public debt is on an unsustainable path with a high level of risk, in spite of the decline in the public debt ratio in 2021. High sovereign spreads have restricted El Salvador's market access. We thank staff for Annex II: Should a Country Buy Back Its "Distressed" Debt? The analysis therein provides useful insights not only for El Salvador, but also for other countries considering buy back operations, exploring avenues to reduce their debt burdens, and contemplating regaining access to global capital markets. We also found the Box on the Sovereign-Bank Nexus useful to understand debt dynamics and its potential impact.

El Salvador's external position has deteriorated markedly, with a notable widening of the current account deficit. This deterioration is particularly due to higher import prices and volumes. Tourist arrivals have rebounded to pre-pandemic levels, and continuation of this trend would aid El Salvador's efforts to resolve the macroeconomic issues facing the country. Nevertheless, weak debt position and the vulnerability to external shocks are not in El

Salvador's favor. In addition, exposure to Bitcoin could amplify shocks when they materialize.

While we appreciate the authorities' efforts to regulate Bitcoin-related activity, we are of the view that related risks as identified by staff in last year's Article IV as well as in this year's reports could materialize any time, particularly when the economy is weak. The socio-economic impact of risk materialization in a weakened economy could be significant. Furthermore, the Selected Issues Paper titled "Bitcoin and Financial Inclusion: A Preliminary Balance" concludes that the Bitcoin adoption as legal tender has not contributed to promote financial inclusion and digital remittances, but instead, has encouraged high-risk investments. *We note that macroeconomic statistics do not yet adequately record comprehensive Bitcoin operations. Can staff elaborate on any steps that have been taken to improve capturing these operations for statistical purposes and policy analysis?*

Overall, we hope the authorities' positive view of the outlook will be realized, but encourage the authorities to address the identified imbalances early, with the support of the IMF.

With that, we wish the authorities and people of El Salvador every success in their efforts to become a sustainable island economy.