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

Staff's assessment of El Salvador's economic performance and outlook are encouraging and we commend the authorities for their steady, confidence-enhancing macroeconomic policies, as agreed under the precautionary Stand-By Arrangement (SBA). We support the completion of this first review under the SBA, but caution that medium-term challenges, in particular the necessary consolidation of the fiscal strategy, may yet derail the program.

Progress in advancing with growth-enhancing structural reforms is mixed. If the country's growth potential is not adequately taken advantage of, debt dynamics are bound to become unsustainable. We urge the authorities to pay attention to the results of the debt sustainability analysis and to sufficiently incorporate its conclusions in the 2010-2014 Plan Quinquenal de Desarrollo. This could be possible by accelerating the implementation timetable of the fiscal pact, as suggested by staff.

We note that El Salvador's economic performance seems to have been better under dollarization than under the peg, namely with regard to the level of interest rates before and after dollarization and the stabilizing effect on output (Box 3). This finding suggests that an independent monetary regime is not recommendable for El Salvador, despite foregoing monetary policy autonomy. *Does this finding hold lessons for other countries?*

The FSSA provides a detailed and valuable roadmap for further strengthening the resilience of the financial sector that we encourage the authorities to follow. The worthy objective of increased transparency, such as the adoption of an international financial reporting framework and the implementation of audit recommendations, calls for further work by the authorities. *Will the authorities implement the recommendations of the 2009 safeguards assessment? We ask staff to provide some indication on the findings of the 2010 safeguards assessment.*

Regarding the business and investment climate, the incidence of crime and lagging workforce education are major obstacles, as are institutional weaknesses. Spending on social programs, while helpful, is clearly not sufficient and a strong emphasis on improved framework conditions for business activity is warranted. *What concrete measures does the government envisage in order to improve the business climate and international competitiveness?*