

The contents of this document are preliminary and subject to change.
--

GRAY/10/3551

September 14, 2010

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

We thank staff for a very helpful set of papers and Messrs. Guzmán and Gramajo-Marroquin for their insightful statement. We concur with the staff's assessment and endorse the completion of the first review under the SBA. The authorities are to be commended for satisfying all of the performance benchmarks. With encouraging signs that the recession has bottomed out, we echo staff's call for accelerated reforms to boost the resilience of El Salvador's dollarized economy, with an emphasis on mobilizing stronger political consensus for intensified efforts.

While the authorities' preference for a gradual fiscal consolidation over the medium-term is understandable, given the political constraints, there is further scope to intensify the deficit reduction effort, particularly from more timely rationalization and better targeting of subsidies, and more substantial progress on tax reforms. Meanwhile, the authorities' openness to seek further technical assistance to strengthen the PFM process is welcome. Going further, consideration is also urged to streamlining the debt management framework along the lines recommended by staff, to eliminate the duplication of functions across public agencies and to facilitate the "design of a consistent public debt strategy".

We welcome the financial system's stability resilience in the face of the global recession and political uncertainty which confronted the economy in 2009. Nevertheless, the authorities are urged to accelerate the implementation of reforms to strengthen the regulatory framework, with particular attention to key laws needed to respond to the 2004 FSAP update recommendations. In this regard, we look forward to progress in strengthening the central bank's ability to function as a lender of last resort, consolidation of financial sector supervisory agencies and improving the bank resolution framework. As staff notes, the economy would also benefit from increased measures to deepen domestic capital markets.

We encourage progress in remedying the weakness underlined in the safeguard assessment of

the central bank to improve transparency and external auditing standards.

With these remarks, we wish the authorities well.