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**Statement by Mr. Vogel and Mr. De la Barra on El Salvador
(Preliminary)
Executive Board Meeting 10/89
September 15, 2010**

We are encouraged by the fact that after an economic contraction in 2009, a recovery, although modest, is underway. As noted by Mr. Guzmán and Mr. Gramajo-Marroquin in their helpful Buff statement, the 2009 Stand-By Arrangement has been very helpful for the country in reinforcing confidence. Political commitment and the authorities' ownership of the program have been critical pillars.

However, challenges are significant, which are reflected in El Salvador's much lower growth performance compared with its neighbors. Evidently, this performance is the result of certain weaknesses El Salvador has shown in recent years, as underscored in Box 6 of the staff report associated, for instance, with the country's security situation and education. Sound economic policies and structural reforms in different areas would allow El Salvador to enjoy higher GDP growth rates in the medium term as the staff projects (4 percent between 2013 and 2015).

In the fiscal area, considering the country's substantial social and infrastructural needs, the authorities should focus their policies on rationalizing public expenditures, devoting more resources to the above-referred areas while paying particular attention to an efficient use of these resources, and on significantly enhancing government revenue, which shows a comparatively low level relative to the country's GDP. In this regard, we welcome the staff's assessment that the tax administration has improved, while we note that much remains to be done, for instance, in addressing tax evasion.

We note that the authorities are finding different ways to face economic growth challenges, for example, through fostering public-private partnerships to stimulate investment in basic infrastructure and enhancing the role of public banks to support lending to the private sector. Frameworks and policies associated with the above-referred objectives should be transparent and carefully monitored in order to avoid, as the authorities note, a significant fiscal burden.

We welcome efforts and progress made in the financial system aimed at enhancing supervision and regulation, improving the legal framework of domestic capital markets and

bolstering the bank resolution framework.

In sum, efforts and achievements underlined an encouraging beginning of the program, which should continue to be supported from the political side, particularly considering the existence of considerable downside risks, including the likelihood of observing lower levels of remittances and regional trade.

With these comments, we support the proposed decision and wish El Salvador and its people every success in their future endeavors.