INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/106

EL SALVADOR

April 2020

STAFF REPORT—REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR EL SALVADOR

In the context of the Staff Report - Request for Purchase Under the Rapid Financing Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 14, 2020, following discussions that ended on April 3, 2020, with the officials of El Salvador on economic developments and policies underpinning the IMF arrangement under the Rapid Financing Instrument. Based on information available at the time of these discussions, the staff report was completed on April 8, 2020.
- A **Statement by the Executive Director** for El Salvador.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves a US$389 Million Disbursement to El Salvador to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF approved El Salvador's request for emergency financial assistance of about US$389 million under the Rapid Financing Instrument to combat the COVID-19 pandemic.
- This assistance will help El Salvador direct funds swiftly to the country's most affected sectors, including the healthcare system.
- This is the first disbursement under an IMF lending arrangement to El Salvador in over three decades.

Washington, DC – **April 14, 2020**. The Executive Board of the International Monetary Fund (IMF) approved El Salvador's request for emergency financial assistance of about US$ 389 million (SDR 287.2 million, 100 percent of quota) under the Rapid Financing Instrument (RFI) to help the country meet the urgent balance of payments need stemming from the outbreak of the COVID-19 pandemic and direct funds swiftly to the country's most affected sectors, including the healthcare system. This emergency financial assistance represents the first disbursement under an IMF lending arrangement to El Salvador in over three decades.

El Salvador has adopted strict measures to prevent and contain the pandemic since early February—even before the first case was diagnosed—including travel restrictions, mandatory quarantine for exposed citizens, suspension of non-essential public and private sector operations, and a nationwide shelter-in-place order. These containment measures coupled with the global economic downturn are expected to stall economic activity in the short term and cause a temporary deterioration in the country's fiscal and external positions.

The authorities' emergency response also comprises measures to mitigate the economic impact of the pandemic on the population, including through targeted cash transfers to vulnerable households and tax relief in the most affected economic sectors. IMF financing will help preserve fiscal space and catalyze significant funding from other multilateral institutions.

The IMF continues to closely monitor El Salvador's situation and stands ready to provide policy advice and further support as needed.

Following the Executive Board's discussion of El Salvador, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, issued the following statement:

"The COVID-19 pandemic is severely impacting El Salvador, creating an urgent balance of payments need. The authorities have promptly adopted measures to mitigate the economic fallout from the pandemic, including by providing targeted cash transfers to vulnerable households and tax relief to affected firms. The IMF's emergency financing under the Rapid Financing Instrument will provide much-needed liquidity to support the authorities' response to the crisis, help finance increased health spending, and catalyze further assistance from other multilateral institutions needed to close the remaining financing gap and ease the adjustment burden. It is critical to ensure the timely deployment of the funds as well as their transparent accounting and reporting to guarantee their appropriate use.

“A temporary widening of the budget deficit is necessary to preserve public health and contain the economic impact of the pandemic. Macroeconomic stability should be preserved by allowing these temporary measures to lapse next year—once the pandemic is over—and by committing to a gradual fiscal adjustment starting in 2021. Such strategy should target a primary fiscal balance of 3½ percent of GDP by end-2024 and put public debt on a firmly declining path to reach 60 percent of GDP by 2030, ensuring compliance with the Fiscal Responsibility Law.”

EL SALVADOR

April 8, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic is causing serious stress on the economy due to containment measures. In 2020 the Salvadoran economy is expected to contract by 5.4 percent—7¾ percentage points below pre-COVID projections. A recovery is projected to start in 2021 and continue over the medium term.

Main Policy Recommendations:

- In the short-term increase health spending and adopt measures to support the vulnerable, while providing broad temporary relief to the economy, with a package of measures estimated at 3½ percent of GDP.
- Ensuring the functioning of the interbank markets, adequately monitoring risk and liquidity requirements and increasing buffers for emergency liquidity assistance would support financial stability through the crisis.
- The temporary deterioration of the fiscal position in 2020 caused by the pandemic shock requires a credible strategy for gradual adjustment over the medium term, once the shock subsides. The authorities' commitment to an adjustment of 3 percent of GDP over 2021–24 will put the public debt (including pensions) on a firmly downward trajectory, reaching 60 percent of GDP by 2030, in compliance with the Fiscal Responsibility Law.

RFI. The authorities request to purchase 100 percent of quota (SDR287.20 million, about US$389 million) under the standard window of the RFI to cover part of the substantial balance of payments needs. The IMF emergency lending represents about a fifth of the 2020 budget and is expected to catalyze significant financing from other multilaterals. This is the first IMF purchase of El Salvador since the mid-nineties and represents about 10 percent of gross international reserves.

Approved by:
Aasim M. Husain (WHD) and María Gonzalez (SPR)

Discussions took place virtually during March 23-April 3, 2020. The staff team comprised Alina Carare (head), Fabio Di Vittorio, Yorbol Yakhshilikov, and Martina Hengge (all WHD). Edgar Cartagena (OED) also participated in the meetings; Xiomara Jordan, Catherine Koh and Heidi Canelas (WHD) supported the team. The team held discussions with Minister of Finance Nelson Fuentes, Central Bank President Nicolás Martinez, Superintendent of the Financial System Mirna Arévalo, and representatives of international financial institutions.

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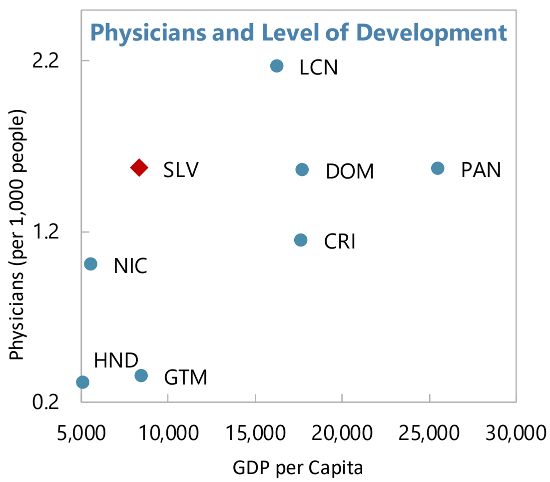
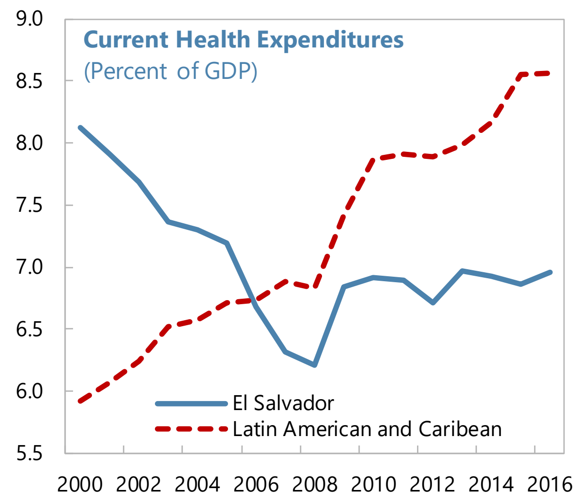
CONTEXT

1. El Salvador has strived to achieve inclusive growth, including by investing in public health. Substantial progress has been made in the coverage and efficiency of public healthcare, including when compared to peers (charts). The current administration is committed to further improving healthcare, as reflected in the 2020 budget.





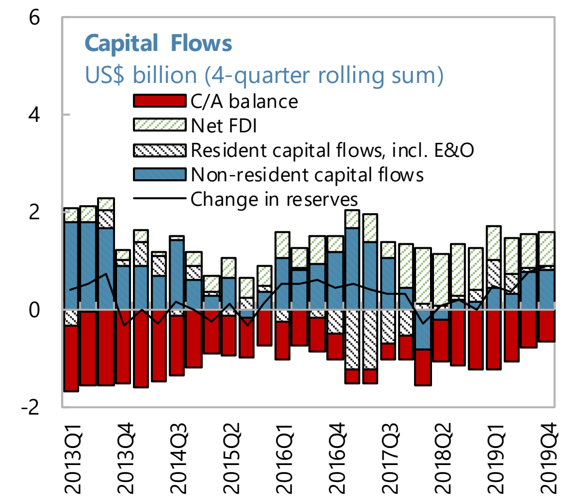
Source: World Development Indicators (WDI).
Note: LCN is Latin America and Caribbean.

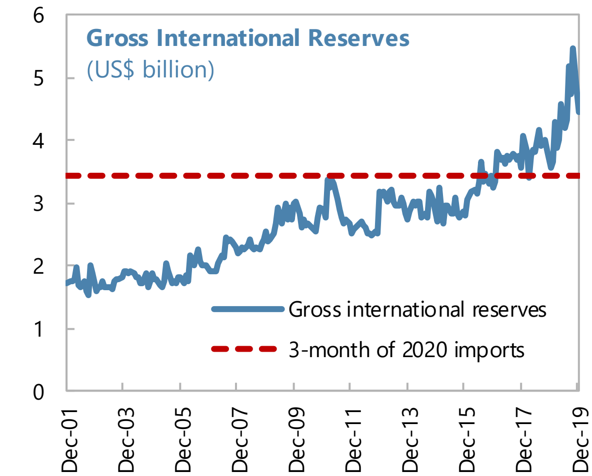
2. Fiscal space remains at risk and relatively high public debt is the main vulnerability. While the primary balance improved by 2¾ percent over 2013–18—mainly due to savings from the 2017 pension reform—public debt (including pensions) continued to grow due to rising borrowing costs, reaching 70.2 percent of GDP at end-2019 and putting fiscal space at risk.

THE SHOCK

A. Pre-Shock Conditions

3. The economy continued to enjoy robust growth of 2.4 percent in 2019. Higher retained FDI earnings and strong tourism receipts narrowed the current account deficit (to 2.1 percent of GDP) while capital inflows led to an accumulation of about US$900 million in gross international reserves. Banks further strengthened their liquidity position as deposits grew faster than credit, and reduced balance sheet risks (the deposit coverage of loans increased to 99 percent and NPLs declined to 1.8 percent). The fiscal primary surplus narrowed to 0.6 percent of GDP and the overall fiscal balance was 3.1 percent of GDP. Until February the economy was poised to have a similar performance in 2020.





Sources: National authorities and IMF staff calculations.

B. Shock: Measures to Contain the Spread of the COVID-19 and Support the Economy

4. **The authorities adopted timely measures to prevent the spread of COVID-19.** Detection measures were introduced starting early February and containment measures (including school closures, mandatory quarantines, shut-down of non-essential parts of the public sector) followed immediately after, before the first case was diagnosed. In response to the first case of coronavirus in early March the government deployed epidemiologists to detect and control potential contacts. The government instituted a shelter in place on March 21, closing all non-essential businesses for 30 days, when three cases were diagnosed.

5. **Measures to mitigate the effects of the pandemic on public health were also taken.** Since end-February, hospitals have been stocked with necessary equipment. Wages of health workers have been increased and a new large hospital is being built.

6. **The Legislative Assembly promptly approved a package of relief measures proposed by the government and a bill to authorize US$2 billion (about 8 percent of GDP) borrowing to finance all COVID-19 related spending and the recovery beyond 2020.**[1] The measures provide

Text Table 1. COVID-19 impact on 2020 budget 1/

	Millions of U.S. dollars	Percentage of GDP
Total measures	**916**	**3.5**
Current spending	777	3.0
Higher wage bill; bonus for affected staff	70	0.3
Health spending (goods and services)	260	1.0
One-off transfer to households	400	1.5
Utility payment freezes 2/	25	0.1
Other measures for relief/ recovery	24	0.1
Capital spending		
Construction of hospitals	140	0.5

1/ IMF staff estimates.
2/ Subsidy to utilities companies.

[1] The president assigned International Commission Against Impunity in El Salvador (CICIES) to inspect the COVID-19 emergency funds and nominated a Committee in Charge and Accountable for Administering the Fund. While it is

relief to individuals and companies affected by the pandemic, including through deferring utility payments for water, energy (see text table), telecommunication services, mortgages, consumer loans and credit cards for a three-month period. Some companies operating in the tourism industry are exempted from the payment of the special tourism tax and the payment of 2019 income tax for three months. Moreover, approximately 75 percent of households will receive a US$300 one-time transfer, slightly higher than the average minimum wage.

7. **Lower growth and anti-pandemic measures, including relief measures, are expected to deteriorate the fiscal position considerably.** Staff estimates that the 2020 overall fiscal balance will deteriorate by about 5½ percent of GDP compared to 2019, mostly due to higher spending due to COVID-19 related items (3½ percent of GDP), tax revenue loss (1½ percent of GDP due to the economic contraction), and higher interest payments (about ½ percent of GDP).

8. **The Central Bank issued a number of temporary normative acts during the second half of March to alleviate the adverse impact of COVID-19 on the financial system**. In the next 180 days, banks can (i) discount their reserve requirements with the Central Bank by 25 percent of newly issued loans, (ii) reduce overall reserve requirements for various other liabilities, by about 5 percent of deposits (to about 17 percent) and (iii) amend their provisioning for NPLs through freezing the credit ratings of clients to pre-shock levels, and temporarily impose a moratorium on credit risk ratings. Lending conditions have been temporarily relaxed, by introducing a potential grace period for loan repayments. Moreover, employers are instructed to continue to make social security payments for workers.

OUTLOOK AND RISKS

9. **The Salvadoran economy is expected to contract in 2020 and recover thereafter, broadly in line with the U.S. economy, to which it is closely interconnected:**

- In 2020, staff expects the economy to contract by 5½ percent, as the slowdown in the U.S. economy affects external demand (including exports and tourism) and remittances, and measures to contain the COVID-19 outbreak will impact consumption and investment, and the sudden stop in the capital markets will sharply reduce inflows. The balance of payments impact is US$1,432 million and the BoP gap can be financed mostly through multilaterals, thereby

Text Table 2. External Sector Impact of the Shock
(Millions of U.S. dollars)

	2019	2020 1/		Difference
		Pre-Shock	Post-Shock	
Current account	**-558**	**-1,017**	**-1,068**	**-51**
Exports	4,786	4,879	4,221	-658
Imports	-10,867	-11,574	-8,712	2,862
Tourism receipts	1,306	1,326	274	-1,052
Remittances	5,626	5,869	4,686	-1,183
Other	-1,408	-1,517	-1,537	-20
Financial and capital account	**1,299**	**1,267**	**-113**	**-1,381**
BoP	**876**	**250**	**-1,182**	**-1,432**
Financing gap			**1,182**	
Of which: Prospective RFI			389	
Of which: Other multilaterals			793	

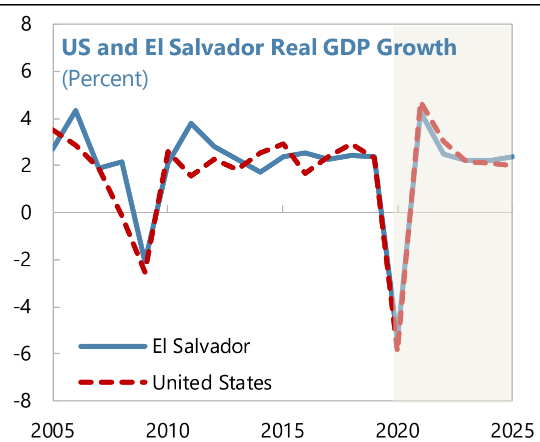
1/ Staff projections for 2020 in January and April respectively. Selected BoP items.

critical to ensure timely availability of funds, it is important to track, account for, and report in a transparent manner all resources deployed to mitigate the risk of misusing them.

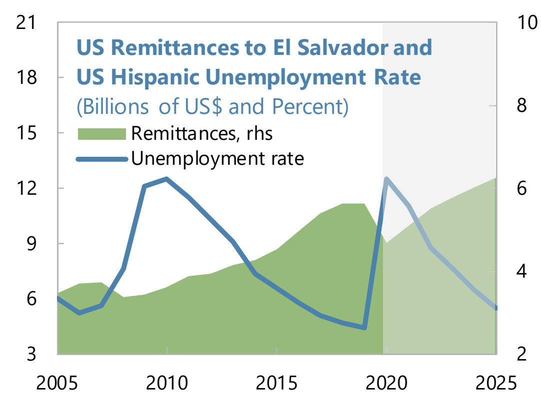
avoiding the use of reserves, which could possibly affect confidence. In particular, staff expects:

- Export volumes to decline by 9 percent, and tourism receipts by more than US$1 billion.
- Remittances to contract by 17 percent, as opposed to an increase of 4.3 percent projected in January of this year, which along with a decline in households' income due to the quarantine and shelter in place orders, are expected to contract consumption.
- Imports to decline due to a plunge in oil prices by 40 percent compared to January, and a fall in exports (affecting intermediate goods). Spending on medical drugs, equipment and outfitting the hospital will mostly offset the fall in imported consumption goods due to a plunge in domestic demand.
- Lower FDI and other capital inflows to finance big projects by about 80 percent compared to the January projection, given the heightened risk aversion in international markets.

- In 2021–25, real output is projected to slowly converge to its potential (2½ percent growth), on the back of new investment projects and a global economic rebound. Remittances will return to their long-term growth rate of 4 percent (text charts). Capital inflows are expected to support medium-term growth (see Tables 1-5).



Sources: National authorities and IMF staff calculations.

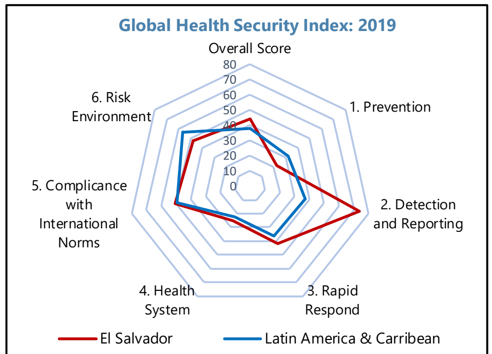


Sources: Haver Analytics, national authorities and IMF staff calculations.

10. Risks are tilted to the downside. Considerably weaker-than expected global growth and a prolonged pandemic pose serious risks to the outlook, which could further depress remittances and trade. These, jointly with risks to private sector financial flows (in the form of both foreign direct and portfolio investment) could strain the country's reserve buffers. Dollarization makes the financial sector a potential amplifier of the shock, should liquidity dry up. Additional risks include:

- On the **financial** side, borrowing costs could increase due to higher sovereign risk premium driven by investors' flight to safety, if the global pandemic deteriorates further, and/or due to domestic policy slippages.

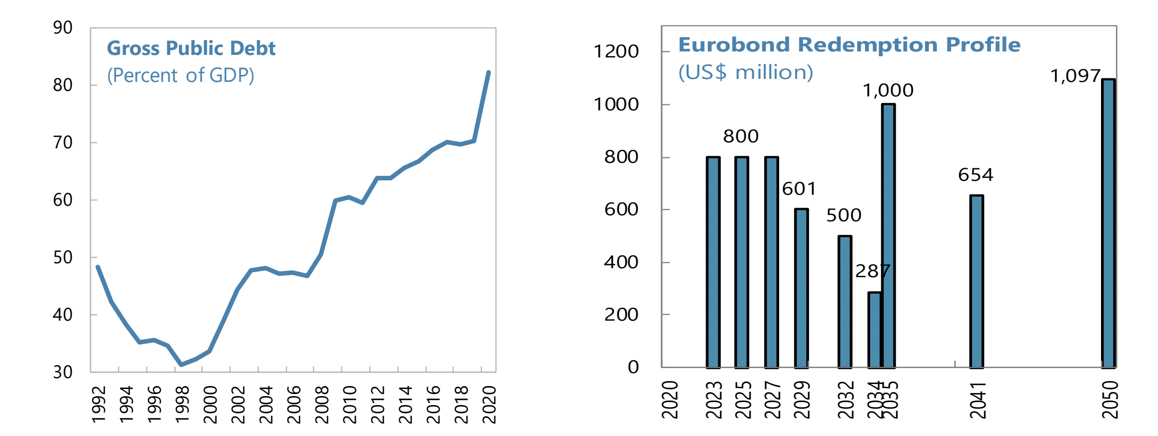
- On the **health** side, El Salvador appears reasonably well prepared to respond to a local COVID-19 outbreak compared to the region (see chart). However, a further deterioration of the global pandemic could have a serious impact on El Salvador's economic activity due to a disruption in global supply chains and a halt in investment plans.



Source: John Hopkins Center for Health Security
Note: Higher scores mean higher health security.

POLICY DISCUSSIONS: ENSURING FISCAL SUSTAINABILITY

11. Public debt is relatively high and remains vulnerable to shocks. The economy is vulnerable to natural disasters and external demand shocks. The current shock, a combination of a U.S. recession and the global pandemic, is expected to increase the public debt level (including pension liabilities of about 19 percent of GDP) by more than 10 percent of GDP to 82 percent of GDP in 2020. Over the medium term, absent significant fiscal adjustment, debt would continue to edge up, reaching 85 percent of GDP by 2025.



Sources: National authorities and IMF staff calculations.

12. Preserving fiscal sustainability should be a policy priority. The temporary deterioration of the fiscal position in 2020 is appropriate in light of the global pandemic, but (i) the temporary measures should be allowed to lapse in 2021 and (ii) once the crisis recedes the authorities should move expeditiously to announce a credible fiscal consolidation plan to put debt on a firmly declining path. These measures (both to fend-off the crisis, and to help ensure sustainability in the medium term) have been included in the baseline scenario underpinning this request (Tables 1-5, and DSA Annex I), supported by the authorities' commitment. An early announcement of a credible strategy that secures compliance with the Fiscal Responsibility Law over the medium term would elicit positive confidence effects that should be reflected in lower borrowing costs.

13. **A gradual fiscal adjustment of 3 percent of GDP over 2021–24 would ensure fiscal sustainability and compliance with the Fiscal Responsibility Law (FRL).** This fiscal adjustment would signal a strong commitment to the FRL public debt (including pensions) anchor, 60 percent of GDP by 2030. The bulk of the adjustment should be implemented in 2022–23, when the rollover risk will start intensifying due to Eurobond repayments and the economy is expected to have fully recovered from the pandemic shock.

14. **Staff recommends permanent measures as follows**:

- *Tax administration measures* of ¾ percent of GDP, as already planned by authorities.[2]
- *Increasing excise duties on petrol and diesel* given the sharp decline in oil prices.
- An *increase in tax revenues* by introducing a property tax and/or raising rates of consumption taxes (VAT or excises). Measures should also be put in place to protect the most vulnerable, including VAT refunds.
- A *decrease in current spending* by (i) reducing the wage bill (e.g. hiring freeze, early retirement of public employees,) and (ii) centralizing procurement across ministries and public sector agencies.

Measures Needed to Bring Public Debt to a Safe Level by 2030 1/
(In percent of GDP)

	2021	2022	2023	Total
Authorities' measures				
Electronic invoicing	0.1	0.2	0.2	0.5
Other tax administration (e.g. monotributo)	0.1	0.1	0.1	0.3
Total (A)	**0.2**	**0.3**	**0.3**	**0.8**
Additional proposed measures				
Revenues				**0.8**
Property tax		0.3	0.3	0.6
Excises		0.1	0.1	0.2
Spending				**0.9**
Goods and services	0.2	0.2		0.4
Wage bill	0.2	0.2	0.1	0.5
Total (B)	**0.4**	**0.8**	**0.5**	**1.7**
Total Measures (A+B)	**0.6**	**1.1**	**0.8**	**2.5**

1/ 60 percent of GDP (FRL)

- Additional measures of ½ percent of GDP in 2024, either on revenues or current spending.

15. **Fiscal risks and contingencies.** In addition to the macroeconomic risks listed above, fiscal risks stem from a deterioration in the fiscal position, if the temporary increase in spending caused by the anti-pandemic measures becomes permanent, or if there is a larger loss in revenues in 2020 than presently envisaged. If such risks materialize, there is some room to compress capital spending somewhat further. For 2021, staff recommends reversing the increase in spending due to emergency measures for about US$900 million in order to preserve fiscal sustainability, and over the medium-

[2] The measures include the electronic invoicing pilot, the simplified tax code for small businesses, the transfer pricing initiative. In addition the authorities plan to adopt anti-tax evasion measures, that require amendements to the Tax Procedure Code and IT enhancements as recommended in recent IMF TA.

term reprioritizing public investment projects to finance critical infrastructure. The medium-term adjustment should be embedded in a medium-term fiscal plan that prioritizes spending to address longer term structural issues (security, infrastructure and education gaps), while helping lower borrowing costs substantially by identifying non-borrowing sources of financing and spending efficiencies.

MAINTAINING FINANCIAL STABILITY

16. Maintaining financial stability is important to support long-term growth. Staff recommends that the temporary relaxation of the bank lending standards to cushion the negative impact of the economic shock need to be accompanied by adequately preserving the classification of NPLs and banks should continue practices of assessing the financial situation of borrowers and when needed appropriately record deferred payments. In addition, staff recommends establishing strict criteria for acceptable loan restructuring, which should be well communicated to avoid risk buildup and moral hazard issues. Banks and authorities should conduct loan portfolio reviews and continue risk assessments on a regular basis to measure the impact of COVID-19. Additional financing or extending credit to affected firms could be part of the loan restructuring process but should be in line with prudent risk management.

17. The authorities' efforts should focus on maintaining financial stability. In view of the potential drain on banks' capital buffers, due to loan losses, the Superintendency should request banks to make an impact assessment of COVID-19 disruptions on liquidity and capital buffers and accordingly request banks to develop plans on future recapitalization within a reasonable timeframe.

RAPID FINANCING INSTRUMENT: RATIONALE, ACCESS, ABILITY TO REPAY, AND SAFEGUARDS

18. The RFI is the most appropriate instrument at this juncture. El Salvador's qualification is based on a balance of payments need arising from the global COVID-19 pandemic shock, and the lack of feasibility to implement a UCT-quality Fund-supported program, including considering the current practical difficulties to quickly design such a program, given the urgent need for financial assistance and the authorities' focus on containing the pandemic and immediate recovery efforts. In particular, the magnitude of the shock requires immediate emergency assistance and sizable financing of necessary health and other measures, including the recently announced relief package. Moreover, the rapid IMF involvement will play also a catalytic role in securing external loans from other multilaterals and help preserve market access.

19. Staff considers an immediate access of 100 percent of quota under the RFI to be appropriate. The size of the shock suffered by El Salvador would allow for an approved of 100 percent of the quota (SDR287.2 million or about US$389 million) with an immediate purchase under the RFI standard window. The Fund's exposure to El Salvador would amount to 1½ percent of GDP, less than a tenth of gross international reserves at the central bank. The risks from this exposure will be mitigated by the authorities' track record of servicing their public debt obligations, and their commitment to fiscal adjustment over the medium term to safeguard fiscal sustainability.

20. El Salvador is assessed as having sustainable debt and adequate capacity to repay the Fund (Table 6). The DSA (Annex I) shows debt to be sustainable under the gradual fiscal adjustment strategy to which the authorities are committed, even as the pandemic shock will raise the public debt ratio temporarily.

21. The purchase will be channeled to the Ministry of Finance for budget support. The authorities agree to staff conducting a safeguards assessment of the central bank which would need to be completed before Executive Board approval of any subsequent arrangement and to provide Fund staff with the necessary central bank audit reports and authorize the external auditors of the central bank to hold discussions with staff. In their Letter of Intent (Annex II), the authorities confirm that a Memorandum of Understanding between the Central Bank and the Ministry of Finance related to the obligation of repayment to the Fund is signed before the purchase.

AUTHORITIES' VIEWS

22. The authorities are in broad agreement with staff on the external and fiscal financing needs, and policies to address them. The authorities emphasized the uncertainty around the outlook, while agreeing on the impact on external and fiscal needs. They believe that strict and timely implementation of measures can ultimately shield the economy, and the relief measures could mitigate the adverse impact on the most vulnerable households and firms and support the recovery. The authorities noted that low execution of capital spending may somewhat contain the deterioration of the fiscal position in the short term and stressed that the pandemic measures are temporary and will be reversed fully in 2021. The authorities commit to gradually adjusting the primary balance over the medium term to achieve 3½ percent of GDP primary surplus by end-2024 and target a debt to GDP ratio of 60 percent of GDP by 2030 in line with the Fiscal Responsibility Law. The authorities emphasized that at least ¾ percent of GDP in tax administration measures are already in motion. The authorities agreed with staff's recommendations on preserving financial stability and emphasized that they continue to work on strengthening cross-border cooperation and appropriately funding the emergency liquidity assistance framework. They highlighted that, notwithstanding the temporary relaxation of reserve requirements due to the pandemic shock, Salvadoran banks are well capitalized and have recently increased their ample liquidity buffers.

STAFF APPRAISAL

23. The COVID-19 pandemic is severely impacting El Salvador, leading to urgent large external and fiscal financing needs. The shock has sharply slowed economic activity, both because of the contraction in the global economy and on account of the strict containment measures at home.

24. The authorities have rightly allowed a temporary widening of the fiscal deficit to accommodate necessary health spending and other crisis mitigation measures, and are appropriately committed to safeguarding fiscal sustainability. Staff strongly supports the authorities' commitment to allow the temporary crisis measures to lapse and to implement a gradual fiscal adjustment of 3 percent of GDP in permanent measures over 2021-24, once the pandemic subsides. Such a commitment is in line with the proposed gradual fiscal adjustment strategy recommended by staff to reach a primary fiscal balance of 3½ percent of GDP by end-2024, which also would ensure compliance with the Fiscal Responsibility Law.

25. Staff underscores the need to maintain vigilance over financial stability while providing relief and recovery measures. In this connection, the temporary relaxation of the bank lending standards should be accompanied by close monitoring to ensure appropriate loan classification. In addition, staff recommends establishing strict criteria for acceptable loan restructuring, and ensuring that credit extension to firms undergoing loan restructuring is in line with prudent risk management.

26. Staff supports the authorities' request for a purchase under the Rapid Financing Instrument in the amount of SDR278.2 million (100 percent of quota). Staff support is based on the severity of the pandemic's impact, urgent balance of payments needs, and the authorities' policies to mitigate this external shock, which include engaging with other multilateral institutions, including the IDB, CABEI and WB, to address budgetary needs. The RFI is expected to catalyze additional significant support from other multilaterals and help preserve market access.

Table 1. El Salvador: Selected Economic Indicators

I. Social Indicators

Rank in UNDP Development Index 2019 (of 189)	124	Population (million, 2019)	6.5
Per capita income (U.S. dollars, 2019)	4,187	Life expectancy at birth in years (2019)	73
Percent of pop. below poverty line (2017)	29	Infant mortality (per 1,000 live births, 2019)	13
Gini index (2017)	38	Adult literacy rate (% ages 15 and older, 2019)	89

II. Economic Indicators (percent of GDP, unless otherwise indicated)

								Proj.		
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Income and Prices										
Real GDP growth (percent)	2.2	1.7	2.4	2.5	2.3	2.4	2.4	-5.4	4.3	2.5
Consumer price inflation (average, percent)	0.8	1.1	-0.7	0.6	1.0	1.1	0.1	0.1	0.6	1.1
GDP deflator (percent)	0.6	1.0	1.3	0.7	1.0	2.1	1.1	1.1	1.6	1.8
Terms of trade, percent change	1.4	-1.3	15.6	6.1	-4.3	-3.9	1.7	5.5	-1.8	0.1
Real effective exchange rate (+ = appreciation)	-1.0	1.8	4.5	-1.0	-3.5	1.1	-2.6	…	…	…
External sovereign bond spread (basis points)	378	400	497	600	520	424	453	…	…	…
Money and Credit										
Credit to the private sector	47.1	48.9	49.5	50.5	51.4	52.4	54.0	53.1	53.5	54.7
Broad money	49.4	48.2	49.5	49.5	53.2	53.8	57.8	58.2	58.0	59.3
Interest rate (time deposits, percent)	3.4	3.8	4.2	4.4	4.4	4.2	4.3	…	…	…
External Sector										
Current account balance	-6.9	-5.4	-3.2	-2.3	-1.9	-4.7	-2.1	-4.1	-4.2	-4.2
Trade balance	-24.1	-23.4	-21.2	-19.2	-19.4	-22.7	-22.5	-17.4	-19.5	-21.0
Exports (f.o.b. excluding *maquila*)	20.0	19.0	18.9	17.9	18.7	18.1	17.7	16.3	17.6	17.9
Imports (f.o.b. excluding *maquila*)	-44.0	-42.4	-40.1	-37.1	-38.1	-40.9	-40.2	-33.7	-37.1	-38.9
Services and income (net)	-1.5	-0.7	-0.6	-1.8	-2.6	-2.5	-0.4	-4.8	-3.2	-2.5
Transfers (net)	18.6	18.8	18.6	18.8	20.2	20.5	20.9	18.0	18.5	19.2
Foreign direct investment	0.8	1.4	1.7	1.4	3.6	3.2	2.4	0.6	2.7	2.7
Gross international reserves (millions of U.S. dollars)	2,745	2,693	2,787	3,238	3,567	3,569	4,445	4,445	4,925	5,150
Nonfinancial Public Sector										
Overall balance	-4.5	-4.0	-3.6	-3.1	-2.5	-2.6	-3.1	-8.7	-4.1	-2.7
Primary balance 1/	-1.8	-1.3	-0.9	-0.2	0.7	1.0	0.6	-4.5	0.2	1.9
Of which: tax revenue	17.0	16.7	16.7	17.2	17.6	17.9	17.6	16.8	17.7	18.7
Public sector debt 2/	63.8	65.6	66.8	68.7	70.1	69.7	70.2	82.2	81.6	80.6
National Savings and Investment										
Gross domestic investment	17.0	16.4	16.0	16.0	16.7	20.3	19.1	17.2	18.6	19.5
Public sector	2.5	2.0	2.5	2.5	2.6	2.5	2.5	2.5	2.7	2.7
Private sector 3/	14.6	14.4	13.5	13.5	14.1	17.8	16.6	14.7	15.9	16.8
National savings	10.1	11.0	12.8	13.7	14.8	15.6	17.0	13.1	14.3	15.2
Public sector	-1.2	-1.2	-0.8	0.1	0.3	0.4	-0.3	-6.0	-0.8	0.7
Private sector	11.3	12.2	13.6	13.6	14.5	15.2	17.3	19.1	15.1	14.6
Net Foreign Assets of the Financial System										
Millions of U.S. dollars	2,473	2,211	1,931	2,021	2,677	2,742	3,454	2,280	2,658	2,813
Percent of deposits	24.0	21.6	17.8	18.1	21.7	21.1	23.8	17.5	18.9	18.7
Memorandum Items										
Nominal GDP (billions of U.S. dollars)	22.0	22.6	23.4	24.2	25.0	26.1	27.0	25.8	27.4	28.6

Sources: Central Reserve Bank of El Salvador, Ministry of Finance, and IMF staff estimates.

1/ The baseline scenario does not include revenue measures such as the electronic invoicing, the *monotributo* , and the transfer pricing initiative.

2/ Includes gross debt of the nonfinancial public sector and external debt of the central bank.

3/ Includes inventories.

Table 2. El Salvador: Medium-Term Outlook

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Projections					
							Active Scenario					
							(Annual percentage change)					
Real GDP growth	1.7	2.4	2.5	2.3	2.4	2.4	-5.4	4.3	2.5	2.2	2.2	2.4
Inflation (average)	1.1	-0.7	0.6	1.0	1.1	0.1	0.1	0.6	1.1	1.1	1.0	1.0
GDP deflator	1.0	1.3	0.7	1.0	2.1	1.1	1.1	1.6	1.8	1.7	1.3	1.1
Nominal GDP growth	2.7	3.7	3.2	3.3	4.6	3.5	-4.4	6.0	4.4	3.9	3.6	3.4
							(Annual percentage change)					
Private consumption	-1.0	3.8	1.9	1.6	3.1	2.6	-6.9	5.2	2.9	2.1	2.0	2.2
Public consumption	-1.1	2.1	-1.0	0.1	0.2	-0.2	11.8	-6.6	-1.3	-0.9	-0.1	-0.2
Private investment	-8.5	5.3	3.8	3.4	8.7	10.5	-15.5	14.9	9.7	6.9	6.2	5.5
Public investment	-15.9	34.0	2.9	4.9	-3.5	4.5	-0.4	11.5	3.4	4.4	4.9	2.3
Net exports	-10.2	6.8	-1.6	-1.6	10.8	-0.3	-1.8	7.4	7.1	3.7	3.5	2.7
							(Percent of GDP)					
Primary fiscal balance 1/	-1.3	-0.9	-0.2	0.7	1.0	0.6	-4.5	0.2	1.9	3.2	3.6	4.0
Overall fiscal balance	-4.0	-3.6	-3.1	-2.5	-2.6	-3.1	-8.7	-4.1	-2.7	-1.5	-1.3	-0.9
Public sector debt (including pensions, gross) 2/	65.6	66.8	68.7	70.1	69.7	70.2	82.2	81.6	80.6	78.7	76.3	73.5
Current account balance	-5.4	-3.2	-2.3	-1.9	-4.7	-2.1	-4.1	-4.2	-4.2	-4.3	-4.5	-4.7
Exports of goods	19.0	18.9	17.9	18.7	18.1	17.7	16.3	17.6	17.9	18.1	18.3	18.5
Imports of goods	-42.4	-40.1	-37.1	-38.1	-40.9	-40.2	-33.7	-37.1	-38.9	-39.7	-40.4	-41.1
Of which: oil	-7.9	-5.6	-4.6	-5.2	-6.3	-5.5	-3.2	-3.4	-3.7	-3.9	-4.2	-4.3
Current transfers	18.8	18.6	18.8	20.2	20.5	20.9	18.0	18.5	19.2	19.3	19.4	19.6
Gross domestic investment	16.4	16.0	16.0	16.7	20.3	19.1	17.2	18.6	19.5	20.1	20.8	21.3
Private 1/	14.4	13.5	13.5	14.1	17.8	16.6	14.7	15.9	16.8	17.4	17.9	18.4
Public	2.0	2.5	2.5	2.6	2.5	2.5	2.5	2.7	2.7	2.7	2.8	2.8
Gross national saving	11.0	12.8	13.7	14.8	15.6	17.0	13.1	14.3	15.2	15.9	16.3	16.6
Private	12.2	13.6	13.6	14.5	15.2	17.3	19.1	15.1	14.6	14.0	14.1	14.0
Public	-1.2	-0.8	0.1	0.3	0.4	-0.3	-6.0	-0.8	0.7	1.9	2.2	2.6
External saving	5.4	3.2	2.3	1.9	4.7	2.1	4.1	4.2	4.2	4.3	4.5	4.7

Sources: Central Reserve Bank of El Salvador, Ministry of Finance, and IMF staff estimates.

1/ The baseline scenario does not include revenue measures such as the electronic invoicing, the monotributo, and the transfer pricing initiative.

2/ Includes gross debt of the nonfinancial public sector and external debt of the central bank.

Table 3. El Salvador: Balance of Payments

	2014	2015	2016	2017	2018	2019	2020 Pre-Shock	2020 Post-Shock	2021	2022	2023	2024	2025
							Projections						
							(In millions of U.S. dollars)						
Current Account	**-1,214**	**-754**	**-550**	**-465**	**-1,226**	**-558**	**-1,017**	**-1,068**	**-1,162**	**-1,213**	**-1,268**	**-1,372**	**-1,491**
Merchandise trade balance	-5,287	-4,970	-4,654	-4,845	-5,936	-6,081	-6,695	-4,491	-5,349	-5,990	-6,423	-6,783	-7,163
Export of goods (f.o.b.)	4,294	4,437	4,322	4,667	4,735	4,786	4,879	4,221	4,812	5,113	5,374	5,638	5,896
Import of goods (f.o.b.)	-9,581	-9,407	-8,976	-9,512	-10,671	-10,867	-11,574	-8,712	-10,161	-11,102	-11,797	-12,422	-13,059
Petroleum and products	-1,779	-1,312	-1,114	-1,290	-1,654	-1,494	-1,574	-815	-927	-1,043	-1,163	-1,281	-1,381
Services	868	959	808	733	814	1,191	1,148	138	540	790	997	1,077	1,148
Exports of processing services	456	611	663	482	514	506	524	344	426	463	483	504	524
Income	-1,035	-1,092	-1,246	-1,388	-1,470	-1,306	-1,323	-1,366	-1,415	-1,491	-1,575	-1,644	-1,695
Of which: interest on public debt	-354	-393	-410	-459	-498	-500	-555	-555	-570	-620	-677	-719	-769
Current transfers	4,240	4,349	4,542	5,034	5,366	5,638	5,853	4,651	5,062	5,478	5,733	5,978	6,217
Workers' remittances (credits)	4,139	4,257	4,544	4,978	5,370	5,626	5,869	4,686	5,101	5,518	5,775	6,022	6,263
Financial and Capital Account	**465**	**943**	**1,309**	**945**	**1,448**	**1,299**	**1,267**	**-113**	**1,642**	**1,439**	**1,427**	**1,528**	**1,644**
Capital account	64	65	70	85	203	224	104	129	142	157	171	165	153
Public sector financial flows	473	-228	-273	9	-440	526	13	13	34	45	-118	-203	-191
Disbursements	1,059	247	292	955	548	1,782	353	353	340	345	999	213	892
Amortization	-586	-475	-565	-945	-988	-1,257	-340	-340	-306	-300	-1,117	-416	-1,083
Private sector financial flows	1,101	455	713	1,210	716	700	1,150	124	817	857	849	853	861
Foreign direct investment	306	396	348	889	826	662	690	166	743	782	774	779	787
Portfolio investment	794	59	365	321	-110	38	267	-42	74	74	74	74	74
Other 1/ 2/	-1,519	495	554	-701	438	-326	194	-380	649	380	526	712	821
Errors and Omissions	**716**	**-77**	**-307**	**-172**	**-220**	**135**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Change in Reserves (- = increase)	**33**	**-113**	**-452**	**-308**	**-2**	**-876**	**-250**	**0**	**-480**	**-225**	**-160**	**-155**	**-153**
Financing gap								**1,182**					
Of which: Prospective RFI								389					
Of which: Other multilaterals								793					
							(Percent of GDP)						
Current Account	**-5.4**	**-3.2**	**-2.3**	**-1.9**	**-4.7**	**-2.1**	**-3.9**	**-4.1**	**-4.2**	**-4.2**	**-4.3**	**-4.5**	**-4.7**
Merchandise trade balance	-23.4	-21.2	-19.2	-19.4	-22.7	-22.5	-25.9	-17.4	-19.5	-21.0	-21.6	-22.1	-22.5
Export of goods (f.o.b.)	19.0	18.9	17.9	18.7	18.1	17.7	18.9	16.3	17.6	17.9	18.1	18.3	18.5
Import of goods (f.o.b.)	-42.4	-40.1	-37.1	-38.1	-40.9	-40.2	-44.8	-33.7	-37.1	-38.9	-39.7	-40.4	-41.1
Petroleum and products	-7.9	-5.6	-4.6	-5.2	-6.3	-5.5	-6.1	-3.2	-3.4	-3.7	-3.9	-4.2	-4.3
Services	3.8	4.1	3.3	2.9	3.1	4.4	4.4	0.5	2.0	2.8	3.4	3.5	3.6
Exports of processing services	2.0	2.6	2.7	1.9	2.0	1.9	2.0	1.3	1.6	1.6	1.6	1.6	1.6
Income	-4.6	-4.7	-5.2	-5.6	-5.6	-4.8	-5.1	-5.3	-5.2	-5.2	-5.3	-5.3	-5.3
Of which: interest on public debt	-1.6	-1.7	-1.7	-1.8	-1.9	-1.8	-2.2	-2.2	-2.1	-2.2	-2.3	-2.3	-2.4
Current transfers	18.8	18.6	18.8	20.2	20.5	20.9	22.7	18.0	18.5	19.2	19.3	19.4	19.6
Workers' remittances (credits)	18.3	18.2	18.8	19.9	20.6	20.8	22.7	18.1	18.6	19.3	19.5	19.6	19.7
Financial and Capital Account	**2.1**	**4.0**	**5.4**	**3.8**	**5.5**	**4.8**	**4.9**	**-0.4**	**6.0**	**5.0**	**4.8**	**5.0**	**5.2**
Capital account	0.3	0.3	0.3	0.3	0.8	0.8	0.4	0.5	0.5	0.5	0.6	0.5	0.5
Public sector financial flows	2.1	-1.0	-1.1	0.0	-1.7	1.9	0.1	0.1	0.1	0.2	-0.4	-0.7	-0.6
Private sector financial flows	4.9	1.9	2.9	4.8	2.7	2.6	4.5	0.5	3.0	3.0	2.9	2.8	2.7
Foreign direct investment	1.4	1.7	1.4	3.6	3.2	2.4	2.7	0.6	2.7	2.7	2.6	2.5	2.5
Portfolio investment	3.5	0.3	1.5	1.3	-0.4	0.1	1.0	-0.2	0.3	0.3	0.3	0.2	0.2
Other 1/ 2/	-6.7	2.1	2.3	-2.8	1.7	-1.2	0.8	-1.5	2.4	1.3	1.8	2.3	2.6
Errors and Omissions	**3.2**	**-0.3**	**-1.3**	**-0.7**	**-0.8**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Change in Reserves (- = increase)	**0.1**	**-0.5**	**-1.9**	**-1.2**	**0.0**	**-3.2**	**-1.0**	**0.0**	**-1.8**	**-0.8**	**-0.5**	**-0.5**	**-0.5**
Financing gap								**4.6**					
Of which: Prospective RFI								1.5					
Of which: Other multilaterals								3.1					
							(Annual percentage change)						
Merchandise Trade (f.o.b.)													
Exports (nominal)	-2.3	3.3	-2.6	8.0	1.4	1.1	2.1	-11.8	14.0	6.2	5.1	4.9	4.6
Volume	-1.7	3.1	-1.0	6.0	-1.7	1.7	1.6	-9.4	13.1	4.7	3.9	3.7	3.4
Price	-0.6	0.2	-1.6	1.9	3.2	-0.6	0.5	-2.7	0.8	1.5	1.2	1.2	1.1
Imports (nominal)	-1.1	-1.8	-4.6	6.0	12.2	1.8	6.5	-19.8	16.6	9.3	6.3	5.3	5.1
Volume	-1.8	13.2	2.9	-0.4	4.5	4.2	5.7	-13.1	13.6	7.8	5.5	4.8	4.2
Price	0.7	-13.3	-7.2	6.4	7.4	-2.3	0.8	-7.8	2.7	1.4	0.7	0.5	0.9
Terms of trade	-1.3	15.6	6.1	-4.3	-3.9	1.7	-0.2	5.5	-1.8	0.1	0.5	0.7	0.2
Memorandum Items													
Gross international reserves (US$ million) 3/	2,693	2,787	3,238	3,567	3,569	4,445	4696.1	4,445	4,925	5,150	5,309	5,465	5,618
In months of imports (excluding maquila) 4/	3.0	3.1	3.6	3.8	3.4	4.1	4.1	5.2	5.0	4.7	4.5	4.4	4.3
In percent of total short-term external debt	138	146	125	175	172	201	210	192	202	203	202	200	197
External debt (in percent of GDP)	65.5	64.9	67.7	66.0	63.8	64.9	62.4	68.4	65.1	62.8	60.4	57.9	55.7
Of which : public sector debt	37.3	35.5	37.0	36.8	34.5	35.9	35.8	37.6	35.6	34.3	32.6	30.8	29.2
Of which : private sector debt	28.2	29.4	30.7	29.2	29.3	28.9	26.7	30.7	29.4	28.5	27.7	27.1	26.5
External public debt servicing (US$ million)	939	868	975	1,404	1,486	1,756	961.2	895	876	919	1,793	1,135	1,851
Percent of exports of goods and services	14.2	12.5	14.2	19.4	19.8	22.0	11.7	15.2	12.4	11.6	20.8	12.4	19.0
Gross external financing requirement (US$ million)	5,082	3,730	3,701	4,199	5,081	4,979	3981	4,662	4,819	4,978	5,934	5,419	6,297
Percent of GDP	22.5	15.9	15.3	16.8	19.5	18.4	14.2	18.1	17.6	17.4	20.0	17.6	19.8

Sources: Central Reserve Bank of El Salvador and IMF staff estimates.

1/ Presented in BPM6 format.

2/ Assumed to include both private and potential public sector flows, including 70 percent of the fiscal financing gap.

3/ Beginning in 2010, gold in international reserves is valued at the price determined by the London Bullion Market (resulting in a valuation gain of US$170 million).

4/ Expressed in terms of following year's imports.

Table 4. El Salvador: Operations of the Nonfinancial Public Sector

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Projections					
							(Millions of U.S. dollars)					
Revenue and Grants	**4,739**	**4,922**	**5,272**	**5,617**	**5,890**	**5,994**	**5,557**	**6,082**	**6,623**	**7,118**	**7,464**	**7,749**
Current revenue	4,692	4,869	5,226	5,573	5,830	5,878	5,417	6,048	6,588	7,088	7,434	7,719
Tax revenue	3,772	3,918	4,166	4,407	4,680	4,760	4,338	4,849	5,336	5,788	6,088	6,326
Nontax revenue	797	843	938	1,050	978	995	981	1,095	1,143	1,187	1,230	1,272
Operating surplus of the public enterprises	124	108	122	116	172	124	98	104	109	113	117	121
Capital revenue	0	0	0	0	0	0	0	0	0	0	0	0
Official grants	46	53	46	44	61	116	140	35	35	30	30	30
Expenditure	**5,646**	**5,773**	**6,023**	**6,248**	**6,580**	**6,819**	**7,805**	**7,217**	**7,391**	**7,570**	**7,864**	**8,043**
Current expenditure	4,957	5,062	5,206	5,505	5,713	5,960	6,963	6,268	6,396	6,519	6,749	6,889
Wages and salaries	2,232	2,324	2,437	2,511	2,642	2,773	3,192	2,916	2,919	2,947	3,006	3,066
Goods and services	1,059	1,061	1,096	1,056	1,103	1,159	1,207	1,095	1,086	1,069	1,045	1,018
Interest	610	640	705	800	938	991	1,087	1,188	1,300	1,390	1,500	1,575
Current transfers	1,055	1,037	968	1,138	1,031	1,037	1,477	1,070	1,092	1,113	1,198	1,231
Nonpension payments	588	552	448	578	665	692	1,162	766	800	831	922	954
Pension payments	467	485	520	560	366	346	315	303	292	282	276	277
Capital expenditure	689	711	817	744	867	859	842	949	994	1,051	1,115	1,154
Primary Balance 1/	**-297**	**-212**	**-46**	**169**	**248**	**166**	**-1,161**	**53**	**532**	**938**	**1,100**	**1,281**
Overall Balance	**-907**	**-851**	**-751**	**-631**	**-690**	**-825**	**-2,247**	**-1,135**	**-768**	**-452**	**-400**	**-294**
Financing	**907**	**851**	**751**	**631**	**690**	**825**	**2,247**	**1,135**	**768**	**452**	**400**	**294**
External	**820**	**-72**	**-28**	**351**	**90**	**701**	**415**	**1,217**	**745**	**232**	**147**	**409**
Disbursements	1,059	247	292	955	548	1,782	755	1,523	1,045	1,349	563	1,492
Amortization	-238	-319	-320	-604	-458	-1,081	-340	-306	-300	-1,117	-416	-1,083
Domestic	**87**	**923**	**779**	**281**	**600**	**124**	**623**	**-82**	**23**	**220**	**252**	**-116**
Change in deposits at central bank (- = increase)	-5	24	-116	15	-29	-4	0	0	0	0	0	0
Banking system	-225	277	16	-602	104	142	357	-153	0	-35	0	0
Private sector 2/	317	623	880	867	525	-14	267	71	23	255	252	-116
Unidentified Financing 3/	**...**	**...**	**...**	**...**	**...**	**...**	**1,209**	**0**	**0**	**0**	**0**	**0**
Memorandum Items:												
Current revenue minus current expenditure	-265	-193	20	68	116	-82	-1,545	-221	191	569	685	830
Gross financing needs	2,232	1,576	2,229	2,517	1,958	3,058	3,627	2,621	2,132	2,391	1,600	0
Public sector debt (gross) 4/	14,827	15,663	16,611	17,514	18,198	18,979	21,235	22,338	23,036	23,363	23,468	23,357
							(Percent of GDP)					
Revenue and Grants	**21.0**	**21.0**	**21.8**	**22.5**	**22.6**	**22.2**	**21.5**	**22.2**	**23.2**	**24.0**	**24.3**	**24.4**
Current revenue	20.8	20.8	21.6	22.3	22.3	21.8	21.0	22.1	23.1	23.9	24.2	24.3
Tax revenue	16.7	16.7	17.2	17.6	17.9	17.6	16.8	17.7	18.7	19.5	19.8	19.9
Nontax revenue	3.5	3.6	3.9	4.2	3.7	3.7	3.8	4.0	4.0	4.0	4.0	4.0
Operating surplus of the public enterprises	0.5	0.5	0.5	0.5	0.7	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Official grants	0.2	0.2	0.2	0.2	0.2	0.4	0.5	0.1	0.1	0.1	0.1	0.1
Expenditure	**25.0**	**24.6**	**24.9**	**25.0**	**25.2**	**25.2**	**30.2**	**26.4**	**25.9**	**25.5**	**25.6**	**25.3**
Current expenditure	21.9	21.6	21.5	22.0	21.9	22.1	27.0	22.9	22.4	22.0	22.0	21.7
Wages and salaries	9.9	9.9	10.1	10.1	10.1	10.3	12.4	10.7	10.2	9.9	9.8	9.6
Goods and services	4.7	4.5	4.5	4.2	4.2	4.3	4.7	4.0	3.8	3.6	3.4	3.2
Interest	2.7	2.7	2.9	3.2	3.6	3.7	4.2	4.3	4.5	4.7	4.9	5.0
Current transfers	4.7	4.4	4.0	4.6	3.9	3.8	5.7	3.9	3.8	3.8	3.9	3.9
Nonpension payments	2.6	2.4	1.9	2.3	2.5	2.6	4.5	2.8	2.8	2.8	3.0	3.0
Pension payments	2.1	2.1	2.1	2.2	1.4	1.3	1.2	1.1	1.0	1.0	0.9	0.9
Capital expenditure	3.1	3.0	3.4	3.0	3.3	3.2	3.3	3.5	3.5	3.5	3.6	3.6
Primary Balance 1/	**-1.3**	**-0.9**	**-0.2**	**0.7**	**1.0**	**0.6**	**-4.5**	**0.2**	**1.9**	**3.2**	**3.6**	**4.0**
Overall Balance	**-4.0**	**-3.6**	**-3.1**	**-2.5**	**-2.6**	**-3.1**	**-8.7**	**-4.1**	**-2.7**	**-1.5**	**-1.3**	**-0.9**
Memorandum Items												
Current revenue minus current expenditure	-1.2	-0.8	0.1	0.3	0.4	-0.3	-6.0	-0.8	0.7	1.9	2.2	2.6
Gross financing needs	9.9	6.7	9.2	10.1	7.5	11.3	14.0	9.6	7.5	8.1	5.2	0.0
Public sector debt (gross) 4/	65.6	66.8	68.7	70.1	69.7	70.2	82.2	81.6	80.6	78.7	76.3	73.5
Nominal GDP	22,593	23,438	24,191	24,979	26,117	27,023	25,824	27,370	28,569	29,681	30,739	31,798

Sources: Central Reserve Bank of El Salvador, Ministry of Finance, and IMF staff estimates.

1/ The baseline scenario does not include revenue measures such as the electronic invoicing, the monotributo, and the transfer pricing initiative.

2/ Includes financing for education, health, pension trust funds, and other non-depositary corporations.

3/ The financing gap is expected to be closed with IMF RFI (US$ 389 million) and other multilaterals' loans for US$ 831 million.

4/ Includes gross debt of the nonfinancial public sector and external debt of the central bank.

Table 5. El Salvador: Public Sector Financing Requirements and Sources

				Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025
				(Millions of U.S. dollars)					
Gross Financing Requirements	**2,517**	**1,958**	**3,058**	**3,627**	**2,621**	**2,132**	**2,391**	**1,600**	**2,530**
Overall deficit	631	690	825	2,247	1,135	768	452	400	294
Public debt amortizations	1,886	1,269	2,233	1,380	1,486	1,364	1,939	1,200	2,236
External	604	458	1081	340	306	300	1117	416	1083
Multilaterals and bilaterals	604	458	281	340	306	300	317	416	283
Bonds	0	0	800	0	0	0	800	0	800
Domestic	1282	811	1152	1040	1180	1064	822	784	1153
Of which: Short-term debt (letes) 1/	1047	768	849	991	948	795	795	760	760
Sources of Financing	**2,517**	**1,958**	**3,058**	**3,627**	**2,621**	**2,132**	**2,391**	**1,599**	**2,529**
External	955	548	1,782	755	1,523	1,045	1,349	563	1,492
Multilaterals and bilaterals	354	548	485	755	383	467	415	340	340
Bonds	601	0	1,297	0	1,140	578	934	223	1,152
Domestic	1,563	1,410	1,276	1,663	1,098	1,087	1,042	1,036	1,037
Pension funds	-560	366	346	315	303	292	282	276	277
Use of BCR deposits	15	-29	-4	0	0	0	0	0	0
Short-term debt (letes) 1/	732	833	991	948	795	795	760	760	760
Others, including floating debt	1,376	240	-56	0	0	0	0	0	0
Financing gap 2/	0	0	0	1,209	0	0	0	0	0
Memorandum Items									
Nominal GDP	24,979	26,117	27,023	25,824	27,370	28,569	29,681	30,739	31,798
				(Percent of GDP)					
Gross Financing Requirements	**10.1**	**7.5**	**11.3**	**14.0**	**9.6**	**7.5**	**8.1**	**5.2**	**8.0**
Overall deficit	2.5	2.6	3.1	8.7	4.1	2.7	1.5	1.3	0.9
Public debt amortizations	7.5	4.9	8.3	5.3	5.4	4.8	6.5	3.9	7.0
External	2.4	1.8	4.0	1.3	1.1	1.0	3.8	1.4	3.4
Multilaterals and bilaterals	2.4	1.8	1.0	1.3	1.1	1.0	1.1	1.4	0.9
Bonds	0.0	0.0	3.0	0.0	0.0	0.0	2.7	0.0	2.5
Domestic	5.1	3.1	4.3	4.0	4.3	3.7	2.8	2.5	3.6
Of which: Short-term debt (letes) 1/	4.2	2.9	3.1	3.8	3.5	2.8	2.7	2.5	2.4
Sources of Financing	**10.1**	**7.5**	**11.3**	**14.0**	**9.6**	**7.5**	**8.1**	**5.2**	**8.0**
External	3.8	2.1	6.6	2.9	5.6	3.7	4.5	1.8	4.7
Multilaterals and bilaterals	1.4	2.1	1.8	2.9	1.4	1.6	1.4	1.1	1.1
Bonds	2.4	0.0	4.8	0.0	4.2	2.0	3.1	0.7	3.6
Domestic	6.3	5.4	4.7	6.4	4.0	3.8	3.5	3.4	3.3
Pension funds	-2.2	1.4	1.3	1.2	1.1	1.0	1.0	0.9	0.9
Use of BCR deposits	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt (letes) 1/	2.9	3.2	3.7	3.7	2.9	2.8	2.6	2.5	2.4
Others	5.5	0.9	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	4.7	0.0	0.0	0.0	0.0	0.0

Sources: Central Reserve Bank of El Salvador; Ministry of Finance; and IMF staff estimates.

1/ The entire amount of LETES is recorded under domestic financing given that the market has always been dominated by resident investors. However, a relatively small amount of LETES (about 80 million of U.S dollars at end-2017) has been held by foreign residents.

2/ The financing gap is expected to be closed with IMF RFI (US$ 389 million) and other multilaterals' loans for US$ 831 million.

Table 6. El Salvador: Indicators of Capacity to Repay the Fund /1

	2020	2021	2022	2023	2024	2025
Fund obligations based on existing credit						
(In millions of SDR)						
Principal	0.00	0.00	0.00	0.00	0.00	0.00
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00
Obligations to the Fund from existing and prospective credit 1/						
(In millions of SDR)						
Principal	0.00	0.00	0.00	71.80	143.60	71.80
Charges and interest	3.15	3.10	3.10	2.97	1.66	0.25
Obligations to the Fund from existing and prospective credit						
In millions of U.S. dollars 2/	4.27	4.20	4.20	101.28	196.77	97.60
In percent of gross international reserves	0.10	0.09	0.08	1.91	3.60	1.74
In percent of exports of goods and services	0.07	0.06	0.05	1.18	2.15	1.00
In percent of GDP	0.02	0.02	0.01	0.34	0.64	0.31
In percent of quota	1.10	1.08	1.08	26.03	50.58	25.09
Outstanding Fund credit based on existing drawings (end-of-period)						
In millions of SDRs	0.00	0.00	0.00	0.00	0.00	0.00
In percent of quota	0.00	0.00	0.00	0.00	0.00	0.00
Outstanding Fund credit based on existing and prospective drawings (end-of-period)						
In millions of SDRs	287.20	287.20	287.20	215.40	71.80	0.00
In millions of U.S. dollars 2/	389.05	389.05	389.05	291.79	97.26	0.00
In percent of gross international reserves	8.75	7.90	7.55	5.50	1.78	0.00
In percent of exports of goods and services	6.62	5.49	4.92	3.39	1.06	0.00
In percent of GDP	1.51	1.42	1.36	0.98	0.32	0.00
In percent of quota	100.00	100.00	100.00	75.00	25.00	0.00
Memorandum items						
Nominal GDP (in millions of U.S. dollars)	25824.17	27370.38	28568.82	29680.98	30739.04	31797.62
Exports of goods and services (in millions of U.S. dollars)	5879.36	7087.61	7913.59	8602.17	9170.73	9720.99
Gross international reserves (in millions of U.S. dollars)	4444.67	4924.62	5149.73	5309.33	5464.76	5617.74
Quota (in millions of SDRs)	287.20	287.20	287.20	287.20	287.20	287.20

Sources: IMF staff estimates.

1/ Assumes access of 100 percent of quota in April 2020 as one-time disbursement.

2/ Based on the SDR rate as of March 24, 2020.

Annex I. Public Debt Sustainability Analysis

The public debt stock (including pensions) was 70.2 percent of GDP at end-2019 and before the pandemic shock was estimated to continue to drift upwards to 72 percent of GDP in 2025. After the pandemic shock, the debt to GDP ratio is expected to jump to about 85 percent of GDP in 2025, but under the gradual fiscal adjustment that the authorities are committed to implementing, public debt is projected to peak in 2020 and decline to 74 percent of GDP in 2025 and 60 percent of GDP in 2030, in line with the authorities' Fiscal Responsibility Law target of a public debt of 60 percent of GDP (including pensions). Risks arising from the relatively high public debt ratio are significant but are partly mitigated by the long maturity of the existing debt and a stable investor base. After the pandemic shock gross financing needs are expected to reach 14 percent of GDP in 2020 and abate thereafter to reach about 8 percent of GDP in 2025, due to reversing the temporary measures in 2021 and the medium-term adjustment.

A. Key Assumptions

1. Debt definition. The public debt sustainability analysis focuses on a definition of gross debt which comprises the nonfinancial public sector[1] (NFPS) and the external debt of the central bank. The series is published by the Ministry of Finance regularly in their reports and public presentations. In staff's definition, the NFPS includes pension-related debt (the so-called *CIP-A* bonds that are issued to finance current public pension payments). Pension liabilities (not reported as part of the public debt stock in other Central American countries) account for 18.9 percent of the total debt stock.

2. Macroeconomic outlook. The active scenario (authorities' commitment scenario) reflects the estimated growth potential of 2½ percent. The interest bill is projected to rise over the medium-term to reflect normalizing global financial conditions, widening further the interest/growth differential. The latter is the main driver of the public debt dynamics. The scenario assumes that financing gaps are filled mainly with long-term loans from private external creditors and short-term domestic bonds. Inflation is expected to remain anchored at about 1¼ percent over the medium term.

B. Results and Assessment

3. Active scenario results. The public debt would jump to 82 percent of GDP in 2020 because of negative economic growth and higher spending due to the pandemic shock. It is expected to decline thereafter, as the temporary measures implemented in 2020 are allowed to lapse in 2021, growth recovers somewhat, and the medium-term adjustment starts. Public debt will then decline to 74 percent of GDP in 2025 and to 60 percent of GDP by 2030 under the authorities' policy commitments scenario, provided that primary fiscal surpluses of 4.0 percent of GDP will be

[1] The NFPS debt definition excludes municipal debt (1½ percent of GDP), pension system's recognition bonds (CIP-B bonds) and some SOEs debt.

maintained after the medium-term. Financing needs, averaging 9 percent of GDP over 2020–25, are driven by a rise in domestic amortization payments and Eurobond payments in 2023 and 2025.

4. Drivers. In 2020 negative GDP growth due to the pandemic shock and the interest bill are the main contributors to the jump in the debt to GDP ratio by 10 percentage points, along with the temporary deterioration of the overall fiscal balance. However, over the medium-term the interest bill is the major contributor to the upward debt dynamics, averaging about 2½ percent of GDP contribution on an annual basis (see second table). Primary surpluses and real GDP growth mitigate these increases, with annual contributions reducing debt, by about 1½ percent of GDP, respectively.

5. Stress scenario. Assumptions. Mostly standard shock scenarios (declines by one standard deviation of the main variable shocked) have been considered for comparability. The impact of a natural disaster assumes a decline of GDP growth by 3 percentage points the first year and 2 percentage points the following year.

6. Results. The main vulnerability of the El Salvador public debt stems from its high level. Simulations show that combined macro-economic shocks could increase debt by about 5 percent of GDP, and a natural disaster or contingent liabilities shock by about 10 percent of GDP each.

7. Assessment. Several standard debt profile characteristics indicate significant risk, especially those relating to the debt level (heat-map). While the indicators relating to gross financing needs are benign, the heat-map may understate some risks because the measured share of "foreign currency" debt (close to zero) reflects the legal adoption of the U.S. dollar, not the implied benefits of issuing own-currency liabilities.

8. Idiosyncratic risks and issues. Major risks to the debt dynamics include higher primary deficit in 2020, lower primary surpluses over the medium-term, or not reversing the temporary 2020 measures (public debt under no fiscal adjustment scenario and shocks could reach up to 100 percent of GDP). Moreover, under tightening global financial conditions, greater financing needs due to a higher interest bill or reversal of deficit reduction would magnify vulnerabilities.

9. Mitigating factors. The relatively long average debt maturity (12 years) of existing debt, and a stable investor base (over one-half of the debt is held by domestic pension funds and official creditors) partly mitigate debt vulnerabilities. There is also some, albeit limited, room to compress capital spending further to partly offset an adverse primary balance shock. Moreover, El Salvador is the only country in Central America to incorporate and report pension liabilities as part of public debt (almost 19 percent of GDP).

Figure AI.1. El Salvador: Public Sector Debt Sustainability Analysis (DSA)

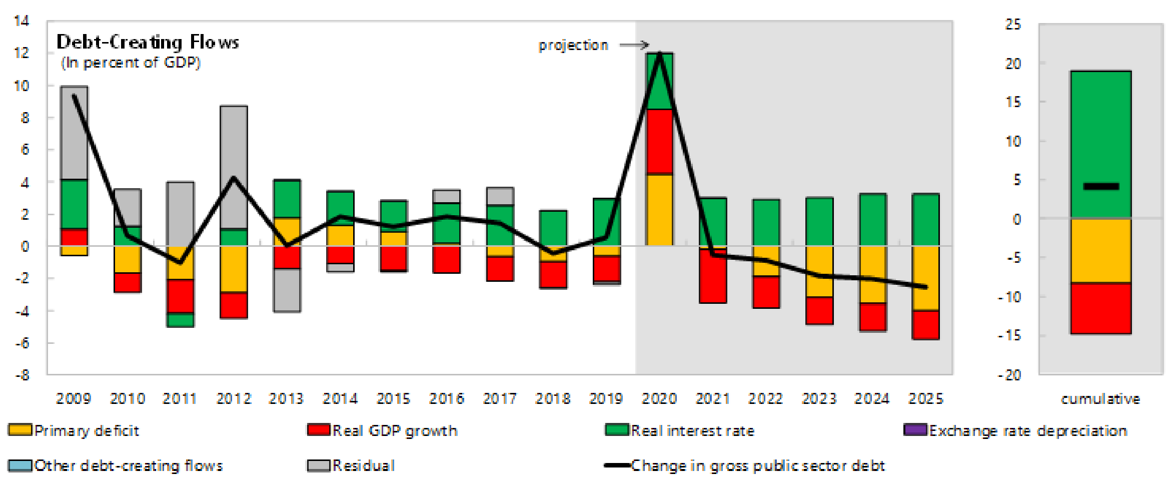
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections						As of March 31, 2020		
	2009-2017 2/	2018	2019	2020	2021	2022	2023	2024	2025	Sovereign Spreads		
Nominal gross public debt	64.3	69.7	70.2	82.2	81.7	80.8	78.9	76.9	74.4	EMBIG (bp) 3/	825	
Public gross financing needs	7.7	7.5	11.3	14.1	10.5	7.3	8.0	5.2	7.8	5Y CDS (bp)	n.a.	
Real GDP growth (in percent)	2.0	2.4	2.4	-5.4	4.3	2.5	2.2	2.2	2.4	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.7	2.1	1.1	1.1	1.6	1.8	1.7	1.3	1.1	Moody's	B3	B3
Nominal GDP growth (in percent)	3.8	4.6	3.5	-4.4	6.0	4.4	3.9	3.6	3.4	S&Ps	B-	B-
Effective interest rate (in percent) 4/	4.7	5.4	5.4	5.7	5.5	5.6	5.6	5.6	5.4	Fitch	B-	B-

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance /9
Change in gross public sector debt	2.2	-0.4	0.6	12.0	-0.5	-0.9	-1.9	-2.0	-2.5	4.1	
Identified debt-creating flows	0.1	-0.4	0.7	12.0	-0.5	-0.9	-1.9	-2.0	-2.5	4.1	
Primary deficit	-0.4	-1.0	-0.6	4.5	-0.2	-1.9	-3.2	-3.6	-4.0	-8.3	1.5
Primary (noninterest) revenue and grants	21.0	22.6	22.2	21.5	22.2	23.2	24.0	24.3	24.4	139.6	
Primary (noninterest) expenditure	20.6	21.6	21.6	26.0	22.0	21.3	20.8	20.7	20.3	131.2	
Automatic debt dynamics 5/	0.5	0.5	1.3	7.5	-0.4	1.0	1.3	1.5	1.5	12.4	
Interest rate/growth differential 6/	0.5	0.5	1.3	7.5	-0.4	1.0	1.3	1.5	1.5	12.4	
Of which: real interest rate	1.8	2.2	2.9	3.5	3.0	2.9	3.0	3.2	3.2	18.9	
Of which: real GDP growth	-1.2	-1.6	-1.6	4.0	-3.3	-2.0	-1.7	-1.7	-1.8	-6.4	
Exchange rate depreciation 7/	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
0 (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 8/	2.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as non-financial public sector.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

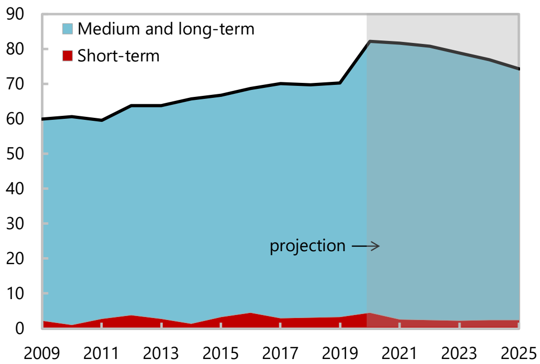
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

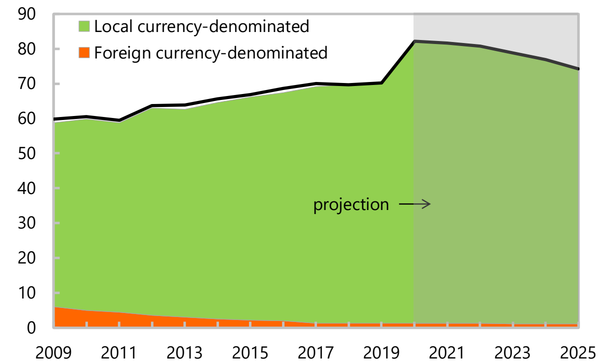
Figure AI.2. El Salvador: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(In percent of GDP)



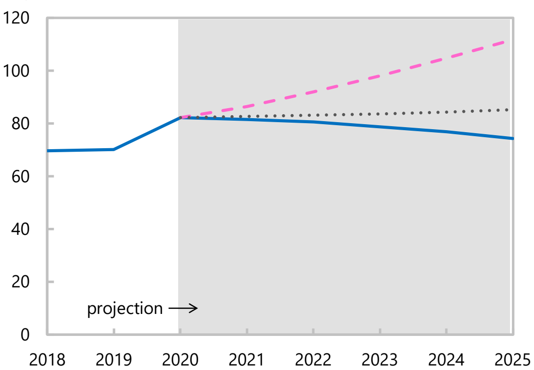
By Currency
(In percent of GDP)



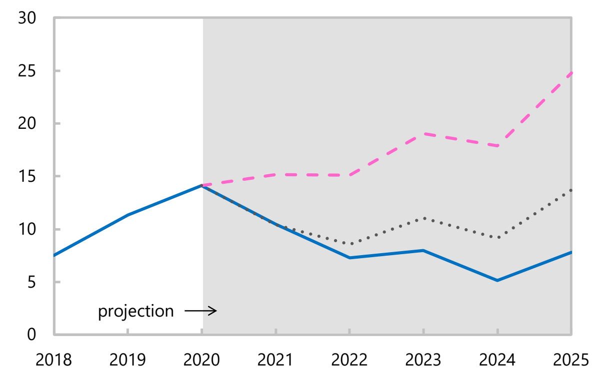
Alternative Scenarios

Baseline ········· Historical – – Constant Primary Balance

Gross Nominal Public Debt
(In percent of GDP)



Public Gross Financing Needs
(In percent of GDP)



Underlying Assumptions
(In percent)

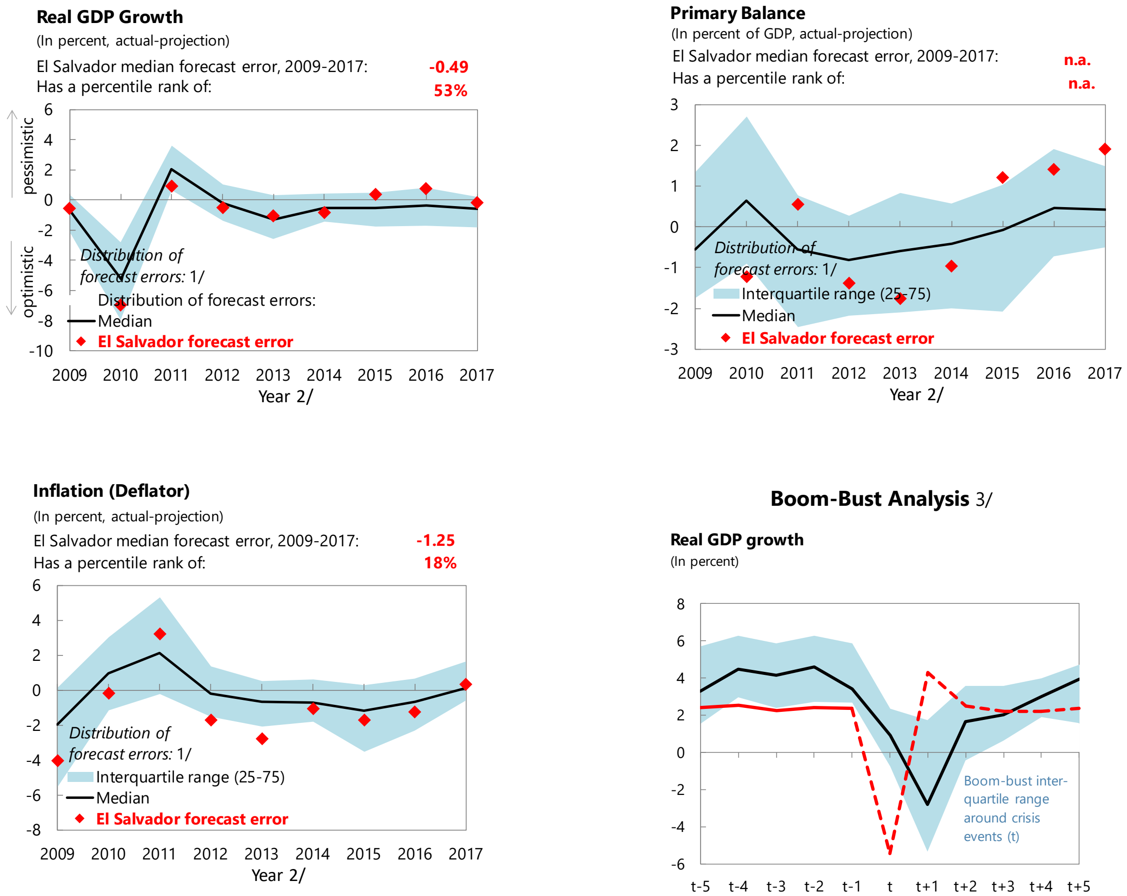
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.4	4.3	2.5	2.2	2.2	2.4
Inflation	1.1	1.6	1.9	1.7	1.4	1.1
Primary Balance	-4.5	0.2	1.9	3.2	3.6	4.0
Effective interest rate	5.7	5.5	5.6	5.6	5.6	5.4
Constant Primary Balance Scenario						
Real GDP growth	-5.4	4.3	2.5	2.2	2.2	2.4
Inflation	1.1	1.6	1.9	1.7	1.4	1.1
Primary Balance	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5
Effective interest rate	5.7	5.5	5.7	5.8	6.0	5.9

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.4	2.5	2.5	2.5	2.5	2.5
Inflation	1.1	1.6	1.9	1.7	1.4	1.1
Primary Balance	-4.5	0.5	0.5	0.5	0.5	0.5
Effective interest rate	5.7	5.5	5.4	5.3	5.3	5.1

Source: IMF staff.

Figure AI.3. El Salvador: Public DSA – Realism and Baseline Assumptions

Forecast Track Record, versus all countries



Source: IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries

2/ Projections made in the spring WEO vintage of the preceding year.

3/ El Salvador has had a positive output gap for 3 consecutive years, 2017-2019. For El Salvador, t corresponds to 2020; for the distribution, t corresponds to the first year of the crisis

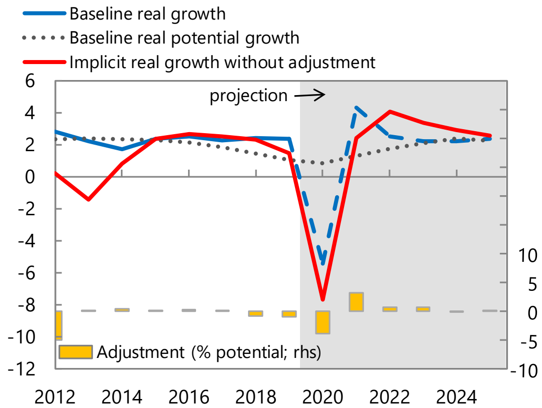
Figure AI.3. El Salvador: Public DSA – Realism and Baseline Assumptions (concluded)

Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 0.7, persistence of 0.3

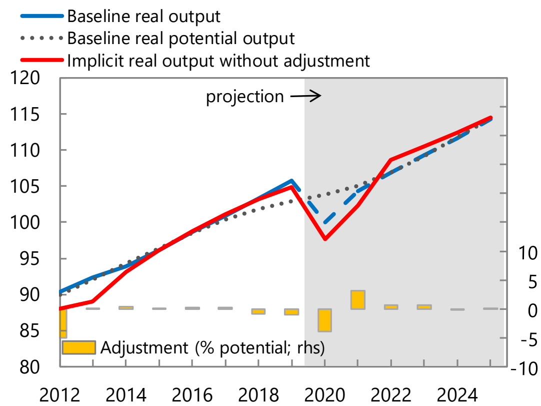
Real GDP Growth

(In percent)



Real Output Level

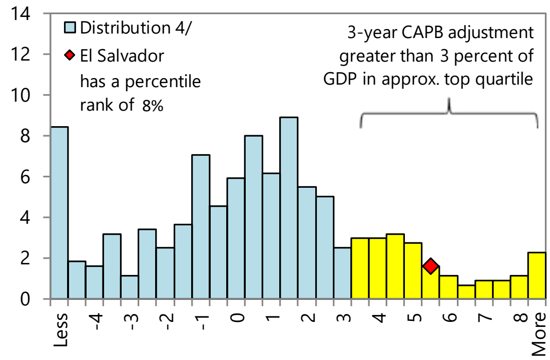
(Baseline real output in 2020=100)



Assessing the Realism of Projected Fiscal Adjustment

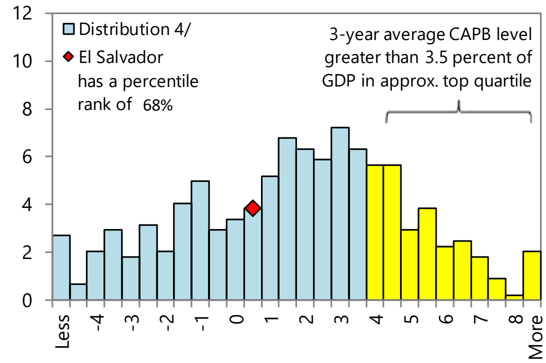
3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)

(Percent of GDP)



3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)

(Percent of GDP)

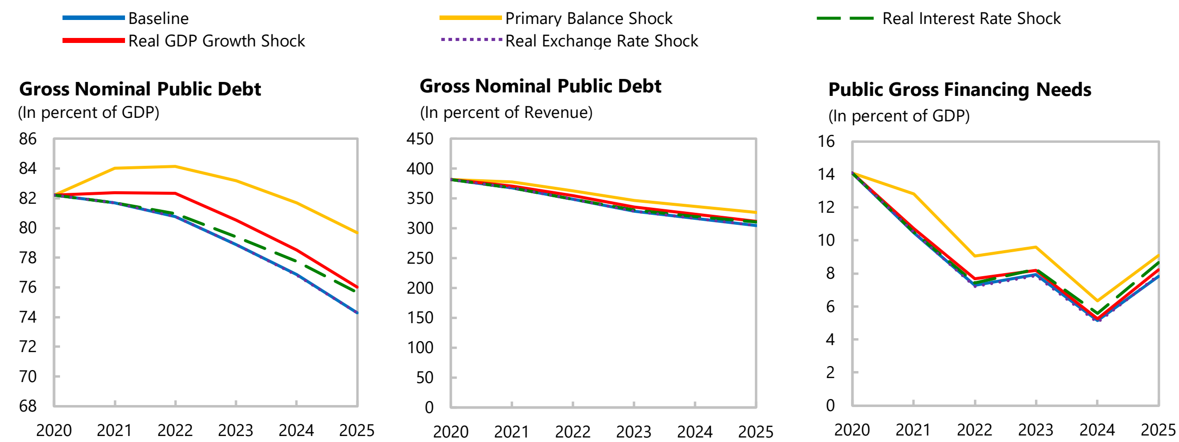


Source: IMF staff.

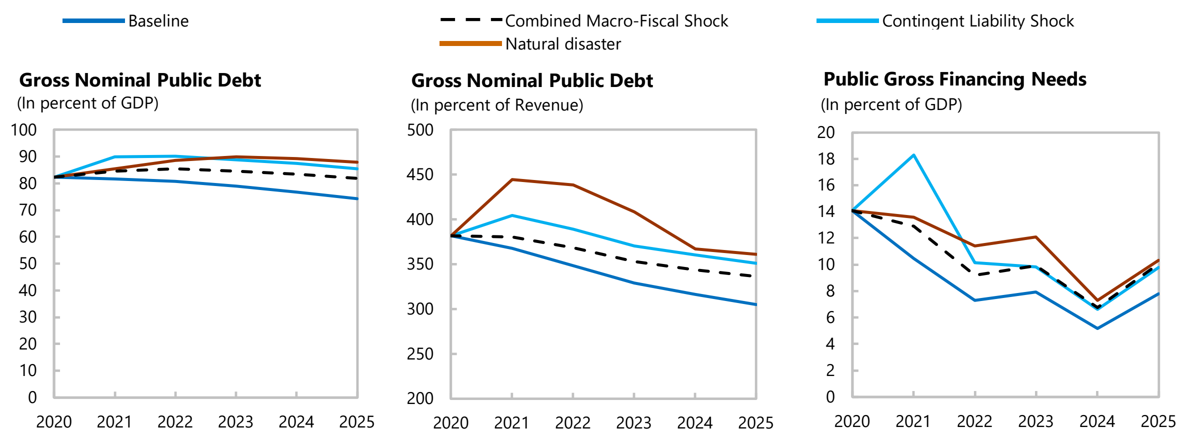
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure AI.4. El Salvador: Public DSA – Stress Test

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(In percent)

	2020	2021	2022	2023	2024	2025
Primary Balance Shock						
Real GDP growth	-5.4	4.3	2.5	2.2	2.2	2.4
Inflation	1.1	1.6	1.9	1.7	1.4	1.1
Primary balance	-4.5	-2.2	1.0	2.5	3.4	3.8
Effective interest rate	5.7	5.5	5.8	5.8	5.9	5.7
Real Interest Rate Shock						
Real GDP growth	-5.4	4.3	2.5	2.2	2.2	2.4
Inflation	1.1	1.6	1.9	1.7	1.4	1.1
Primary balance	-4.5	0.2	1.9	3.2	3.6	4.0
Effective interest rate	5.7	5.5	5.9	5.9	6.1	6.0
Combined Shock						
Real GDP growth	-5.4	3.7	1.9	2.2	2.2	2.4
Inflation	1.1	1.5	1.7	1.7	1.4	1.1
Primary balance	-4.5	-2.2	1.0	2.5	3.4	3.8
Effective interest rate	5.7	5.5	6.0	6.1	6.3	6.2

	2020	2021	2022	2023	2024	2025
Real GDP Growth Shock						
Real GDP growth	-5.4	3.7	1.9	2.2	2.2	2.4
Inflation	1.1	1.5	1.7	1.7	1.4	1.1
Primary balance	-4.5	0.0	1.6	3.2	3.6	4.0
Effective interest rate	5.7	5.5	5.6	5.6	5.6	5.5
Real Exchange Rate Shock						
Real GDP growth	-5.4	4.3	2.5	2.2	2.2	2.4
Inflation	1.1	1.6	1.9	1.7	1.4	1.1
Primary balance	-4.5	0.2	1.9	3.2	3.6	4.0
Effective interest rate	5.7	5.5	5.6	5.6	5.6	5.4
Contingent Liability Shock						
Real GDP growth	-5.4	3.7	1.9	2.2	2.2	2.4
Inflation	1.1	1.5	1.7	1.7	1.4	1.1
Primary balance	-4.5	-7.1	1.9	3.2	3.6	4.0
Effective interest rate	5.7	6.0	6.2	6.0	6.1	5.9

Source: IMF staff.

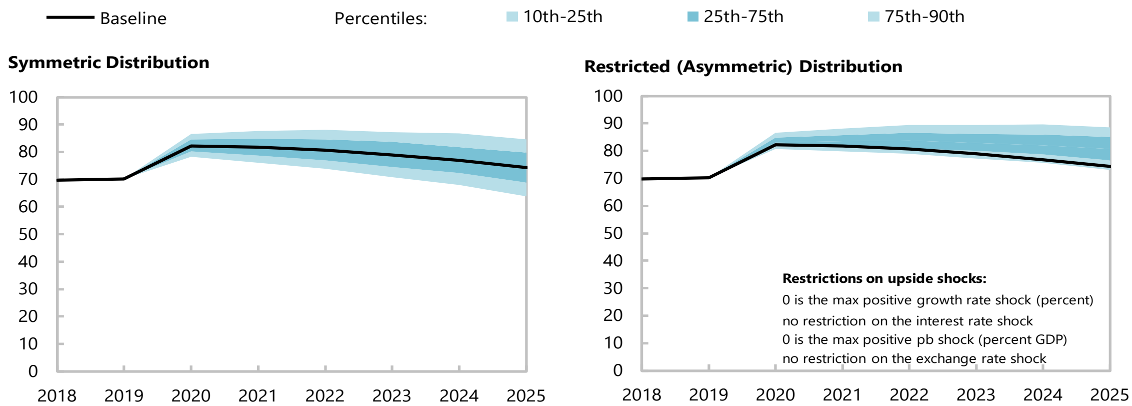
Figure AI.5. El Salvador: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

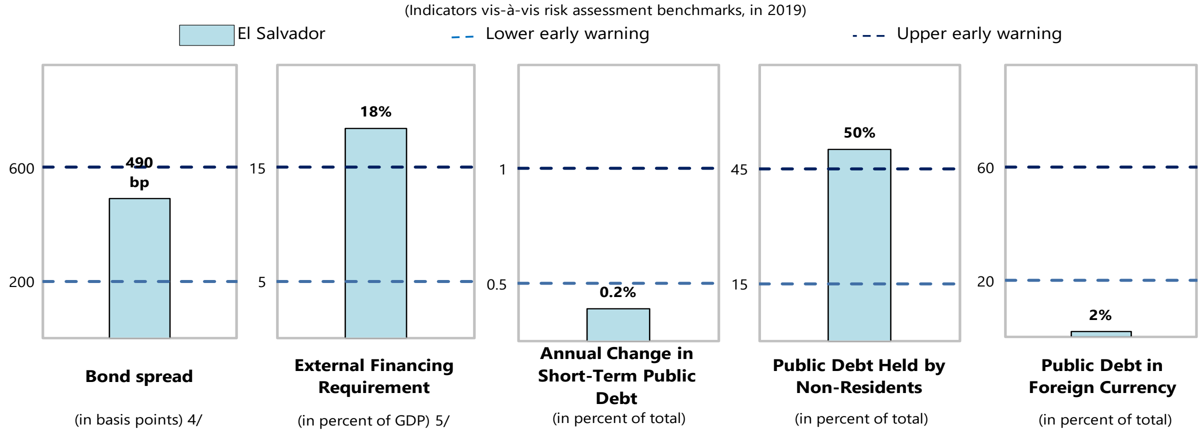
Evolution of Predictive Densities of Gross Nominal Public Debt

(In percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 01-Jan-20 through 31-Mar-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director, International Monetary Fund
Washington, DC, USA

San Salvador
El Salvador

April 4, 2020

Dear Mme. Georgieva,

1. Over the last few weeks El Salvador has been preparing to minimize and mitigate the effects of a severe pandemic, known as COVID-19, that has already killed more than 50,000 people worldwide, including two citizens of our country. In addition to this tragic loss of life, the pandemic is an exceptional economic shock that is undermining trade and halting economic activities, particularly tourism and disrupting supply chains.

2. The negative economic consequences of the pandemic can be very severe for El Salvador as our country is the most densely populated nation in Central America, To protect the health of our citizens we have adopted several preemptive and containment measures, including closing all schools and universities, banning the entry of foreigners and quarantining our citizens, even before the first case was diagnosed. A statewide shelter in place has been issued on March 21 and all operations in non-essential public and private sector have been suspended for 30 days. Unfortunately, we have now 46 diagnosed cases, mostly in quarantine centers. We are also strengthening our healthcare system by adequately equipping our existing hospitals and we are currently constructing a new hospital for the treatment of coronavirus patients. The economic loss caused by the pandemic, calculated as cumulative output loss until 2025, has been estimated at about US$2.5 billion corresponding to about 10 percent of GDP).

3. The pandemic is expected to open a large balance of payments need and stop the growth momentum that had started in 2019 on the back of improved business confidence. The fiscal position will deteriorate in the short term owing to lower economic growth, lower revenues and higher spending to contain the economic fallout from the coronavirus pandemic. Financial conditions in external capital markets rapidly deteriorated over the last few weeks, with the EMBI spread of our bonds more than doubling, from 400, reaching over 950 basis points at some point. Lower domestic growth and flight to safety in international capital markets would lead to a decline in capital inflows and, together with lower exports and lower remittances due a much lower global growth than projected in January has resulted in a large balance of payments impact about US$1. 4 billion in 2020. These developments will also make the financing of our entire public sector needs from international markets prohibitively expensive, risking further the sustainability of our public debt.

4. Our government announced tax and other relief measures for individuals and businesses, to cushion the negative impact of the national shelter in place order, on households and corporates. In particular, some tourism companies' tax payments have been temporarily deferred, a one-off cash transfer of US$300 has been granted to about 75 percent of households, and payments for utilities,

mortgages, consumer loans and credit cards have been deferred for a three-month period. For a period of 180 days, reserve requirements for new lending have been reduced by 25 percent, and overall reserve requirements have been lowered by about 5 percent of deposits (to 17 percent). Our current estimate for the public cost of measures to prevent, detect, control, treat and contain the virus are expected to reach about US$900 million (3½ percent of GDP), which, along with a loss in revenues are expected to deteriorate the 2020 budget to about 8¾ percent of GDP, requiring additional financing of at least US$1.3 billion.

5. Against this background, the government of El Salvador requests emergency financing from the IMF under the Rapid Financing Instrument (RFI); a purchase of 100 percent of quota, corresponding to SDR287.2 million or about US$389 million. This IMF assistance will help meet part of the urgent balance of payments needs associated with the coronavirus pandemic. The RFI is consistent with the provisions of the Constitution of El Salvador as well as relevant domestic legislation and is serving as a financing catalyst from other international financial institutions.

6. In these trying times, we are steadfastly committed not only to maintain the health of all our people, but also to preserve macroeconomic and financial stability, especially fiscal sustainability. The macroeconomic outlook is challenging, with fiscal space at risk, and few other policy levers, as our economy is fully dollarized. We remain committed to strengthen competitiveness by improving the business environment, reduce public debt, combat corruption, and strengthen the financial supervision and regulatory framework, and the governance and AML/CFT frameworks. We are confident that our fiscal operations will be fully financed during 2020. If needed, we will re-prioritize our capital spending plans and postpone lower priority projects that are not related to the anti-pandemic measures. We commit to implement a gradual fiscal adjustment of at least 3 percent of GDP in permanent measures over 2021–24, to achieve a primary fiscal balance of 3½ percent of GDP by end-2024, to put debt firmly on a declining path and comply with the Fiscal Responsibility Law and (a public debt ratio including pensions of 60 percent of GDP by 2030).

7. The government intends to continue to maintain a close policy dialogue with the IMF and abstain from adopting measures or policies that would further deteriorate the external and public debt sustainability position.

8. El Salvador will also comply with the provisions of the Fund's Articles of Agreement—including those related to imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions, or entering into multiple currency practices, or entering into bilateral payments agreements which are inconsistent with our obligations under Article VIII—and will implement public policies under that framework. We also intend to avoid putting in place new trade restrictions for balance of payment purposes.

9. In line with IMF safeguards policy, we also stand ready to collaborate with IMF staff in undertaking a safeguards assessment. We are collaborating with the IMF staff to implement a Memorandum of Understanding between the Central Bank of El Salvador and the Ministry of Finance to ensure that the country is complying with the provisions of the Fund's Articles of Agreement and with the terms and conditions of the RFI instrument used for budget support. In addition, we will collaborate with IMF staff to provide them with the most recently completed

external audit reports of the Central Bank (Banco Central de Reservas El Salvador). We also intend to accommodate any need for meetings between IMF staff, staff in the Central Bank, and our external auditors.

10. We authorize the Fund to publish this Letter of Intent for the request for a purchase under the RFI.

Sincerely yours,

/s/	/s/
Nelson Fuentes Minister of Finance of El Salvador	Nicolas Martínez Governor of the Central Bank of El Salvador

Statement by Mr. Villar and Mr. Cartagena Guardado on El Salvador
April 14, 2020

On behalf of our authorities, our deep gratitude to management and staff for the timely response to the request for disbursement under the Rapid Financing Instrument (RFI) that will help El Salvador overcome the deep exogenous shock caused by the COVID-19 pandemic.

Being the most densely populated country in Central America, with a dollarized economy since 2001, El Salvador has enjoyed macroeconomic and financial stability. However, the country is currently facing a major external shock that is causing large human and economic damage. The COVID19 shock has created a large balance of payments gap and significant financing needs in a time of tightening international financing markets for emerging markets.

Macroeconomic stability

With average low inflation of 0.4 percent in the last four years, moderate average fiscal deficit of 2.8 percent, current account deficit of 2.7 percent, and average economic growth of 2.4 percent during the same period, El Salvador has preserved macroeconomic stability. The Fiscal Responsibility Law, approved in 2016 and updated in 2018, has been an important base to sustain fiscal discipline. During the last year, the government has focused efforts on increasing business confidence for investment and lowering the violence rates. El Salvador reached a debt-to-GDP of 70.2 percent in 2019; however, it should be noted that the country incorporates pension liabilities as part of public debt (approximately 20 percent of GDP).

The country has built a sound banking system with large presence of international players. Foreign-owned banks account for 89.3 percent of the banking system, in terms of total assets. The banking system enjoys a broad base of domestic depositors; in average, 97 of total loans have been financed by domestic deposits during the last four years. NPLs averaged only 1.9 percent of total loans and were adequately provisioned (around 130 percent of NPLs). Banks solvency averaged 16.4 percent and credit growth was sound at yearly rates around 5.2 percent during the same four-year period. El Salvador has made continued efforts to boost financial inclusion and to enhance financial literacy.

Early measures taken by the authorities to prepare for and prevent the impact of Coronavirus (COVID-19) pandemic

The early measures adopted by the government helped develop a broad set of preventive actions that were fundamental to gain time to better prepare the health system and other infrastructure for the response to the epidemic. The authorities have also timely raised social awareness within the population on the required individual behaviors to prevent contagion, such as social distancing, quarantines, and telework; the latter through the new Law of Special Regulations for Telework, approved by Congress on March 20th.

Among the early COVID19 measures aimed to safeguard the health of its people, El Salvador implemented temporary closings of the education system, starting on March 12th, lockdowns, and closing of borders and airports on March 17th, allowing only the flow of essential goods to avoid disruption to the global chains. The authorities also created Contention Centers for all incoming travelers to slow down the progression of the epidemic curve and to gain time to prepare health teams and infrastructure to combat the virus.

El Salvador had its first confirmed case of COVID19 on March 18th. The early measures helped the country flatten the slope at the beginning, reaching 93 confirmed cases, 5 death and 9 recovered patients by April 7th. The 100 Contention Centers set up by the authorities so far have accommodated more than 4,600 incoming travelers, reducing the contagion spread to urban centers.

Investing in emergency sanitary workers and infrastructure has been a key part in the early response to the arrival of COVID19. Hospitals have step up capacity to prepare for COVID19 patients, while more nurses and doctors have been contracted on temporary basis to widen the attention to this emergency. The government has also increased testing capacity to help identify and treat cases.

Economic and financial measures were also adopted to assist affected households. The authorities approved a one-off cash transfer of US$300 grant to assist nearly 75 percent of affected households that have lost their income, and a one-time $150 bonus for health workers and other public workers that are directly involved in the COVID19 response. Payments of utilities, mortgages, consumer loans and credit cards have been deferred for a three-month period. Furthermore, overall reserve requirements for deposits have been lowered for a period of 180 days.

Economic and fiscal effect of the COVID19 epidemic and policy responses

The negative effect of the COVID19 outbreak on the country's economy will most likely prevail, especially in the second and third quarters of this year. The Central Reserve Bank of El Salvador (BCR) released its economic forecast for 2020 at the end of March, signaling a sharp deterioration in GDP performance. From a positive outlook of around 2.5 percent for 2020 before COVID19, GDP is now projected to decline in the range of 2.0 to 4.0 percent, deeper than the 2009 recession (when GDP fell 2.1 percent). However, the most recent developments in the US economy (El Salvador's main economic partner with almost half of total trade), and in the Central American countries (main other trade partners), indicate the recession may be even deeper. The fiscal deficit is also expected to widen up temporarily above 8 percent of GDP, and the current account deficit to reach 4.1 percent of GDP in 2020.

Fiscal and external accounts are affected by the COVID19 shock**.** El Salvador will face lower tax and tariff revenues from the sharp reduction in the economic activity and trade volumes. Several sectors of the economy are impacted, particularly trade, and services associated to tourism. Preliminary estimates indicate the country's fiscal accounts may suffer a reduction of around 2 percentual points of GDP in tax revenues and an increase of around 3 percentual points of GDP in expenditures associated with the COVID19 and the measures to mitigate its spreading.

The slowdown in major trading partners will negatively affect the current account given the impending decline of family remittances and lower external trade**.** Remittances flows in 2019 accounted for around 21.0 percent of GDP. It is also important to note that around 95.0 percent of total remittances are originated in the United States while the rest come from countries such as Italy, Canada and Spain whose labor markets have been deeply affected by COVID19, mainly in the services sectors that employ the great majority of Salvadorians abroad.

Financial accountability in the use of resources

The President of El Salvador has called on the International Commission Against Impunity for El Salvador (CICIES) of the Organization of American States (OAS) to join efforts with the Salvadorian Court of Audits to oversee accountability and the transparent use of financial resources allocated to fight COVID19. The government is committed to transparency and accountability and to using effective mechanisms and controls for the disbursement of funds, including through the Recovery Fund.

Commitments of the Salvadorian Authority

The expected deterioration of the 2020 fiscal deficit beyond 8.0 percent of GDP is temporary. The government will re-prioritize capital spending plans and postpone lower priority projects that are not related to the pandemic, and it will commit to fully revert in 2021 to the measures implemented in 2020. Moreover, the authorities commit to implement a gradual fiscal adjustment of at least 3 percent of GDP over 2021–24 to achieve a primary fiscal balance of 3.5 percent of GDP by end-2024. This consolidation will put debt firmly on a declining path and in compliance with the Fiscal Responsibility Law (towards a public debt ratio including pensions of 60 percent of GDP by 2030).

The authorities remain committed to strengthen competitiveness by improving the business environment, reduce public debt, strengthen financial supervision and regulatory frameworks as well as governance, AML/CFT and anti-corruption frameworks.

The government intends to maintain a close policy dialogue with the IMF to design such an adjustment, and to abstain from adopting measures or policies that would further deteriorate the external and public debt sustainability position.

Conclusion

The authorities are confident that the policies outlined in their Letter of Intent will enable an effective use of the requested disbursement under the RFI in these extraordinary circumstances.

Despite the current situation, the authorities are committed to preserve macroeconomic and financial stability, especially fiscal sustainability, and to putting economic growth on a higher trajectory while debt in a downward trajectory over the medium term. They are also committed to resume fiscal consolidation once the disease is contained, building on the progress achieved over the last years.