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GRAY/10/3529

September 14, 2010

**Statement by Mr. Ducrocq on El Salvador
(Preliminary)
Executive Board Meeting 10/89
September 15, 2010**

1. We thank staff for a clear and comprehensive set of papers, as well as Messrs. Guzmán and Gramajo-Marroquin for their very useful Buff statement.
2. **We support the completion of this first review under the three-year Stand-By Arrangement.** We are pleased that all quantitative performance criteria for March and June have been met with significant margins. We also support the conversion of two indicative targets to quantitative performance criteria. We are, however, somewhat disappointed by the postponement of the test date for six of the structural benchmarks.
3. We share staff's assessment on the current economic situation and its prospects. The ongoing economic recovery is modest, but in line with the SBA projections. In this context, the public debt dynamics (Box 2) confirms that **the most obvious risks to the economic outlook is a worsening of the public debt trajectory**, which is highly sensitive to growth shocks. A strict respect of the deficit targets under the program is therefore crucial, and we urge the authorities to accelerate the reform of the subsidies scheme, with a view to strictly control government expenditure, and to fight against tax evasion.
4. Congressional approval is also needed for long-term borrowing, with a two-thirds majority, which creates delays in disbursements from international financial institutions. Even if we note that the external financing requirements projected for 2010 are lower than anticipated (Table 10), fewer disbursements could complicate the external financial situation in 2011. *In this respect, we would appreciate an update on disbursements from the World Bank, the IDB, and the CABI, anticipated in 2010 and 2011.*
5. On financial sector issues, we are encouraged by the FSSA, showing that the soundness of the banking system has improved since the previous assessment in 2004. **We regret, however, the delay incurred in the financial supervision and regulation law**, which has been presented to the Congress over a year ago. *Could staff update us on the ongoing discussions with Congress? Is the congressional approval feasible before the end of the year?*
6. Finally, **we thank staff for the ex-post evaluation of the last SBA.** We share staff's view

that the main objectives of the program (preventing deposit flight and preserving macroeconomic and financial stability) have been met. The political uncertainty was also well managed and the fact that the authorities did not have to draw on Fund's resources suggests that the program was successful in enhancing confidence. In this respect, this program provides an early demonstration of the validity of the Fund's new approach to crisis prevention through liquidity provision. However, we cannot consider a program to be totally successful that has been de facto "off track" since April 2009, as a consequence of a performance criterion not being met. We understand, however, that the program was designed in a period of high uncertainty, and the macroeconomic framework supporting it proved clearly to be too optimistic.