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September 14, 2010

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

We thank staff for the well-written papers and Messrs. Guzmán and Gramajo-Marroquin for their informative Buff statement. The case of El Salvador shows the need for adjusting Fund-supported programs when the initial macro-economic framework becomes largely obsolete because of developments and shocks unforeseen at the time of the negotiation of the Fund arrangement. Indeed, El Salvador's first SBA agreed in January 2009 was replaced by a successor arrangement well before the expiration of the first arrangement, as the new government and the IMF agreed on the need for an adjusted macro-economic framework and coherent economic objectives.

Because under the new SBA all quantitative performance criteria have been met and program implementation is satisfactory, we support the completion of the first review.

**Article IV and First Review under the SBA**

We broadly agree with the staff's appraisal for the 2010 Article IV consultations.

We share other Directors' concerns about the downside risks related to the gradual fiscal consolidation strategy. We welcome that the macroeconomic outlook has improved. However, public debt has increased significantly since 2008 and this trend will continue in 2011. We share Mr. von Stenglin's and Ms. Holler's comment that the path of gradual deficit reduction leaves no room for slippages. We agree with Mr. Rediker and Ms. Hull that contingency measures are needed to mitigate the possible impact of downside risks on debt dynamics.

We agree with staff that dollarization continues to be the cornerstone of macroeconomic and financial stability in El Salvador. Like Mr. Rediker and Ms. Hull, we urge the authorities to give priority to developing comprehensive crisis resolution arrangements for the banking sector, improving systemic liquidity management and strengthening lender-of-last resort capabilities.

**Ex-post evaluation**

We agree with staff that large deviations between the initial program projections and the actual outturn may be caused by sudden changes in the global and domestic environment and different policy priorities after a major political shift in a country. This is exactly what happened in El Salvador. Moreover, the initial program's main purpose was to bridge the transition from one government to the other. We agree with staff that this purpose was well served with the HAPA in 2009.

Its design appropriately reflected the realities at the time of the previous government and gained the support of the then opposition party. The main concern at that time was heightened uncertainty which could have triggered a significant deposit withdrawal from the banks.

The program reached its objective as the authorities did not have to resort to drawing on the precautionary program. El Salvador's financial system withstood the global financial crisis and the political uncertainties.

We praise staff for remaining engaged during the political transition and maintaining a well-suited framework for policy discussions. This strategy helped to avoid a detrimental outcome by keeping the buildup of tensions in the macro-framework manageable while the ownership by the authorities of the new program proved to be credible.