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September 14, 2010

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

We thank staff for a well written set of papers, and Mr. Guzmán and Mr. Gramajo-Marroquin for an informative Buff. We welcome the ongoing gradual recovery in El Salvador to which the two consecutive SBAs have contributed, providing a stabilizing and supportive role. We support completion of the first review. Performance under the current program has been fairly good with all quantitative performance criteria met, though there's a more mixed picture on structural reforms.

Improving growth prospects is the key challenge over the medium term. So we support staff's call for sustained efforts to support the investment climate, as well as creating fiscal space for investment spending. To ensure this medium term goal can be achieved it is important that fiscal consolidation plans are strongly adhered to, and we agree with staff that the authorities fiscal consolidation strategy leaves little room for maneuver. A strong focus on meeting current targets will be critical and we would encourage the authorities to make progress on reforming subsidies and more generally maintaining a tight rein on public expenditure. Further progress on tax administration is also necessary, though we welcome progress made so far.

Given the importance of IFI loans to help support the authorities programme and the congressional approval needed to enable this, we agree with staff on the importance of maintaining strong political support, which is also needed to ensure that the fiscal strategy remains on track. *An update on anticipated financial support from the IFIs would be welcome.*

We welcome the resilience of the **financial sector** confirmed in the findings of the recent FSSA, though like other Chairs, we are concerned about the delay in the approval of the financial system supervision and regulation law (FSSRL) and *would welcome a further update on the prospects for this legislation from staff.* We also encourage the authorities to

implement the broad set of recommendations coming out of the FSSA to strengthen the financial system, and ensure its resilience remains intact.

On the **Ex post evaluation of the 2009 SBA which we welcome**, we agree with staff that the case of El Salvador shows the usefulness of crisis prevention instruments and was a good example of a frontrunner of the kind of lending which subsequently became the new High Access Precautionary Arrangement. We agree that given the coalescence of political and economic events in El Salvador in early 2009 the main objectives of the programme were met, and showed the value of early intervention to provide confidence, prevent capital flight and preserve macroeconomic and financial stability. We agree with Mr. Ducrocq that the programme cannot be considered a complete success as key performance criterion were not met, but also understand the particular constraints and uncertainty during the period the programme was designed.