

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

GRAY/10/3560

September 14, 2010

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

1. We support the completion of the first review under the SBA. All end-June performance criteria were met. Structural measures on the subsidy reform and the financial system were delayed, but we note the authorities' commitment to implement them by the end of the year. We commend the authorities for the good performance under the program.
2. The authorities' policies for the period ahead appear to be broadly appropriate for preserving financial stability, safeguarding economic recovery, and strengthening the medium-term fiscal position as envisaged by the program. We broadly agree with the staff's economic policy advice and limit our comments to fiscal and financial sector issues.
3. The authorities' fiscal strategy appropriately envisages gradual consolidation in the short term to support economic recovery. It faces, however, considerable risks. Like the staff, we encourage the authorities to finalize their program of fiscal deficit financing for 2011 and to ensure an early rollover of the maturing Eurobond in order to mitigate financing risks to the near-term fiscal policies. The existing economic and political risks to deficit targets and debt dynamics, if materialized, should be counterbalanced by spending cuts and adoption of additional revenue measures, possibly from the fiscal pact. This said, we are reassured by the authorities' commitment to the program targets.
4. On the medium-term issues, reaching agreement on the fiscal pact to increase government revenues will be crucial for fiscal sustainability. The approval of this would also provide fiscal space for the desired increases in social spending.
5. We are concerned about the delays with financial sector reforms. Implementation of the 2004 FSAP update recommendation has been limited and the approval of the financial supervision and regulation law, envisaged by structural conditionality, has been delayed. Given that concerns about the financial sector were among the reasons for the current arrangement, we urge the authorities to intensify their efforts with financial reforms priorities that are outlined in the FSAP update.
6. Specifically, we emphasize the importance of addressing legal impediments to the

Central Bank's ability to provide liquidity support to individual banks and look forward to the passage of the FSSRL. Like the staff, we believe that the authorities should also pay attention to designing comprehensive policies for systemic liquidity and banking crisis resolution. In this regard, the structural benchmark related to test bank resolution exercise is well-placed.

7. With the above remarks, we wish the authorities every success.