EBS/09/6
Supplement 1
Correction 1

CONFIDENTIAL

February 11, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **El Salvador—Request for Stand-By Arrangement**

The attached corrections to EBS/09/6, Sup. 1 (1/12/09) have been provided by the staff.

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 2, footnote 2, line 2: for "were put in place." read "were put in place. In contrast to these newly approved arrangements, El Salvador's authorities intend to treat the arrangement as precautionary, as balance of payments pressures have not materialized."

Page 4, Table 4, footnote 8: for " (both in U.S. dollars)." read " (both in U.S. dollars), although El Salvador's authorities have expressed their intention to treat the arrangement as precautionary, as balance of payments pressures have not materialized."

Page 5, para. 4, line 3: for "all purchases are made"
read "all purchases were to be made"

Page 6, Figure 1 A and Figure 1 B: for the graph label "El Salvador" read "El Salvador 3/"

Page 6, Figure 1: add footnote 3 "El Salvador's authorities have expressed their intention to treat the arrangement as precautionary, as balance of payments pressures have not materialized."

Page 7, Table 5, footnote 2: for "the proposed SBA." read "the proposed SBA, although El Salvador's authorities have expressed their intention to treat the arrangement as precautionary, as balance of payments pressures have not materialized."

Questions may be referred to Mr. Williams, FIN (ext. 38006) and Mr. McGrew, SPR (ext. 38531).

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INTERNATIONAL MONETARY FUND

El Salvador—Assessment of the Risks to the Fund and the Fund's Liquidity Position

Prepared by the Finance and Strategy, Policy, and Review Departments

In consultation with other Departments

Approved by Andrew Tweedie and Alan MacArthur

January 9, 2009

1. **This note assesses the risks to the Fund arising from the proposed Stand-By Arrangement (SBA) for El Salvador and its effects on the Fund's liquidity, in accordance with the policy on exceptional access.**[1] The authorities are requesting a 15-month SBA with access of SDR 513.9 million (300 percent of quota). While an amount equivalent to SDR 342.6 million (200 percent of quota) would be made available upon approval of the arrangement, this would be followed by four quarterly purchases of an amount equivalent to SDR 42.8 million (25 percent of quota) each; the authorities intend to treat the arrangement as precautionary. The last purchase is scheduled to be made available in March 2010 (Table 1).

Table 1. El Salvador: Proposed SBA—Access and Phasing

			Percent of quota	
Availability	Date 1/	SDR mn.	Purchase	Cumulative
2009	January (approval)	342.600	200	200
	May	42.825	25	225
	September	42.825	25	250
	December	42.825	25	275
2010	March	42.825	25	300
	Total	513.900	300	300

Source: Finance Department
1/ Starting in May 2009, purchases will depend on the completion of a review and on performance criteria for the end of the previous quarter.

[1] See *The Acting Chair's Summing Up of the Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy* (BUFF/03/28, 3/5/03).

I. BACKGROUND

2. **El Salvador has had several Fund Arrangements but has not drawn on Fund resources since the early 1980s.** El Salvador has had four SBAs during the period May 1993 and February 2000, and treated all of them as precautionary arrangements (Table 2). These programs supported reconstruction and the resumption of economic growth in the context of macroeconomic stability following the peace accords in 1992. Each of these arrangements was for a relatively small amount of resources, with the first in May 1993 for an amount of SDR 47.11 million (38 percent of quota), and each of the last three SBA's was for SDR 37.68 million (30 percent of quota).The last arrangement was for 17 months, beginning September 1998 and ending February 2000, and it was requested to help the authorities maintain macroeconomic discipline and the momentum of structural reforms. Economic performance under the program was broadly on track in the period through 1998, but there were significant deviations toward the end of the program period. El Salvador has had no outstanding Fund credit since end-1991.

3. **El Salvador's total external debt burden, as well as its public external debt burden, are moderate and have been on a declining trend in recent years.** El Salvador's external debt-to-GDP ratio is expected to continue its decline to below 45 percent of GDP at end-2008, from a level of 52 percent of GDP in 2004 (Table 3). Likewise, public and publicly guaranteed external debt, which accounts for just slightly over half of total external debt, is expected to fall to 24 percent of GDP at the end of 2008, from a level of 28 percent of GDP in 2004. In terms of both total external debt and public external debt, El Salvador falls close to the middle of the range of earlier and newly approved exceptional access cases at time of approval (Table 4).[2] Compared with the four earlier exceptional access cases, its total external debt and public external debt to GDP ratios are larger than those of Brazil and Turkey; while compared with the six newly approved cases, its total external debt to GDP ratio is larger than those of Georgia and Pakistan, and its public external debt to GDP ratio is larger than those of Georgia, Latvia, and Ukraine.[3] The composition of El Salvador's external debt is different from that of most of the earlier and newly approved exceptional access cases. El Salvador's external debt service is relatively low, reflecting that nearly 60 percent of public external debt is owed to bilateral and multilateral creditors.

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[2] The recent exceptional access cases used as comparators in this paper are those approved since the exceptional access procedures were put in place. In contrast to the newly approved arrangements, El Salvador's authorities intend to treat the arrangement as precautionary, as balance of payments pressures have not materialized. The 2008 extended arrangement for Liberia also involved exceptional access. However, Liberia is excluded since this arrangement was different from other exceptional access cases in that exceptional access was granted in the context of Liberia's clearance of arrears to the Fund.

[3] The earlier exceptional access cases are those approved from 2003 to 2005.

Table 2. El Salvador: IMF Financial Arrangements, Purchases and Repurchases, 1984–2015

(In millions of SDR)

Year	Type of New Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Purchases	Repurchases	Fund Exposure 1/ GRA	Fund Exposure 1/ Trust Fund	Fund Exposure 1/ Total
1984 2/						0.00	5.38	107.50	19.70	127.20
1985 2/						0.00	26.58	80.92	19.70	100.62
1986 2/						0.00	49.76	35.08	15.78	50.86
1987 2/						0.00	35.12	3.88	11.87	15.75
1988 2/						0.00	7.79	0.00	7.96	7.96
1989 2/						0.00	3.91	0.00	4.05	4.05
1990 2/	SBA	27-Aug-1990	26-Aug-1991	35.60	-	0.00	3.91	0.00	0.13	0.13
1991 2/						0.00	0.13	0.00	0.00	0.00
1992	SBA	06-Jan-1992	05-Mar-1993	41.50	-	0.00	0.00	0.00	0.00	0.00
1993	SBA	10-May-1993	31-Dec-1994	47.11	-	0.00	0.00	0.00	0.00	0.00
1994					-	0.00	0.00	0.00	0.00	0.00
1995	SBA	21-Jul-1995	20-Sep-1996	37.68	-	0.00	0.00	0.00	0.00	0.00
1996						0.00	0.00	0.00	0.00	0.00
1997	SBA	28-Feb-1997	30-May-1998	37.68	-	0.00	0.00	0.00	0.00	0.00
1998	SBA	23-Sep-1998	22-Feb-2000	37.68	-	0.00	0.00	0.00	0.00	0.00
1999						0.00	0.00	0.00	0.00	0.00
2000						0.00	0.00	0.00	0.00	0.00
2001						0.00	0.00	0.00	0.00	0.00
2002						0.00	0.00	0.00	0.00	0.00
2003						0.00	0.00	0.00	0.00	0.00
2004						0.00	0.00	0.00	0.00	0.00
2005						0.00	0.00	0.00	0.00	0.00
2006						0.00	0.00	0.00	0.00	0.00
2007						0.00	0.00	0.00	0.00	0.00
2008 3/						0.00	0.00	0.00	0.00	0.00
2009 4/	*SBA*	*16-Jan-2009*	*15-Apr-2010*	*513.90*		*471.08*	*0.00*	*471.08*	*0.00*	*471.08*
2010 4/						*42.83*	*0.00*	*513.90*	*0.00*	*513.90*
2011 4/						*0.00*	*0.00*	*513.90*	*0.00*	*513.90*
2012 4/						*0.00*	*144.53*	*369.37*	*0.00*	*369.37*
2013 4/						*0.00*	*251.60*	*117.77*	*0.00*	*117.77*
2014 4/						*0.00*	*112.42*	*5.35*	*0.00*	*5.35*
2015 4/						*0.00*	*5.35*	*0.00*	*0.00*	*0.00*

Source: Finance Department

1/ As of end December, unless otherwise stated.
2/ Include repurchases under credit tranches and Trust Fund.
3/ Projected as of end December.
4/ Figures under the proposed program in italics. They include the projected payments under obligation basis.

Table 3. El Salvador: Total External Debt, 2004–2008

	2004	2005	2006	2007	2008
	(In millions of U.S. dollars)				
Total External Debt	8,211	8,761	9,584	9,060	9,845
of which : Public	4,372	4,491	5,125	4,956	5,306
Multilateral	2,455	2,621	2,525	2,516	2,615
Private	3,838	4,270	4,459	4,103	4,538
	(In percent of GDP)				
Total External Debt	52.0	51.3	51.4	44.5	44.4
of which : Public	27.7	26.3	27.5	24.3	23.9
Multilateral	15.5	16.6	16.0	15.9	16.6
Private	24.3	25.0	23.9	20.1	20.5

Source: El Salvador authorities, World Economic Outlook, and IMF staff estimates.

Table 4. Debt Ratios in Earlier and Newly Approved Exceptional Access Cases 1/
(In percent of GDP)

	Total External Debt	Public External Debt	Total Public Debt	Debt to IMF
A. Earlier arrangements, 2003-05:				
Argentina (2003)	129.0	82.5	149.4	12.2
Brazil (2003)	38.6	21.5	85.9	5.1
Turkey (2005)	35.0	17.8	71.6	3.0
Uruguay (2005)	82.0	60.8	75.8	13.8
B. Newly approved arrangements (2008):				
Georgia 2/	34.6	21.0	25.1	2.8
Hungary 3/	106.4	37.6	67.4	4.2
Iceland 4/	165.0	99.9	108.9	5.1
Latvia 5/	129.2	10.2	14.3	2.8
Pakistan 6/	31.4	29.5	54.6	3.5
Ukraine 7/	54.3	10.4	10.6	2.5
El Salvador (2009) 8/	*44.4*	*23.9*	*40.0*	*2.4*

Source: Board Documents and IMF staff estimates.

1/ Ratios for the year indicated in parenthesis. Year in parenthesis corresponds to the year of approval of the last IMF arrangement with each country.
2/ Estimates for end-2008, including PRGF resources, see EBS/08/107, Sup.1 (09/10/08).
3/ End-2008 estimates, see EBS/08/119, Sup.1 (11/04/08).
4/ End-2008 estimates, see EBS/08/124, Sup.1 (11/17/08).
5/ End-2008 estimates, see EBS/08/155, Sup.1 (12/23/08).
6/ Estimates for end-June 2009, including outstanding PRGF loans, see EBS/08/127, Sup.1 (11/20/08).
7/ End-2008 estimates, see EBS/08/114, Sup.1 (11/03/08).
8/ Ratios for total external debt, public external debt, and total public debt are end-2008 estimates. The Debt to IMF ratio is calculated as the first purchase under the proposed arrangement divided by the 2008 GDP (both in U.S. dollars), although El Salvador's authorities have expressed their intention to treat the arrangement as precautionary, as balance of payments pressures have not materialized.

II. THE NEW SBA—RISKS AND IMPACT ON THE FUND'S FINANCES

A. Risks to the Fund

4. **Access under the proposed arrangement would far exceed that in previous arrangements for El Salvador, and would surpass the annual access limit and reach exactly the cumulative access limit.**[4] If all purchases ~~are~~ were to be made according to the schedule, El Salvador's total outstanding use of GRA resources would reach 200 percent of quota with the first purchase, and peak at 300 percent of quota from March 2010 to March 2012. In terms of SDRs, this access would be nearly four times higher than El Salvador's previous peak of Fund credit outstanding reached during 1983-84. However, in terms of quota, this peak exposure would be lower than those of all earlier and newly approved exceptional access cases (Figure 1).

5. **While the authorities plan to treat the proposed arrangement as precautionary, if the SBA is fully disbursed, GRA credit outstanding to El Salvador would exceed 3 percent of GDP by end-2009** (Table 6). Upon approval of the arrangement, and drawing of the first purchase, El Salvador would become the eighth largest exposure in the GRA, just below Latvia and Liberia, and above the Dominican Republic (Table 5).

6. **Under the proposed SBA, if all purchases were fully made, El Salvador's debt to the Fund as a share of its public external debt would increase significantly.** El Salvador's outstanding use of Fund GRA resources would rise from zero to account for about 13 percent of public external debt by end-2009 (Table 6). El Salvador's projected repayments to the Fund would rise from 1.6 percent of public external debt service in 2009, to reach 33 percent in 2012, and to about 58 percent in 2013.[5] In terms of exports of goods and services, El Salvador's external debt service to the GRA would amount to about 3 percent in 2012 and about 4.6 percent in 2013, closer to the ratios projected for the recently approved arrangements for Georgia and Hungary from among the newly approved exceptional access cases.

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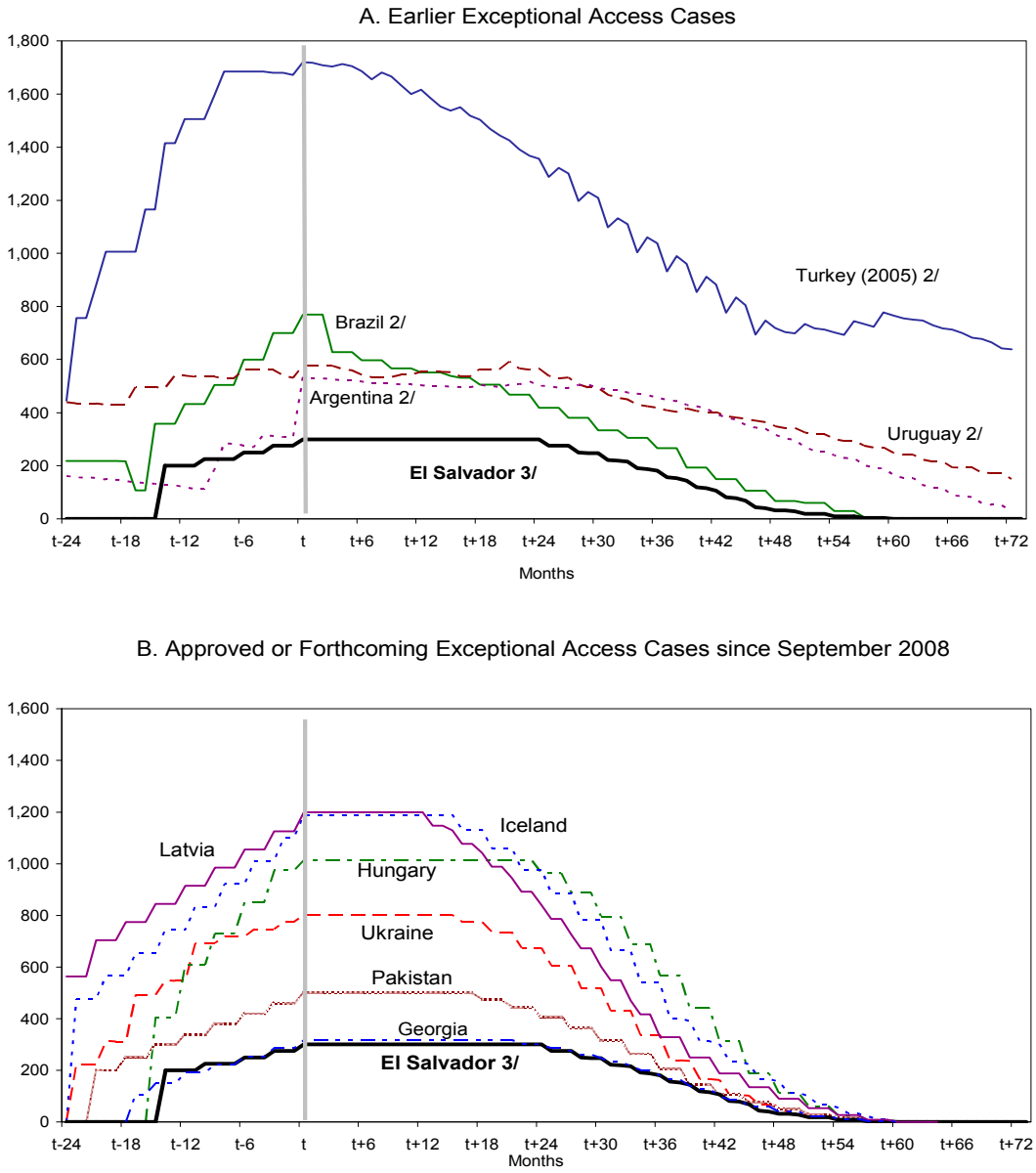
[4] It should be noted that even if the newly proposed access limits (200 percent of quota for annual and 500 percent of quota for cumulative purchases) were approved, the SBA for El Salvador would still be exceptional access, reflecting that the available purchases in 2009 would exceed 200 percent.

[5] The figures on debt service used in this report correspond to the schedule on an obligations basis, in line with the guidelines stipulated in *Review of Fund Facilities—Proposed Decisions and Implementation Guidelines* (EBS/00/216, 11/3/00). Under the obligations schedule, the first repurchase should take place in April 2012, 3¼ years after the first purchase under the arrangement. Under the policy on time-based repurchase expectations, there is an expectation that repurchases of holdings resulting from the purchases in the credit tranches and the EFF, including under exceptional access, will adhere to the expectations schedule, and an extension from the expectations to the obligations schedule would require a decision by the Executive Board.

Figure 1. Fund Credit Outstanding in the GRA around Peak Borrowing 1/
(In percent of quota)



Source: IFS, Finance Department, and IMF staff estimates.

1/ Peak borrowing is defined as the highest level of credit outstanding for a member, in percent of quota. Month t represents the month of the highest historical credit outstanding (in percent of quota). For Argentina, t is September 2001; for Brazil, September 2003; for Turkey, April 2003; and for Uruguay, August 2004. For the countries in Panel B, t would be reached in February 2010 for Georgia, in February 2010 in the case of Hungary, and in October 2010 in the cases of Iceland and Ukraine. For comparability, projected repurchases are assumed to be on an obligations basis.
2/ Projected repurchases (on an obligation basis) as of May 2005. Schedules do not show large early repurchases made by Argentina, Brazil, and Uruguay in 2005-06.
3/ El Salvador's authorities have expressed their intention to treat the arrangement as precautionary, as balance of payments pressures have not materialized.

Table 5. Fund GRA Exposure

		In Percent of			
				Total GRA Credit	
	SDR Millions	Quota	GDP 3/	As of end-December, 2008	After approval of forthcoming arrangement 4/
Top five borrowers 1/					
Turkey	5,534.4	464.6	1.1	31.6	31.0
Hungary	4,215.0	405.9	4.1	24.1	23.6
Ukraine	3,057.3	222.8	2.5	17.4	17.1
Pakistan	2,072.1	200.5	2.1	11.8	11.6
Iceland	560.0	476.2	4.7	3.2	3.1
El Salvador 2/	342.6	200.0	2.4	2.0	1.9

Sources: Finance Department and IMF staff estimates.

1/ Fund credit outstanding as of end-December, 2008.
2/ Fund credit outstanding after the first purchase of the proposed SBA, although El Salvador's authorities have expressed their intention to treat the arrangement as precautionary, as balance of payments pressures have not materialized.
3/ Staff projections to end-2008 for all countries except Pakistan, where projections are for end-June 2009.
4/ Numerator is Fund credit outstanding as of end-December, 2008 or the first purchase under the proposed forthcoming SBA. Denominator is the sum of total Fund GRA credit outstanding as of end-December, 2008 and the first purchase of the proposed arrangement.

B. Impact on the Fund's Liquidity Position and Risk Exposure

7. **The proposed arrangement for El Salvador, if fully drawn, would reduce Fund liquidity by about 0.5 percent** (Table 6).[6] Commitments under the proposed arrangement would reduce the one-year forward commitment capacity (FCC) by SDR 513.9 million—from an estimated level of SDR 97.6 billion at the time of program approval.

8. **After the first purchase, Fund GRA credit to El Salvador as a share of total Fund credit from the GRA would be about 2 percent.** This share takes into account the initial purchase under the newly approved arrangements for Ukraine, Hungary, Iceland, Pakistan, and Latvia. Concentration of Fund credit among the top five borrowers would fall by about 2 percentage points to about 86 percent.

[6] The FCC is the principal measure of Fund liquidity. The (one-year) FCC indicates the amount of GRA resources available for new financing over the next 12 months. See *The Fund's Liquidity Position—Review and Outlook* (EBS/02/177, 10/14/02); (BUFF/02/179, 11/4/02); and BUFF(02/68, 5/15/02). Following the creation of the Short-term Liquidity Facility (SLF), the calculation of the FCC will exclude the repurchases falling due under the SLF—See *A New Facility for Market Access Countries—The Short-Term Liquidity Facility—Proposed Decision* (SM/08/324, Supplement 1, 10/27/08).

Table 6. El Salvador—Impact on GRA Finances

(In millions of SDRs, at end of period unless otherwise noted)

	Jan-2009	2009	2010	2011	2012	2013	2014
Exposure							
Fund GRA credit outstanding to El Salvador 1/	342.6	471.1	513.9	513.9	369.4	117.8	5.4
Fund GRA credit outstanding to El Salvador (percent of quota) 1/	200.0	275.0	300.0	300.0	215.6	68.8	3.1
Fund GRA credit outstanding to El Salvador (percent of total GRA credit outstanding) 2/	1.9	…	…	…	…	…	…
Fund GRA credit outstanding to five largest debtors (percent of total GRA credit outstanding) 2/	86.4	…	…	…	…	…	…
Liquidity							
One-year Forward Commitment Capacity (FCC) 3/	97,603.9	…	…	…	…	…	…
El Salvador's impact on FCC 4/	(513.9)	…	…	…	…	…	…
Prudential measures							
Fund GRA credit outstanding to El Salvador (percent of current precautionary balances) 5/	4.9	…	…	…	…	…	…
Debt and Debt Service Ratios 6/							
El Salvador's GRA credit outstanding (percent of total public external debt)	10.0	12.9	14.0	14.1	10.4	3.5	0.2
El Salvador's GRA credit outstanding (percent of GDP)	2.4	3.1	3.2	3.1	2.1	0.6	0.0
El Salvador's GRA credit outstanding (percent of gross international reserves)	20.4	28.9	30.1	28.4	19.1	5.6	0.2
El Salvador's GRA debt service to the Fund (percent of exports of goods and services)	0.0	0.2	0.3	0.3	3.0	4.6	1.9
El Salvador's GRA debt service to the Fund (percent of total public external debt service)	0.5	1.6	2.6	2.3	32.7	57.8	26.5
Memorandum items							
Fund's precautionary balances 5/	6,938.6						
Fund's residual burden sharing capacity 7/	40.0						
Projected payment of charges to the Fund on GRA credit outstanding 8/	1.7	8.9	12.2	12.6	10.9	5.6	1.2
Projected debt service payments to the Fund on GRA credit outstanding 8/	1.7	8.9	12.2	12.6	156.0	257.5	113.7

Source: El Salvador authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Repurchases follow obligation schedule.
2/ Reflects total GRA credit oustanding as of end-December, 2008, plus the first purchase of El Salvador.
3/ As of end-December, 2008. The Forward Commitment Capacity is a measure of the resources available for new financial commitments in the coming year, equal to usable resources plus repurchases one-year forward minus the prudential balance.
4/ A single country's negative impact on the FCC is defined as the country's sum of Fund credit and undrawn commitments minus repurchases one-year forward.
5/ As of end-April 2008 for precautionary balances. The numerator for credit outstanding includes the first purchase upon approval of the program.
6/ Staff projections for total public external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed SBA. For Jan-2009, staff projections of these variables relate to 2008.
7/ Estimated based on end-December, 2008 data. Burden-sharing capacity is calculated based on the floor for remuneration at 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges and takes into account the loss in capacity due to nonpayment of burden sharing adjustments by members in arrears.
8/ Includes surcharges and service charge.