INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/58

EL SALVADOR

March 2025

REQUEST FOR EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR EL SALVADOR

In the context of the Request for Extended Arrangement Under the Extended Fund Facility, 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 February 26, 2025, following discussions that ended on December 14, 2024, with the officials of El Salvador on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on February 12, 2025.
- A **Staff Statement** updating information on recent developments.
- 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
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PRESS RELEASE

PR25/043

IMF Executive Board Approves New 40-month US$1.4 billion Extended Fund Facility Arrangement for El Salvador

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved a new 40-month arrangement under the Extended Fund Facility (EFF) for El Salvador, with access equivalent to US$1.4 billion. The Board's decision allows the authorities an immediate disbursement equivalent to around US$113 million.
- The IMF-supported program aims to ensure conditions are in place to boost El Salvador's growth prospects and resilience by strengthening public finances, rebuilding external and financial buffers, and improving governance and transparency. Bitcoin risks are also being addressed.

Washington, DC – February 26, 2025: Today the Executive Board of the International Monetary Fund (IMF) approved a 40-month extended arrangement under the Extended Fund Facility (EFF) for El Salvador, with access of SDR 1033.92 million (around US$1.4 billion, or 360 percent of quota). The Board's approval allows the authorities an immediate disbursement of SDR 86.16 million, equivalent to around US$113 million. The arrangement is expected to catalyze additional multilateral financial support, for a combined overall financing package of over US$3.5 billion over the program period.

Building on recent progress, the authorities' IMF-supported program aims at addressing macroeconomic imbalances and strengthening governance and transparency, with the objective of boosting El Salvador's growth prospects and resilience. Under the program, the primary balance will improve by 3½ percent of GDP over three years, underpinned initially by a rationalization of the wage bill, while protecting priority social and infrastructure spending. This will be complemented by measures to rebuild reserve buffers and bolster financial stability, as well as actions to strengthen fiscal transparency and anti-corruption and Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) frameworks. The program also addresses risks arising from the Bitcoin project, including by making acceptance of Bitcoin voluntary and by confining public sector engagement in Bitcoin-related activities and transactions in and purchases of Bitcoins.

Following the Executive Board's discussion on El Salvador, Mr. Nigel Clarke, Deputy Managing Director and Acting Chair, issued the following statement:

``The Salvadorean economy is steadily expanding on the back of robust remittances and tourism, and a greatly improved security situation. External deficits have narrowed, inflation has fallen, and recent liability management operations have reduced near-term financing needs. Nevertheless, El Salvador continues to face deep macroeconomic imbalances, stemming from high debt and weak external and financial buffers, as well as barriers to investment and productivity. The authorities' economic program, supported by an Extended Fund Facility arrangement, aims to strengthen fiscal and external sustainability while creating the conditions for stronger and more inclusive growth.

``The Fund-supported program is underpinned by an ambitious growth-friendly fiscal consolidation, aiming to put public debt on a firm downward path and building fiscal buffers. The consolidation is being supported by raising public spending efficiency and reforms of the civil service and the pension system over time, while providing sufficient space to protect priority social and infrastructure spending.

``The program will enhance El Salvador's resilience to shocks, through a gradual and determined strengthening of external and financial sector buffers. A plan to increase banks' liquidity buffers has already been approved, with Fund financing also supporting government buffers and central bank reserves. Improvements in regulation and supervision as well as a new financial stability legislation will also bolster financial stability and inclusion.

``Envisaged improvements in governance and transparency are expected to boost confidence and private investment. Early steps have been taken through the enactment of a new Anti-Corruption legislation, and publication by the Court of Accounts of audits of financial statements of government agencies and COVID audits. These will be followed by upgrades to procurement and accountability processes, as well as the strengthening of AML/CFT frameworks.

``The potential risks of the Bitcoin project are being addressed in line with Fund policies and with Fund advice to the authorities. Prior actions include legal reforms that have made acceptance of Bitcoin by the private sector voluntary and ensured that tax payments are made only in U.S. dollars. Transparency of the public crypto e-wallet has been strengthened, and the government plans to gradually unwind its participation in the e-wallet. Going forward, program commitments will confine government engagement in Bitcoin-related economic activities, as well as government transactions in and purchases of Bitcoin. Regulation and supervision of digital assets will be enhanced in line with evolving international best practices.

``Decisive ownership and implementation and broad political and public support will be critical to ensure the program's success. Agile policy making and contingency planning will be essential to manage downside risks in the context of dollarization. Continued financial and technical support from other official creditors will also be necessary to support program implementation.''

INTERNATIONAL MONETARY FUND

EL SALVADOR

REQUEST FOR EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

February 12, 2025

EXECUTIVE SUMMARY

Context. El Salvador has recovered well from the pandemic, supported by robust remittances and buoyant tourism flows, amid a sharp improvement in the country's security situation. Inflation has fallen and the external imbalances have narrowed more recently, consistent with a gradual improvement in public finances and favorable terms of trade. In this context, sovereign spreads have come down sharply with recent debt buyback operations helping to ease near-term external financing needs. Despite recent progress, El Salvador's macroeconomic imbalances remain significant, stemming from high fiscal deficits and debt, as well as low external and financial buffers, in the context of dollarization. Meanwhile, underlying productivity remains low, reflecting in part persistent social and infrastructure gaps, as well as a legacy of weak governance and transparency, which have discouraged investment. The Bukele administration is intent on focusing its second mandate on addressing pending macroeconomic and structural challenges and boosting economic growth, under an IMF-supported program.

Program Objectives. The Fund-supported program focuses on re-establishing fiscal sustainability, bolstering liquidity buffers, and strengthening governance and transparency, with the aim of boosting El Salvador's growth prospects and resilience. Key elements of the program include: (i) a growth-friendly adjustment of the primary balance of 3½ percent of GDP over three years, underpinned by structural efforts to put public debt on a sustained downward path; (ii) rebuilding liquidity buffers to strengthen financial stability and external viability; (iii) improving governance and financial integrity by strengthening fiscal transparency as well as anti-corruption and Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) frameworks; and (iv) addressing risks to the Bitcoin project, including to align it with Fund policies and international best practices. Regarding the latter, legal reforms will make acceptance of Bitcoin by the private sector voluntary, taxes will be paid only in U.S. dollars and government purchases of Bitcoin will be prohibited during the program, while public participation in the crypto e-wallet (Chivo) will be gradually unwound.

Program modalities. The authorities are requesting a 40-month Extended Arrangement under the Extended Fund Facility (EFF), with access of SDR 1033.92 million (around US$1.4 billion, or 360 percent of quota). The phasing of access is backloaded over the program period, reflecting the evolution of balance of payments needs and consistent with the expected external financing from other official sources (estimated at around US$2.2 billion during the program period) and from international capital markets. Around 60 percent of the program amount will be used for budget support, including to build NFPS deposits at the central bank, while the remaining 40 percent will be allocated to the central bank to boost gross international reserves. The program will be monitored on a semi-annual basis, although the initial two reviews will take place on a quarterly basis to strengthen implementation early in the program. Completion of prior actions in all key program areas is necessary ahead of Board consideration.

Program risks. Risks to the program arise from challenges in implementing the ambitious fiscal adjustment and structural reform program amidst an increasingly uncertain economic backdrop and rigidities posed by El Salvador's dollarization regime. Support for the program at the highest political levels, program design features, including backloaded disbursements, and agreed contingency planning are important risk mitigating factors. The proposed program poses key reputational and business risks to the Fund, although these are mitigated by strong focus on governance and transparency reforms, recent amendments to the Bitcoin legislation in line with Fund policies, and the strong popularity of the administration, which strengthens capacity to deliver program objectives.

Approved By
Luis Cubeddu (WHD) and Geremia Palomba (SPR)

Discussions were held during the course of 2024, with final negotiations taking place in San Salvador, El Salvador, December 5–14, 2024. The team comprised Raphael Espinoza (head), Rina Bhattacharya, Flora Lutz, Ryotaro Sawada, Alexander Subramaniam Beames (all WHD), Juliana Bolzani (LEG), Paolo Dudine (FAD) and Alexander Zaborovskiy (SPR). Luis Cubeddu (WHD) led the concluding policy meetings with Xiana Mendez Bertolo and Oscar Monterroso (OED) joining the discussions. Justin Lesniak contributed with research assistance and support was provided by Heidi Canelas and Giselle B. de Rivero (all WHD). Staff from FAD, LEG, and STA participated virtually in some meetings.

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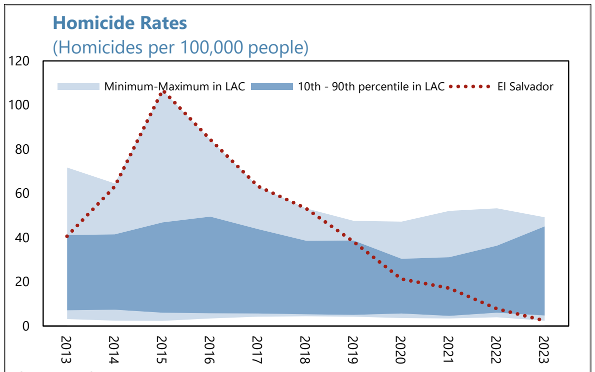
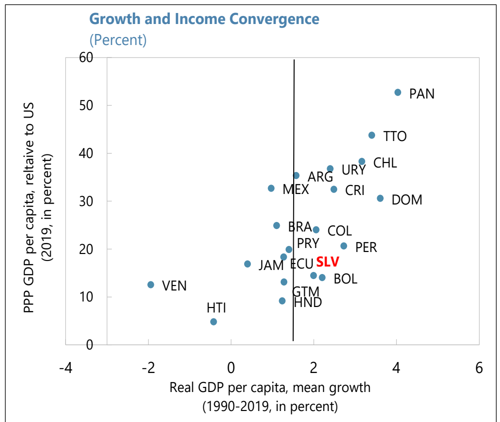
CONTEXT

1. El Salvador's economy continues to recover, amid an unprecedented improvement in the security situation. The economy rebounded quickly following the pandemic and has been expanding at a healthy pace supported by robust remittances and a significant uptick in tourism flows, as the security situation has improved following a major crackdown on gang violence, which reduced El Salvador's homicide rate from the highest to among the lowest in the Western Hemisphere. Meanwhile, inflation continues to fall, and the current account has improved in line with by a gradual improvement in public finances and favorable terms of trade, mainly due to lower commodity import prices.



Source: WHO

2. Despite recent gains, deep macroeconomic imbalances persist. The fiscal deficit, which reached 8.2 percent of GDP in 2020 remained high over 2022-24, averaging around 4 percent of GDP, driven by increasing security and wage spending (including in the areas of health and education), which was partly offset by efforts to reduce municipal transfers. El Salvador's public debt is high, at an estimated 87 percent of GDP at end-2024, and the associated fiscal financing challenges have put undue pressure on the domestic financial system and pension funds. As a result, external and financial buffers have been exhausted, leaving the economy in a vulnerable position, especially given the rigidities posed by the dollarization regime. In addition, governance and fiscal transparency concerns linger.[1]



Source: WEO and IMF staff calculations.

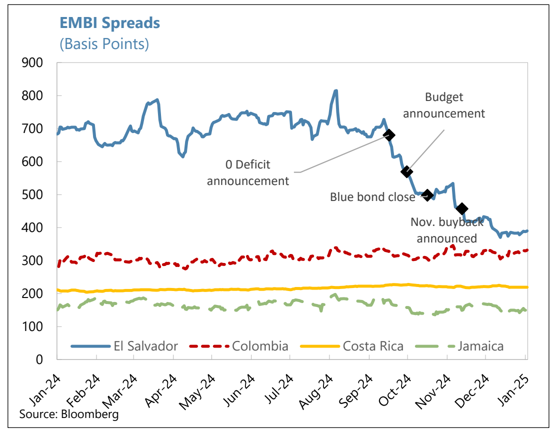
3. Moreover, El Salvador faces important structural vulnerabilities that have held back growth. Per-capita growth has been low in El Salvador, insufficient to close income gaps with advanced economies and to reduce high poverty (27 percent), with around 2.3 million people unable to meet their basic needs for food and shelter. These trends contributed to significant outmigration, although this has reversed more recently thanks to the improvements in the country's security situation (see Box 1). In addition, El Salvador remains highly vulnerable to increasingly frequent natural disasters and external shocks,[2] and growing international competition has

[1] The regime of exception, in place to fight gangs, has been in place since March 2022. The Fiscal Responsibility Legislation has also been suspended since the 2020 pandemic.

[2] El Salvador is highly exposed to natural disasters and has low adaptation capacity, resulting in damages from floods and storms averaging around 3 percent of GDP during the year of the event (Kim et al., 2022, "On the Macro Impact of Extreme Climate Events in Central America: A Higher Frequency Investigation", IMF WP 22/237).

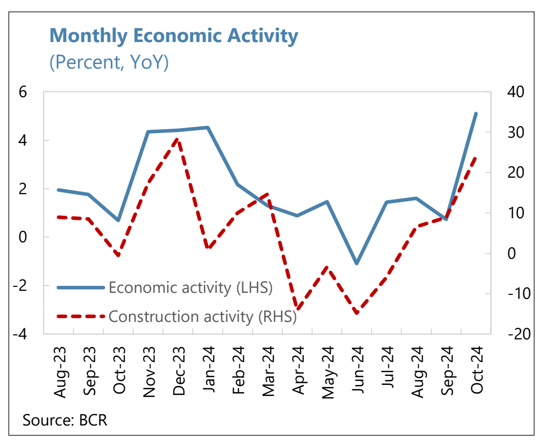
negatively affected maquila exports. Significant infrastructure and human capital gaps continue to hold back productivity and private investment.

4. El Salvador faces a historic opportunity to transform its economy and lift the living standards of its people and restore macroeconomic stability, under a new Fund-supported program. The Bukele administration is committed to center its second mandate on addressing lingering macroeconomic imbalances and creating the conditions for stronger, inclusive, and more resilient growth.[3] Steps taken during the course of last year are already helping to cement confidence. The fiscal adjustment planned in the 2025 Budget along with several liability management operations to lessen near-term gross financing needs sharply reduced sovereign spread, which fell from over 700 bps in late-2023 to around 350 bps ahead of the Staff Level Agreement (SLA) announcement on a new Fund-supported program. Sustained implementation of a multi-year policy agenda, focused on placing public debt on a sustainable downward path, strengthening external and financial system buffers, and improving governance and transparency, should support a further reduction in spreads and encourage foreign direct investment (FDI). In addition, it will be critical to address risks from the Bitcoin project, in line with Fund policies and evolving international best practices, as well as to ensure sufficient social and infrastructure spending, including to mitigate climate risks. The program envisages the financial and technical support from other development partners, including the Inter-American Development Bank (IDB), the World Bank, the Central American Bank for Economic Integration (CABEI) and the Development Bank of Latin America and the Caribbean (CAF).



RECENT DEVELOPMENTS

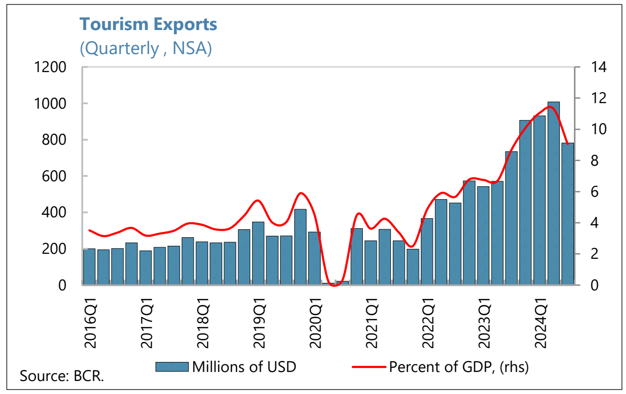
5. Underlying growth remains solid, despite a weather-related slowdown earlier in 2024, with inflation well contained. After expanding by 3.5 percent in 2023, real GDP growth softened during S1:2024, with heavy floods delaying public investment and construction. High-frequency indicators, however, suggest activity rebounded during S2:2024, underpinned by strong tourism and high remittances, and unwinding of the weather shock. There are also emerging indications that reduced crime rates are supporting housing demand by Salvadorans living in



[3] President Bukele was re-elected with around 85 percent of the vote in February 2024 to a second term, which began in June 2024. His party (*Nuevas Ideas*) has a strong majority in the legislative assembly, holding 54 out of the 60 seats.

the United States.[4] Meanwhile, consumer price inflation has fallen further (reaching 0.3 percent y/y in December), reflecting declines in food prices, in the context of a generally closed output gap.

6. **The current account deficit has narrowed, although external buffers remain weak.** The cumulative current account deficit through Q3:2024 narrowed sharply to –1.1 percent of GDP, as declining commodity prices, strong remittances, and booming tourism (text chart) more than offset weaker goods exports and rising interest costs, in the context of generally subdued import growth (1.2 percent y/y in November). The current account was largely financed through market debt operations, development bank loans, and FDI inflows, although large and negative cumulative errors and omissions in preliminary data (about 3.4 percent of GDP cumulatively through Q3:2024) suggest a rise in unrecorded outflows in the balance of payments. International reserves increased by US$ 625 million (0.3 month of imports) in 2024, yet gross reserves coverage remains low, at just 2.4 month of imports, or about one-third of the ARA adequacy metric for dollarized economies.[5] El Salvador's external position is moderately weaker than warranted by fundamentals and desirable policies (Annex I), reflecting low reserve coverage, a deeply negative net international investment position (52 percent of GDP or US $18 billion), and fragile (even if improving) market access.



7. **Fiscal policy tightened moderately during 2024.** The primary balance (on an accrual basis) is estimated to have reached a surplus of 0.7 percent of GDP last year, roughly 1.2 percentage points of GDP higher than in 2023, with buoyant revenues as well as lower primary spending. Specifically, total revenues (including grants) rose by 1.1 percent of GDP, reflecting strong income tax and VAT collections, aided by continued improvements in tax administration, increased use of electronic invoicing, and the improved security situation. Primary expenditures (on an accrual basis) fell by around 0.2 percent of GDP, despite the one-off cost of a voluntary retirement scheme (0.6 percent of GDP)[6], and high security spending. Spending on a cash basis was higher on account of a 0.5 percent of GDP reduction in domestic arrears (payments overdue by more than

El Salvador: Fiscal Aggregates, 2023-2024
(in percent of GDP)

	2023 (outturn)	2024 (est.)
Accrual basis		
Primary expenditure	26.2	26.1
Primary balance	-0.5	0.7
Cash basis		
Tax revenues and Grants	25.7	26.8
Tax revenues	20.2	21.2
Nontax revenues	5.4	5.5
Primary expenditure	25.8	26.6
Current	21.9	23.2
o/w voluntary retirement scheme	0.0	0.6
Capital	3.9	3.4
Primary balance	-0.1	0.2
Interest payments	4.5	4.6
Overall balance	-4.7	-4.4
Arrears (stock)	1.1	0.5

Source: BCR and IMF Staff estimates

[4] In November 2024, the United States lowered its travel advisory for the country from Level 3 to Level 2, signaling improved security conditions.

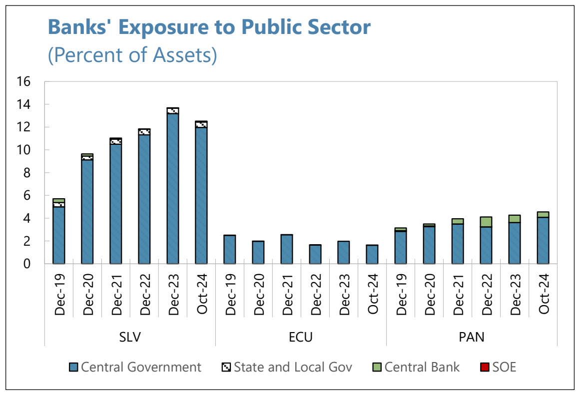
[5] Net international reserves are typically lower by around US$ 200 - 300 million.

[6] The voluntary retirement scheme is projected to reduce wage spending by around 0.3 percent of GDP annually over the medium term.

90 days).[7] The overall cash deficit reached 4.4 percent of GDP, with interest costs rising to 4.6 percent of GDP.

8. The fiscal deficit was financed mainly through external sources, with liability management operations easing gross financing needs (Box 2). The bulk of the cash deficit was financed through official support (mainly for projects) and proceeds from the Eurobond issuances which were used to lower near-term external financing needs as well as clear domestic arrears. Specifically, and in the context of sharply lower spreads, the government issued external bonds for US$2.9 billion and undertook debt buyback operations in April, October, and November, which withdrew Eurobonds for about US$1.8 billion, while lengthening maturities, at the cost of somewhat higher interest rates.[8]

9. Banks are largely compliant with capital requirements, but liquidity buffers remain low and levels of government exposure are still high. The capital adequacy ratio reached 15.4 percent in September 2024, remaining well above the legal minimum of 12 percent, and non-performing loans are low (1.9 percent of total assets) with adequate provisioning (140 percent of NPLs). Private credit has been growing in line with historical averages (5 percent y/y) with around half of total credit allocated to households and the other half to non-financial corporations. Deposit growth also remains healthy (6 percent y/y) and bank profitability ratios are generally solid. That said, legal liquidity reserves remain low at 12 percent of deposits, down from around 20 percent pre-pandemic, with excess reserves at 1.2 percent of deposits as of October 2024. Bank holdings of government securities, despite declining somewhat last year (to 11.6 percent of assets in October 2024), remain elevated and significantly above pre-pandemic levels (6.1 percent), posing notable risks related to the bank-sovereign nexus. Meanwhile, the reported embezzlement of funds by the co-operative bank COSAVI in May 2024 (US$35 million) underscores lingering weaknesses in the prudential oversight of co-operatives and similar entities.



10. Bitcoin use remains marginal (see Box 5), and the program will address key risks. Although crypto-assets have the potential to make payments cheaper and faster, widespread adoption could threaten macroeconomic stability and raise fiscal risks.[9] In El Salvador, monetary and financial stability risks have been contained due to Bitcoin's limited circulation, in a context where the US dollar can also be freely used. The use of Bitcoin as means of payment has been minimal,

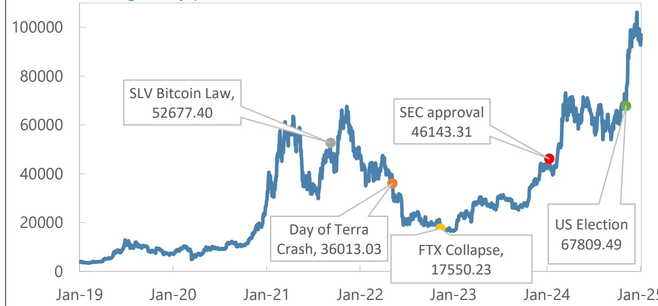
[7] At end-2024, domestic arrears (over 90 days) are estimated to have reached around US$192 million, with accounts payable (under 90 days) reaching around US$490 million, in line with historical averages.

[8] The average maturity of Eurobonds is currently around 24½ years.

[9] IMF (2023), "Elements of Effective Policies for Crypto Assets" presents a policy framework for crypto assets that aims to achieve key policy objectives such as macroeconomic stability, financial stability, consumer protection, and market and financial integrity. See also IMF and FSB (2023) "Synthesis Paper: Policies for Crypto Assets."

reflecting Bitcoin's high price volatility and limited trust in the technology. Meanwhile, the financial sector has no exposure to Bitcoin, and payment of taxes in Bitcoin, which will be prohibited following legal reforms, have been insignificant. Similarly, fiscal risks have been contained and are slated to improve with the expected reforms. The annual operating cost of running the government e-wallet (*Chivo*) has been relatively small (0.1 percent of GDP), and the government's participation is expected to be unwound (see ¶27). Holdings of Bitcoin by the government's Bitcoin Management Agency are currently valued at around US$ 600 million (about 6,070 Bitcoins), and there will be no voluntary accumulation of Bitcoins by the public sector in the context of the program. That said, efforts will be necessary to strengthen the governance and accountability of the Bitcoin Management Agency, and to improve the broader framework for the supervision of crypto-assets, including to mitigate money laundering and terrorist financing risks (see ¶29).

Bitcoin Price
(Average daily price in USD)



Souce: Haver Analytics.

MACROECONOMIC OUTLOOK AND RISKS

11. Under the active policy baseline, El Salvador's outlook is projected to gradually improve as fiscal and external imbalances are addressed.

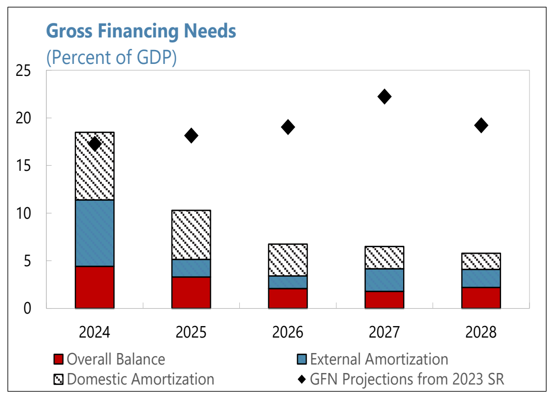
- **Real GDP growth** is expected to be around 2½ percent during 2025-26, given drags from the fiscal adjustment.[10] The economy is then expected to grow by around 3 percent over the medium term, against the backdrop of a durable improvement in security—which is expected to boost potential growth (Box 1)— and driven by investment as structural reforms, fiscal consolidation and larger buffers improve confidence. Banks' credit to the private sector is expected to grow slightly above its historical average thanks to the financial space generated by program.
- **Inflation** is expected to remain low at 1¾ percent, around the historical average, in line with stable global commodity prices and US inflation, and consistent with moderate wage growth to preserve competitiveness.
- **The current account deficit** is expected to remain contained at under 1 percent of GDP over the medium term, supported by sustained fiscal consolidation, the implementation of reforms to improve El Salvador's export capacity, growing tourism receipts (from 8.1 percent of GDP in 2023 to 11.1 percent of GDP in 2030) as well as generally favorable terms of trade. Remittances are projected to remain strong, moderating only gradually (from 24 percent of GDP in 2023 to 20 percent of GDP by 2030), reflecting expected labor market conditions for the Salvadoran

[10] A fiscal multiplier in the range of 0.3 percent is assumed, consistent with values of other highly open emerging economies with fixed exchange rates, relatively high levels of debt and high borrowing costs.

diaspora. The current account deficit is largely financed through FDI, with net official and market financing supporting a gradual improvement in external buffers.

- **The fiscal primary balance** is projected to improve steadily from an estimated accrual surplus of 0.7 percent of GDP in 2024 (0.2 percent of GDP on a cash basis) to a surplus of 1.9 percent of GDP in 2025, before reaching a steady-state surplus of 3.7 percent of GDP by 2027. This is consistent with an overall deficit of 2.1 percent of GDP in 2028, with rising interest payments reflecting recent debt management operations, especially the one covering pension debt. Domestic arrears are projected to remain unchanged in US dollar terms relative to end-2024 levels. The magnitude of fiscal adjustment, while ambitious in relation to both El Salvador's own history and cross-country comparisons, is warranted to durably reduce the debt-to-GDP ratio given the high interest bill.[11]

12. The assumed fiscal consolidation is consistent with a gradual decline in public debt and gross financing needs. Specifically, public debt is projected to fall to around 81 percent of GDP by 2029, while gross fiscal financing needs narrow to around 7 percent of GDP during 2025-29, also supported by the recent debt management operations. Public debt is projected to be consistent with a moderate probability of sovereign stress over the medium- and long-term, and a debt trajectory that is sustainable (see Annex II). This assessment is subject to uncertainties originating from the country's exposure to shocks (natural disasters, global conditions, access to external financing), contingent liabilities (from SOEs and the pension system), constraints to adjustment posed by the dollarization regime, and policy implementation challenges (see also ¶13 and ¶14).



13. The balance of risks around the outlook is subject to downside risks, although upside risks cannot be discarded.

- On the **external front**, tighter global financial conditions (in the form of a stronger US dollar and higher borrowing rates for longer), and an escalation of trade tensions could translate into lower exports (including tourism), capital inflows, and growth. Changes to immigration policies in other countries could lead to substantial migrant returns and lower remittances, adding to external imbalances. Such spillovers could exacerbate financing constraints for both the public and private sectors, emphasizing the importance of strengthening external buffers against shocks, as per the program design.

[11] The magnitude of fiscal adjustment over the three years is in the 85th percentile of the distribution of changes in the cyclically adjusted primary balance among comparator countries (see Annex II).

- On the **domestic front,** fiscal slippages could undermine confidence and the accumulation of buffers, while further reliance on financial repression could aggravate the bank-sovereign nexus. Meanwhile, costly and more frequent natural disasters or climate shocks could hurt growth and undermine program performance. Pressures could also emerge to expand sovereign holdings of Bitcoins. However, these risks are mitigated by the frontloading of key measures, as well as broad political support (with a strong majority in the legislative assembly) and high-level commitment by the administration to the program, as demonstrated by the agreed prior actions in politically-sensitive areas, including Bitcoin.

- On the **upside,** structural reforms and sustained fiscal consolidation could have a stronger-than-projected impact on business confidence and growth, against the backdrop of geopolitical shifts and sustained improvements in the security situation. Depending on the form of trade policies enacted globally, El Salvador could benefit from trade diversion effects.

14. Contingency planning will be essential. The authorities recognize that the dollarization regime requires that fiscal policy adjust to shocks, and that any revenue underperformance be accompanied by corrective measures, including to safeguard reserve coverage goals and debt sustainability. Specifically, should fiscal shortfalls emerge, the authorities have agreed to further streamline non-priority, non-wage spending. Consideration will also be given to mobilizing revenues by accelerating reforms aimed at widening the revenue base and rationalizing special regimes, as well as increasing fees and other taxes in case fiscal deviations become large. Furthermore, El Salvador's flexible product and labor markets will need to be preserved to allow relative price adjustments, especially if the country is faced by external shocks, although better targeted social support will be needed to protect the most vulnerable.

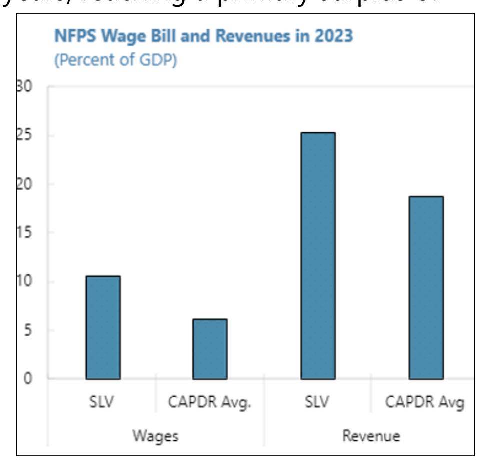
15. The proposed program poses key reputational and business risks to the Fund. *Reputational* and *business risks* could emerge given the legacy of weak governance, transparency, and rule of law as well as the precedent-setting role of conditionality on Bitcoin, where assessing Bitcoin-related exposures may prove challenging. Additionally, the bond issued in April 2024, with its yield contingent on agreement and compliance with an IMF program, is a source of risks in case program reviews are delayed. These risks are being mitigated by strong early actions to strengthen fiscal transparency and anti-corruption and anti-money laundering frameworks, and reforms to ensure the legal treatment of Bitcoin are consistent with Fund policies. Importantly, strong program ownership and continued social support will bolster the administration's capacity to deliver program objectives. Pro-active communication will also help address reputational risks. Meanwhile, extensive technical assistance from development partners aims to boost capacity and address data reporting deficiencies mitigating operational risks. Enterprise financial risks are mitigated by strong capacity to repay metrics (¶38), the backloaded disbursements schedule, and the use of Fund resources to rebuild reserve buffers and contain liquidity risks.

POLICIES UNDER THE EXTENDED FUND FACILITY ARRANGEMENT

16. **The authorities' economic program aims at re-establishing debt sustainability, bolstering reserve buffers and strengthening governance and transparency to boost potential growth and investment.** The new EFF arrangement envisages implementation of a comprehensive policy package over the medium term focused on: (i) securing a package of growth-friendly fiscal consolidation measures that improve the primary balance by around 3½ percent of GDP over 3 years, underpinned by credible fiscal reforms, especially on the spending side; (ii) strengthening financial stability and external viability by rebuilding bank liquidity buffers and central bank reserves; and (iii) improving governance by strengthening fiscal transparency as well as anti-corruption and AML/CFT frameworks. In addition, the program seeks to mitigate Bitcoin risks, including through legal reforms that ensure Bitcoin is of voluntary acceptance for the private sector and is not used by the public sector nor for the payment of taxes. Upfront actions intend to signal a determined shift in the direction of sound economic policy, boosting credibility.

A. Restoring Fiscal Sustainability

17. **A central objective of the economic program is to restore fiscal sustainability.** To meet this objective, the program envisages an improvement of the primary balance of the Non-Financial Public Sector (NFPS) of around 3½ percent of GDP over three years, reaching a primary surplus of 3.7 percent of GDP by end-2027, consistent with a steady downward path for debt. To buttress the credibility of the plan, and consistent with the recently approved 2025 Budget, an upfront adjustment of 1.7 percent of GDP is being proposed, yielding a primary surplus of 1.9 percent of GDP in 2025 (***quantitative performance criteria, QPC)***.



18. **A package of well-sequenced high-quality measures will underpin the fiscal consolidation**. Given El Salvador's already high tax burden relative to peers, the authorities' plan is appropriately centered on expenditure rationalization.

- **Expenditures.** The initial focus is given to reducing budgetary allocations for the wage bill supported by the elimination of vacant positions, the prohibition of salary increases, applying the wage indexation mechanisms in the health sector ('escalafón') only to low-wage earners, and the suspension of the granting of new benefits in future employment contracts. In addition, spending on goods and services will be cut in real terms while transfers to municipalities will be further rationalized, following the 2023 reform reducing the number of municipalities. These measures are expected to generate savings of 1.4 percent of GDP in 2025.[12] Beyond this year, further efforts will be needed to secure the projected cumulative expenditure cuts of 2.8 percent of GDP by end-2027, for which a civil service reform plan is being prepared (***end-June 2025 structural benchmark, SB***), with technical assistance from the World Bank, and efficiency gains in public employment can be expected following the reduction in the number of municipalities last year.

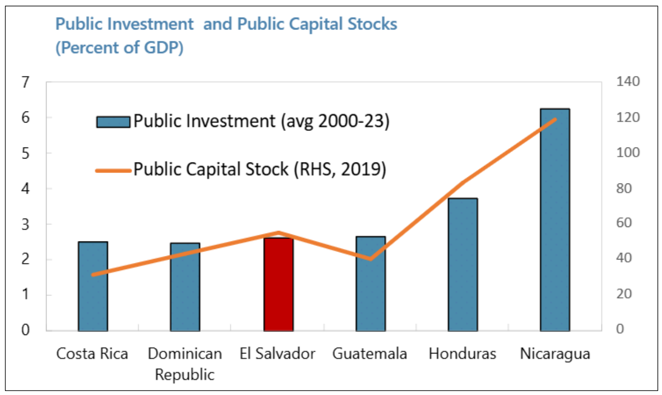
El Salvador: Composition of Fiscal Adjustment
(Estimated full year impact, cumulative, in percent of GDP)

	2025	2026	2027
Revenues			
Broaden the revenue base, reduce tax expenditures	0.2	0.3	0.5
Electronic invoicing	0.2	0.2	0.2
Improve tax and customs administration	0.0	0.0	0.1
Total	0.3	0.4	0.7
Expenditures			
Reduction in wage bill	0.8	1.3	1.6
o/w structural wage measures over program period	0.2	0.7	1.0
Cuts in spending on goods and services	0.5	0.8	1.0
Prioritize transfers to municipalities	0.1	0.2	0.2
Total	1.4	2.2	2.8
TOTAL	1.7	2.7	3.5

Source: IMF staff calculations.

- **Revenues.** Actions will continue to strengthen the system of excises and fees and tax administration—including thanks to electronic invoicing efforts—which are expected to yield 0.3 percent of GDP during 2025. Beyond this year, revenue reforms will seek to broaden the tax base and reduce tax expenditures, while addressing health and environmental externalities.

19. Priority spending on infrastructure and social assistance will be protected and the quality of spending improved. Given large infrastructure and social gaps, the program will provide sufficient space to undertake priority public investment (floor of 2.5 percent of GDP, ***Indicative Target, IT***) and will safeguard spending on well-targeted social programs (floor of 1.5 percent of GDP, ***IT***).[13] To secure effective delivery, it also envisages the development of a roadmap to strengthen the institutional frameworks for social assistance, with the assistance of development partners, as well as steps to strengthen public financial management, building on recommendations of the Fund's 2019 Public Investment Management Assessment (PIMA).[14]



[12] Recently announced one-off subsides to electricity and water (worth 0.12 percent of GDP) are not expected to increase the deficit as they will be financed by cross-subsidies and other revenues.

[13] Historically, public investment is around 3.1 percent of GDP while social assistance across all programs is around 1.5 percent of GDP, over half of which goes to the school feeding program and food support for the poor.

[14] The 2019 PIMA recommended strengthening: (i) multi-year budgeting and anchor investment decisions to national and sectoral strategies, consistent with the Medium-Term Fiscal Framework; (ii) the pre-investment process to improve the evaluation of social, environmental, and economic impacts; (iii) planning, contracting, monitoring and evaluation of projects; and (iv) the quantification of fiscal risks stemming from the financing of public investment. Effectiveness would also be enhanced by unifying the portfolio of investment spending and linking the prioritization of projects to technical studies and established pre-investment methodologies.

20. Overtime, efforts will be required to restore the sustainability of the pension system (see also Box 3). Specifically, there is a commitment to contain potential fiscal costs associated with the 2022 pension reform, which increased benefits, delinking them from balances accumulated in individual saving accounts, and mandated that private pension funds finance what remains of the previous public pay-as-you-go system. To quantify the risks from the explicit public guarantee on all (public and private) pension-related claims and to inform decision making, the authorities will resume regular assessments of the sustainability of the pension system and will publish an independent actuarial evaluation (***end-July 2025 SB***). Following completion of this evaluation, and with the support of IMF technical assistance, a reform proposal will be published (***February 10, 2026, SB***) and adopted starting in 2026 to put the pension system on a sound footing, while containing fiscal costs and contingent liabilities.

21. Consolidation success will hinge critically on an upfront strengthening in the transparency and governance of public sector. Against the backdrop of recent setbacks in fiscal transparency following the 2020 suspension of the Fiscal Responsibility Law (Box 4), the authorities published the 2025 budget approved by congress (which contains policy actions supporting reaching the program target) and a 3-year fiscal plan, including the expected cost of public pensions and of interest payments on pension debt (***prior action***), and (ii) published fiscal data and information on fiscal flows and debt stocks from the Salvadoran Pension Institute (ISP in its Spanish acronym), all amendments to the 2023 and 2024 budgets, information on ownership of State-Owned Enterprises, while the links to COVID/FOPROMID audits will be restored and audited financial statements of 2023 will be published (***prior action***). In addition, the program envisages further progress through: (i) publication of comprehensive information on SOEs, including ownership policy, corporate governance, estimates of quasi-fiscal activity, and financial and risk management among others (***end-March 2025 SB***); (ii) Parliament approval of a new Fiscal Sustainability and Responsibility Law (FSRL, ***May 9, 2025 SB***), currently being developed with technical assistance from the IADB; (iii) regular publication of the contracts, and the names and nationalities of the beneficial owners of all legal persons awarded public contracts (***end-March 2025 SB***), and (iv) a more exhaustive presentation of fiscal outturns and projections accompanying the future draft budget, including a Medium-Term Fiscal Framework (***end-Oct 2025 SB)***.

22. The proposed consolidation, combined with the assumed official financing, will reduce the need for net domestic borrowing of the NFPS *(QPC)*. The program is intended to free up domestic financing to safeguard bank credit to the private sector and favor a diversification of pension fund assets, thereby reducing the government's exposure and associated sovereign-bank nexus risks. Moreover, the relaxation of external liquidity constraints, facilitated by Fund and other official financing, will also allow the buildup of external and financial buffers, including through the accumulation of NFPS deposits at the BCR (***QPC***). Sustained fiscal consolidation is also expected to further reduce sovereign spreads and allow El Salvador to re-access international financial markets at more

El Salvador: Program-Related Official Financing

(In millions of US dollars)

Institution	2025
World Bank	250
Inter-American Development Bank	450
Central American Bank for Economic Integration	150
Development Bank of Latin America and the Caribbean	50

affordable rates by 2027. After the clearance of domestic arrears by end-2024, no further accumulation of domestic arrears of the consolidated central government (***QPC***) and of external arrears (***continuous QPC***) will be permitted over the course of the program.

B. Strengthening Financial Stability

23. The program will support the BCR's efforts to improve the liquidity framework of the financial system. The BCR recently issued regulations raising banks' required reserves to 12 percent of deposits at end-January 2025, with additional increases in liquidity requirements taking place in end-June 2025 (to 13 percent of deposits), end-December 2025 (to 14 percent), and end-June 2026 (to 15 percent) (***prior action***). Rigorous regulatory requirements will ensure that these additional increases in liquidity requirements are held in high-quality liquid international assets or securities rated at least A (by at least two agencies) or to unrestricted U.S. dollar deposits held in the custody of pre-approved and highly-rated financial institutions subject to strict withdrawal rules. Beyond 2026, this reserve path and liquid asset requirement will be an intermediate step in returning to pre-pandemic levels of liquidity at the end of the program to further strengthen El Salvador's resilience. Meanwhile, a portion of the Fund's financial support (around US$570 million) will help boost the central bank's gross international reserves, thereby improving its Emergency Liquidity Assistance (ELA) capacity by complementing the existing CABEI credit line (US$200 million), in alignment with IMF TA recommendations. Additional conditionality will be considered in the context of future reviews to strengthen the ELA framework further.

24. In tandem, supervisory and regulatory frameworks will be modernized. While bank capital is adequate and credit quality is strong, further efforts are needed to strengthen oversight and regulations.[15] A new Financial Stability Law will be adopted to improve early intervention, resolution, crisis management, and deposit insurance frameworks, in line with IMF TA recommendations and international standards (***end-June 2025 SB***).[16] Banks will also be required to initiate a phased transition to IFRS9, including Expected Credit Loss (ECL) standards, and to adopt Liquidity Coverage Ratio and Net Stable Funding Ratio regulations (***end-December 2025 SB***). Gradual convergence with other Basel III standards on risk-based supervision will enable (i) the prudential treatment of crypto-asset exposures in line with Basel standards[17] and (ii) the use of Pillar 1 systemic risk buffers (SyRB) or Pillar 2 measures aimed at penalizing large sovereign exposures and encouraging the use of more qualitative and forward-looking supervisory practices and risk assessments. In addition, efforts will continue to enhance the oversight of public banks (including the development bank, BANDESAL), co-operatives, and similar entities, including to expand the

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[15] In November two new laws were passed by Parliament aimed at (i) regulating saving and credit cooperatives that, in addition to receiving contributions from their members, raise funds from the public or with funds above US$25 million (versus US$69 million, previously); and (ii) enhancing supervision of savings and loan associations that raise funds and grant credits (the BCR will create technical standards and the Superintendencia del Sistema Financiero (SSF) will supervise compliance).

[16] Work is ongoing to ensure the Financial Stability Law, approved by Parliament but not yet sanctioned by the President, is aligned with international standards.

[17] Basel standards for the prudential treatment of crypto-asset exposures.

supervisory perimeter to smaller entities and to improve risk management and governance frameworks.

25. Efforts will continue in strengthening the BCR's financial position and its transparency. A BCR recapitalization plan will be adopted with the government's support to further improve the BCR's capital position (***end-December-2025 SB***). Accounting standards will be strengthened, and publication of the first IFRS-compliant financial statement is expected for FY 2026. An update Safeguards Assessment has been initiated and will be completed before the first review of the new program, with the aim of identifying progress and additional measures to strengthen the BCR's financial and legal independence.

C. Addressing Risks from Bitcoin

26. Early legal reforms will help mitigate key Bitcoin related risks. A recent reform of the Bitcoin Law clarified the legal nature of Bitcoin, removing from the Law the concept of currency, as well as the essential features of legal tender by eliminating the obligation for the public and private sector to accept Bitcoin in transactions, making acceptance of Bitcoin by the private sector voluntary and confining its use by the public sector (***prior action***). A regulation will also clarify that tax obligations are to be paid only in U.S. dollars (***prior action***). The legal reform also ensured that monetary obligations of the state are not paid in Bitcoins and removed the government's obligation to provide a Bitcoin-US dollar convertibility mechanism.[18]

27. Transparency over the government's transactions in Bitcoin and the financial position of the public e-wallet *Chivo* will be boosted. As a first step, the authorities will (i) publish *Chivo*'s summary financial statements, including liquidity management policies and transfers to and from the government; (ii) publish the public addresses of all Bitcoin cold e-wallets owned or under control of the public sector; (iii) segregate and safeguard *Chivo* clients' assets (***prior action***). This will be followed by the publication and adoption of the government's business plan to end the use of public funds and public participation in *Chivo* by end-July 2025 (***end-March 2025 SB***) and publication of *Chivo's* financial statements audited by an independent auditor (***end-July 2025 SB***), to allow for the privatization of its services. In addition, *Fidebitcoin* will be liquidated along with publication of the Court of Accounts' audits for *Fidebitcoin* and the Bitcoin Management Agency, *Chivo* clients' U.S. dollars will be safeguarded at the BCR, and public participation in *Chivo* will end (***end-July 2025 SB***). Furthermore, a framework for the management of government-owned Bitcoins and other crypto assets will be developed to enhance the governance, transparency, accountability

[18] More specifically, amendments to the Bitcoin Law (i) defined the scope of Bitcoin's unlimited discharging power and legal tender status as voluntary acceptance of Bitcoin by the private sector; (ii) repealed the public and private sector's obligation to accept Bitcoin in transactions and repeal the authorization to pay taxes in Bitcoin; (iii) eliminated the characterization of Bitcoin as a currency, (iv) repealed the authorization for prices to be expressed in Bitcoin and establish that prices can be converted in Bitcoin; (v) repealed the State's obligation to provide alternatives for transactions in Bitcoin and for automatic and instantaneous convertibility; (vi) stated that the BCR and the SSF will issue regulations detailing the law as per their legal powers; and (vii) required that State domestic and foreign monetary obligations be paid in the currencies in which such obligations were agreed on.

and investment practices of the Bitcoin Management Agency (or new institution created to this end in agreement with staff) (***end-December 2025 SB***).

28. Meanwhile, the government's exposure to Bitcoin will be capped. Over the course of the program, the authorities have committed not to accumulate Bitcoins (***continuous QPC***), and not to issue nor guarantee any type of Bitcoin-indexed or denominated public debt or tokenized instruments implying a liability for the government (***continuous QPC***). This will be accompanied by enhanced monitoring and transparency, through regular reporting of all hot and cold Bitcoins wallets' public addresses and of all Bitcoins owned or controlled by the public sector (***prior action*** and regular ***SBs***). The authorities plan to publish on a quarterly basis financial statements of other trust fund and SOEs involved in the Bitcoin project (CEL and LaGeo), and Bitcoin operations will be reflected in macroeconomic and fiscal statistics (MEFP ¶24). No new public or publicly-owned entities participating in Bitcoin operations will be created except if needed to manage existing assets and in agreement with staff.

29. Efforts will be required to strengthen the oversight and regulations over crypto-assets in line with evolving international best practices. The existence of a digital assets' regulatory framework and a regulator dedicated to digital assets (CNAD), as well as a favorable tax treatment, makes El Salvador an attractive destination for crypto entities, as exemplified by Tether's relocation to the country. While maintaining an environment suitable to innovation, legal reforms to overhaul the regulation and supervision of crypto-asset activities and markets (including crypto-asset issuers and service providers) will be submitted to Parliament (***August 2025 SB***), under the guidance of Fund technical assistance. In this regard, emphasis will be given to addressing ML/TF risks in line with FATF Recommendation 15 as well as financial stability and cybersecurity risks. In addition, the legal reforms will be critical to strengthen market integrity and consumer protection policies (antifraud, anti-manipulation, transparency), as well as to develop governance, data frameworks, solvency, liquidity, segregation, and other prudential requirements.

D. Strengthening Governance, Financial Integrity, Growth and Resilience

30. Improvements in the business climate will hinge on a strengthening of the governance frameworks and anti-corruption frameworks.

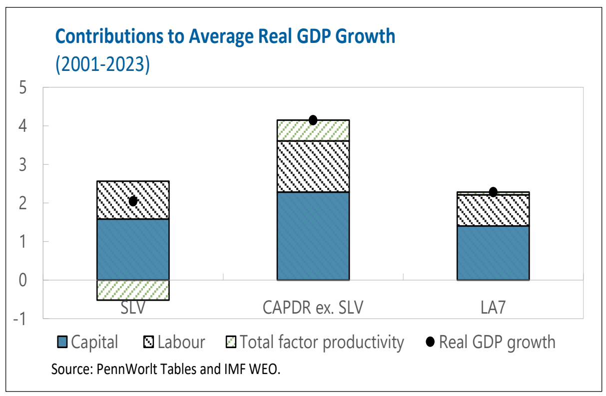
- **Anti-corruption.** To address corruption vulnerabilities, a new Anti-Corruption Law establishing an asset declaration system aligned with the G-20 High-Level principles on asset disclosure by public officials was approved by Parliament and will be enacted (***prior action***). Ensuring the law is swiftly implemented and declarations are effectively published will be critical. Likewise, strengthening the independence of accountability institutions will help bolster a conducive business environment and improve the rule of law. Finally, improved transparency and access to information, including through more effective implementation of the access to public information law (LAIP) is equally important.

- **Court of Accounts.** A legal reform will strengthen the autonomy, independence, and mandate of the Court of Accounts, giving it a clearly articulated independence and anticorruption mandate (***end-December 2025 SB***). This reform will align the Court of Accounts' legal framework with international best practice (INTOSAI Mexico Declaration, UNODC Abu Dhabi Declaration) and provide the legal basis for collaboration, including exchange of information and referral protocols, between the Court of Accounts and the Attorney General's office (*Fiscalia General de la República)* responsible for the detection and investigation of corruption.

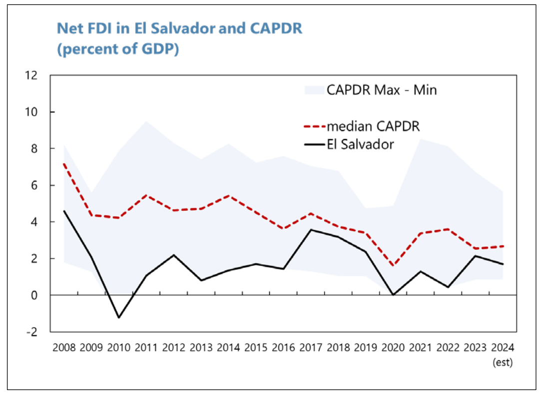
- **Procurement.** Procurement frameworks will be enhanced through the regular publication of the names and nationalities of the beneficial owners of all public contracts, while limiting the exceptions that allow purchases of goods and services without competitive processes (***end-March 2025 SB***).

31. Steps will be taken to improve El Salvador's AML/CFT framework, following the recent mutual evaluation by GAFILAT (see Box 6). The authorities will enact reforms: (i) to place lawyers, notaries, accountants, and auditors under a risk-based monitoring framework (in compliance with FATF Recommendation 28) and to require the submission and updating of beneficial ownership information (as defined in the FATF standards) by all legal persons and arrangements registered in El Salvador, ensuring the availability of such information to relevant competent authorities (***end-December 2025 SB***); and (ii) to bring the AML/CFT system in compliance with FATF Recommendation 15 on new technologies, including virtual assets and virtual asset service providers (VASPs) (***August 8 2025 SB***). Work will continue to expand the role of the Financial Intelligence Unit in supporting financial crime investigations and allowing the recovery of criminal assets, in-line with the recommendations of the recent GAFILAT evaluation.

32. Policies to boost El Salvador's growth potential and resilience should continue. El Salvador's trend growth rate is lower than its regional peers. This is primarily because total factor productivity has detracted from growth, while outmigration has also constrained the labor force. This low productivity growth combined with limited factor accumulation has increased poverty, delayed convergence, and limited growth in living standards. While improved security and more predictable macroeconomic policies have already strengthened market confidence and reduced borrowing costs, additional efforts are needed to boost productivity and FDI, especially given its technology transfer spillovers and cross-sectoral linkages.



- **Public investment.** The program will provide sufficient space (see ¶19) to address significant infrastructure gaps (roads, ports, and digital infrastructure) and vulnerabilities to climate shocks, along with improvements in the efficiency and effectiveness of infrastructure spending. Transparent public-private coordination mechanisms could be considered, including to crowd in private investment.



- **FDI and competitiveness.** With net FDI inflows consistently lower than the CAPDR's median, it remains critical to encourage foreign investment through market-friendly reforms and private sector-driven initiatives—including from the diaspora. The authorities have an ambitious agenda to improve tourism infrastructure and advance digital technology capabilities, which should be completed with lower administrative barriers, modernized regulatory frameworks, and improved access to capital markets, especially micro, small and medium enterprises (see below).[19] The recent repeal of the ban on metal's mining could encourage investment, but this will need to be accompanied with appropriate environmental and governance safeguards. Meanwhile, the opportunities afforded by new FDI in the technology and crypto space should be embraced,[20] while in tandem appropriate regulations are designed to protect consumers and investors.

- **Financial inclusion.** Although the financial sector is well-developed (the private credit-to GDP ratio is around 60 percent, close to the regional average), El Salvador trails in several aspects of financial inclusion. For instance, half of small and medium enterprises found it difficult or very difficult to borrow from financial institutions, and around 30 percent of firms use banks to finance investments or working capital. Around 30 percent of adults have access to an account at a formal financial institution (compared to the Central American average of around 40 percent), reflecting high costs, low financial literacy, and low internet access coupled with the lack of physical access to banks. Efforts are underway to address these barriers, including through planned improvements to retail payment infrastructure (*Transfer365*) and innovations that would reduce the cost and safety of remittances (around 23 percent of GDP).

- **Climate adaptation.**[21] Efforts should continue to strengthen adaptation policies through building resilience and improving coping mechanisms, with the help of development partners. Lessons will also be sought from the recent debt-for-nature-swap, which is intended to support the conservation, water security, and ecosystem of El Salvador's largest river (see also Box 2).

[19] OECD (2023), Multi-dimensional Review of El Salvador: Strategic Priorities for Robust, Inclusive and Sustainable Development, OECD Development Pathways, OECD Publishing, Paris.

[20] Google opened offices in San Salvador in April 2024, and in January 2025 Tether announced that it had chosen El Salvador as the location for its first physical headquarters.

[21] The limited resilience to climate related risks is also confirmed by the IMF-adapted ND-Gain index which ranks El Salvador in the second lowest quartile and highlights particularly strong vulnerabilities in the categories: (i) infrastructure; (ii) sensitivity to perturbations.

PROGRAM MODALITIES

33. Access. The proposed EFF will have an access level of 360 percent of quota, (SDR 1033.92 million or around US$1370 million), justified by the actual and prospective BoP needs stemming from the weak central bank buffers, deeply negative NIIP and market access fragilities. The phasing of access, however, is backloaded over the program period, reflecting the evolution of the BoP needs, the expected external financing from other official sources, and the implementation of key reforms.

El Salvador: BoP Need and Program Financing
(Millions of U.S. dollars)

	2025	2026	2027	2028
Balance of Payments Need	**1,243**	**905**	**1,626**	**1,148**
incl. Reserve accumulation	405	763	958	866
RFI repayment	*94*	*-*	*-*	*-*
Official multilateral and bilateral financing	**1,243**	**905**	**1,626**	**1,148**
IMF	343	305	476	248
Other official financing	900	600	550	100
World Bank	250	250	250	-
IADB	450	250	200	-
Others	200	100	100	100
Eurobonds	-	-	600	800
Unidentified financing	**0**	**0**	**0**	**0**
Memorandum Item				
Gross international reserves	*3,708*	*4,113*	*4,876*	*5,834*

34. Use of Fund financing. Funds will be used for budget support as well as to boost reserve coverage. About 40 percent of the overall program amount (US$570 million) would be allocated to the central bank, contributing to the increase of the BCR's reserves. The remaining 60 percent (US$800 million) would be made available for budget support aiming at: (i) increasing NFPS deposits at the BCR (by US$600 million, to secure a liquidity buffer of about one month of expenditures by 2028), and; (ii) supporting the financing of the fiscal deficit (US$200 million), which in turn will help ease external financing needs while fiscal and external imbalances are being addressed. Program financing will also help relieve the sovereign-bank nexus and protect credit to the private sector and pension funds' diversification.

35. Reviews and Phasing of Purchases. After two initial quarterly reviews, program performance will be assessed in semi-annual reviews. The initial quarterly reviews help secure early program implementation, critical to boost program credibility and its catalytic effects. Subsequent semi-annual reviews are predicated on the time required to implement ambitious structural reforms supported by the program.

36. Prior actions. The EFF arrangement is subject to the following prior actions (Table 13): (i) approval of the 2025 budget in line with program targets and publication of a 3-year fiscal plan; (ii) adoption of fiscal transparency standards in line with international good practice; (iii) issuance of BCR normative acts increasing reserve requirements to 12 percent of deposits and establishing a gradual buildup of liquidity buffers to 15 percent of deposits; (iv) narrowing of the Bitcoin Law by redefining bitcoin's legal tender status to remove from the Law the essential features of legal tender; (v) publication of the public addresses of all Bitcoin cold wallets owned or under control of the public sector, segregation and safeguarding of *Chivo* client funds, and publication of *Chivo*'s summary financial statements, including liquidity management policies and transfers to and from the government; and (vi) enactment of a new Anti-Corruption Law following the G-20 High-Level principles on asset disclosure by public officials.

37. Program conditionality. The program is guided by the following policy conditionality:

- **Quantitative program performance** will be monitored with QPCs and ITs, set for end-March 2025, end-June 2025, end-September and end-December 2025 (Table 14) covering: (i) the consolidated primary balance of the nonfinancial public sector[22] (cumulative, floor); (ii) the consolidated net domestic borrowing of the nonfinancial public sector (cumulative, ceiling); (iii) domestic arrears of the central government (ceiling); (iv) external debt payment arrears (continuous ceiling); (v) deposits of the NFPS at the BCR (floor); (vi) banks' required liquid assets, in percent of total deposits (floor); (vii) non-accumulation of Bitcoins on account of the government[23] (continuous ceiling); (viii) no issuance or guarantee of Bitcoin-denominated or Bitcoin-indexed debt or tokenized instrument (continuous ceiling). Additional indicative targets are proposed on the gross international reserves of the central bank (floor); priority social expenditure (floor); and public investment (floor). In addition, adjustors are included to ensure that a share of excess revenues are saved, that reserve and NFPS deposit targets are adjusted for unanticipated changes in official financing and/or bond issuances (up to a limit), and that potential Bitcoin sales are not used to meet targets.

- **Structural benchmarks** are proposed in the fiscal, financial, Bitcoin, and governance areas (Table 13).

38. Capacity to repay. Capacity to repay the Fund is assessed to be adequate. All Fund credit outstanding and projected purchases under the proposed EFF will peak in 2028 at 360 percent of quota (3.6 percent of GDP, 13.1 percent of budget revenues, or 11.2 percent of exports) before declining to around 128.8 percent of quota by 2034 (1 percent of GDP, 3.5 percent of budget revenues, or 3 percent of exports). Projected debt service to the Fund will peak at 1.8 percent of exports of goods and services and 2.0 percent of budget revenues in 2033 (Table 12). Improvements in the fiscal and external positions under the EFF are expected to ensure El Salvador's market access and its adequate capacity to repay. The consistent accumulation of reserves, as outlined in the program, provides additional safeguards to mitigate repayment risks.

39. Financing Assurances. There are firm financing commitments for the first 12 months of the program, and there are good prospects for the remainder, including funds from the World Bank, IADB, CAF, and CABEI to fully meet the balance of payments need. The authorities confirmed that there are no outstanding external arrears. The arrangement will contribute to about 30 percent of the projected BoP need, smoothing the needed fiscal and external adjustment while reforms are gradually implemented. In addition, over the medium-term, the program is expected to secure access to international capital markets at more reasonable rates to allow the rollover and further lengthening of Eurobond maturities, as well as permit the repayment of Fund obligations.

[22] Coverage of local governments will evolve over time as statistical capacity improves and will initially only include the municipality of San Salvador. Fiscal risks from municipalities are currently limited as a municipal fiscal rule constrains borrowing.

[23] The continuous ceiling is set to 0. This also excludes accumulation of Bitcoins from any mining program by public sector entities.

40. Safeguards. An update safeguards assessment is in progress. In parallel, the BCR is already taking steps to enhance transparency in its financial reporting, and full compliance with IFRS will be achieved beginning with the FY 2026 audited financial statements. In preparation for the transition and to strengthen the BCR's financial autonomy, the BCR is expected to develop and adopt a recapitalization plan with the government's support to address the assessed capital shortfalls (**end-December 2025 SB**).

STAFF APPRAISAL

41. While El Salvador continues to recover amid significant security improvements, deep macroeconomic and structural imbalances persist. Robust remittances and a strong pickup in tourism flows, amid significant reductions in gang violence, are supporting growth and improvements in the external balances. Initial actions to contain fiscal deficits have sharply reduced spreads, while debt operations have eased near-term external financing needs. Despite these gains, El Salvador's public debt levels are high, and its external and financial buffers inadequate given the magnitude and frequency of shocks, especially considering the rigidities posed by the dollarization regime. Meanwhile, a legacy of weak rule of law and significant social and infrastructure gaps continue to hold back private investment and underlying productivity.

42. The authorities are committed to implementing an ambitious program to address macroeconomic imbalances and boost growth. After successfully addressing the country's security challenges, the Bukele administration has vowed to make fixing the economy the key objective of its second term. The authorities' Fund-supported medium-term program rightly focuses on restoring public debt sustainability, rebuilding external and financial buffers, and strengthening governance and transparency. In addition, the program seeks to mitigate Bitcoin risks, in line with Fund's policies on crypto assets. Policy actions are frontloaded and, together with the strong program ownership and broad political and social support, are expected to support confidence.

43. A credible and upfront fiscal consolidation is the key plank of the Fund-supported program. Staff welcomes the commitment to a 3½ percent of GDP adjustment in the primary balance over the program, and to securing almost half of this total during 2025. As outlined in the recently approved 2025 Budget, efforts underway to rationalize El Salvador's high wage bill and spending on lower-priority goods and services are commendable, although they will need to be complemented over time with broader reforms of the civil service and the pension system. This is also necessary to safeguard infrastructure and social assistance spending, to protect the most vulnerable, and build resilience to climate-related shocks. Consideration should be given to mobilizing revenues, including by reducing tax expenditures, and strengthening the system of excises to limit negative consumption externalities. Sustained consolidation efforts are expected to put public debt on a firmly downward trajectory and reduce sovereign spreads to more favorable levels consistent with debt sustainability.

44. Efforts will also be required to boost external and financial buffers and strengthen financial oversight and regulations. Staff welcomes the initial step to increase banks' reserves requirements, and the commitment to gradually raise banks' liquidity buffers, while ensuring they are properly invested in high-quality assets. These measures, together with actions to boost government deposits at the central bank, are essential to strengthen resilience and protect financial stability in a manner supportive of continued private sector credit growth. Meanwhile, the enactment of a new financial stability law will be necessary to strengthen the frameworks for early intervention, resolution, crisis management, and deposit insurance. Bank regulation and supervision will need to gradually align with Basel III standards, and the oversight of co-operatives needs to be promptly improved.

45. Steps to strengthen governance, and transparency will be critical to boost private investment and growth. Following setbacks from the suspension of the FRL in 2020, early actions taken to foster fiscal transparency, with the recent publications of a multi-year fiscal plan and statistics in line with international standards, are critical steps to strengthen the credibility of public finances. These will need to be followed by actions to improve public procurement and public financial management systems, including to improve the efficiency and governance of public investment. Staff welcomes plans to adopt a new anti-corruption legislation, and the commitment to strengthen the financial autonomy, independence, and mandate of the Court of Accounts, as well as to bring the AML/CFT framework in line with FATF recommendations. Sustained implementation of these reforms will help improve the business climate and attract much-needed foreign investment.

46. Mitigating risks from the Bitcoin project will be critical to the program's success. The recent reform of the Bitcoin Law addressed risks and brought the country's legal framework in line with Fund policy on crypto assets, including by ensuring that Bitcoin's acceptance in transactions is only voluntary rather than mandatory, and that taxes can be paid only in US dollars. Following the planned publication of the public e-wallet's financial statements, and the segregation of Bitcoin and US dollar accounts of clients, it will be critical to secure an early unwinding of the government's participation in the e-wallet and for the government to stop further purchases of Bitcoin during the program—scarce resources should not be used on speculative investments—as well as to strengthen the governance and accountability of the Bitcoin Management Agency. Finally, effective supervision and oversight of digital assets will be essential to safeguard financial stability, consumer and investor protection, and financial integrity.

47. The Fund program is expected to catalyze other official financing. Staff welcomes efforts to mobilize significant financial and technical support from regional and multilateral development banks, which will help to support balance of payments needs and implementation of the structural reform agenda. IFI support combined with a sustained reduction in macroeconomic imbalances will permit El Salvador to access international markets at more affordable rates with positive spillovers on the rest of the economy.

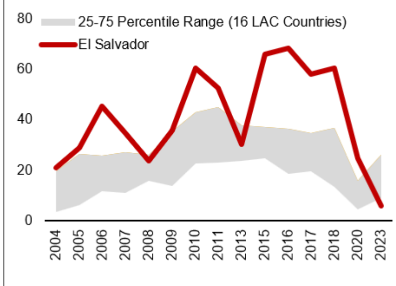
48. Contingency planning will be essential to manage shocks. El Salvador's outlook could be negatively affected by rising external risks, resulting from heightened trade tensions, a stronger US dollar, tighter financial conditions, changes in US immigration policy, and climate shocks. In the event of shocks, agreed contingency plans must be implemented to safeguard stability. Given rigidities posed by dollarization, fiscal policy will be the first line of defense—shortfalls will need to be fully compensated by spending cuts or new revenues to safeguard targets and broader objectives.

49. Staff supports the authorities' request for a 40-month arrangement under the EFF. The government's economic plan is ambitious, designed to carefully balance the goals of reducing public debt and rebuilding buffers while preserving space for infrastructure and social spending. Its proven commitment to implement a comprehensive set of prior actions in the fiscal, financial, governance and Bitcoin areas, is an early demonstration of its ownership and capacity to deliver. Sustained policy implementation over the program period will allow El Salvador to address its deep macroeconomic and structural challenges, and in this process durably improve the living standards and opportunities of its people.

Box 1. El Salvador: Crime, Insecurity, and the Economy

In a few years, El Salvador went from being one of the most dangerous countries in LAC, to being one of the safest. After strengthening the police and the army and undertaking a crackdown on gangs through a State of Exception—a strategy that sparked debates—the country's homicide rate dropped from a peak of about 100 homicides for every 100,000 people (the highest rate registered across all LAC over the past two decades) to 1.9 homicides per 100,000 people by 2024, similar to the average in Europe and Asia. These security improvements are recorded across metrics, and the proportion of Salvadorans who consider crime as a major issue fell from 60 percent in 2016 to about 6 percent in 2023.

Perception That Insecurity/Violence Issues Are the Main Problem of the Country



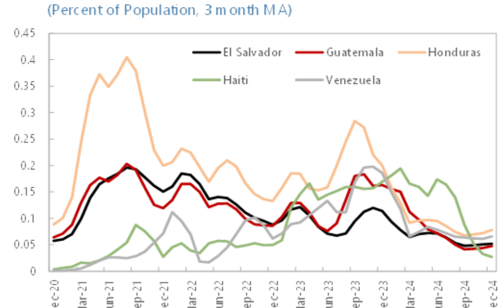
Source: Latinbarometer.

If sustained over time, security improvements should lead to higher potential output. The costs of violence have been estimated at around 15 percent of GDP in El Salvador (USAID-UNDP, 2022),[1] and IMF staff analysis (2023a)[2] found that reducing the murder rate across Latin America to the world average—as El Salvador recently achieved—could lift GDP potential growth by 0.5 percentage points. The benefits of security transmit to the economy through different channels:

- **Lower costs of doing business.** The share of firms declaring that crime is a major obstacle to doing business fell in El Salvador from around 50 percent in 2016-18 to around 5 percent in 2023 (World Bank Enterprise Surveys). With the cost of crime ranging from 4-8 percent of revenues depending on firm size (IMF 2024),[3] security improvements should free up resources for investment and innovation, equivalent to about 6 percent of their revenues.
- **Human capital.** In El Salvador, crime and the presence of organized crime have been found to hurt education and employment opportunities as well as to drive emigration (LAPOP 2023; Carare et al. 2023).[4] Improvements in security are already lowering outward migration adding to the labor force and potentially productivity (even if associated with lower remittances growth).

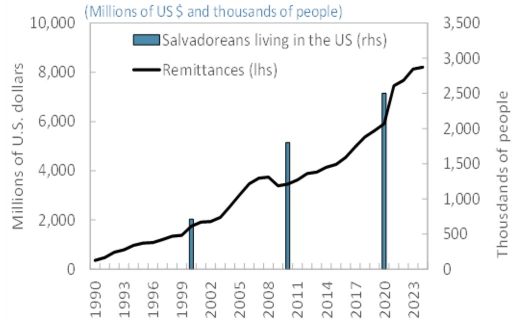
Reaping the lasting benefits of improved security will require a comprehensive set of policies. Ensuring macroeconomic stability, promoting employment opportunities, especially for the young, and strengthening governance and the rule of law will be essential to embark on a virtuous circle of improved security as well as strong and inclusive growth (Goldfajn and Valdés, 2024).[5]

Migrant Apprehensions at US border
(Percent of Population, 3 month MA)



source: US Customs and Border Protection

El Salvador, Remittances and Populatoin Living in the U.S.
(Millions of US $ and thousands of people)



[1] https://infosegura.org/sites/default/files/2023-02/Costos-de-la-violencia-ENG_VF.pdf

[2] WHD REO October 2023 Annex 4

[3] "Violent Crime and Insecurity in Latin America and the Caribbean: A Macroeconomic Perspective".

[4] Northern Triangle Undocumented Migration to the United States

[5] Breaking Latin America's Cycle of Low Growth and Violence

Box 2. El Salvador: Financing Operations in 2024

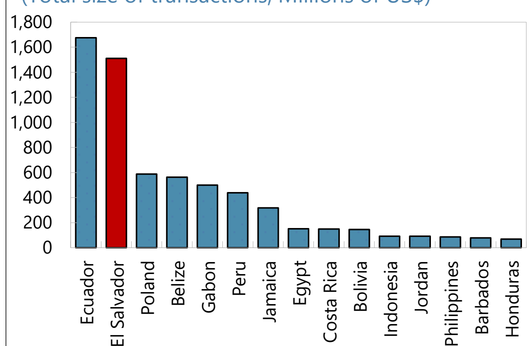
In 2024 the El Salvadoran government undertook three debt liability management operations. These lengthened the average maturity of the stock of Eurobonds—at some cost in terms of higher interest coupons—financed a river conservation project and helped to clear large domestic arrears. The buybacks were financed by two Eurobond issuances as well as a debt-for-nature swap.

With its <u>April 2024 operation</u>, El Salvador returned to markets in the context of declining spreads, borrowing US$1 billion to buy back US$487 million of Eurobonds and to finance the budget. The operation alleviated prospective financing needs, withdrawing Eurobonds maturing in 2025, 2027, and 2029. The six-year bond issuance came with an unusual contingency condition. The offer bundled, with equal weights, a regular bond with a coupon of 9.5 percent with a macro-contingent instrument whose coupon would increase from 0.25 percent to 4.0 percent, starting in October 2025, unless either (i) an IMF arrangement is approved and reviews are completed at regular six-month intervals until maturity (IMF staff was not involved in the design of this contingency nor endorsed it), or (ii) credit ratings of at least two agencies improve from the level prevailing at that time (B2 for Moody's, B for Standard & Poor's, and B for Fitch).

- **This Eurobond contingency provision was unique.** Precedents with contingencies tied to the completion of IMF reviews include debt-exchanges with claw-back provisions (St. Kitts and Nevis, 2012 and Seychelles, 2010) and debt-restructuring operations featuring 'tranched haircut' provisions (Grenada, 2015). More recently debt restructurings in Ecuador (2020) and Suriname (2021) were conditional on reaching a Staff-Level Agreement. However, this bond issuance appears to be the first one whose coupon is contingent on having an ongoing Fund arrangement and timely completion of reviews until maturity.

The <u>October 2024 buyback</u> was a debt-for-nature swap, the largest such operation ever done supporting a river conservation program. It allowed purchases of US$940.2 million of Eurobonds (including accrued interest) at a 11.6 percent discount. The operation, financed by a $1 billion loan from JP Morgan Chase, with a US$1 billion political risk insurance from the US Development Financial Corporation and a US$200 million standby letter of credit from CAF, is the second largest debt-for-nature swap on record.

Debt for Nature Swap Conversions
(Total size of transactions, Millions of US$)



Source: Barclays Research.

- **This program will ensure a series of water conservation, protection, and restoration measures.** The savings from the deal will channel US$350 million into the Rio Lempa Conservation and Restoration Program over the next twenty years with the Catholic Relief Services, a U.S.-based humanitarian organization, and the Environmental Investment Fund of El Salvador overseeing the conservation efforts. In addition to the Rio Lempa program, El Salvador has also committed to a range of other policy measures, including establishing a zonal organization to oversee conservation and restoration of the Rio Lempa watershed, establishing a water resources data monitoring system, and approving a National Integrated Water Resources Plan.

The <u>November 2024</u> Eurobond buyback operation was also used to clear domestic arrears. The proceeds of this US$1 billion Eurobond issuance, carrying a coupon yield of 9.65 percent, was used to buyback US$238 million of Eurobonds maturing in 2027, with the rest of the funds used to pay off other external debt obligations, as well as to clear domestic arrears (US$300 million), and finance a portion of the 2024 deficits.

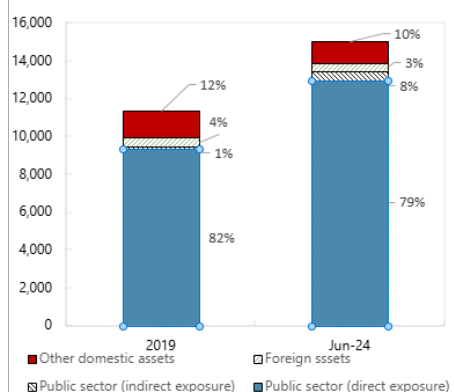
Box 3. El Salvador: The Pension System and Its Financing Implications

El Salvador has currently two pension systems: the Public Pension System (SPP), which now only covers those who were part of the old pay-as-you-go scheme (grandfathered in the 1998 reform), and the Pension Savings System (SAP), a privately managed defined-benefit system.

The Public Pension System. As the SPP was closed to new entrants when instituted, and currently has 88,000 beneficiaries yet only has 2,300 contributors. As a result, the system (now managed by the Salvadorean Pension Institute, or ISP) has been running chronic deficits since at least 2017, financed by bonds (known as COPs) and transfers from the Treasury. The ISP deficit is projected to grow from around 2 percent of GDP in 2025 to 2.9 percent of GDP in 2027, also reflecting higher debt service costs once the grace period on interest payments (enabled by the 2023 reform) ends in 2027. As such, transfers from the Treasury are expected to increase from 0.5 percent of GDP in 2025 to 1.1 percent of GDP in 2027, while issuances of COPs are expected to cover the rest of the deficit. As a result, the stock of ISP debt is expected to reach 28.3 percent of GDP in 2027. Around 2030, the deficit would plateau and then decline, as the pool of pensioners shrinks.

The Private Pension System. The SAP is operated by two private pension funds (AFPs, from the acronym in Spanish), each managing individual capitalization accounts (CIAP) and a solidarity account (CGS).[1/] Because the SAP is a young system, AFPs currently pay pensions to about 128,000 retirees but receive contributions from 950,000 workers. During 2024, contributions to AFPs reached US$1.5 billion while benefits paid reached US$1.2 billion, implying a net increase in managed assets of around US$300 million (the assets under administration of the two AFPs stood at US$14.9 billion, or 42 percent of GDP, in June 2024). Because the December 2022 pension law mandated AFPs to purchase all COPs issued by the ISP, about 89 percent of AFPs assets under management is estimated to be held in public debt securities, either directly or indirectly through banks and financial institutions. In practice, the savings of the private pension system are the main source of financing of the ISP.

Assets of AFPs, End of Period
(millons of U.S. dollars, and percent of total)



The December 2022 pension reform. The pension reform established an explicit government guarantee on AFPs' CGS and created a contingent liability from the SAP. Indeed, by increasing the generosity of pensions for both the SPP and the SAP [2/], the reform put *private* pension benefits, on average, above the savings cumulated in individual accounts. As a result, AFPs have already started tapping into the CGS to pay pensions and the stock of assets in the CGS started to decline in 2023. According to staff projections, CGS assets would be exhausted around 2027, at which point the Treasury would have to step in, for amounts of around 0.5 percent of GDP.

Against this backdrop, a comprehensive reform of the pension system is necessary to contain fiscal deficits and restore the sustainability of the pension, while refraining from measures that add to contingent liabilities.

[1/] The CGS is a common pool for the AFP affiliates that steps in when the beneficiary CIAP is exhausted, or the acquired annuities is below the minimum pension guarantee (MPG) of around US$400 per month.

[2/] Minimum pensions were raised by around 30 percent.

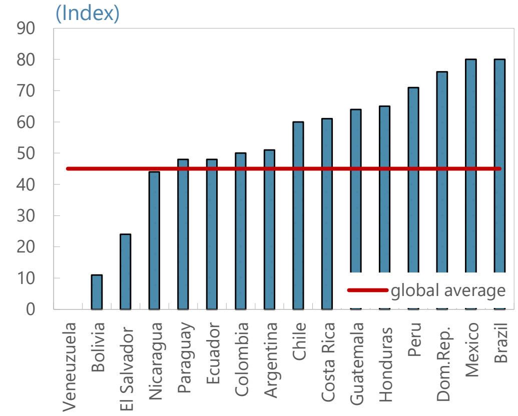
Box 4. El Salvador: Fiscal Transparency in El Salvador

Fiscal transparency, after improving substantially during 2012-19, backtracked during the pandemic with the suspension of the Fiscal Responsibility Law (FRL).

- **Before 2020,** fiscal transparency standards pre-2020 were solid, which included the publication of a Medium-term Fiscal Framework (MTFF)—which comprised the quantification of fiscal risks, disclosure of the operational and financial results of SOEs, and reports on the government's guarantees and contingent liabilities. In addition, the government published regular actuarial studies of the pension system, adopted key practices of the International Public Sector Accounting Standards Board, and created a Fiscal Transparency Portal.
- **In 2020,** the government triggered the escape clause of the fiscal rule and suspended the FRL, also interrupting the regular fiscal reporting specified by the law. As a result, the government has not published an MTFF recently, and publication of the 2024 draft budget submitted to Congress was delayed. Meanwhile, the reporting of pension system debt and of other pension sector statistics became incomplete, with the last actuarial study of the pension system dating from 2020. Progress on public investment management and program budgeting (with the implementation of SAFI II) also paused.

Against this backdrop, El Salvador's transparency ranking has plummeted. According to both the International Budget Partnership (IBP) and the Global Data Barometer, El Salvador ranked in 2023 well below the global average in the publication of fiscal open data, and significantly below on the public procurement open data.

Budget Transparency Score 2023
(Index)



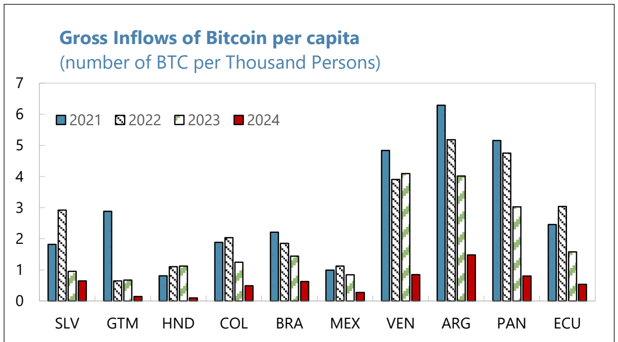
Source: Open Budget Survey 2023.

Recent actions represent an important step forward. The draft budget submitted to Congress and the final budget approved by Congress were published in a timely fashion, as was the government's three-year fiscal plan and information on ownership of State-Owned Enterprises. Access to procurement contracts information will be made easier, and a new Fiscal Sustainability Legislation, developed with technical assistance from development partners, is expected to provide a permanent framework for improved fiscal transparency.

Box 5. El Salvador: The Bitcoin Project

In September 2021, with the entry into force of the Bitcoin Law, El Salvador adopted Bitcoin as currency with legal tender, alongside the US dollar (and the colón), and started developing the infrastructure to facilitate its use by Salvadorans. The Bitcoin project was intended to improve financial system access for unbanked individuals and businesses operating primarily in the informal economy, as well to expedite transactions and make remittances (23 percent of GDP) easier, faster, and cheaper. In an effort to launch the project, the government provided Salvadorans an initial allowance equivalent to US$30 in Bitcoin via the public e-wallet *Chivo*.

Since its inception, Bitcoin use has overall been minimal. Surveys conducted at the peak of the project found that only 20 percent of firms accepted Bitcoin, with only 4.9 percent of sales paid in Bitcoin, and no evidence of Bitcoins being used to pay taxes (see Alvarez, 2022 and 2023 Article IV Selected Issues Paper). Meanwhile, official data shows that only 1.2 percent of remittances were transferred using a crypto wallet. Reasons for low Bitcoin usage include high price volatility (especially compared to the stability provided by the US dollar in El Salvador), moderate levels of mobile internet use, and limited trust in the technology. Blockchain data shows that imports of Bitcoins have been relatively low in El Salvador, compared to other countries where populations may see Bitcoin as a hedge against depreciation and inflation.



Source: Chainalysis Market Data and IMF staff calculations.

Most Bitcoin operations in El Salvador occur through the public e-wallet *Chivo*. *Chivo* offers Salvadoran national and local companies fully subsidized services to make payments and exchange in Bitcoins and US dollars, with some 250 ATMs facilitating entry to and exit from Bitcoins. Other crypto companies, including e-wallets, operate in El Salvador, but these are small in size and scope. The crypto companies that provide services in Bitcoins are regulated and supervised jointly by the BCR and the SSF. The digital asset service providers, which provide services in other crypto assets, are regulated by the National Commission of Digital Assets (CNAD in its Spanish acronym) and benefit from a favorable tax regime. The traditional financial sector has no direct exposure to Bitcoin, although banks are allowed to provide financial services to Bitcoin service providers or open accounts to Bitcoin users. The assets and liabilities of *Chivo* reached around 1 percent of GDP as of end-September 2024.

The fiscal costs of the Bitcoin project have remained moderate. In addition to the subsidies to operate *Chivo* (worth around 0.1 percent of GDP), the government of El Salvador has purchased Bitcoins and ran a very small Bitcoin mining program executed by the state electricity company CEL. Overall, El Salvador's Bitcoin holdings amount to 6,070 Bitcoins, worth around 2 percent of GDP, and managed by the Bitcoin Management Agency, an autonomous public institution. The government published the public address of the Bitcoin Management Agency cold wallet in April 2023.

Box 6. El Salvador: Mutual Evaluation Report Summary

In August 2024, the Financial Action Task Force of Latin America (GAFILAT), the FATF-style regional body for the region, published its mutual evaluation report (MER) of El Salvador's level of compliance with the FATF 40 Recommendations and the level of effectiveness of the country's AML/CFT system. This was El Salvador's first such assessment since 2010. Overall, GAFILAT scored El Salvador as just above the threshold for referral to the FATF's International Co-operation Review Group (ICRG) in the published mutual evaluation report of El Salvador.

- **The MER presents a mixed picture of El Salvador's AML/CFT system, with broadly satisfactory compliance in technical ratings[1] yet with limited effectiveness.[2]** In view of these results, and of the "moderate" ratings it has achieved in most areas, the country scored just above the threshold for referral to the FATF's International Co-operation Review Group (ICRG), which would have led to its placement under increased monitoring (or so-called "grey listing").[3]
- **The main strengths of El Salvador's AML/CFT system derive from the improved legal framework.** This includes a decent understanding of ML/TF risks (although risks related to virtual assets are insufficiently understood), but also appropriate national AML/CFT coordination, AML/CFT supervision of most financial institutions, and international cooperation. These improvements, however, are recent as the national risk assessment was only completed in 2023.
- **Several of the deficiencies highlighted in the MER are significant in view of the main ML/TF risks to which the country is exposed.** Those include (i) the limited role of the Financial Intelligence Unit in supporting investigations on financial crimes and related ML; (ii) the lack of parallel financial investigations to "follow the money" in financial crimes and allow the recovery of criminal assets (including in cases related to the authorities' ongoing efforts to combat organized crime); (iii) the infancy of the AML/CFT supervisory system for virtual asset service providers; and (iv) the lack of availability of information on the beneficial ownership of legal entities in the country (although the MER notes that El Salvador is not a regional center for the incorporation of legal entities).

In light of these results, El Salvador was placed in the enhanced follow-up process and will next report to GAFILAT in July 2025.

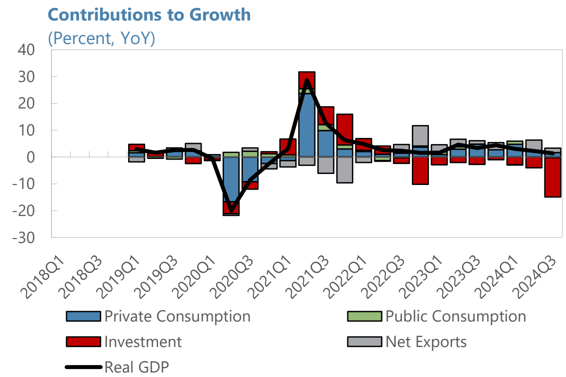
1/ The five possible technical compliance ratings are "compliant", "largely compliant", "partially compliant", "non-compliant", and "non-applicable". The country obtained a passing grade on 31 of the FATF 40 Recommendations and a partially- or non-compliant grade on eight, while one recommendation was rated non-applicable.

2/ The four possible ratings on effectiveness are "high", "substantial", "moderate", and "low". The country achieved a "substantial" rating in only one of the eleven areas assessed, while its level of effectiveness was rated as moderate in nine areas and low in one.

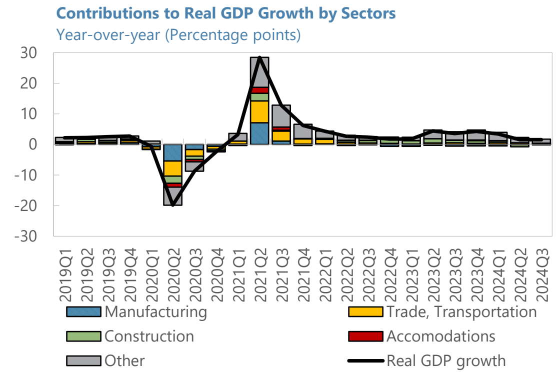
3/ According to the FATF Assessment Procedures, ICRG referral would have applied with just one additional "low" rating.

Figure 1. El Salvador: Real Sector Developments

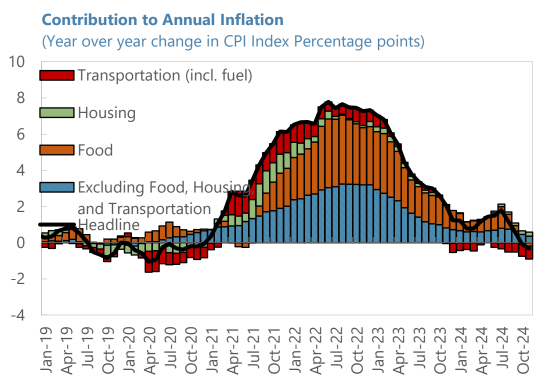
Real GDP growth slowed to 1.4 percent y/y in 2024:2, affected by floods



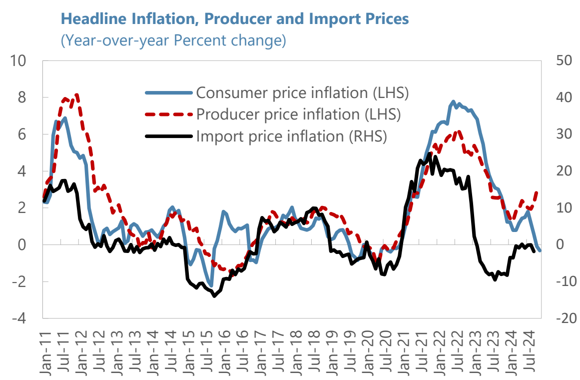
Flooding delayed construction activity



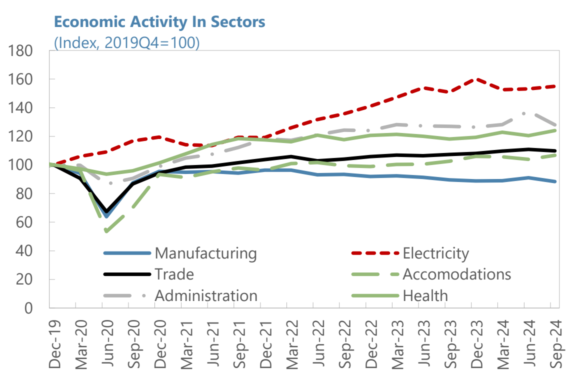
Inflation spiked in 2024, primarily due to food prices



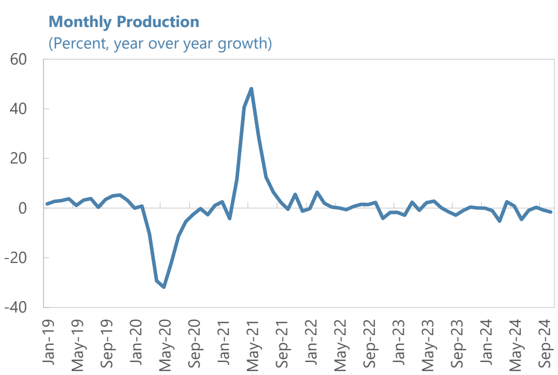
The spike in headline inflation is also reflected in producer prices



Most sectors have recovered from the pandemic



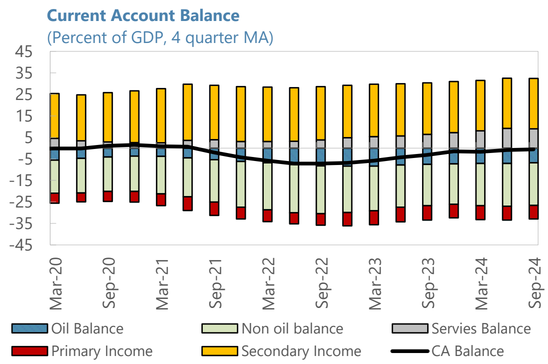
Monthly industrial production remains solid.



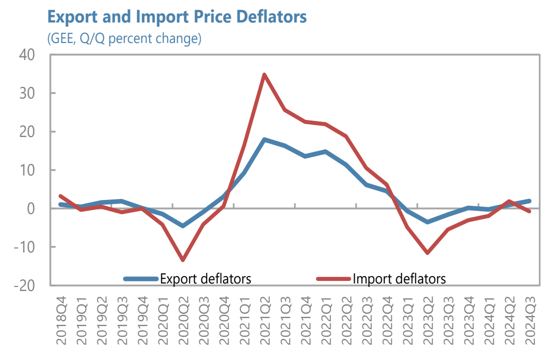
Source: Haver Analytics and IMF staff calculations.

Figure 2. El Salvador: Balance of Payments Developments

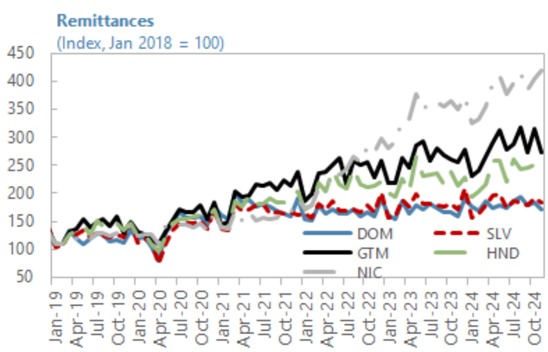
The current account deficit has narrowed from the post-pandemic elevated level...



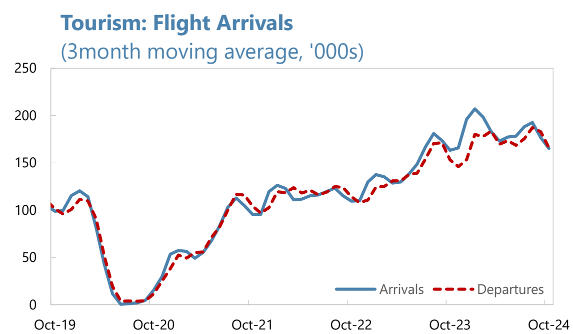
... supported by favorable terms of trade, due to falling commodity prices.



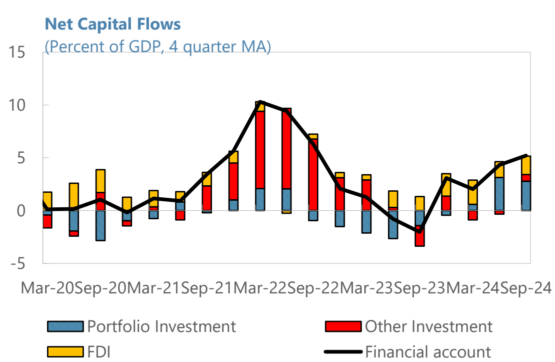
Remittances remained resilient ....



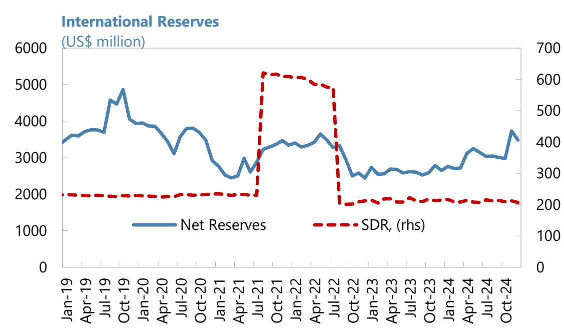
... and tourism revenues are booming



FDI has been gradually recovering ...



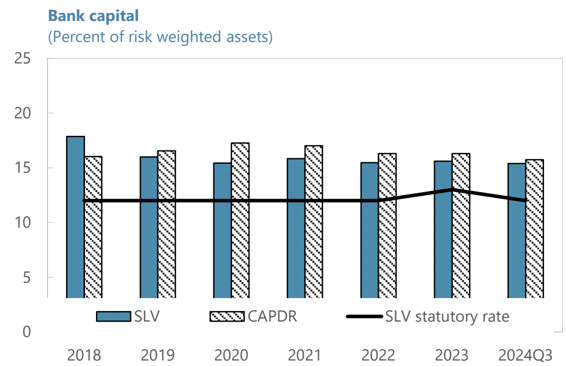
...and reserves stabilized at a low level.



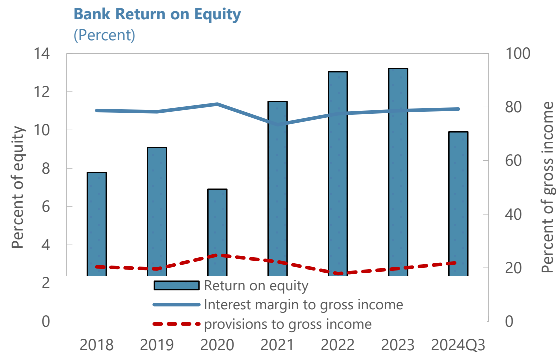
Sources: Central Reserve Bank of El Salvador, Haver Analytics, IMF World Economic Outlook, IMF Balance of Payments, and Fund staff calculations.

Figure 3. El Salvador: Financial Sector Developments

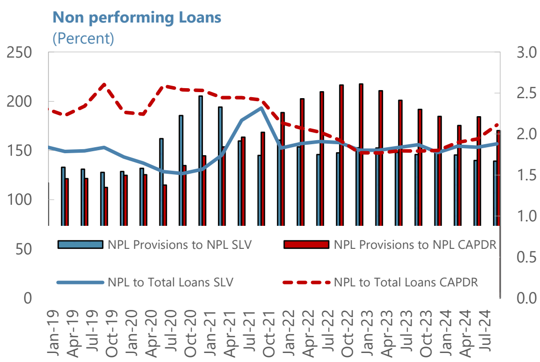
Bank regulatory capital remains stable….



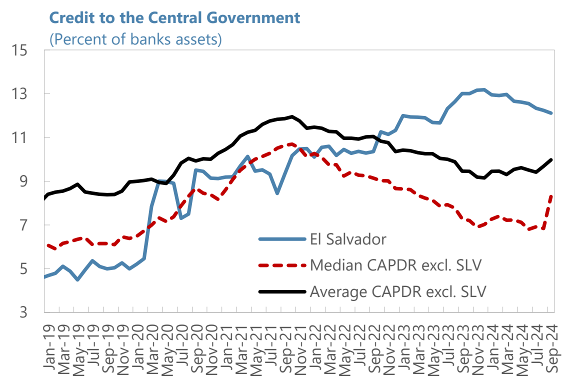
and so does profitability as margins widened.



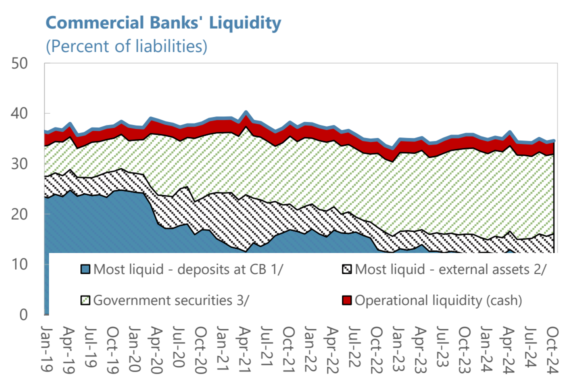
While non-performing loans remained subdued and well provisioned….



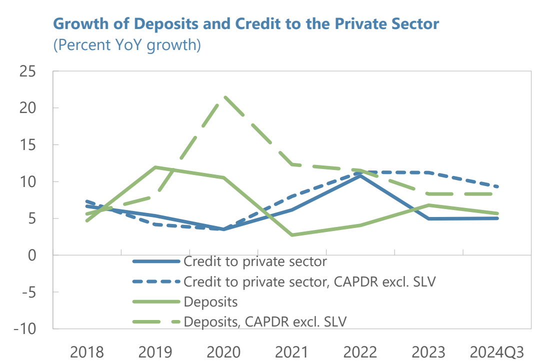
High exposure to the sovereign is deteriorating banks' asset quality.



Liquidity buffers have significantly declined, especially when excluding government securities



Credit to the private sector and deposit growth remain robust.

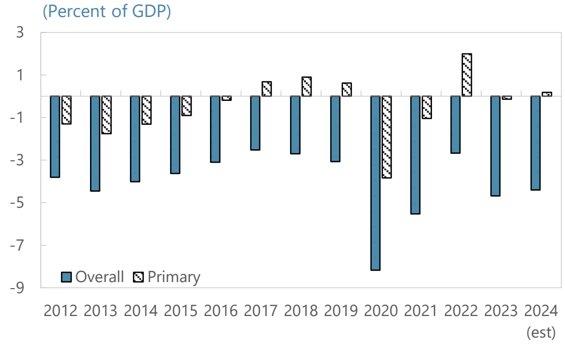


Sources: IMF Financial Stability Indicators and staff calculations
1/ Includes reserve requirements; 2/ Deposits and securities abroad; 3/ Holdings of central government treasuries and securities.

Figure 4. El Salvador: Fiscal Developments

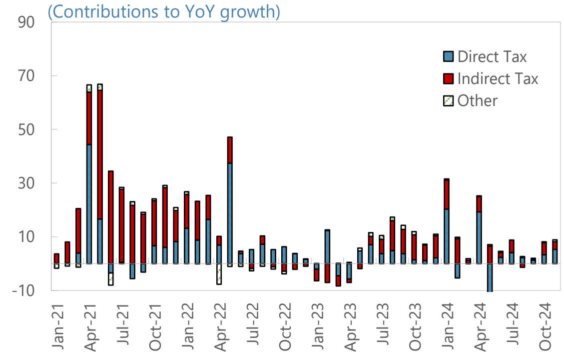
The fiscal position, including pension costs, improved in 2024 ....

Nonfinancial Public Sector Balance
(Percent of GDP)



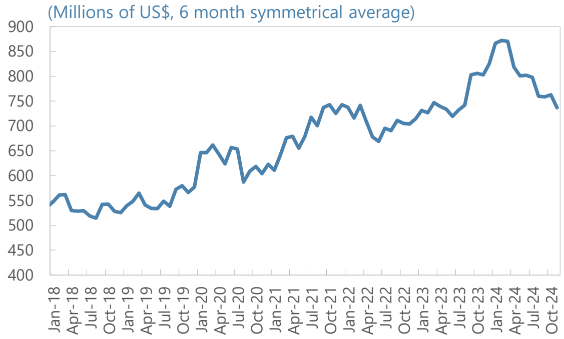
with total revenues rising as a share of GDP....

Tax Collection
(Contributions to YoY growth)



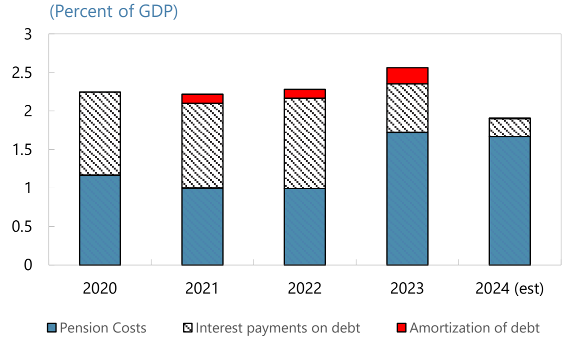
and public expenditures falling on an accrual basis in 2024, but rising on a cash basis due to clearance of arrears ....

NFPS Total Expenditures
(Millions of US$, 6 month symmetrical average)



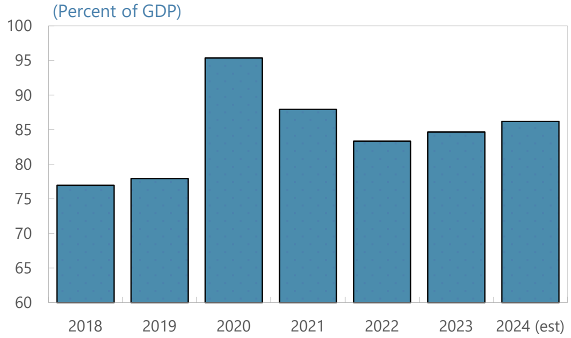
Pension debt servicing costs have been contained by the 2023 pension debt swap.

Pension Program Costs
(Percent of GDP)



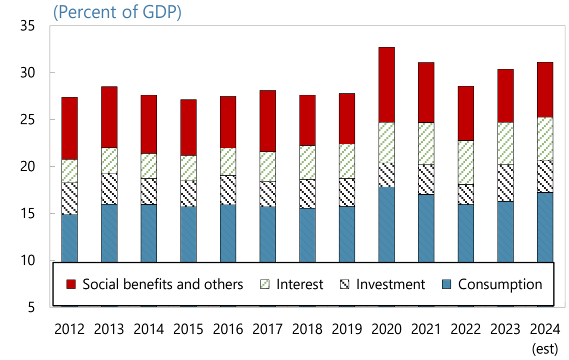
After falling for two years, the public debt-to-GDP ratio started rising again in 2023 and 2024.

Public Debt
(Percent of GDP)



Total expenditures remain higher than pre-pandemic, driven by social benefits, investment, and the interest bill.

Nonfinancial Public Sector Expenditure
(Percent of GDP)



Sources: National authorities and IMF staff calculations.

Table 1. El Salvador: Selected Economic Indicators

I. Social Indicators

Rank in UNDP Development Index 2021 (of 189)	125	Population (million, 2022)	6.4
Per capita income (U.S. dollars, 2022)	5,344.3	Life expectancy at birth in years (2021)	71
Percent of pop. below poverty line (2021)	24.6	Infant mortality (per 1,000 live births, 2019)	13
Gini index (2019)	39	Adult literacy rate (% ages 15 and older, 2019)	89

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

	Actual		Est.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Income and Prices									
Real GDP growth (percent)	2.8	3.5	2.6	2.5	2.5	3.0	3.1	2.8	2.8
Consumer price inflation (average, percent)	7.2	4.0	1.0	1.8	1.8	1.8	1.8	1.8	1.8
GDP deflator (percent)	7.1	2.7	1.2	1.5	2.1	1.8	1.8	1.8	2.0
External Sector									
Current account balance	-6.8	-1.4	-1.4	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7
Oil prices (U.S. dollars per barrel)	96.4	80.6	79.0	69.8	68.0	67.0	66.6	66.5	66.5
Trade balance	-29.9	-26.1	-26.4	-25.6	-24.9	-24.4	-23.9	-23.5	-22.9
Exports (f.o.b.)	18.3	16.2	15.7	15.5	15.1	15.1	15.0	15.1	15.1
Imports (f.o.b.)	48.2	42.3	42.1	41.2	40.0	39.5	39.0	38.6	37.9
Services and income (net)	-1.4	0.9	1.7	2.1	2.2	2.6	2.9	3.1	3.1
Transfers (net)	24.4	23.8	23.3	22.6	21.9	21.1	20.3	19.7	19.1
Foreign direct investment	-0.4	-2.1	-1.7	-1.9	-2.1	-2.3	-2.4	-2.5	-2.5
Gross international reserves (millions of U.S. dollars)	2,696	3,081	3,708	4,112	4,856	5,773	6,639	6,929	7,220
Nonfinancial Public Sector									
Overall balance	-2.7	-4.7	-4.4	-3.4	-2.1	-1.7	-2.1	-1.8	-1.5
Primary balance	2.0	-0.1	0.2	1.9	2.9	3.7	3.7	3.7	3.7
Of which: Tax Revenue	20.1	19.7	20.9	21.2	21.3	21.6	21.6	21.6	21.6
Gross debt 1/	83.3	84.7	87.3	87.6	86.3	84.4	82.8	81.0	78.8
National Savings and Investment									
Gross capital formation	23.2	19.3	20.7	21.3	21.8	22.1	22.3	22.7	23.0
Private fixed investment 2/	19.7	19.5	19.4	19.7	19.7	19.8	19.9	20.2	20.5
Public fixed investment 2/	2.0	2.5	3.0	2.7	2.7	2.7	2.7	2.7	2.7
Change in inventories	1.5	-2.7	-1.7	-1.1	-0.7	-0.4	-0.3	-0.2	-0.1
National savings	16.4	17.9	19.3	20.4	20.9	21.3	21.6	22.0	22.3
Private sector	16.9	18.7	20.3	20.7	19.9	20.0	20.6	20.8	20.7
Public sector	-0.5	-0.8	-1.0	-0.3	1.0	1.3	1.0	1.2	1.6
Money and Credit									
Credit to the private sector	62.4	61.6	61.5	63.1	65.3	66.7	67.3	67.4	68.1
Broad money	57.8	59.2	56.6	55.9	55.3	54.5	53.9	53.7	53.3
Interest rate (time deposits, percent)	4.5	5.3	0.0	…	…	…	…	…	…
Net Foreign Assets of the Financial System									
Millions of U.S. dollars	1,488	1,565	1,642	1,842	2,340	2,826	3,494	3,857	4,174
Percent of deposits	8.5	8.4	8.8	9.6	11.7	13.6	16.2	17.1	17.7
Memorandum Items									
Nominal GDP (billions of U.S. dollars)	32.0	34.0	35.3	36.7	38.5	40.3	42.4	44.3	46.4
Terms of trade, percent change	-2.9	5.7	1.4	2.3	0.6	0.1	0.3	0.2	0.0
Real effective exchange rate (+ = appreciation)	3.5	-2.8	-1.8	…	…	…	…	…	…
External sovereign bond spread (basis points)	2,126	1,113	639	…	…	…	…	…	…

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

1/ Nonfinancial public sector, including CIP-A pension bonds

2/ Excludes change in inventories

Table 2. El Salvador: Medium-Term Economic Outlook

(In units indicated)

	Actual		Est.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
				(Percentage changes)					
Nominal GDP growth	10.1	6.3	3.9	4.0	4.7	4.9	5.0	4.6	4.8
GDP deflator	7.1	2.7	1.2	1.5	2.1	1.8	1.8	1.8	2.0
Real GDP growth	2.8	3.5	2.6	2.5	2.5	3.0	3.1	2.8	2.8
Output gap (percent of GDP)	0.7	1.0	0.3	-0.2	-0.5	-0.2	0.1	0.0	0.1
Inflation (average)	7.2	4.0	1.0	1.8	1.8	1.8	1.8	1.8	1.8
				(Contribution to real GDP growth, percentage points)					
Private consumption	2.1	2.8	-0.9	3.0	2.0	2.2	1.4	0.9	1.2
Public consumption	-0.2	0.5	1.3	-0.8	-0.5	-0.1	0.5	0.4	0.4
Private investment	1.2	1.2	0.3	0.8	0.9	0.9	1.0	1.1	1.2
Public investment	-0.3	0.7	0.5	-0.3	0.1	0.1	0.1	0.1	0.1
Change in inventories	-2.1	-4.0	1.3	0.8	0.5	0.3	0.2	0.1	0.1
Net exports	2.2	2.3	0.1	-1.1	-0.6	-0.5	-0.1	0.1	-0.2
				(Percentage changes)					
Exports of goods, f.o.b.	11.3	-5.5	0.6	2.8	2.0	4.3	4.8	5.0	4.6
Volume	-2.4	-4.9	-0.5	2.2	2.4	3.8	4.0	4.0	4.1
Price	14.0	-0.7	1.1	0.6	-0.4	0.4	0.8	1.0	0.4
Imports of goods, f.o.b.	16.9	-6.7	3.4	1.8	1.8	3.4	3.6	3.6	3.0
Volume	-0.4	-0.7	3.7	3.5	2.8	3.0	3.0	2.7	2.6
Price	17.4	-6.0	-0.3	-1.7	-1.0	0.4	0.6	0.8	0.4
Terms of trade	-2.9	5.7	1.4	2.3	0.6	0.1	0.3	0.2	0.0
				(Percent of GDP)					
Primary fiscal balance	2.0	-0.1	0.2	1.9	2.9	3.7	3.7	3.7	3.7
Overall fiscal balance	-2.7	-4.7	-4.4	-3.4	-2.1	-1.7	-2.1	-1.8	-1.5
Public sector gross debt 1/	83.3	84.7	87.3	87.6	86.3	84.4	82.8	81.0	78.8
Current account balance	-6.8	-1.4	-1.4	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7
Exports of goods, f.o.b.	18.3	16.2	15.7	15.5	15.1	15.1	15.0	15.1	15.1
Imports of goods, f.o.b.	48.2	42.3	42.1	41.2	40.0	39.5	39.0	38.6	37.9
Of which: Petroleum products	8.4	7.3	7.2	6.3	6.0	5.8	5.6	5.5	5.3
Current transfers	24.4	23.8	23.3	22.6	21.9	21.1	20.3	19.7	19.1
Gross capital formation	23.2	19.3	20.7	21.3	21.8	22.1	22.3	22.7	23.0
Private fixed investment 2/	19.7	19.5	19.4	19.7	19.7	19.8	19.9	20.2	20.5
Public fixed investment 2/	2.0	2.5	3.0	2.7	2.7	2.7	2.7	2.7	2.7
Change in inventories	1.5	-2.7	-1.7	-1.1	-0.7	-0.4	-0.3	-0.2	-0.1
Gross national saving	16.4	17.9	19.3	20.4	20.9	21.3	21.6	22.0	22.3
Private sector	16.9	18.7	20.3	20.7	19.9	20.0	20.6	20.8	20.7
Public sector	-0.5	-0.8	-1.0	-0.3	1.0	1.3	1.0	1.2	1.6
External saving	6.8	1.4	1.4	0.9	0.9	0.8	0.8	0.7	0.7
Memorandum Items				(Percentage changes)					
Private consumption	2.5	3.4	-1.1	3.8	2.5	2.8	1.8	1.2	1.6
Public consumption	-1.2	3.2	8.3	-4.6	-2.9	-0.4	3.2	2.5	2.7
Private fixed investment 2/	6.3	6.3	1.5	4.0	4.5	4.5	5.0	5.5	5.5
Public fixed investment 2/	-11.6	33.2	21.3	-8.9	4.0	4.2	4.3	4.0	4.1

Sources: Central Reserve Bank of El Salvador, Ministry of Finance, and IMF staff estimates.
1/ Nonfinancial public sector, including CIP-A pension bonds. Does not include "Bitcoin" bonds.
2/ Excludes change in inventories

Table 3a. El Salvador: Balance of Payments 1/

(In millions of U.S. dollars)

	Actual		Est.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Current Account	**-2,182**	**-466**	**-491**	**-330**	**-329**	**-304**	**-320**	**-300**	**-336**
Merchandise trade balance	-9,569	-8,865	-9,315	-9,422	-9,580	-9,858	-10,130	-10,404	-10,614
Export of goods (f.o.b.)	5,842	5,521	5,553	5,708	5,825	6,073	6,368	6,689	6,995
Import of goods (f.o.b.)	15,410	14,385	14,868	15,130	15,405	15,931	16,498	17,093	17,610
Of which: Petroleum products	2,673	2,488	2,534	2,315	2,322	2,345	2,389	2,435	2,474
Services, net	1,548	2,462	2,977	3,048	3,195	3,336	3,622	3,881	4,036
Of which: Travel receipts	1,864	2,755	3,626	3,790	4,025	4,303	4,654	4,936	5,135
Primary income, net	-1,982	-2,142	-2,390	-2,272	-2,351	-2,283	-2,393	-2,498	-2,612
Of which: Interest	-766	-809	-1,007	-961	-968	-810	-820	-819	-816
Secondary income, net	7,821	8,079	8,237	8,315	8,406	8,501	8,582	8,721	8,854
Of which: Workers' remittances (credits)	7,828	8,168	8,353	8,467	8,600	8,743	8,881	9,083	9,290
Capital Account, net	**242**	**336**	**345**	**290**	**292**	**300**	**312**	**308**	**299**
Financial Account (Net lending (+)/Net borrowing (-))	**-1,255**	**-682**	**-146**	**302**	**267**	**472**	**240**	**8**	**-37**
Foreign direct investment, net	-142	-730	-590	-698	-808	-928	-1,016	-1,108	-1,170
Net acquisition of financial assets	-131	-92	-33	85	201	194	157	183	180
Net incurence of labilities	10	638	557	783	1,008	1,122	1,174	1,290	1,350
Of which: Reinvested earnings	-112	516	523	575	633	696	766	842	927
Portfolio investment, net	503	141	-1,546	163	168	-384	-256	-130	-402
Net acquisition of financial assets	-125	-173	71	63	168	68	214	220	217
Net incurence of labilities	-628	-314	1,618	-100	0	451	470	351	619
Of which: Public sector 2/	-648	-311	1,618	-100	0	451	470	351	619
Financial derivatives, net	0	-11	0	0	0	0	0	0	0
Other investment, net	-918	-450	1,363	433	163	866	647	955	1,244
Net acquisition of financial assets	-119	553	589	361	482	485	652	671	690
Net incurence of labilities	798	1,003	-774	-72	319	-381	5	-284	-554
Change in Reserve Assets (+=increase)	-699	369	627	404	744	918	866	290	291
Change in reserve position in the IMF	0	0	0	0	0	0	0	0	0
Other changes in reserve assets	-699	369	627	404	744	918	866	290	291
Errors and Omissions, net	685	-553	0	0	0	0	0	0	0
Financing Gap after Official Financing				**343**	**305**	**476**	**248**	**0**	**0**
Exceptional financing				**343**	**305**	**476**	**248**	**0**	**0**
o.w. IMF	0	0	0	343	305	476	248	0	0
Residual Financing GAP	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum Items									
Gross international reserves	2,696	3,081	3,708	4,112	4,856	5,773	6,639	6,929	7,220
In months of imports	1.8	2.2	2.5	2.7	3.1	3.6	4.0	4.0	4.1
In percent of total short-term external debt	113.8	105.8	126.6	137.8	155.8	189.6	182.5	191.3	199.1
In percent of ARA metric	27.3	33.4	40.7	43.4	50.8	58.1	65.1	66.2	69.0

Sources: Central Reserve Bank of El Salvador and IMF staff estimates. Presented in BPM6 format.
1/ Presented in BPM6 format.
2/ Refer to Table 4 for the projected Eurobond issuance.

Table 3b. El Salvador: Balance of Payments 1/
(In percent of GDP)

	Actual		Est.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Current Account	**-6.8**	**-1.4**	**-1.4**	**-0.9**	**-0.9**	**-0.8**	**-0.8**	**-0.7**	**-0.7**
Merchandise trade balance	-29.9	-26.1	-26.4	-25.6	-24.9	-24.4	-23.9	-23.5	-22.9
Export of goods (f.o.b.)	18.3	16.2	15.7	15.5	15.1	15.1	15.0	15.1	15.1
Import of goods (f.o.b.)	48.2	42.3	42.1	41.2	40.0	39.5	39.0	38.6	37.9
Of which: Petroleum and products	8.4	7.3	7.2	6.3	6.0	5.8	5.6	5.5	5.3
Services, net	4.8	7.2	8.4	8.3	8.3	8.3	8.6	8.8	8.7
Of which: Travel receipts	5.8	8.1	10.3	10.3	10.5	10.7	11.0	11.1	11.1
Primary income, net	-6.2	-6.3	-6.8	-6.2	-6.1	-5.7	-5.7	-5.6	-5.6
Of which: Interest	-2.4	-2.4	-2.9	-2.6	-2.5	-2.0	-1.9	-1.8	-1.8
Secondary income, net	24.4	23.8	23.3	22.6	21.9	21.1	20.3	19.7	19.1
Of which: Workers' remittances (credits)	24.5	24.0	23.6	23.0	22.4	21.7	21.0	20.5	20.0
Capital Account, net	**0.8**	**1.0**	**1.0**	**0.8**	**0.8**	**0.7**	**0.7**	**0.7**	**0.6**
Financial Account (Net lending (+)/Net borrowing (-))	**-3.9**	**-2.0**	**-0.4**	**0.8**	**0.7**	**1.2**	**0.6**	**0.0**	**-0.1**
Foreign direct investment, net	-0.4	-2.1	-1.7	-1.9	-2.1	-2.3	-2.4	-2.5	-2.5
Net acquisition of financial assets	-0.4	-0.3	-0.1	0.2	0.5	0.5	0.4	0.4	0.4
Net incurence of labilities	0.0	1.9	1.6	2.1	2.6	2.8	2.8	2.9	2.9
Of which: Reinvested earnings	-0.3	1.5	1.5	1.6	1.6	1.7	1.8	1.9	2.0
Portfolio investment, net	1.6	0.4	-4.4	0.4	0.4	-1.0	-0.6	-0.3	-0.9
Net acquisition of financial assets	-0.4	-0.5	0.2	0.2	0.4	0.2	0.5	0.5	0.5
Net incurence of labilities	-2.0	-0.9	4.6	-0.3	0.0	1.1	1.1	0.8	1.3
Of which: Public sector 2/	-2.0	-0.9	4.6	-0.3	0.0	1.1	1.1	0.8	1.3
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-2.9	-1.3	3.9	1.2	0.4	2.1	1.5	2.2	2.7
Net acquisition of financial assets	-0.4	1.6	1.7	1.0	1.3	1.2	1.5	1.5	1.5
Net incurence of labilities	2.5	2.9	-2.2	-0.2	0.8	-0.9	0.0	-0.6	-1.2
Change in Reserve Assets (+=increase)	-2.2	1.1	1.8	1.1	1.9	2.3	2.0	0.7	0.6
Change in reserve position in the IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes in reserve assets	-2.2	1.1	1.8	1.1	1.9	2.3	2.0	0.7	0.6
Errors and Omissions, net	**2.1**	**-1.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing Gap after Official Financing	**0.0**	**0.0**	**0.0**	**0.9**	**0.8**	**1.2**	**0.6**	**0.0**	**0.0**
Exceptional financing	**0.0**	**0.0**	**0.0**	**0.9**	**0.8**	**1.2**	**0.6**	**0.0**	**0.0**
o.w. IMF	0.0	0.0	0.0	0.9	0.8	1.2	0.6	0.0	0.0
Residual Financing GAP	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items									
Gross international reserves	2,695.8	3,080.7	3,707.7	4,111.9	4,855.5	5,773.1	6,638.8	6,929.0	7,220.0
In months of imports	1.8	2.2	2.5	2.7	3.1	3.6	4.0	4.0	4.1
In percent of total short-term external debt	114	106	127	138	156	190	182	191	199
In percent of ARA metric	27	33	41	43	51	59	65	66	69

Sources: Central Reserve Bank of El Salvador and IMF staff estimates. Presented in BPM6 format.

1/ Presented in BPM6 format.

2/ Refer to Table 4 for the projected Eurobond issuance.

Table 4. El Salvador: Gross External Financing Requirements and Sources

(In units indicated)

	Proj.					
	2025	2026	2027	2028	2029	2030
	(Millions of U.S. dollars)					
Gross Financing Requirements (A)	**4,541**	**3,565**	**3,602**	**3,082**	**3,773**	**3,260**
Current account deficit	330	329	304	320	300	336
Debt amortization (public and private)	4,211	3,235	3,298	2,762	3,473	2,923
Public debt amortization	684	510	959	802	1,287	1,112
Including to the IMF	94	0	0	0	19	71
Private debt amortization	3,527	2,725	2,339	1,961	2,186	1,811
Gross Financing Sources (B)	**3,299**	**2,660**	**1,976**	**1,934**	**2,573**	**2,260**
Capital account flows (net)	290	292	300	312	308	299
FDI (net)	698	808	928	1,016	1,108	1,170
Private sector and other capital flows	2,715	2,304	1,665	1,471	1,448	1,081
Change in reserves (+ is decrease)	-404	-744	-918	-866	-290	-291
Balance of Payments Need (C) = (A) - (B)	1,243	905	1,626	1,148	1,200	1,000
Official financing (D) 1/	900	600	550	100	0	0
o/w World Bank	250	250	250	0	0	0
o/w IADB	450	250	200	0	0	0
o/w Other official	200	100	100	100	0	0
Eurobonds (E)	0	0	600	800	1,200	1,000
Exceptional Financing (F) = (C) - (D) - (E)	343	305	476	248	0	0
IMF financing (J)	343	305	476	248	0	0
Residual Financing Gap (F) - (J)	0	0	0	0	0	0
	(percent of GDP)					
Gross Financing Requirements (A)	12.4	9.3	8.9	7.3	8.5	7.0
Current account deficit	0.9	0.9	0.8	0.8	0.7	0.7
Debt amortization (public and private)	11.5	8.4	8.2	6.5	7.8	6.3
Public debt amortization	1.9	1.3	2.4	1.9	2.9	2.4
Including to the IMF	0.3	0.0	0.0	0.0	0.0	0.2
Private debt amortization	9.6	7.1	5.8	4.6	4.9	3.9
Gross Financing Sources (B)	9.0	6.9	4.9	4.6	5.8	4.9
Capital account flows (net)	0.8	0.8	0.7	0.7	0.7	0.6
FDI (net)	1.9	2.1	2.3	2.4	2.5	2.5
Private sector and other capital flows	7.4	6.0	4.1	3.5	3.3	2.3
Change in reserves (+ is decrease)	-1.1	-1.9	-2.3	-2.0	-0.7	-0.6
Balance of Payments Need (C) = (A) - (B)	3.4	2.4	4.0	2.7	2.7	2.2
Official financing (D)	2.4	1.6	1.4	0.2	0.0	0.0
o/w World Bank	0.7	0.6	0.6	0.0	0.0	0.0
o/w IADB	1.2	0.6	0.5	0.0	0.0	0.0
o/w Other official	0.5	0.3	0.2	0.2	0.0	0.0
Eurobonds (E)	0.0	0.0	1.5	1.9	2.7	2.2
Exceptional Financing (F) = (C) - (D) - (E)	0.9	0.8	1.2	0.6	0.0	0.0
IMF financing (J)	0.9	0.8	1.2	0.6	0.0	0.0
Residual Financing Gap (F) - (J)	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items						
Gross international reserves	4,112	4,856	5,773	6,639	6,929	7,220
In months of imports	2.7	3.1	3.6	4.0	4.0	4.1
In percent of total short-term external debt	138	156	190	182	191	199
Net IMF Financing						
In millions of U.S. dollars	248	305	476	248	-19	-71
In percent of GDP	0.7	0.8	1.2	0.6	0.0	-0.2

1/ Official financing consists of budget support loans and grants

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

Table 5a. El Salvador: Statement of Operations of the Nonfinancial Public Sector
(In millions of U.S. Dollars)

	Actual		Est.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	**8,279**	**8,734**	**9,466**	**9,955**	**10,459**	**11,132**	**11,687**	**12,225**	**12,807**
Taxes	6,572	6,882	7,484	7,789	8,179	8,712	9,141	9,556	10,006
Taxes on income	2,782	2,877	3,112	3,261	3,415	3,581	3,760	3,933	4,121
Taxes on property	47	54	56	58	61	64	67	70	74
Taxes on goods and services	3,358	3,518	3,713	3,926	4,110	4,311	4,525	4,734	4,960
Taxes on foreign trade	319	322	364	409	425	454	472	489	504
Other taxes	65	110	239	135	168	301	316	331	347
Social contributions	724	756	800	832	871	913	959	1,003	1,051
Other revenue	964	1,076	1,149	1,334	1,409	1,507	1,587	1,665	1,750
Grants	19	21	34	0	0	0	0	0	0
Expenditure	**9,134**	**10,327**	**11,028**	**11,195**	**11,257**	**11,833**	**12,575**	**13,042**	**13,499**
Expense	**8,443**	**9,007**	**9,811**	**10,070**	**10,080**	**10,599**	**11,280**	**11,687**	**12,080**
Compensation of employees	3,478	3,752	4,088	3,964	3,946	4,026	4,226	4,421	4,633
Purchases of goods and services	1,624	1,795	2,023	1,920	1,891	1,902	1,997	2,089	2,189
Interest	1,492	1,545	1,625	1,940	1,917	2,198	2,461	2,463	2,413
Domestic	789	785	729	854	763	1,014	1,272	1,258	1,254
Foreign	703	759	896	1,086	1,154	1,184	1,189	1,204	1,160
Subsidies	96	1	40	51	54	56	59	62	65
Social benefits	1,356	1,543	1,617	1,706	1,761	1,847	1,939	2,029	2,126
Other expense	398	371	418	489	512	569	597	625	655
Current	228	240	284	313	328	344	361	377	395
Capital	170	132	134	176	184	225	236	247	259
Net acquisition of nonfinancial assets	**691**	**1,320**	**1,218**	**1,125**	**1,177**	**1,234**	**1,295**	**1,355**	**1,419**
Net lending/borrowing	**-855**	**-1,593**	**-1,562**	**-1,240**	**-799**	**-701**	**-888**	**-817**	**-692**
Net financial transactions	**-855**	**-1,593**	**-1,562**	**-1,240**	**-799**	**-701**	**-888**	**-817**	**-692**
Net acquisition of financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Foreign	0	0	0	0	0	0	0	0	0
Domestic	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	**881**	**1,593**	**1,562**	**1,240**	**799**	**701**	**888**	**817**	**692**
Foreign	8	81	1,837	1,671	1,383	1,292	1,101	873	903
Loans	8	81	1,837	1,671	1,383	1,292	1,101	873	903
Disbursement	769	1,174	4,308	2,355	1,893	2,251	1,903	2,160	2,015
Amortizations	-761	-1,093	-2,471	-684	-510	-959	-802	-1,287	-1,112
Domestic	873	1,512	-275	-431	-584	-592	-213	-56	-211
Loans	549	1,536	208	-331	-384	-442	-63	-56	-211
Other	-72	0	0	0	0	0	0	0	0
Other accounts receivable/payable	0	0	0	0	0	0	0	0	0
Currency and deposits	396	-24	-484	-100	-200	-150	-150	0	0
Memorandum items (mill. of US$ unless otherwise specified):									
Revenue	8,279	8,734	9,466	9,955	10,459	11,132	11,687	12,225	12,807
Taxes	6,572	6,882	7,484	7,789	8,179	8,712	9,141	9,556	10,006
Expenditure	9,134	10,327	11,028	11,195	11,257	11,833	12,575	13,042	13,499
Interest	1,492	1,545	1,625	1,940	1,917	2,198	2,461	2,463	2,413
Net lending	-855	-1,593	-1,562	-1,240	-799	-701	-888	-817	-692
Taxes (percent of revenue)	79.4	78.8	79.1	78.2	78.2	78.3	78.2	78.2	78.1
Compensation of employees (percent of expenditure)	38.1	36.3	37.1	35.4	35.1	34.0	33.6	33.9	34.3
Interest (percent of expenditure)	16.3	15.0	14.7	17.3	17.0	18.6	19.6	18.9	17.9
Primary balance	636	-48	63	700	1,118	1,497	1,572	1,645	1,721
Gross total debt	26,661	28,805	30,851	32,191	33,189	34,040	35,078	35,895	36,588
External disbursements	769.1	1,173.8	4,308.0	2,354.8	1,892.6	2,251.0	1,902.5	2,160.0	2,015.0
Nominal GDP	31,989	34,016	35,333	36,742	38,468	40,346	42,355	44,303	46,426

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

Table 5b. El Salvador: Statement of Operations of the Nonfinancial Public Sector
(In percent of GDP)

	Actual		Est.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	**25.9**	**25.7**	**26.8**	**27.1**	**27.2**	**27.6**	**27.6**	**27.6**	**27.6**
Taxes	20.5	20.2	21.2	21.2	21.3	21.6	21.6	21.6	21.6
Taxes on income	8.7	8.5	8.8	8.9	8.9	8.9	8.9	8.9	8.9
Taxes on property	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	10.5	10.3	10.5	10.7	10.7	10.7	10.7	10.7	10.7
Taxes on foreign trade	1.0	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Other taxes	0.2	0.3	0.7	0.4	0.4	0.7	0.7	0.7	0.7
Social contributions	2.3	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Other revenue	3.0	3.2	3.3	3.6	3.7	3.7	3.7	3.8	3.8
Grants	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**28.6**	**30.4**	**31.2**	**30.5**	**29.3**	**29.3**	**29.7**	**29.4**	**29.1**
Expense	**26.4**	**26.5**	**27.8**	**27.4**	**26.2**	**26.3**	**26.6**	**26.4**	**26.0**
Compensation of employees	10.9	11.0	11.6	10.8	10.3	10.0	10.0	10.0	10.0
Purchases of goods and services	5.1	5.3	5.7	5.2	4.9	4.7	4.7	4.7	4.7
Interest	4.7	4.5	4.6	5.3	5.0	5.4	5.8	5.6	5.2
Domestic	2.5	2.3	2.1	2.3	2.0	2.5	3.0	2.8	2.7
Foreign	2.2	2.2	2.5	3.0	3.0	2.9	2.8	2.7	2.5
Subsidies	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social benefits	4.2	4.5	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Other expense	1.2	1.1	1.2	1.3	1.3	1.4	1.4	1.4	1.4
Current	0.7	0.7	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Capital	0.5	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6
Net acquisition of nonfinancial assets	**2.2**	**3.9**	**3.4**	**3.1**	**3.1**	**3.1**	**3.1**	**3.1**	**3.1**
Net lending/borrowing	**-2.7**	**-4.7**	**-4.4**	**-3.4**	**-2.1**	**-1.7**	**-2.1**	**-1.8**	**-1.5**
Net financial transactions	**-2.7**	**-4.7**	**-4.4**	**-3.4**	**-2.1**	**-1.7**	**-2.1**	**-1.8**	**-1.5**
Net acquisition of financial assets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**2.8**	**4.7**	**4.4**	**3.4**	**2.1**	**1.7**	**2.1**	**1.8**	**1.5**
Foreign	0.0	0.2	5.2	4.5	3.6	3.2	2.6	2.0	1.9
Loans	0.0	0.2	5.2	4.5	3.6	3.2	2.6	2.0	1.9
Disbursement	2.4	3.5	12.2	6.4	4.9	5.6	4.5	4.9	4.3
Amortizations	-2.4	-3.2	-7.0	-1.9	-1.3	-2.4	-1.9	-2.9	-2.4
Domestic	2.7	4.4	-0.8	-1.2	-1.5	-1.5	-0.5	-0.1	-0.5
Loans	1.7	4.5	0.6	-0.9	-1.0	-1.1	-0.1	-0.1	-0.5
Other	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable/payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	1.2	-0.1	-1.4	-0.3	-0.5	-0.4	-0.4	0.0	0.0
Memorandum items (percent of GDP, unless otherwise specified):									
Taxes (percent of revenue)	79.4	78.8	79.1	78.2	78.2	78.3	78.2	78.2	78.1
Compensation of employees (percent of expenditure)	38.1	36.3	37.1	35.4	35.1	34.0	33.6	33.9	34.3
Interest (percent of expenditure)	16.3	15.0	14.7	17.3	17.0	18.6	19.6	18.9	17.9
Primary balance	2.0	-0.1	0.2	1.9	2.9	3.7	3.7	3.7	3.7
Cyclically adjusted primary balance	1.8	-0.4	0.1	2.0	3.0	3.8	3.7	3.7	3.7
Gross total debt	83.3	84.7	87.3	87.6	86.3	84.4	82.8	81.0	78.8
External disbursements	2.4	3.5	12.2	6.4	4.9	5.6	4.5	4.9	4.3
Nominal GDP	31,989	34,016	35,333	36,742	38,468	40,346	42,355	44,303	46,426

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

Table 6a. El Salvador: Statement of Operations of the Central Government
(In millions of U.S. Dollars)

	Actual		Est.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	**6,651**	**7,044**	**7,717**	**8,145**	**8,552**	**9,101**	**9,551**	**9,984**	**10,452**
Taxes	6,416	6,710	7,375	7,789	8,179	8,712	9,141	9,556	10,006
Taxes on income	2,708	2,809	3,112	3,261	3,415	3,581	3,760	3,933	4,121
Taxes on property	47	54	56	58	61	64	67	70	74
Taxes on goods and services	3,278	3,414	3,713	3,926	4,110	4,311	4,525	4,734	4,960
Taxes on foreign trade	319	322	364	409	425	454	472	489	504
Other taxes	65	110	130	135	168	301	316	331	347
Other revenue	217	334	342	356	372	389	410	428	447
Grants	17	0	0	0	0	0	0	0	0
Expenditure	**7,557**	**7,831**	**8,824**	**8,882**	**8,782**	**9,241**	**9,847**	**10,194**	**10,523**
Expense	**7,071**	**6,733**	**7,931**	**7,989**	**7,847**	**8,261**	**8,818**	**9,118**	**9,396**
Compensation of employees	2,218	2,360	2,852	2,678	2,600	2,614	2,744	2,870	3,008
Purchases of goods and services	687	731	955	825	813	818	859	898	941
Interest	1,375	1,200	1,543	1,843	1,821	2,088	2,338	2,339	2,293
Domestic	0	0	0	0	0	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0
Subsidies	7	5	5	5	5	6	6	6	7
Grants	1,638	1,356	1,408	1,424	1,491	1,564	1,642	1,718	1,800
Current	1,630	1,303	1,353	1,367	1,432	1,502	1,576	1,649	1,728
Capital	8	53	55	57	60	63	66	69	72
Social benefits	942	936	973	1,011	905	949	997	1,042	1,092
Other expense	203	144	194	202	212	222	233	244	255
Current	33	12	13	13	14	14	15	16	16
Capital	170	132	182	189	198	208	218	228	239
Net acquisition of nonfinancial assets	**486**	**1,098**	**893**	**892**	**934**	**980**	**1,029**	**1,076**	**1,127**
Net lending/borrowing	**-906**	**-787**	**-1,107**	**-737**	**-230**	**-140**	**-296**	**-210**	**-71**
Net financial transactions	**-917**	**-1,521**	**-1,562**	**-1,240**	**-799**	**-701**	**-888**	**-817**	**-692**
Net acquisition of financial assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Foreign	0	0	0	0	0	0	0	0	0
Domestic	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	917	1,521	1,562	1,240	799	701	888	817	692
Foreign	**11**	**36**	**1,837**	**1,671**	**1,383**	**1,292**	**1,101**	**873**	**903**
Loans	11	36	1,837	1,671	1,383	1,292	1,101	873	903
Disbursement	732	1,073	4,308	2,355	1,893	2,251	1,903	2,160	2,015
Amortizations	-720	-1,037	-2,471	-684	-510	-959	-802	-1,287	-1,112
Domestic	905	1,485	-276	-431	-584	-592	-213	-56	-211
Loans	549	1,536	208	-331	-384	-442	-63	-56	-211
Other	-40	-27	0	0	0	0	0	0	0
Other accounts receivable/payable	0	0	0	0	0	0	0	0	0
Currency and deposits	396	-24	-484	-100	-200	-150	-150	0	0
Memorandum items (mill. of US$ unless otherwise specified):									
Revenue	6,651	7,044	7,717	8,145	8,552	9,101	9,551	9,984	10,452
Taxes	6,416	6,710	7,375	7,789	8,179	8,712	9,141	9,556	10,006
Expenditure	7,557	7,831	8,824	8,882	8,782	9,241	9,847	10,194	10,523
Interest	1,375	1,200	1,543	1,843	1,821	2,088	2,338	2,339	2,293
Taxes (percent of revenue)	96.5	95.3	95.6	95.6	95.6	95.7	95.7	95.7	95.7
Compensation of employees (percent of expenditure)	33.4	33.5	37.0	32.9	30.4	28.7	28.7	28.7	28.8
Interest (percent of expenditure)	18.2	15.3	17.5	20.7	20.7	22.6	23.7	22.9	21.8
Primary balance	470	413	437	1,106	1,591	1,948	2,042	2,130	2,222
External disbursements	732	1,073	4,308	2,355	1,893	2,251	1,903	2,160	2,015
Nominal GDP	31,989	34,016	35,333	36,742	38,468	40,346	42,355	44,303	46,426

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

Table 6b. El Salvador: Statement of Operations of the Central Government
(In percent of GDP)

	Actual		Est.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	**20.8**	**20.7**	**21.8**	**22.2**	**22.2**	**22.6**	**22.5**	**22.5**	**22.5**
Taxes	20.1	19.7	20.9	21.2	21.3	21.6	21.6	21.6	21.6
Taxes on income	8.5	8.3	8.8	8.9	8.9	8.9	8.9	8.9	8.9
Taxes on property	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	10.2	10.0	10.5	10.7	10.7	10.7	10.7	10.7	10.7
Taxes on foreign trade	1.0	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Other taxes	0.2	0.3	0.4	0.4	0.4	0.7	0.7	0.7	0.7
Other revenue	0.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**23.6**	**23.0**	**25.0**	**24.2**	**22.8**	**22.9**	**23.2**	**23.0**	**22.7**
Expense	**22.1**	**19.8**	**22.4**	**21.7**	**20.4**	**20.5**	**20.8**	**20.6**	**20.2**
Compensation of employees	6.9	6.9	8.1	7.3	6.8	6.5	6.5	6.5	6.5
Purchases of goods and services	2.1	2.2	2.7	2.2	2.1	2.0	2.0	2.0	2.0
Interest	4.3	3.5	4.4	5.0	4.7	5.2	5.5	5.3	4.9
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	5.1	4.0	4.0	3.9	3.9	3.9	3.9	3.9	3.9
Current	5.1	3.8	3.8	3.7	3.7	3.7	3.7	3.7	3.7
Capital	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social benefits	2.9	2.8	2.8	2.8	2.4	2.4	2.4	2.4	2.4
Other expense	0.6	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Current	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Net acquisition of nonfinancial assets	**1.5**	**3.2**	**2.5**	**2.4**	**2.4**	**2.4**	**2.4**	**2.4**	**2.4**
Net lending/borrowing	**-2.8**	**-2.3**	**-3.1**	**-2.0**	**-0.6**	**-0.3**	**-0.7**	**-0.5**	**-0.2**
Net financial transactions	**-2.9**	**-4.5**	**-4.4**	**-3.4**	**-2.1**	**-1.7**	**-2.1**	**-1.8**	**-1.5**
Net acquisition of financial assets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**2.9**	**4.5**	**4.4**	**3.4**	**2.1**	**1.7**	**2.1**	**1.8**	**1.5**
Foreign	0.0	0.1	5.2	4.5	3.6	3.2	2.6	2.0	1.9
Loans	0.0	0.1	5.2	4.5	3.6	3.2	2.6	2.0	1.9
Disbursement	2.3	3.2	12.2	6.4	4.9	5.6	4.5	4.9	4.3
Amortizations	-2.3	-3.0	-7.0	-1.9	-1.3	-2.4	-1.9	-2.9	-2.4
Domestic	2.8	4.4	-0.8	-1.2	-1.5	-1.5	-0.5	-0.1	-0.5
Currency and deposits	1.2	-0.1	-1.4	-0.3	-0.5	-0.4	-0.4	0.0	0.0
Loans	1.7	4.5	0.6	-0.9	-1.0	-1.1	-0.1	-0.1	-0.5
Other accounts receivable/payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items (percent of GDP, unless otherwise specified):									
Taxes (percent of revenue)	96.5	95.3	95.6	95.6	95.6	95.7	95.7	95.7	95.7
Compensation of employees (percent of expenditure)	33.4	33.5	37.0	32.9	30.4	28.7	28.7	28.7	28.8
Interest (percent of expenditure)	18.2	15.3	17.5	20.7	20.7	22.6	23.7	22.9	21.8
Primary balance	1.5	1.2	1.2	3.0	4.1	4.8	4.8	4.8	4.8
External disbursements	2.3	3.2	12.2	6.4	4.9	5.6	4.5	4.9	4.3
Nominal GDP	31,989	34,016	35,333	36,742	38,468	40,346	42,355	44,303	46,426

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

Table 7. El Salvador: Public Sector Financing Requirements and Sources

(In units indicated)

	Actual			Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
	(Millions of U.S. dollars)								
Gross Financing Requirements	**4,558**	**5,511**	**6,552**	**3,829**	**2,409**	**2,470**	**2,246**	**3,099**	**2,891**
Overall deficit	855	1,593	1,562	1,240	799	701	888	817	692
Public debt amortizations	3,703	3,919	4,990	2,590	1,611	1,770	1,358	2,282	2,199
External	761	1,093	2,471	684	510	959	802	1,287	1,112
Multilateral and bilateral	311	489	833	584	510	810	472	437	731
o/w IMF RFI repayment	0	96	189	94	0	0	0	19	71
Bonds	451	604	1,638	100	0	149	330	849	381
Domestic	2,941	2,826	2,520	1,906	1,100	811	556	995	1,087
Sources of Financing	**4,558**	**5,511**	**6,552**	**3,829**	**2,409**	**2,470**	**2,246**	**3,099**	**2,891**
External	769	1,174	4,308	2,355	1,893	2,251	1,903	2,160	2,015
Multilateral	381	1,106	1,282	2,092	1,833	1,601	1,048	900	950
o/w IMF	0	0	0	305	198	201	98	0	0
Bilateral/other	23	68	118	263	60	50	55	60	65
Eurobonds	0	0	2,908	0	0	600	800	1,200	1,000
IMF SDR	365	0	0	0	0	0	0	0	0
Domestic	3,789	4,338	2,244	1,474	517	219	343	939	876
Unidentified Financing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	(Percent of GDP)								
Gross Financing Requirements	**14.2**	**16.2**	**18.5**	**10.4**	**6.3**	**6.1**	**5.3**	**7.0**	**6.2**
Overall deficit	2.7	4.7	4.4	3.4	2.1	1.7	2.1	1.8	1.5
Public debt amortizations	11.6	11.5	14.1	7.0	4.2	4.4	3.2	5.2	4.7
External	2.4	3.2	7.0	1.9	1.3	2.4	1.9	2.9	2.4
Multilateral and bilateral	1.0	1.4	2.4	1.6	1.3	2.0	1.1	1.0	1.6
o/w IMF RFI repayment	0.0	0.3	0.5	0.3	0.0	0.0	0.0	0.0	0.2
Bonds	1.4	1.8	4.6	0.3	0.0	0.4	0.8	1.9	0.8
Domestic	9.2	8.3	7.1	5.2	2.9	2.0	1.3	2.2	2.3
Sources of Financing	**14.2**	**16.2**	**18.5**	**10.4**	**6.3**	**6.1**	**5.3**	**7.0**	**6.2**
External	2.4	3.5	12.2	6.4	4.9	5.6	4.5	4.9	4.3
Multilateral	1.2	3.3	3.6	5.7	4.8	4.0	2.5	2.0	2.0
IMF	0.0	0.0	0.0	0.8	0.5	0.5	0.2	0.0	0.0
Bilateral/other	0.1	0.2	0.3	0.7	0.2	0.1	0.1	0.1	0.1
Eurobonds	0.0	0.0	8.2	0.0	0.0	1.5	1.9	2.7	2.2
IMF SDR	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	11.8	12.8	6.4	4.0	1.3	0.5	0.8	2.1	1.9
Unidentified Financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items									
Nominal GDP	31,989	34,016	35,333	36,742	38,468	40,346	42,355	44,303	46,426

Sources: Central Bank; Department of the Treasury; and IMF staff estimates.

Table 8. El Salvador: Summary Accounts of the Financial System[1/]

(End of period stocks; in millions of U.S. dollars)

	Actual		Est.	Proj.					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
				I. Central Bank					
Net Foreign Assets	**1,541**	**1,913**	**2,717**	**2,874**	**3,313**	**3,754**	**4,373**	**4,682**	**5,043**
Of which: Gross international reserves 1/	2,696	3,081	3,708	4,112	4,856	5,773	6,639	6,929	7,220
Of which: Gross international reserves net	573	730	1,154	1,371	1,788	2,323	2,735	2,853	2,972
of liabilities to depository corps. 2/									
Net Domestic Assets	**960**	**817**	**218**	**248**	**135**	**76**	**-88**	**-225**	**-414**
Nonfinancial public sector (net)	1,001	987	484	594	591	642	590	571	500
Claims 3/	1,199	1,205	1,194	1,404	1,601	1,802	1,900	1,881	1,810
Liabilities 4/	198	219	710	810	1,010	1,160	1,310	1,310	1,310
Rest of the financial system (net)	-63	41	52	52	52	52	52	52	52
Other items (net)	22	-211	-318	-398	-508	-618	-730	-848	-966
Liabilities	**2,127**	**2,356**	**2,559**	**2,747**	**3,073**	**3,456**	**3,910**	**4,082**	**4,254**
Base Money	2,124	2,352	2,556	2,743	3,070	3,452	3,906	4,078	4,250
Liabilities to depositary corporations 5/	2,122	2,351	2,554	2,741	3,068	3,451	3,904	4,076	4,248
Other liabilities to the public	3	3	3	3	3	3	3	3	3
				II. Depository Corporations					
Net Foreign Assets	**-577**	**-465**	**-1,143**	**-1,109**	**-1,061**	**-1,018**	**-971**	**-919**	**-965**
Of which: High quality liquid assets held abroad	1,071	1,130	1,185	1,246	1,322	1,391	1,466	1,545	1,622
Net Domestic Assets	**18,229**	**19,305**	**20,279**	**20,802**	**21,461**	**22,188**	**22,960**	**23,862**	**24,861**
Nonfinancial public sector (net)	2,716	3,482	3,265	2,485	1,731	1,120	813	866	887
Claims	2,986	3,708	3,658	2,878	2,124	1,513	1,206	1,258	1,279
Of which: LETES, CETES, and securities	2,680	3,399	1,354	620	333	175	235	471	461
Liabilities	269	226	392	392	392	392	392	392	392
Rest of the financial system (net)	1,381	1,042	1,344	1,495	1,774	2,105	2,504	2,608	2,713
Of which: Reserve requirements	2,020	2,246	2,554	2,741	3,068	3,451	3,904	4,076	4,248
Credit to the private sector	16,898	17,735	18,541	19,776	21,016	22,138	22,941	23,830	25,085
Other items (net)	-2,766	-2,954	-2,870	-2,954	-3,060	-3,176	-3,298	-3,441	-3,823
Liabilities to the Private Sector	**17,669**	**18,847**	**19,136**	**19,692**	**20,400**	**21,170**	**21,989**	**22,943**	**23,896**
Deposits	16,986	18,130	18,379	18,928	19,628	20,390	21,202	22,156	23,108
Securities	683	716	757	764	772	780	787	787	787
				III. Other Financial Corporations 6/					
Net Foreign Assets	**524**	**117**	**68**	**78**	**88**	**89**	**92**	**94**	**97**
Net Domestic Assets	**14,209**	**16,067**	**17,345**	**17,715**	**18,223**	**18,581**	**19,090**	**19,555**	**20,077**
Nonfinancial public sector (net)	11,040	11,918	13,226	13,331	13,082	12,657	12,321	12,212	12,117
Rest of the financial system (net)	1,430	2,366	2,378	2,439	2,515	2,598	2,687	2,792	2,896
Credit to the private sector	3,057	3,221	3,204	3,409	4,090	4,789	5,546	6,015	6,529
Other items (net)	-1,318	-1,438	-1,464	-1,464	-1,464	-1,464	-1,464	-1,464	-1,464
Liabilities to the Private Sector	**14,733**	**16,183**	**17,413**	**17,792**	**18,311**	**18,670**	**19,182**	**19,649**	**20,174**
Pension fund contributions	14,380	15,824	17,037	17,416	17,935	18,310	18,822	19,288	19,812
				IV. Financial System					
Net Foreign Assets	**1,488**	**1,565**	**1,642**	**1,842**	**2,340**	**2,826**	**3,494**	**3,857**	**4,174**
Net Domestic Assets	**31,392**	**34,402**	**35,389**	**36,124**	**36,852**	**37,479**	**38,142**	**39,201**	**40,363**
Net claims on nonfinancial public sector	14,757	16,386	16,975	16,410	15,404	14,420	13,724	13,648	13,504
Credit to private sector	19,955	20,956	21,745	23,185	25,106	26,927	28,487	29,846	31,613
Other	-3,321	-2,940	-3,332	-3,471	-3,658	-3,868	-4,069	-4,293	-4,754
Liabilities to the Private Sector	**32,879**	**35,966**	**37,030**	**37,966**	**39,192**	**40,305**	**41,636**	**43,058**	**44,536**
Money	4,728	4,732	4,767	4,788	4,812	4,838	4,863	4,899	4,935
Quasi-money	13,771	15,411	15,227	15,762	16,445	17,157	17,951	18,871	19,789
Pension fund contributions	14,380	15,824	17,037	17,416	17,935	18,310	18,822	19,288	19,812
Memorandum Items	(Percent changes relative to previous year's liabilities to the private sector)								
Net domestic assets	9.3	9.2	2.7	2.0	1.9	1.6	1.6	2.5	2.7
Nonfinancial public sector	3.5	5.0	1.6	-1.5	-2.6	-2.5	-1.7	-0.2	-0.3
Credit to the private sector	7.0	3.0	2.2	3.9	5.1	4.6	3.9	3.3	4.1
Liabilities to the private sector	4.4	9.4	3.0	2.5	3.2	2.8	3.3	3.4	3.4
				(Percent of GDP)					
Credit to the private sector	62.4	61.6	61.5	63.1	65.3	66.7	67.3	67.4	68.1
Liabilities to the private sector	103	105.7	104.8	103.3	101.9	99.9	98.3	97.2	95.9
Excluding pension contributions	57.8	59.2	56.6	55.9	55.3	54.5	53.9	53.7	53.3
Credit to the private sector	12.4	5.0	3.8	6.6	8.3	7.3	5.8	4.8	5.9
Private sector deposits in depository corporations	4.2	6.7	1.4	3.0	3.7	3.9	4.0	4.5	4.3
Total deposits [7/]	17,519	18,706	19,929	20,865	21,642	22,486	23,385	24,439	25,493
Depository corporations liquid deposits at central bank									
(In percent of total deposits)	12.5	13.0	13.9	14.5	15.6	16.9	18.4	18.4	18.4
Nominal GDP	31,989	34,016	35,333	36,742	38,468	40,346	42,355	44,303	46,426

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

1/ Projections reflect no additional spending on Bitcoin, and no large benefits to the economy from using Bitcoin as legal tender and Chivo wallet (see 2021 Article IV, Box 4).

2/ 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). Gross international reserves of BCR include required and excess reserve requirements of depository corporations.

3/ Rising Central Bank claims on the non-financial public sector is due to on-lending of program financing for budget support.

4/ Primarily reflects public deposits at the central bank

5/ Required and excess reserve requirements of depository corporations at the BCR.

6/ Includes private pension funds, insurance corporations, and the State Development Bank.

7/ Total deposits includes all deposits held in depository corporations while Deposits excludes deposits not included in broad money. The adjustor defined in Table 5 of the TMU refers to Total deposits.

Table 9. El Salvador: Financial Soundness Indicators
(In percent)

	2019	2020	2021	2022	2023	Sept 2024
Capital Adequacy						
Regulatory capital to risk-weighted assets	16.0	15.4	15.8	15.4	15.6	15.4
Tier 1 capital to risk-weighted assets	13.0	12.5	12.7	12.0	11.9	11.8
Asset Quality						
Nonperforming loans to total gross loans	1.7	1.6	1.8	1.8	1.8	1.9
Nonperforming loans net of provisions to capital	-3.0	-9.9	-6.7	-6.0	-5.6	-4.6
Credit growth to private sector	6.5	2.5	9.1	12.4	5.0	3.8
Domestic sovereign debt to total assets (1) (2)	6.0	9.7	11.6	12.5	13.3	..
Covid-19 loans to total gross loans (2)		24.9	7.9	5.2	2.6	..
Profitability						
Return on assets	1.6	1.1	1.7	2.0	1.9	1.8
Return on equity	9.1	6.9	11.5	13.0	13.2	9.9
interest margin to gross income	78.2	81.0	73.4	77.5	78.6	79.2
Noninterest expense to gross income	58.4	57.1	53.8	54.9	54.8	53.5
Liquidity						
Liquid assets to total assets	23.3	19.7	20.1	15.8	17.7	16.1
Liquid assets to short-term liabilities	34.2	27.7	28.2	22.6	26.0	23.6
Customer deposits to total (noninterbank) loans	100.4	110.5	106.3	99.7	101.8	100.6
Legal liquidity reserves to total deposits (2)	22.1	9.1	14.4	11.5	11.4	11.7

Sources: IMF Financial Soundness Indicators and BCR data.

Notes: No liquidity coverage or net stable funding ratio are in force. (1) Includes government securities and loans to government (2) BCR data as end October 2023.

Table 10. El Salvador: Selected Vulnerability Indicators

(In percent of GDP; unless otherwise indicated)

	2020	2021	2022	2023	2024	2025
Fiscal Indicators						
Overall balance of the nonfinancial public sector	-8.2	-5.5	-2.7	-4.7	-4.4	-3.4
Primary balance of the nonfinancial public sector	-3.8	-1.0	2.0	-0.1	0.2	1.9
Gross public sector financing requirement	13.8	14.3	14.2	16.2	18.5	10.4
Public sector debt (gross)	95.4	88.0	83.3	84.7	87.3	87.6
Public sector external debt	41.0	37.8	33.3	32.4	37.1	41.0
External interest payments to total fiscal revenue (percent)	11.2	8.9	9.4	8.9	8.3	8.2
External amortization payments to total fiscal revenue (percent)	5.7	4.2	9.2	12.5	26.1	6.9
Financial Indicators						
Broad money (percent change, end-of-period)	8.9	2.3	4.6	8.9	-0.7	2.8
Private sector credit (percent change, end-of-period)	2.5	9.1	12.4	5.0	3.8	6.6
Ratio of capital to risk-weighted assets	15.4	15.8	15.4	15.6	15.4	...
Ratio of loans more than 90 days past due to total loans	1.6	1.8	1.8	1.8	1.9	...
Ratio of provisions to total loans	3.2	2.9	2.8	2.7	2.6	...
Ratio of provisions to loans more than 90 days past due	205.2	160.5	152.7	150.4	139.1	...
Return on average equity	6.9	11.5	13.0	13.2	9.9	...
Return on average total assets	1.1	1.7	2.0	1.9	1.8	...
Loans as percent of deposits	90.5	94.1	100.3	98.3	99.4	...
Ratio of liquid assets to total assets	19.7	20.1	15.8	17.7	16.1	...
External Indicators						
Exports of goods and services (percent change, 12-month basis)	-24.1	36.5	21.7	4.6	8.7	2.4
Imports of goods and services (percent change, 12-month basis)	-16.2	48.2	17.4	-6.3	5.0	1.7
Current account balance	1.1	-4.3	-6.8	-1.4	-1.4	-0.9
Capital and financial account balance	9.9	2.8	6.0	2.6	2.1	3.0
Gross international reserves (millions of U.S. dollars)	3,082.7	3,426.1	2,695.8	3,080.7	3,707.7	4,111.9
Months of imports of goods and services, excluding maquila	3.7	2.8	1.9	2.2	2.6	2.8
Percent of short-term debt	164.7	151.7	113.8	105.8	126.6	137.8
Percent of gross external financing requirements	81.2	65.5	38.0	52.2	51.3	90.5
Percent of broad money	17.8	19.4	14.6	15.3	18.5	20.0
Public external debt service	3.6	3.0	4.3	5.2	9.0	4.0
External debt to exports of goods and services (percent)	300.0	242.9	202.1	207.4	198.9	199.1
External interest payments to exports of goods and services (percent)	-24.7	-21.9	-22.2	-24.3	-23.5	-22.0
External amortization to exports of goods and services (percent) 2/	66.6	47.7	48.3	51.2	58.3	35.6
REER, depreciation is negative (percent change, end-of-period)	-2.9	2.6	3.5	-2.8	-1.8	-0.2

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

Table 11. El Salvador: Proposed Access and Phasing Under the Extended Fund Facility

Date of Availability	Amount (millions of SDRs)	Percent of quota	Conditions
February, 2025	86.16	30	Board approval of the Extended Fund Facility
May 5, 2025	86.16	30	Completion of first review, and observance of end-March 2025 performance criteria, continuous performance criteria, and conditions
September 5, 2025	86.16	30	Completion of second review, and observance of end-June 2025 performance criteria, continuous performance criteria, and conditions
March 5, 2026	114.88	40	Completion of third review, and observance of end-December 2025 performance criteria, continuous performance criteria, and conditions
September 5, 2026	114.88	40	Completion of fourth review, and observance of end-June 2026 performance criteria, continuous performance criteria, and conditions
March 5, 2027	172.32	60	Completion of fifth review, and observance of end-December 2026 performance criteria, continuous performance criteria, and conditions
September 5, 2027	186.68	65	Completion of sixth review, and observance of end-June 2027 performance criteria, continuous performance criteria, and conditions
March 5, 2028	186.68	65	Completion of seventh review, and observance of end-December 2027 performance criteria, continuous performance criteria, and conditions
Total	**1033.92**	**360**	

Table 12. El Salvador: Indicators of Fund Credit
(in units indicated)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Existing Fund credit															
Stock, in millions of SDRs 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs	81.8	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1
Proposed EFF															
Stock, in millions of SDRs 1/	258.5	488.2	847.2	1033.9	1019.6	966.9	871.2	714.4	542.1	369.8	211.8	92.1	15.6	0.0	0.0
Disbursements, in millions of SDRs	258.5	488.2	847.2	1033.9	1019.6	966.9	871.2	714.4	542.1	369.8	211.8	92.1	15.6	0.0	0.0
Obligations, in millions of SDRs 2/	5.9	15.0	26.6	40.4	57.4	93.9	132.8	187.8	196.9	190.3	169.4	125.7	78.7	15.8	0.0
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	14.4	52.7	95.7	156.8	172.3	172.3	158.0	119.7	76.6	15.6	0.0
Interest and charges, in millions of SDRs	5.9	15.0	26.6	40.4	43.0	41.2	37.1	31.1	24.6	18.0	11.4	6.0	2.1	0.2	0.0
Stock of existing and prospective Fund credit 1/															
In millions of SDRs	258.5	488.2	847.2	1033.9	1019.6	966.9	871.2	714.4	542.1	369.8	211.8	92.1	15.6	0.0	0.0
In percent of quota	90.0	170.0	295.0	360.0	355.0	336.7	303.3	248.8	188.8	128.8	73.8	32.1	5.4	0.0	0.0
In percent of exports of goods and services	3.2	5.6	9.5	11.2	10.6	9.5	8.2	6.4	4.7	3.0	1.7	0.7	0.1	0.0	0.0
In percent of external debt	1.6	2.8	4.8	5.5	5.3	4.6	4.1	3.2	2.3	1.5	0.8	0.3	0.1	0.0	0.0
In percent of gross reserves	11.2	17.4	27.3	28.2	23.4	19.3	16.7	13.2	9.5	6.2	3.4	1.4	0.2	0.0	0.0
In percent of budget revenues	3.9	6.8	11.3	13.1	12.1	11.0	9.5	7.4	5.4	3.5	1.9	0.8	0.1	0.0	0.0
In percent of GDP	1.0	1.8	3.1	3.6	3.4	3.0	2.6	2.0	1.5	1.0	0.5	0.2	0.0	0.0	0.0
Obligations to the Fund from existing arrangements and prospective Fund arrangements															
In millions of SDRs	87.8	24.1	35.7	49.5	66.5	102.9	141.9	196.9	206.0	199.4	178.4	134.8	87.8	24.8	9.1
In percent of quota	30.6	8.4	12.4	17.2	23.1	35.8	49.4	68.6	71.7	69.4	62.1	46.9	30.6	8.6	3.2
In percent of exports of goods and services	1.1	0.3	0.4	0.5	0.7	1.0	1.3	1.8	1.8	1.6	1.4	1.0	0.6	0.2	0.1
In percent of external debt	0.5	0.1	0.2	0.3	0.3	0.5	0.7	0.9	0.9	0.8	0.7	0.5	0.3	0.1	0.0
In percent of gross reserves	3.8	0.9	1.2	1.4	1.5	2.1	2.7	3.6	3.6	3.4	2.9	2.1	1.3	0.3	0.1
In percent of budget revenues	1.3	0.3	0.5	0.6	0.8	1.2	1.5	2.0	2.0	1.9	1.6	1.2	0.7	0.2	0.1
In percent of GDP	0.3	0.1	0.1	0.2	0.2	0.3	0.4	0.6	0.6	0.5	0.4	0.3	0.2	0.1	0.0

1/ End of period.
2/ Total interest/charges based on existing and prospective drawings using GRA rate of charge = 3.84 (as of Jan 17, 2025).

Table 13. El Salvador: Prior Actions and Structural Benchmarks			
Reform Area	**Structural Conditionality**	**Objective**	**Status/Due Date**
Prior Actions			
Fiscal Policy	Approval by the Legislative Assembly of the 2025 budget in line with the program fiscal targets, with policy actions supporting the delivery of the agreed budget targets, and publication of a 3-year fiscal plan including the expected cost of public pensions and of interest payments on pension debt.	Bring the 2025 budget in line with program targets, with policy actions supporting the delivery of the agreed targets, and publication of a medium-term fiscal plan.	Completed
Fiscal transparency	Publish fiscal data, including fiscal flows and debt stocks data from the ISP in the General Government, audited financial statements of 2023, restore the link to the COVID/FOPROMID audits, all budget amendments of the 2023 and 2024 budgets, Excel version of budget tables and tables of budget documents, and publish ownership of SOEs.	Strengthen fiscal transparency to improve governance, confidence and regain credibility.	Pending publication of audited financial statements of 2023, and restoration of the links to the COVID/FOMPROMID audits.
Reserve and Liquidity buffers	Issue a normative act raising the average reserve requirement to 12 percent by end-January 2025, and adopt a normative act establishing a gradual buildup of the liquid asset requirement to 1 percent by end-June 2025, 2 percent by end-December 2025, and 3 percent by end-June 2026 held in high-quality liquid international assets, subject to rigorous regulatory requirements.	Raise bank's reserve requirement and holdings of liquid assets to strengthen buffers.	Completed
Bitcoin	(i) Publish *Chivo's* summary financial statements, including liquidity management policies and transfers to and from the government, (ii) publish the public addresses of all Bitcoin cold e-wallets owned or under control of the public sector, (iii) segregate and safeguard *Chivo* clients' assets, and (iv) send a statement listing and identifying all hot and cold wallet public addresses and the corresponding Bitcoin amounts owned by or under the control of the public sector,	Mitigate risks associated with the use of crypto assets.	Pending

Table 13. El Salvador: Prior Actions and Structural Benchmarks (continued)			
Reform Area	**Structural Conditionality**	**Objective**	**Status/Due Date**
	including all public sector entities and legal persons controlled by the State (with majority voting interest and/or direct or indirect control as defined by the 2014 GFSM), as of January 31, 2025.		
Bitcoin	Enact amendments to the Bitcoin Law clarifying the legal nature of Bitcoin and removing from the Law the essential features of legal tender, by eliminating the obligation for the public and private sector to accept Bitcoin in transactions, making acceptance of Bitcoin by the private sector voluntary and restricting its use by the public sector; clarify in a regulation that tax obligations are to be paid only in U.S. dollars.	Mitigate risks associated with the use of crypto assets.	Pending (amendments approved by Parliament)
Governance and transparency	Enactment a new Anti-Corruption Law in line with the G-20 High-Level principles on asset disclosure by public officials, requiring publication of asset declarations by high-level senior officials as listed in Article 236 of the El Salvador Constitution.	Address governance and corruption challenges by aligning the asset declaration law in line with G-20 High-Level principles.	Pending (approved by Parliament)
Proposed Structural Benchmarks			
Expenditure policy	Prepare a civil service reform plan in line with IMF recommendations.	Ensure the quality and permanence of the fiscal adjustment.	End-June 2025 (2nd Review)
Expenditure policy	Publish independent actuarial evaluation of the pension system.	Assess the sustainability of the pension system.	End-July 2025 (2nd Review)
Expenditure policy	Publish a reform proposal of the pension system, to strengthen the system's sustainability and to generate fiscal savings, incorporating recommendations of IMF TA.	Improve transparency	February 10, 2026 (3rd review)
Fiscal transparency and responsibility	Publish comprehensive SOE fiscal information that will include estimates of quasi-fiscal activities, as well as ownership policy, corporate governance,	Improve budget credibility, transparency, and accountability.	End-March 2025 (1st Review)

Table 13. El Salvador: Prior Actions and Structural Benchmarks (continued)			
Reform Area	**Structural Conditionality**	**Objective**	**Status/Due Date**
	performance expectations, competitive neutrality, financial and risk management, transparency, and accountability standards, among others.		
Fiscal transparency and responsibility	Approval by Parliament of new FSRL, including fiscal rules, clear escape clauses, a transition path consistent with program objectives, and rules to improve budget credibility, including annual analysis and reporting of tax expenditures.	Improve budget, credibility, transparency, And accountability.	May 9, 2025 (1st Review)
Fiscal transparency and responsibility	Publish Executive Budget Proposal, with a Medium-Term Fiscal Framework, transfers to and from extrabudgetary funds, SOEs and subnational governments; financing in gross terms for both external and domestic debt; multi-annual investment projects, including public-private partnerships and fiscal risk analysis.	Improve budget credibility, transparency, and accountability.	End-October 2025 (3rd Review)
Governance and Transparency	Publish on a government website the names and nationalities of beneficial owners of all persons awarded public contracts together with the respective contracts information and issue regulation limiting the exceptions that allow purchases of goods and services without competitive processes, with a precise definition of the "strategic project" exemption and reporting requirements when the exemption is used.	Narrow exemptions and increase transparency of beneficial ownership of recipients of public contracts.	End-March 2025 (1st Review)
Financial Sector	Adopt Liquidity Coverage Ratio and Net Stable Funding Ratio regulations.	Adopt Basel III standards on risk-based supervision.	End-December 2025 (3rd Review)
Financial Sector	Enact legislation to strengthen the legal framework for the bank resolution, crisis management, and deposit insurance schemes in	Strengthen the framework for early intervention, resolution, crisis management and deposit insurance.	End-June 2025 (2nd Review)

Table 13. El Salvador: Prior Actions and Structural Benchmarks (continued)			
Reform Area	**Structural Conditionality**	**Objective**	**Status/Due Date**
	line with recommendations from Fund technical assistance and international standards (FSB Key Attributes, IADI Core Principles for Effective Deposit Insurance Systems and Basel Core Principles).		
Financial Sector	Approval by the BCR board of a recapitalization plan that carries the support of the government to address the capital shortfall under the IFRS.	Strengthen the BCR's financial position.	End-December 2025 (3rd Review)
Bitcoin	Send to IMF staff a signed statement listing and identifying all hot and cold wallet public addresses and the corresponding Bitcoin amounts owned by or under the control of the public sector, including all public sector entities and legal persons controlled by the State (with majority voting interest and/or direct or indirect control as defined by the 2014 GFSM), as of program approval date and as of end-March 2025.	Reduce risks related Bitcoin.	End-March 2025 (1st review)
Bitcoin	Send to IMF staff a signed statement listing and identifying all hot and cold wallet public addresses and the corresponding bitcoin amounts owned by or under the control of the public sector, including all public sector entities and legal persons controlled by the State (with majority voting interest and/or direct or indirect control as defined by the 2014 GFSM) as of end-June 2025.	Reduce risks related Bitcoin.	End-June 2025 (2nd review)
Bitcoin	Send to IMF staff a signed statement listing and identifying all hot and cold wallet public addresses and the corresponding bitcoin amounts owned by or under the control of the public sector, including all public sector entities and legal persons controlled by the State (with majority voting interest and/or direct or indirect control as defined by the	Reduce risks related Bitcoin.	End-December 2025 (3rd review)

Table 13. El Salvador: Prior Actions and Structural Benchmarks (continued)			
Reform Area	**Structural Conditionality**	**Objective**	**Status/Due Date**
	2014 GFSM) as of end-December 2025.		
Bitcoin	Adopt and publish a new business plan to stop *Chivo's* use of public funds by end-July 2025 and end public participation in *Chivo*.	Reduce risks related Bitcoin.	End-March 2025 (1st review)
Bitcoin	Liquidate the Bitcoin trust fund *Fidebitcoin*, publish *Fidebitcoin* and AAB Court of Accounts' audits, publish *Chivo's* financial statements audited by an independent auditor with experience in the crypto space, segregate and safeguard *Chivo*' clients U.S. dollars at the BCR, and end public participation in *Chivo*.	Reduce risks related Bitcoin.	End-July 2025 (2nd review)
Bitcoin	Enact a comprehensive framework for the management of government-owned Bitcoins and other crypto assets to enhance governance, transparency, and accountability, and define the role of the AAB, including investment guidelines and risk minimization policies AAB must comply with.	Reduce risks related Bitcoin.	End-December 2025 (3rd review)
Bitcoin and other crypto assets	Submission to Parliament of law strengthening the regulation and supervision of crypto-asset activities and markets (including crypto-asset issuers and service providers) and fostering legal certainty in this area, in line with evolving best practices and international standards, where special emphasis will be given to addressing ML/TF risks in line with FATF recommendation 15, as well as financial stability and cybersecurity risks, strengthening market integrity and consumer protection policies, such as antifraud, anti-manipulation, and transparency policies, as well as developing governance, data frameworks, solvency, liquidity,	Reduce risks related to crypto markets and VASPs.	August 8, 2025 (2nd Review)

Table 13. El Salvador: Prior Actions and Structural Benchmarks (concluded)			
Reform Area	**Structural Conditionality**	**Objective**	**Status/Due Date**
	segregation, and other prudential requirements.		
Financial integrity, Governance, and Transparency	In consultation with Fund staff, enact legislation to strengthen the independence and anti-corruption mandate of the Court of Audits to bring it in line with international standards (INTOSAI Mexico Declaration and the UNODC Abu Dhabi Declaration) and to ensure a clear legal basis for collaboration with the Fiscalía General de la República on corruption, including exchange of information and referral protocols; enact the necessary reforms to place lawyers, notaries, accountants, and auditors under a risk-based monitoring framework in compliance with FATF Recommendation 28; and enact legislation requiring the submission and updating, as needed, of beneficial ownership information by all legal persons and arrangements registered in El Salvador and ensuring the availability of such information to relevant competent authorities (as defined in and in line with the FATF standards).	Strengthen the independence and anticorruption framework and the AML/CFT framework.	End-December 2025 (3rd Review)

Table 14. El Salvador: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) 2025

(Within-year cumulative change–in millions of U.S. Dollars, unless otherwise stated)

	2025			
	March QPC	June QPC	September IT	December QPC
	Prog	Prog	Prog	Prog
Performance criteria				
Primary Balance of the nonfinancial public sector (- = borrowing, floor)	180	530	750	700
Net Domestic Borrowing of the nonfinancial public sector (ceiling)	0	-100	-415	-331
External payment arrears of the public sector (continuous ceiling) 2/	0	0	0	0
Ratio of required liquid assets to total deposits for depository corporations (floor) in percent 1/	13	14	14	15
Voluntary accumulation of BTC by the public sector, as per TMU (continuous ceiling) 1/, 2/	0	0	0	0
Issuance or guarantee by the public sector of BTC-denominated-or-indexed debt or tokenized instruments, as per TMU (continuous ceiling) 1/, 2	0	0	0	0
Floor on stock of the nonfinancial public sector deposits at the BCR (floor)	650	780	790	810
Net accumulation of domestic payments arrears by the consolidated central government (ceiling)	0	0	0	0
Indicative targets				
Priority social spending (floor)	138	276	413	551
Public investment of the NFPS (floor)	204	438	651	919
Stock of gross international reserves of the BCR (floor)	3704	3898	4025	4110
Memorandum items:				
Wage bill (ceiling) 3/	918	1896	2808	3964

1/ As defined in the Technical Memorandum of Understanding.
2/ These apply on a continuous basis.
3/ Corresponds to the nonfinancial public sector (see TMU).

Annex I. External Sector Assessment

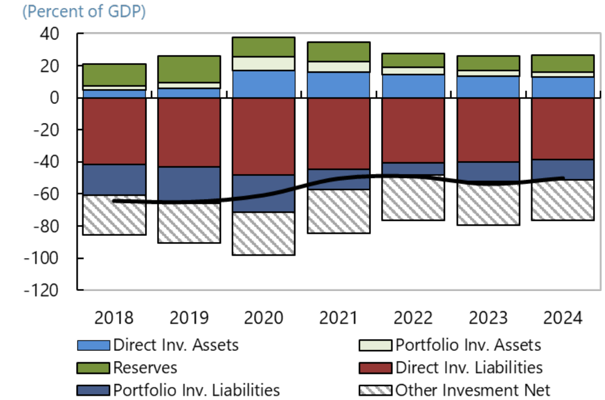
Overall Assessment: *Results based on preliminary estimates for 2024 indicate that the external position of El Salvador is moderately weaker than the level implied by fundamentals and desirable policies. This assessment takes into account the surge in tourism revenues alongside the improving security situation but reflects entrenched external vulnerabilities—the deeply negative Net IIP, weak reserve coverage, and fragile international market access. Sizable errors and omissions in external sector statistics also point to unexplained outflows.*

Potential Policy Responses: *A substantial fiscal consolidation is required to ensure medium-term fiscal and external debt sustainability. Efforts are also needed to shore up the low level of international reserves to increase the resilience of the financial system to adverse external shocks. Over the medium term, structural reforms to raise productivity, increase resilience against climate change, and attract foreign direct investment would further strengthen the country's competitiveness.*

Foreign Assets and Liabilities: Position and Trajectory

Background. El Salvador's Net International Investment Position (NIIP) is deeply negative and driven by low levels of foreign assets, including international reserves as well as elevated levels of external liabilities, including accumulated FDI liabilities and other external borrowing. Besides FX reserves (10.5 percent of GDP), the country's foreign assets consist mainly of other investment assets (15.6 percent of GDP, mostly private sector assets of varying long-term maturities in foreign banks). Foreign liabilities are dominated by direct investment (38.9 percent of GDP) and other liabilities (38.8 percent of GDP) such as loans from multilaterals. With the sovereign's fragile market access and a series of Eurobonds buy-backs in 2023 and 2024, portfolio investment liabilities are expected to have increased slightly to about 16.7 percent of GDP in 2024.

International Investment Position
(Percent of GDP)



Sources: BCR/Haver Analytics, IMF staff calculations

Assessment. The negative NIIP is estimated to have reached about 52 percent of GDP in 2024, largely unchanged from 2023. This is attributed to El Salvador's persistent fiscal and external deficits, even if these have moderated in recent years. Risks are mitigated by the fact that the bulk of the liabilities are in the form of FDI and official debt, although vulnerability persist given inadequate reserve coverage to address large and frequent negative shocks to the balance of payments. Although the maturities of the existing external bond portfolio have been lengthened in recent debt operations, the relatively fragile market access continues to amplify liquidity risks.

2024 (% GDP)	NIIP: - 52	Gross Assets: 43	Debt Assets: 19	Gross Liab.: 95	Debt Liab.: 55

Current Account

El Salvador: EBA-lite Model Results, 2024			
	CA model 1/	**REER model** 1/	**ES model**
	(in percent of GDP)		
CA-Actual	**-1.4**		
Cyclical contributions (from model) (-)	-0.1		
Natural disasters and conflicts (-)	0.1		
Adjusted CA	**-1.4**		
CA Norm (from model) 2/	**-1.6**		**0.4**
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**-1.6**		
CA Gap	**0.2**	**0.3**	**-1.8**
o/w Relative policy gap	-3.9		
Elasticity	-0.3		
REER Gap (in percent)	**-0.7**	**-1.0**	**7.1**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

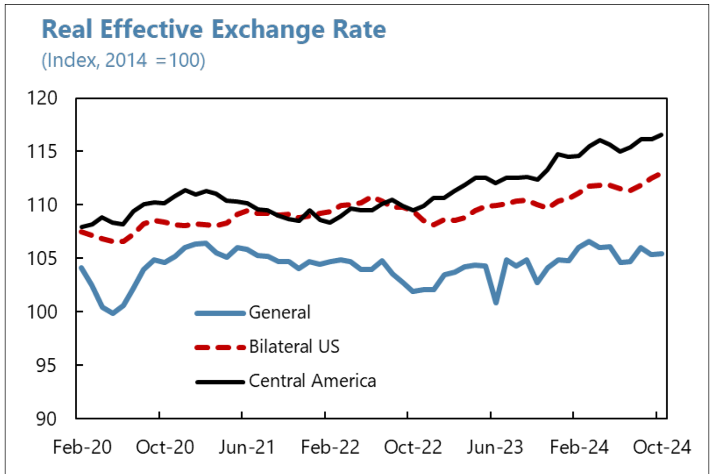
Background. The current account deficit is estimated to have reached 1.4 percent of GDP, unchanged in comparison to 2023, as robust remittances (from strong US labor market), booming tourism revenues (reaching 8.5 percent of GDP) and favorable terms of trade (due to lower commodity prices) were largely offset by rising imports volumes, in the context of anemic goods exports. Primary income is estimated to worsen due to elevated global interest rates, despite lower country-specific risks premium. The increase in errors and omissions in the external sector preliminary statistics, averaging 4 percent of GDP from Q3 2023 to Q2 2024, indicates heightened unidentified external pressures on the balance of payment.

Assessment. The cyclically adjusted CA deficit per the EBA-Lite model is estimated to have reached 1.4 percent of GDP, compared to a model-based current account deficit norm of 1.6 percent of GDP, yielding a small gap of 0.2 percent of GDP). However, considering that the CA model does not fully capture El Salvador's underlying external vulnerabilities (deeply negative NIIP, low reserve coverage, and fragile market access), based on the external sustainability approach, it would be more appropriate to target a rapid NIIP improvement. Reducing the NIIP to -39 percent of GDP over 5 years would yield a CA norm of 0.4 percent of GDP, resulting in a CA gap of -1.8 percent of GDP, implying an external position that is moderately weaker than the level suggested by medium-term fundamentals and desirable policies. The gap is policy-driven and explained by the elevated fiscal deficit, inadequate reserve coverage, and impediments to productivity and competitiveness (see below).

Real Exchange Rate

Background. The Real Effective Exchange Rate (REER) remained broadly stable in 2024 as in recent years, although the REER has appreciated by around 12 percent since 2018 relative to other Central American countries driven by the strength of the US dollar. There is significant potential to improve the economy's competitiveness. The 2023 Multi-dimensional Review of El Salvador conducted by the OECD[1] highlighted cumbersome bureaucratic processes, inefficient markets for certain key inputs, and insufficient provision of key public goods, including infrastructure and skills formation. The government has an ambitious agenda of reforms to reduce bureaucracy and has stepped-up its fight against gangs amid an extended state of emergency. However, it is yet to be seen whether these policy efforts lead to a better investment climate and inflows of FDI in El Salvador.

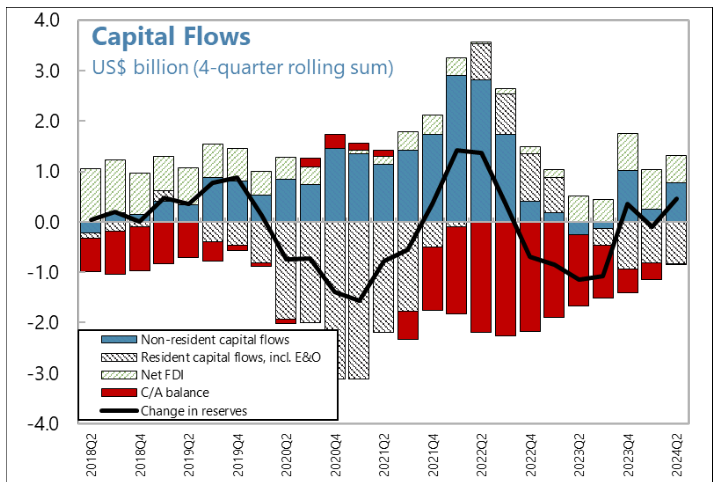
Assessment. The REER model suggests an unrealistically small current account gap when compared to El Salvador's vulnerabilities and imbalances. Therefore, the overall assessment based on the external sustainability considerations is that the external position of El Salvador is moderately weaker than the level implied by medium-term fundamentals and desirable policies, and the REER is moderately overvalued.



Sources: Haver Analytics, IMF Staff calculations

Capital and Financial Accounts: Flows and Policy Measures

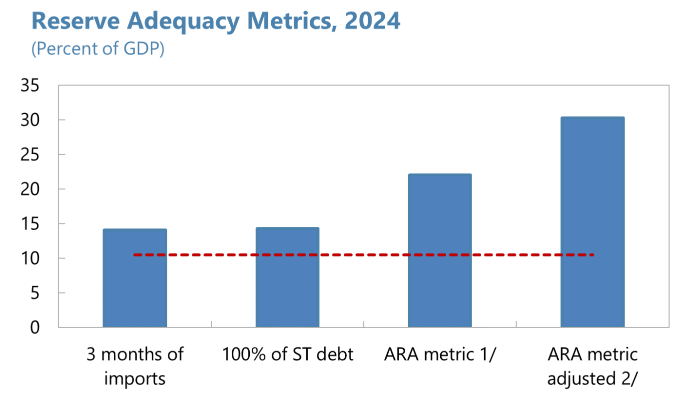
Background. The financing of El Salvador's current account deficit has traditionally been driven by FDI inflows as well as other investment flows, including financing from official creditors. During the COVID-19 pandemic and shortly after, net inflows of FDI dried up and resident capital outflows picked up, fueled by the deteriorating credit rating and the fragile access of the sovereign to international capital markets. At the same time non-resident capital flows increased, driven by other investment liabilities (multilateral loans to banks and the government)[2]. As the pandemic-related shocks subsided, policies tightened, and confidence was restored, El Salvador tapped again international capital markets and net FDI recovered somewhat. That said, errors and omissions remain significant, leaving unexplained some resident capital outflows.



Sources: BCR and IMF staff calculations.

Assessment. Given the balance of payments gap, an upfront and sustained fiscal consolidation is required to start addressing significant external vulnerabilities, given rigidities posed by the dollarization regime. In addition to a credible medium-term fiscal and financing strategy, El Salvador needs to rebuild reserve buffers and engage in reforms to boost exports and attract more FDI. Strong implementation, together with broad support from International Financial Institutions, can help restore investors' confidence and ensure lasting market access on affordable terms.

FX Intervention and Reserves Level



Sources: BCR, IMF Staff calculations

1/ ARA metric for fixed exchange rate regime; 2/ ARA metric adjusted for dollarization

Background. El Salvador is officially dollarized. Gross International Reserves (GIR) reached US$3.7 billion at the end of 2024, with Net International Reserves (NIR) at about US$3.5 billion, given about US$ 200 million of short-term external liabilities of the BCR. This represents only 56 percent of the IMF's metric for Assessing Reserve Adequacy (ARA metric) for countries with fixed exchange rates, and 41 percent of the ARA metric for fully dollarized economies. The GIR and NIR are projected to increase by approximately US$625 million in 2024, reflecting the improved current account balance and a growing – broadly in line with nominal GDP – deposit base that is subject to reserve requirements currently at 11.4 percent, well below the pre-pandemic level. The traditional metric – the 3-month import coverage – is expected to improve by 0.3 months in 2024, reaching a level of 2.4 months, although it will still remain below the minimum threshold.

Assessment. The level of international reserves is far below the adequate level implied by the adjusted risk-weighted adequacy ARA metric. As a fully dollarized economy, El Salvador does not face risks stemming from exchange rate fluctuations, although it needs to generate sufficient FX to finance external obligations and other balance of payments needs. As such, and given limited market access and debt sustainability concerns, a strong fiscal consolidation plan, coupled with actions to rebuild reserves are essential to boost confidence and improve the central bank's capacity to act as a liquidity provider in case of a banking crisis. In fact, heavy reliance on volatile remittances and tourism-related inflows also calls for a higher level of reserve buffers to hedge against negative external shocks. Increasing the stock of reserves, including by increasing reserve requirements, will contribute to restoring reserve adequacy.

[1] OECD (2023), Multi-dimensional Review of El Salvador: Strategic Priorities for Robust, Inclusive and Sustainable Development, OECD Development Pathways, OECD Publishing, Paris.

[2] Sources included the World Bank (COVID-19 vaccines), IFC (green bank loans), CABEI and CAF (infrastructure), IMF Rapid Financing Instrument.

Annex II. Sovereign Risk and Debt Sustainability Framework

A. Assessment

1. **Under the program, staff's assessment is that the proposed steady fiscal consolidation makes public debt sustainable.** Debt is projected to fall from almost 87½ percent of GDP in 2024 to just over 81 percent of GDP by 2029, conditional on steadfast implementation of the fiscal consolidation measures and other medium-term structural reforms proposed under the program. Similarly, external public debt is projected to decline from 56 percent of GDP to 52 percent of GDP over the same period. Recent liability management operations, following sharp reductions in sovereign spreads, have dramatically lower GFN projections over the medium term to 7 percent of GDP on average over the period 2025-2029 (compared to around 20 percent in previous SRDSF assessments). Based on the proposed fiscal consolidation path and market re-access assumptions, the SRDSF tools indicate that the probability of sovereign stress over the medium- and long-term is moderate, and that public debt is on a sustainable path. That said, risks to debt sustainability remain significant, reflecting reform implementation challenges, as well as large exposure to shocks, including climate-related shocks, natural disasters, and uncertainty about global conditions and access to external financing.

B. Background

2. **After rising sharply in 2020 due to the pandemic, the public debt-to-GDP ratio fell significantly in 2021 and 2022 but has since been going up.** Debt increased by 17 percentage points of GDP in 2020, because of the extensive measures to contain the effects of the COVID-19 pandemic. The debt-to-GDP ratio fell by 12 percentage points of GDP to 83½ of GDP at end-2022, driven by increases in nominal GDP, a sharply lower primary deficit and two debt buybacks of Eurobonds trading at distressed levels. Debt has been rising slightly since, reflecting limited fiscal consolidation and a series of debt reprofiling operations adding to interest costs.

3. **The coverage of official public debt data is comprehensive.** The DSA is based on the nonfinancial public sector (NFPS). Therefore, it includes general government and non-financial SOEs debt, both guaranteed and non-guaranteed. Decentralized autonomous agencies such as FOVIAL are also included. As explained in Box 3 and in the 2023 Article IV, pension debt is made of CFTs and COPs. The official fiscal statistics now report this pension debt (this debt was classified as financial public sector debt following the December 2022 pension reform). Fiscal data from municipalities and public corporations (who have also securitized future income flows) are incomplete and imperfect, but steps will be taken under the program to bring fiscal statistics in line with international standards, as the number of municipalities to be covered under the non-financial public sector is expected to increase over the course of the program.

4. **This SRDSF captures the impact of recent debt management operations.** On the domestic side, it includes the debt reprofiling carried out during 2023 with pension system (April) and domestic banks (September) to extend the maturity profile and reduce near-term debt service

payments. Meanwhile, on the external side, it includes three external debt buyback operations conducted during the course of 2024 which significantly alleviated financing pressures over the next few years (Box 2). More specifically, the proceeds from a US$1 billion Eurobond issue in April 2024 were used to buyback roughly US$487 million of Eurobonds maturing in 2025, 2027, and 2029. In October 2024 a 'Blue Loan' of US$1 billion from an international financial services firm, JP Morgan Chase, backed by credit guarantees from the U.S. government and CAF, was used to buyback Eurobonds - most of which were maturing in 2027 and beyond - with a face value of US$1.031 billion. Another US$1 billion Eurobond issuance in November 2024 was used to buyback around US$240 million of Eurobonds maturing in 2027, with the remaining proceeds used to clear domestic arrears and other external debt coming due, and for budgetary support.

C. Risk Analysis

5. The GFN Financeability Module points to moderate risk of sovereign stress. Baseline GFNs have fallen substantially, and now average 7 percent of GDP over 2025-2029, with around 40 percent of GFNs coming from the need to rollover short term debt. The GFN financeability index is estimated at 13.6, well below the threshold to be considered high risk (17.9). The index is mainly driven by the need for both external and domestic sources of financing to meet the high costs of amortizing public debt over this period.

6. The debt fanchart module also points to moderate risk of sovereign stress. Public debt is projected to decrease to slightly above 81 percent of GDP by end-2029. The probability of debt stabilization under the baseline program scenario is estimated to be 90 percent. Uncertainty proxied by the fanchart width is small as growth and inflation have not been very volatile historically, and dollar-denominated debt has not presented fiscal risks given official dollarization.

7. The overall Medium-Term Index (MTI) indicates moderate risks.

Figure 1. El Salvador: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate under a program scenario, reflecting credible fiscal consolidation and moderate levels of vulnerability in the medium- and long-term horizons.
Near term 1/			
Medium term	Moderate	Moderate	Staff's assessment on medium-term risk is 'moderate', which is aligned with the mechanical signal and reflects in part El Salvador's limited access to both domestic financing and external financing, both private and multilateral / bilateral.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	None	...	
Long term	...	Moderate	Given large susceptibility to exogenous shocks, including natural disasters, limited but growing access to the international debt market, and considerable uncertainties surrounding the implementation of a comprehensive medium-term fiscal consolidation plan, staff assessed the risk of sovereign stress over the long-term as moderate, in line with the mechanical signal.
Sustainability assessment 2/	...	Sustainable	The projected debt path is expected to fall steadily to sustainable levels and GFNs will remain at manageable levels, conditional on the implementation of fiscal adjustment measures that are assessed as feasible, even though most of these measures have not yet being implemented by law. Therefore debt is assessed as sustainable.
Debt stabilization under an IMF program			Yes

DSA Summary Assessment

Commentary: Public debt in El Salvador is sustainable under the program scenario, mainly due to successful implementation of a fiscal consolidation package which improves the primary balance by 3.3 percentage points of GDP over 2024-2027 relative to the baseline scenario. This in turn reduces the risk premium and slowly enables El Salvador to access external financing, including borrowing from multilateral institutions and from international capital markets, as a declining path for public debt strengthens market confidence in the solvency of the sovereign. Against this backdrop the tools from the Sovereign Risk and Debt Sustainability Framework (SRDSF) indicate a moderate probability of sovereign stress, and a public debt trajectory that is sustainable. However, risks to debt sustainability remain elevated, reflecting large exposure to shocks, including natural disasters and uncertainty about global conditions and access to external financing.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. El Salvador: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

					No.	Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG		1	Budgetary central government	Yes	
					2	Extra budgetary funds (EBFs)	Yes	Not applicable
					3	Social security funds (SSFs)	Yes	
					4	State governments	Yes	
					5	Local governments	Yes	
					6	Public nonfinancial corporations	Yes	
					7	Central bank	No	
					8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

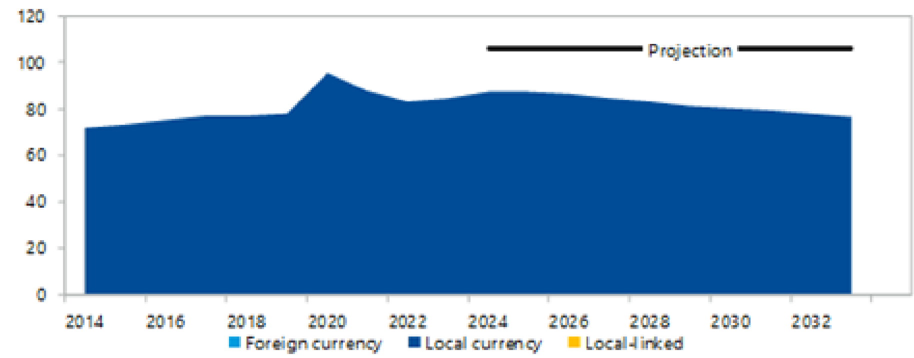
					Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: While public debt coverage is fairly comprehensive, staff have identified some large under-reporting cases, relating in particular to nonfinancial public corporations and their subsidiaries, and to local governments. STA and CAPTAC-DR have been assisting the authorities to improve their debt statistics, but progress so far has been limited. As the pension system is private, securities issued by public sector entities and held by private pension funds are accounted as public debt. This treatment is consistent with all countries that have privatised their public PAYG systems, many of them in the LAC region.

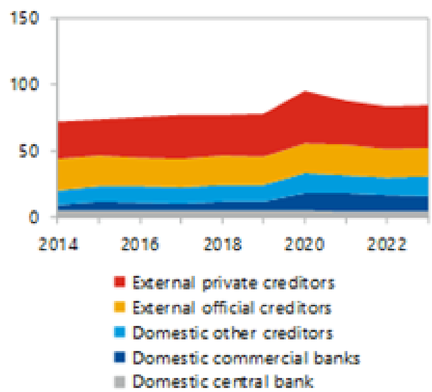
Figure 3. El Salvador: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



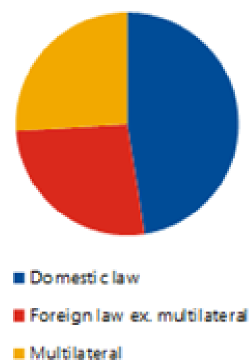
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



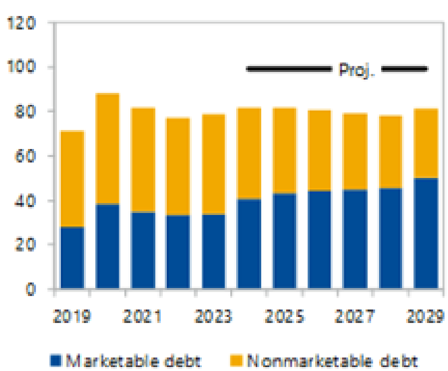
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



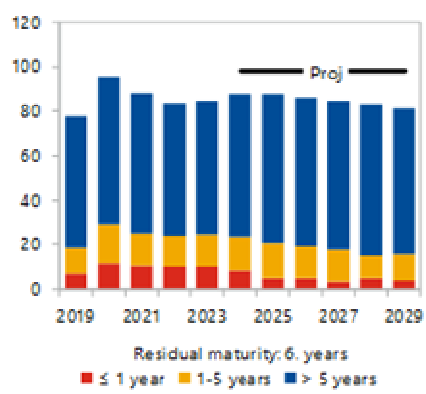
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

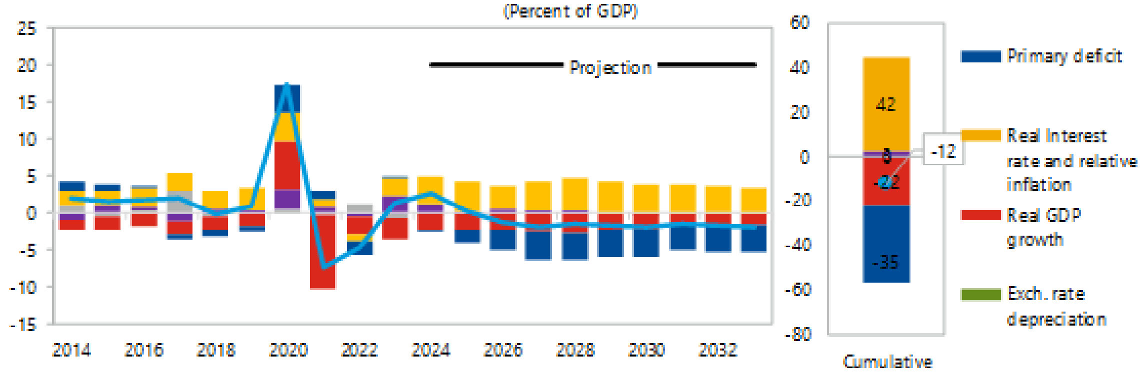
Commentary: The program assumes a steady return of investor confidence in the solvency of the government, enabling a steady return to international capital markets on more affordable terms and growing reliance on external creditors, private and official, to fill the government's fiscal financing needs.

Figure 4. El Salvador: Baseline Scenario
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	84.7	87.3	87.5	86.2	84.3	82.9	81.2	79.2	77.8	76.1	74.3
Change in public debt	1.3	2.6	0.2	-1.3	-1.9	-1.4	-1.7	-2.0	-1.4	-1.7	-1.8
Contribution of identified flows	2.0	2.6	0.2	-1.3	-1.9	-1.4	-1.7	-2.0	-1.4	-1.7	-1.8
Primary deficit	0.1	-0.2	-1.9	-2.9	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7
Noninterest revenues	25.7	26.8	27.1	27.2	27.6	27.6	27.6	27.6	27.6	27.6	27.6
Noninterest expenditures	25.8	26.6	25.2	24.3	23.9	23.9	23.9	23.9	23.9	23.9	23.9
Automatic debt dynamics	-0.4	1.4	1.9	1.1	1.4	1.9	2.0	1.7	2.4	2.0	1.9
Real interest rate and relative inflat	2.4	3.6	4.0	3.2	4.0	4.5	4.2	3.9	3.8	3.6	3.5
Real interest rate	2.4	3.6	4.0	3.2	4.0	4.5	4.2	3.9	3.8	3.6	3.5
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-2.8	-2.1	-2.1	-2.1	-2.5	-2.5	-2.2	-2.2	-1.4	-1.6	-1.6
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	2.3	1.4	0.3	0.5	0.4	0.4	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	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	2.3	1.4	0.3	0.5	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	16.2	18.5	11.3	6.3	6.3	5.5	7.2	6.6	6.6	8.6	7.6
of which: debt service	16.1	18.7	13.2	9.2	10.0	9.2	10.9	10.3	10.3	12.4	11.3
Local currency	16.1	18.7	13.2	9.2	10.0	9.2	10.9	10.3	10.3	12.4	11.3
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	3.5	2.6	2.5	2.5	3.0	3.1	2.8	2.8	1.8	2.1	2.1
Inflation (GDP deflator; percent)	2.7	1.2	1.5	2.1	1.8	1.8	1.8	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	6.3	3.9	4.0	4.7	4.9	5.0	4.6	4.8	3.8	4.1	4.1
Effective interest rate (percent)	5.8	5.6	6.2	6.0	6.6	7.4	7.1	7.0	6.9	6.8	6.7

Contribution to Change in Public Debt

(Percent of GDP)

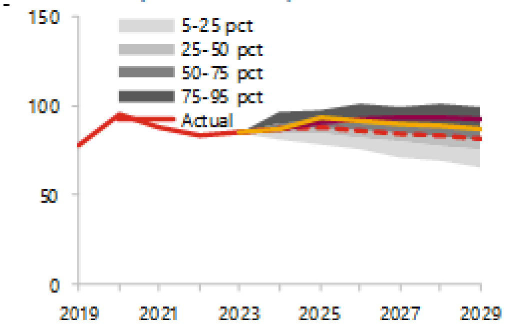


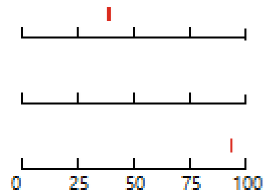
Commentary: Public debt is projected to fall steadily under the program scenario, mainly due to successful implementation of a fiscal consolidation package which improves the primary balance by 3.5 percentage points of GDP over the course of the program. This in turn reduces the risk premium and gradually enables El Salvador to access external financing on more affordable terms, including borrowing from international capital markets.

Figure 5. El Salvador: Medium-Term Risk Assessment

	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	33.7	0.5	
Probability of debt non-stabilizaiton *(percent)*	12.4	0.1	
Terminal debt-to-GDP x institutions index	56.7	1.2	
Debt fanchart index (DFI)		1.8	
Risk signal: 3/		Moderate	

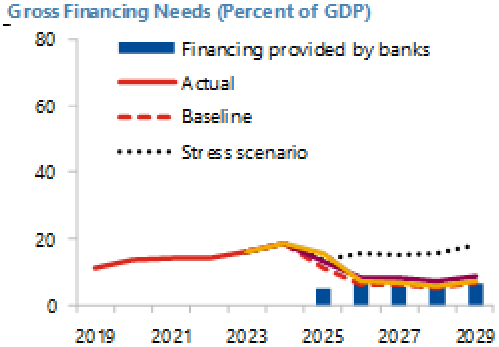
Final Fanchart (Percent of GDP)

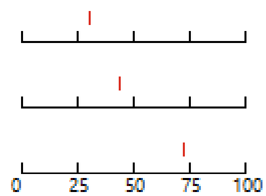




	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	9.2	3.1	
Initial Banks' claims on the gen. govt *(pct bank assets)*	12.6	4.1	
Chg. In banks' claims in stress *(pct banks' assets)*	19.2	6.4	
GFN financeability index (GFI)		13.6	
Risk signal: 4/		Moderate	

Gross Financing Needs (Percent of GDP)

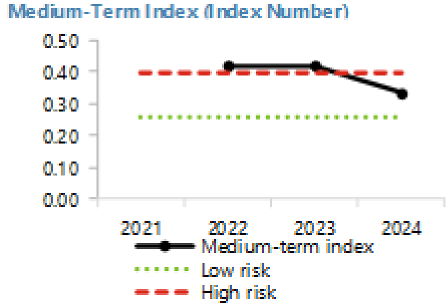




Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	1.8	0.4	0.5	0.2
GFN finaceability index	13.6	0.3	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2024-2029, if stress not predicted: 18.2 pct.

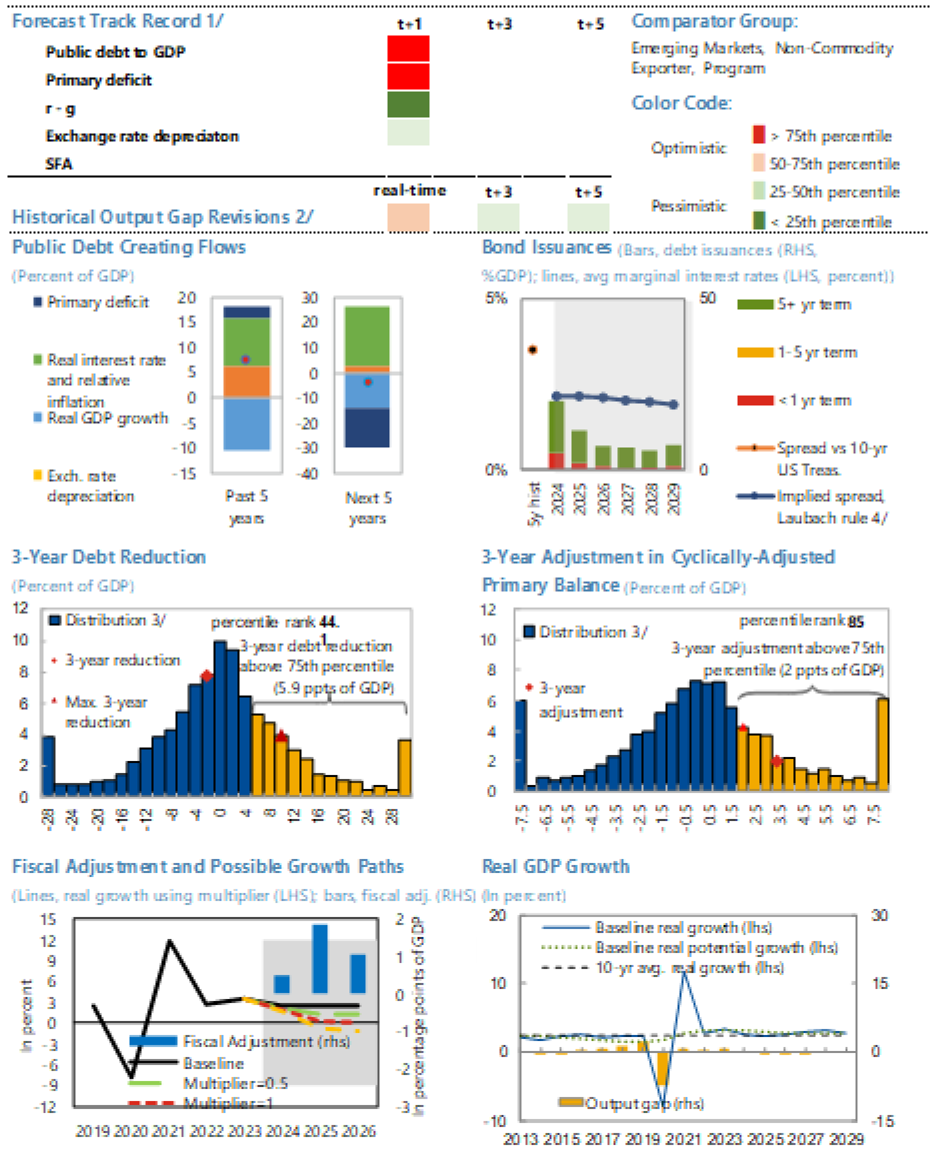
Prob. of false alarms, 2024-2029, if stress predicted: 21.6 pct.

Commentary: The medium-term modules signal moderate sovereign stress risks. The moderate-risk signal is driven by the steady improvement of the primary balance over the projection period resulting from implementation of strong structural fiscal reforms on both revenues and expenditures, despite the relatively high terminal debt level. The GFN stress tests also find moderate risks, mostly driven by the moderate and relatively stable levels of gross financing needs over the medium-term projection period (2024-2029).

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, program.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 6. El Salvador: Realism of Baseline Assumptions



Commentary: The realism tool shows that the fiscal adjustment envisaged under the program, in terms of the targeted 3-year improvement in the cyclically-adjusted primary balance, is ambitious, in relation to both cross-country comparisons and to El Salvador's own history. However, given El Salvador's highly elevated public debt to GDP ratio and limited access to international financial markets on terms that are affordable, such ambition is warranted if the country is to meet its (fiscal and external) gross financing needs over the medium- to long-term.

Source: IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Appendix I. Letter of Intent

San Salvador, El Salvador
February 11, 2025

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Georgieva

El Salvador has been navigating an economic and social transformation. Over the past years, we have successfully eradicated the pervasive crime and gang violence that have long affected our people's wellbeing and constrained our growth potential. Homicide rates have fallen from 54 per 100,000 people in 2018 to 1.8 per 100,000 in 2024, making El Salvador the safest country in the Americas. These improvements in security have also helped underpin our economic recovery since the global pandemic. Migration outflows have come to a halt, replaced by booming tourism receipts, as hope in our country is being restored.

However, ensuring the durability of these gains requires embarking on a deep economic reform program. We recognize the need to address macroeconomic imbalances, and promptly consolidate public finances to restore fiscal sustainability and strengthen reserve coverage. Boosting potential growth and resilience also requires strengthening governance and transparency, as well as addressing large social and infrastructure gaps, including to deal with increasingly costly climate shocks. We understand the importance of containing the risks of our Bitcoin project, including to safeguard financial stability and provide proper protection to consumers and investors, while further increasing financial inclusion.

To support El Salvador's economic reform program and balance of payment needs, we are requesting an extended arrangement under the Extended-Fund Facility (EFF) for a period of 40-months for the amount of SDR 1,033.92 million (equivalent to around US$1.4 billion, or 360 percent of El Salvador's IMF quota). This financing will help support our fiscal financing needs as well as strengthen our reserves at the central bank. The IMF support is also expected to catalyze financing from our multilateral and regional development partners, for a combined financing package of more than US$3.5 billion over the program period.

Our Fund-supported economic program aims to:

- **Restore fiscal sustainability**, through an ambitious fiscal consolidation plan of 3½ percentage points of GDP over three years, to place public debt on a sustainable downward path and reduce borrowing costs.

- **Rebuild external buffers**, by boosting government deposits and central bank reserves, and raising the financial system buffers, from the current low levels of 12 percent of deposits, to 15 percent of overall deposits by mid-2026.

- **Strengthen governance and transparency**, including through early improvements in fiscal transparency as well as anticorruption and AML/CFT frameworks.

- **Mitigate Bitcoin risks**, through legal reforms that ensure the acceptance of Bitcoin is voluntary by the private sector and that tax payments are made only in US dollars. These will be combined by efforts to gradually unwind and confine the government's participation in the project, as well as modernize digital asset regulations.

In demonstration of our commitment, early actions have been taken in the following areas:
(i) Parliament recently approved a 2025 budget consistent with a primary surplus of 1.9 percent of GDP, and an underlying improvement of the primary balance by around 1½ percent of GDP ;
(ii) regulations have been issued setting the path for increases in banks' required liquidity buffers;
(iii) the reporting of the fiscal deficit and debt is now in line with international standards; (iv) new anti-corruption legislation, in line with international best practices, has been approved by Parliament and is expected to be enacted shortly; and (v) legislation clarifying the legal nature of Bitcoin has been approved by Parliament and is expected to be enacted shortly, while the publication of the financial situation of our e-wallet is expected to take place soon.

We are confident that the continued and decisive implementation of policies described in the attached MEFP will allow El Salvador to attain our economic program's objectives. That said, and recognizing the country's exposure to shocks, we stand ready to take additional measures that may be needed over and above those articulated in the MEFP, and in consultation with IMF staff, to attain the key objectives of the program. We will also submit all program monitoring information, regularly and timely, as outlined in the attached Technical Memorandum of Understanding (TMU), pro-actively share any other information that may be necessary to evaluate progress, and the BCR and the Ministry of Finance will establish a framework agreement on their respective responsibilities for servicing financial obligations to the IMF. Finally, we commit to consult with IMF staff well in advance of enacting or announcing any changes to our policies.

We also intend to make public the contents of the IMF staff report, including this letter, the attached MEFP, the TMU, all annexes, and the Sovereign Risk and Debt Sustainability Analysis (SRDSF) carried out by IMF staff, along with the 2023 Article IV Consultation Staff Report. As such, we authorize the IMF to publish these documents accordingly.

Yours sincerely,

/S/	/S/
Douglas Pablo Rodríguez Fuentes	Jerson Rogelio Posada Molina
Central Bank President	Minister of Finance

Attachments (2):
Memorandum of Economic and Financial Policies (MEFP)
Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

A. Background and Program Objectives

1. **Since our administration took office in 2019, our efforts have centered on improving the lives of Salvadorans.** During our first term, we acted decisively to address the challenges posed by the global pandemic and eradicate a key constraint to El Salvador's growth potential – pervasive crime and gang violence. Our pandemic policies protected lives and secured a rapid recovery of the economy and employment. Meanwhile, our security policies lowered the homicide rate from 54 per 100,000 people in 2018 to 1.8 per 100,000 in 2024, and now El Salvador has the lowest homicide rate in the Western Hemisphere.

2. **The economic effects of the improved security situation are being felt.** Real GDP expanded by 3.5 percent in 2023, supported by a remarkable pick-up in tourism and private construction, as well as robust remittances. Despite heavy floods affecting growth in early 2024, the economy remains strong. Out-migration has declined, and many of our nationals living abroad are making plans to invest in and return to El Salvador. Along with actions on the security front, efforts continue to improve public infrastructure and expand access to public utilities, and foreign direct investment (FDI) is strengthening as investor confidence gradually improves. Meanwhile, inflation has fallen sharply to low levels and the current account deficit has narrowed significantly, supported by lower global commodity prices as well as robust remittances and tourism revenues.

3. **To sustain the progress thus far, we understand the need to address El Salvador's long- standing macroeconomic imbalances.** As in many other countries, the pandemic and the increase in global commodity prices led to increases in deficits and in public debt, which reached 87 percent of GDP in 2024 for the nonfinancial public sector, including pension debt. Financing pressures have been alleviated by several liability management operations and sharply lower sovereign spreads, although fiscal financing challenges remain, in the context of high global interest rates. If they continue, high costs of borrowing will weigh on FDI and private investment. Our banking system is well capitalized, but legal reserves, which are lower than pre-pandemic levels, should be rebuilt in order to enhance our preparedness for potential future shocks.

4. **In addition, we will continue taking steps to improve El Salvador's medium-term growth prospects.** While an important barrier to growth has been lifted with the improved security situation, additional reforms will be taken to continue enhancing the business environment, transparency, and governance. These measures will improve investor confidence and encourage FDI. Ensuring the gains from growth are properly distributed will require efforts to strengthen the social safety net and investments in human capital, while boosting resilience to climate shocks will require strengthening infrastructure.

5. **We are strongly committed to carrying out the needed reforms.** The focus during our second term is squarely on strengthening the sustainability and growth prospects of our economy, supported by a 40-month arrangement under the Extended Fund Facility. We are

committed to implementing a multi-year policy agenda aimed at: (i) placing public debt on a sustainable downward path; (ii) strengthening financial system buffers and the country's international reserves; (iii) boosting the country's growth potential through reforms that showcase our commitment to good governance, transparency, and the fight against corruption; and (iv) improving our efforts to strengthen the management of our Bitcoin project. Our program also envisages financial and technical support from multilateral and regional development banks, including the InterAmerican Development Bank (IDB), the World Bank, CABEI and CAF.

B. Outlook and Risks

6. **Under the program policies, El Salvador's economy is projected to move towards a stronger and more sustainable growth path**. According to the program projections, real GDP growth is expected to moderate from 2.6 percent in 2024 to around 2.5 percent during 2025-26, before converging to near 3 percent over the medium term. Meanwhile, the current account deficit will be contained at below 1 percent of GDP, supported by prudent fiscal policies, tourism exports, and favorable terms of trade. Given El Salvador's dollarization regime, inflation is projected to remain low and generally close to that of the United States.

7. **There are risks to the outlook.** Downside risks stem from a slowdown in global demand, tighter global financial conditions, and higher global commodity prices from geopolitical tensions, as well as climate-related shocks. Trade and migration policies enacted overseas present both upside and downside risks. That said, improvements in the security situation and steady reform implementation could lead to stronger-than-projected investment, exports and growth, and access to international capital markets on more favorable terms.

8. **Against this backdrop, robust contingency planning will be required**. Our administration will take the necessary actions effectively and promptly in the face of potential problems. If growth falters and fiscal revenues fall short of target, measures will be taken to secure our fiscal consolidation goals, given financing constraints, including by freezing spending authorizations, cutting nonpriority current spending, and strengthening domestic resource mobilization. Meanwhile, upside risks to the growth outlook could materialize, in which case a stronger fiscal balance may be considered to reduce public debt more quickly and boost our fiscal and external financing buffers. In this process, we will consult closely with the Fund.

C. Strengthening Fiscal Sustainability

9. **Our fiscal policy will aim to place debt on a visible and sustainable downward trajectory, bringing debt to 83 percent of GDP by 2028.** This will be achieved through a balanced program of sound structural measures, worth around 3½ percent of GDP over the course of the program, that would bring the primary balance from a surplus of around 0.2 percent of GDP in 2024 to a surplus of 3.7 percent of GDP by 2027. The fiscal consolidation plan will lower gross financing needs, which together with the financial support from regional and multilateral development banks, is expected to allow El Salvador to access international capital

markets at more affordable rates. The consolidation plan will be accompanied by measures to continue improving fiscal transparency and governance, and to strengthen the public procurement and public financial management systems. In this regard, we recently published a three-year fiscal plan, covering the entire non-financial public sector, including the expected cost of public pensions and interest payments on pension debt **(*prior action*)**.

10. A front-loaded consolidation is envisaged to boost the credibility of our program. Our fiscal program relies primarily on the implementation of a sustainable consolidation of expenditures, and on revenue mobilization measures. The primary fiscal balance is estimated to move from a surplus of around 0.2 percent of GDP in 2024 to a surplus of 1.9 percent of GDP in 2025, with revenue and expenditure measures expecting to yield savings of 1.7 percent of GDP. These measures have been reflected in the 2025 budget, approved by the assembly in December 2024 (***prior action***).

- **Expenditure measures** are projected to yield around 1.4 percent of GDP, mainly through the rationalization of public wages and cuts in goods and services spending, supported by reductions in transfers to municipalities (Municipal Support Fund). We plan to reduce the general government wage bill from 11.6 percent of GDP in 2024 to 10.8 percent of GDP in 2025, including the immediate cost (0.6 percent of GDP in H1:2024) of a voluntary retirement scheme,[1] with budgeted allocations reduced by 3 percent for ministries in protected sectors (education, health, security and defense) and by 15 percent for the other central government entities. This will be achieved by: (i) the elimination of all vacant positions available in public institutions; (ii) prohibition of salary increases for any civil servant; (iii) application of the wage indexation mechanism ('escalafón') in the health sector only to wages below 1,500 dollars per month; and (iv) suspension of the granting of new benefits in future employment contracts. In addition, spending on goods and services will be reduced by 0.5 percent of GDP in 2025, although efforts will be made to protect infrastructure spending (floor of 2.5 percent of GDP; Indicative Target) and scale up priority social spending (floor of 1.5 percent of GDP; Indicative Target; see ¶13).

- **Revenue measures** are estimated to yield 0.3 percentage points of GDP annually, mainly due to (i) electronic invoicing introduced in 2023 and now used by most businesses (around 0.15 percent of GDP), and (ii) broadening the revenue base and reducing tax expenditures (0.17 percent of GDP).

11. Beyond 2025, we will design policies to further support fiscal consolidation. Plans will be developed in various revenue and expenditure areas, in collaboration with development partners, during 2025 to underpin the proposed deficit reduction plan, while also providing space for critical social and infrastructure spending. Key reforms being contemplated include:

- **Revenue mobilization reforms.** We will take timely action to reduce tax expenditures,

[1] At end-2023 we launched a voluntary retirement scheme. In 2024 about 8,200 public employees resigned from the public sector.

broaden the revenue base, and address health and environmental externalities. These will be supported by continued efforts to improve tax and customs administration, including through IMF technical assistance.

- **A civil service reform**. Following ongoing efforts to reduce the wage bill, we will embark on a reform to solidify the gains being made and further improve the efficiency of the public sector workforce. We will work closely with the World Bank to assess and strengthen our public employment management system and will prepare a strategy for a civil service reform by end-June 2025 (***structural benchmark***). Key early objectives of the plan will be to increase value for money, by harmonizing the compensation system to ensure public wages are related to civil servants' productivity and qualifications, and setting clear criteria to avoid unnecessary expansion of public employment. These reforms are expected to contribute to reducing the wage bill by close to 2 percent of GDP between 2024 and 2027.

- **An improved pension reform.** We plan to put the pension system on a stronger footing by expanding coverage (given high informality) and gradually making the existing system more sustainable. As a first step, and following completion of the census, we plan to publish an independent actuarial evaluation of the pension system, to assess its long-run fiscal sustainability (***end-July 2025, structural benchmark***). In parallel, we will work, with the support of IMF technical assistance, to design options to strengthen the system's sustainability and to generate fiscal savings. A reform proposal will be published by February 10, 2026 (***structural benchmark***).

12. We are fully committed to meeting the fiscal targets, and will implement contingency measures in case of fiscal slippages or the materialization of domestic/external risks. Consideration could be given to further streamline spending including through cuts in non-priority current (goods and services and transfers) and prioritizing capital spending as well as through efforts to mobilize revenues. The latter could be achieved by accelerating reforms aimed at widening the revenue base and rationalizing special regimes. The choice of measures would depend on the size and urgency of the needed correction.

D. Protecting the Vulnerable

13. Fiscal consolidation will be conducted in a manner that strengthens support for the most vulnerable. We plan to allocate at least 1.5 percent of GDP annually to priority social spending, in the form of well-targeted in-kind transfers, school feeding and cash transfer programs, among others. Spending on these effective programs will be ringfenced through periodic reviews, and we will work with our development partners to strengthen the targeting and effectiveness of social spending, including by (i) reforming the legal and institutional frameworks for delivery of social assistance; (ii) establishing a reliable, accurate and comprehensive national social registry; and (iii) expanding the digital payments system to reach the poorest segments of society. An assessment of the efficiency of social spending will be conducted in coordination with the IADB.

E. Financing Strategy

14. The growth-friendly adjustment program, supported by international financial institutions, will allow us to improve the terms at which we access the international market. To support our fiscal consolidation efforts over the next three years and reserve buildup plans, external official and international capital market financing will reach about US$8.5 billion during 2025-28. This will include IMF financing, budget support and related instruments (around US$2.2 billion from the IADB, the World Bank, CABEI and CAF), and project loans from the same development banks, as well as international capital market and bilateral official creditors financing. This financing strategy would support debt sustainability, by permitting the replacement of high-interest debt with cheaper and longer-maturity debt, and allow the accumulation of sufficient buffers to mitigate the impact of future fiscal shocks. In addition, and in the context of our commitment to implement the fiscal consolidation strategy, we expect that external financing conditions for El Salvador will gradually improve and allow us to durably access international capital markets at reasonable cost by 2027. We will ensure a build-up of government deposits at the BCR (***quantitative performance criteria***) to create buffers against liquidity shocks. Any additional net international capital market financing above that envisaged under the program will be used to expedite the rebuilding of fiscal buffers and bolster external sustainability (see Technical Memorandum of Understanding, TMU).

15. The fiscal financing program will also free up domestic resources to support private sector credit and normalize domestic arrears.

- **Domestic financing**. Exposure of domestic banks and pension funds to the public sector, which has grown over the past years, is set to gradually decline to support private sector credit and the development of the domestic financial market. In this regard, with technical assistance from the IADB, we will prepare and publish a well-articulated medium-term debt strategy (MTDS) and an annual borrowing plan aimed at mitigating refinancing risks and lowering borrowing costs. Meanwhile, we will ensure that the plan to strengthen the long-term financial viability of the pension system (see ¶11) provides adequate funding of the ISP and diversification of the asset portfolios of the private pension fund managers (AFPs).

- **Domestic arrears.** Another important objective of the program is to have no net accumulation of domestic payments arrears (payments obligations overdue by 90 days or more) as part of the process of strengthening public financial management in El Salvador. Hence, we commit not to accumulate net domestic payments arrears by the central government (***quantitative performance criteria***). To help achieve this objective, efforts will be made, supported by IMF technical assistance, to strengthen public financial management and spending control (see ¶18 and ¶19), and regulations related to criteria, timetable, and administrative processes will be strengthened to meet the respective commitments over the course of the program.

- **External Obligations.** The government remains current on all its external obligations and continues to honor its commitments. These policies under the IMF-supported program are reflected in our commitment to no accumulation of external payment arrears (***continuous quantitative performance criteria***).

F. Improving Fiscal Transparency and Governance

16. Planned improvements in fiscal transparency will foster accountability and ensure effective management and use of public resources. We recently published comprehensive fiscal information that also include the flows and debt stocks of the ISP and other public entities associated with the pension system as well as a statement on the ownership of the public corporations and state-owned enterprises (SOEs) (***prior action***). We will also publish reports that include estimates of quasi-fiscal activities, as well as ownership policy, corporate governance, performance expectations, competitive neutrality, financial and risk management, transparency, and accountability standards of SOEs, among others (end-March 2025 ***structural benchmark***). With the help of development partners, we are also developing a roadmap to strengthen fiscal transparency, with the objective of aligning our standards with best international practices. As a first step, we plan to start reporting fiscal data for the consolidated central government, both on a cash and accrual basis, that will be consistent with the IMF Government Finance Statistics (GFS) Manual 2014 no later than end-June 2025. Full migration to the GFS Manual for the NFPS (including ISP, INPEP, IPSFA, ISBM, ISSS, nonfinancial public corporations consolidated with subsidiaries) will be finalized by end-December 2025, and accompanied by periodic and timely data publication. These efforts will be supported by recommendations of the Fiscal Transparency Evaluation (FTE), which we will request the IMF to conduct by April 2025.

17. Improvements in fiscal transparency will be complemented by efforts to strengthen the fiscal framework. Work is underway, in collaboration with the IADB, to develop a new Fiscal Sustainability and Responsibility Law (FSRL) aimed at simplifying the fiscal rule, with a transition fiscal path consistent with the program objectives and clear escape clauses. The draft FSRL will be approved by Parliament by May 9, 2025 (***structural benchmark***). The draft FSRL will also establish more robust rules to improve budgetary accountability, including annual analysis and reporting of tax expenditures with detailed analysis on the revenue, distributional, and compliance impact. Also, we will publish by end-October 2025 (***structural benchmark***) the Executive Budget Proposal, with a Medium-Term Fiscal Framework, transfers to and from extrabudgetary funds, SOEs and subnational governments; financing in gross terms for both external and domestic debt; multi-annual investment projects, including public-private partnerships and fiscal risk analysis.

18. In addition, modernization of our public financial management (PFM) will support improvements in the efficiency and control of public spending. Specifically, with the support of development partners, we plan to: (i) strengthen the planning, evaluation, selection and management of investment projects, in line with recommendations from the 2019 IMF's Public Investment Management Assessment (PIMA); (ii) resume the process for the adoption of the upgrade to the Integrated Financial Management System (SAFI 2, from its acronym in Spanish) and develop the tools to implement results-based budgeting over the medium term; (iii) create a special unit in the Ministry of Finance to enhance our capacity to assess and quantify fiscal risks; and (iv) improve, with the help of IMF technical assistance, the systems to allocate spending execution and payment quota to ministries and institutions, processes for verifying the emergence of obligation to pay, the timeline and order of priority for executing payments, all of which are essential to align spending execution with available financing and bolster spending control.

19. Finally, work continues to strengthen the public procurement framework. By end-March 2025, we will start publishing regularly, on a government website, the names and nationalities of the beneficial owners of all legal persons awarded public contracts, together with respective contracts information. Also, regulations will be issued limiting the exceptions that allow purchases of goods and services without competitive processes, with a precise definition of the "strategic project" exemption and reporting requirements when the exemption is used (end-March ***structural benchmark***).

G. Strengthening Financial Stability

20. The liquidity framework of the financial system will be strengthened. The BCR recently adopted normative acts to (i) raise the average reserve requirement to 12 percent by end-January 2025, and (ii) establish a gradual buildup of the liquid asset requirement to 1 percent by end-June 2025, 2 percent by end-December 2025 and 3 percent by end-June 2026 held in high-quality liquid international assets subject to rigorous regulatory requirements (***prior action***). These high-quality liquid assets will include U.S. Treasury securities, other high quality international securities (minimum rating of A by at least two agencies), as well as unrestricted U.S. dollar deposits (demand deposits or time deposits with residual maturity less than ninety calendar days) in the custody of approved and highly rated private international financial institutions, and will be monitored by the Superintendency of the Financial System on a daily basis, with strict withdrawal rules. This reserve path and liquid asset requirement will be an intermediate step in returning to pre-pandemic levels of liquidity at the end of the program. Meanwhile, Fund financing will support the central bank's gross reserves, thereby strengthening its Emergency Liquidity Assistance (ELA) capacity. This capacity will be developed progressively, with the aim of exceeding USD 500 million within the ELA framework by the end of 2027, in alignment with IMF TA recommendations. In tandem, the BCR will start implementing Basel III standards on risk-based supervision, including the Liquidity Coverage Ratio and Net Stable Funding Ratio regulations starting in December 2025 (***structural benchmark***).

21. We will continue to modernize our supervisory and regulatory frameworks to enhance financial stability. We will take advantage of the strong state of the financial system to enact a Financial Stability Law to strengthen early intervention, resolution, crisis management, and deposit insurance frameworks in line with IMF TA recommendations and international standards (end-June 2025, ***structural benchmark***). In addition, we will continue improving our risk-based supervision capacity and progressively fill other regulatory gaps in line with international standards, including by: (i) adopting regulations to initiate a phased transition to IFRS9 standards for credit risk to favor early recognition of losses; (ii) enhancing our qualitative supervisory practices, such as forward-looking risk assessments, and coercive powers to respond to emerging risks; (iii) strengthening our capacity to conduct stress tests; (iv) improving credit risk analysis and operative processes in public banks; and (v) expanding oversight to smaller cooperatives.

22. These actions will be complemented by a strengthening of the BCR's financial position and will reinforce its transparency standards. To further improve the BCR's capital position in a manner and to a level consistent with IMF TA recommendations and reflecting valuations under IFRS, a BCR recapitalization plan will be adopted with the government's support by December 2025 (***structural benchmark***). An update Safeguards Assessment will be completed to help guide future reforms and conditionality, including reforms of the BCR organic law, to further strengthen BCR's financial and legal independence during future reviews. Meanwhile the BCR will implement IFRS in full and publish the first IFRS-compliant financial statement for FY 2026.

H. Improving the Management of our Bitcoin Project

23. The risks associated with the Bitcoin project are being addressed. While the project is intended to encourage financial inclusion, further efforts will be taken to minimize fiscal risks and provide more confidence to users and strengthen consumer protection. In this regard, we will: (i) publish *Chivo's* summary financial statements, including liquidity management policies and transfers to and from the government; (ii) publish the public addresses of all Bitcoin cold e-wallets owned or under control of the public sector; (iii) segregate and safeguard *Chivo* clients' assets; and (iv) report to IMF staff all the Bitcoins owned or controlled by the public sector as of January 31st, 2025 ***(prior action)***. In addition, we will send statements updating this information as of program approval date, end-March, end-June, and end-December 2025 ***(structural benchmarks)***.

24. In addition, we will adopt and publish a new business plan to stop *Chivo's* use of public funds by *end-July 2025* and end public participation in *Chivo* (end-March 2025 *structural benchmark*). By *end-July 2025*, we will (i) liquidate the Bitcoin trust fund *Fidebitcoin*, publish *Fidebitcoin* and AAB Court of Accounts' audits (ii) publish *Chivo's* financial statements audited by an independent auditor; (iii) segregate and safeguard *Chivo* clients' U.S. dollars at the BCR and (iv) end public participation in *Chivo* (end-July 2025 ***structural benchmark***). We will enact a comprehensive framework for the management of government-owned Bitcoins and other crypto assets to enhance governance, transparency, and accountability, and define the role of the AAB (or of new institutions created to this end in agreement with the IMF), including investment guidelines and risk minimization policies that must be complied with (end-December 2025 ***structural benchmark***). Importantly, as per agreement with the IMF, we will no longer accumulate new Bitcoins in our portfolio (***continuous quantitative performance criteria***). Similarly, we will not issue nor guarantee any type of Bitcoin-indexed or denominated debt or tokenized instruments implying a liability for the government (***continuous quantitative performance criteria***). Furthermore, we will not create new public or publicly-owned entities participating in Bitcoin operations during the program, except if needed to manage existing assets and in agreement with IMF staff, and we commit to transparency and accountability on all public and publicly-owned entities involved with Bitcoins. We plan to publish, on a quarterly basis the financial statements of the trust fund and SOEs involved in the Bitcoin project (including *Fidebitcoin*, *Chivo*, CEL and LaGeo), and ensure that Bitcoin operations are reported in macroeconomic and fiscal statistics.

25. We have made Bitcoin transactions voluntary for the private sector and confined its use by the public sector. We will enact the amendments to the Bitcoin Law approved by Parliament that clarify the legal nature of Bitcoin, making acceptance of Bitcoin by the private sector voluntary and confining its use by the public sector (***prior action***). A regulation will be passed clarifying that tax obligations are to be paid only in U.S. dollars and losses in Bitcoin transactions will not be deemed a credit for tax purposes. Monetary obligations of the state will be paid in the agreed currencies, and the government will not be able to issue Bitcoin-denominated debt. The government's obligation to provide a Bitcoin-US dollar convertibility mechanism will be removed, and the government will not guarantee convertibility between Bitcoin and U.S. dollars or assume any liability related to alternatives that allow users to carry out transactions in bitcoin, such as digital wallets or bitcoin service providers.

26. We will improve our crypto legal and regulatory framework to align it with best international practices. Specifically, we will submit a law to Parliament to strengthen the regulation and supervision of crypto-asset activities and markets (including crypto-asset issuers and service providers) and foster legal certainty in this area, in line with evolving best practices and international standards, where special emphasis will be given to addressing ML/TF risks in line with FATF recommendation 15, as well as financial stability and cybersecurity risks, strengthening market integrity and consumer protection policies, such as antifraud, anti-manipulation, and transparency policies, as well as developing governance, data frameworks, solvency, liquidity, segregation, and other prudential requirements. (August 8, 2025, ***structural benchmark***).

I. Strengthening Competitiveness, Resilience, and Governance

27. To improve the business environment, catalyze private investment, and diversity our economy, we will cut red tape and improve the quality of public investment. We are in the process of implementing a comprehensive plan aimed at: (i) reducing trade barriers**,** by aligning trade documentation with international standards and simplifying procedures for customs clearance; (ii) reducing waiting times and improving the predictability for obtaining permits by standardizing and digitalizing regulatory procedures; and (ii) expanding and modernizing public infrastructure (see also ¶18), in order to attract growing private investment and tourism. The latter will also involve working with private investors to facilitate rapid and efficient development of hotels, restaurants, theme parks and other attractions.

28. Greater emphasis will be given to climate shocks adaptation policies. Efforts are underway to strengthen our dialogue with development partners to develop a comprehensive climate mitigation strategy. As a first step, we have asked the World Bank to undertake a diagnostic that integrates climate shocks and development (Country Climate and Development Report).

29. The strengthening of governance and accountability frameworks is a central pillar of our program and is critical for improving the investment climate.

- **Anti-corruption framework.** To address corruption vulnerabilities, a new Anti-Corruption Law in line with the G-20 High-Level principles on asset disclosure by public officials, will be enacted (***prior action***). Among other aspects, the new Law includes a provision requiring publication of asset declarations from senior officials.

- **Court of Accounts.** To enhance accountability, new legislation is being developed to strengthen the institutional and financial autonomy, independence, and mandate of the Court of Accounts. The new legislation, which is expected to be enacted by December 2025 (***structural benchmark***), will include (i) a clearly articulated independence and anticorruption mandate in line with international practices, namely the INTOSAI Mexico Declaration and the UNODC Abu Dhabi Declaration; and (ii) legal basis to ensure collaboration, including exchange of information and referral protocols, between the Court of Accounts and the *Fiscalia General de la República* responsible for the detection and investigation of corruption. We are also receiving EU technical assistance to improve the administrative capacity of the Court of Accounts.

- **AML/CFT framework.** We will enact by August 2025 the necessary reforms to bring the AML/CFT system for VASPs in compliance with FATF Recommendations 15 (on new technologies, including virtual assets and virtual asset service providers) following the recent mutual evaluation by GAFILAT. In addition, we will enact the necessary reforms to place lawyers, notaries, accountants, and auditors under a risk-based monitoring framework in compliance with FATF Recommendation 28 by December 2025 (***structural benchmark***). We will enact legislation requiring the submission and updating, as needed, of beneficial ownership information—as defined in the FATF standards—by all legal persons and arrangements registered in El Salvador and ensuring the availability of such information to relevant competent authorities, by end-December 2025 (***structural benchmark).*** Also, we will implement reforms to address (i) the limited role of the financial intelligence unit in supporting investigations on financial crimes and related ML and (ii) the lack of parallel financial investigations to "follow the money" when investigating financial crimes and allow the recovery of criminal assets, in line with the recommendations of the recent GAFILAT evaluation.

J. Program Monitoring

30. The program will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks. These are detailed in Tables 1 and 2, with definitions and data requirements provided in the attached Technical Memorandum of Understanding. Following the initial two reviews at a quarterly frequency, the arrangement will shift to semi-annual reviews over 2025-28, conditional on continued strong policy implementation. During this period, we will remain closely engaged with Fund staff and will provide the needed information on a timely basis to secure proper program monitoring.

Table 1. El Salvador: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) /1, 2025

(Within-year cumulative change – in millions of U.S. Dollars, unless otherwise stated)

	2025			
	March QPC	June QPC	September IT	December QPC
	Prog	Prog	Prog	Prog
Performance criteria				
Primary Balance of the nonfinancial public sector (- = borrowing, floor)	180	530	750	700
Net Domestic Borrowing of the nonfinancial public sector (ceiling)	0	-100	-415	-331
External payment arrears of the public sector (continuous ceiling) 2/	0	0	0	0
Ratio of required liquid assets to total deposits for depository corporations (floor) in percent 1/	13	14	14	15
Voluntary accumulation of BTC by the public sector, as per TMU (continuous ceiling) 1/, 2/	0	0	0	0
Issuance or guarantee by the public sector of BTC-denominated-or-indexed debt or tokenized instruments, as per TMU (continuous ceiling) 1/, 2	0	0	0	0
Floor on stock of the nonfinancial public sector deposits at the BCR (floor)	650	780	790	810
Net accumulation of domestic payments arrears by the consolidated central government (ceiling)	0	0	0	0
Indicative targets				
Priority social spending (floor)	138	276	413	551
Public investment of the NFPS (floor)	204	438	651	919
Stock of gross international reserves of the BCR (floor)	3704	3898	4025	4110
Memorandum items:				
Wage bill (ceiling) 3/	918	1896	2808	3964

1/ As defined in the Technical Memorandum of Understanding.
2/ These apply on a continuous basis.
3/ Corresponds to the nonfinancial public sector (see TMU).

Table 2. El Salvador: Prior Actions and Structural Benchmarks		
Reform Area	**Structural Conditionality**	**Due Date**
	Prior Actions	
Fiscal Policy	Approval by the Legislative Assembly of the 2025 budget in line with the program fiscal targets, with policy actions supporting the delivery of the agreed budget targets, and publication of a 3-year fiscal plan, including the expected cost of public pensions and of interest payments on pension debt.	
Fiscal transparency	Publish fiscal data, including fiscal flows and debt stocks data from the ISP in the General Government, audited financial statements of 2023, restore the link to the COVID/FOPROMID audits, all budget amendments of the 2023 and 2024 budgets, Excel version of budget tables and tables of budget documents, and publish ownership of SOEs.	
Reserve and Liquidity buffers	Issue a normative act raising the average reserve requirement to 12 percent by end-January 2025, and adopt a normative act establishing a gradual buildup of the liquid asset requirement to 1 percent by end-June 2025, 2 percent by end-December 2025, and 3 percent by end-June 2026 held in high-quality liquid international assets, subject to rigorous regulatory requirements.	
Bitcoin	(i) Publish *Chivo's* summary financial statements, including liquidity management policies and transfers to and from the government, (ii) publish the public addresses of all Bitcoin cold e-wallets owned or under control of the public sector, (iii) segregate and safeguard *Chivo* clients' assets, and (iv) send a statement listing and identifying all hot and cold wallet public addresses and the corresponding bitcoin amounts owned by or under the control of the public sector, including all public sector entities and legal persons controlled by the State (with majority voting interest and/or direct or indirect control as defined by the 2014 GFSM), as of January 31, 2025.	
Bitcoin	Enact amendments to the Bitcoin Law clarifying the legal nature of Bitcoin and removing from the Law the essential features of legal tender, by eliminating the obligation for the public and private sector to accept Bitcoin in transactions, making acceptance of Bitcoin by the private sector voluntary and restricting its use by the public sector; clarify in a regulation that tax obligations are to be paid only in U.S. dollars.	
Governance and transparency	Enactment a new Anti-Corruption Law in line with the G-20 High-Level principles on asset disclosure by public officials, requiring publication of asset declarations by high-level senior officials as listed in Article 236 of the El Salvador Constitution.	
	Proposed Structural Benchmarks	
Expenditure policy	Prepare a civil service reform plan in line with IMF recommendations.	End-June 2025 (2nd review)
Expenditure policy	Publish independent actuarial evaluation of the pension system.	End-July 2025 (2nd review)
Expenditure policy	Publish a reform proposal of the pension system, to strengthen the system's sustainability and to generate fiscal savings, incorporating recommendations of IMF TA.	February 10, 2026 (3rd review)

Table 2. El Salvador: Prior Actions and Structural Benchmarks (continued)		
Reform Area	**Structural Conditionality**	**Due Date**
Fiscal transparency and responsibility	Publish comprehensive SOE fiscal information that will include estimates of quasi-fiscal activities, as well as ownership policy, corporate governance, performance expectations, competitive neutrality, financial and risk management, transparency, and accountability standards, among others.	End-March 2025 (1st review)
Fiscal transparency and responsibility	Approval by Parliament of new FSRL, including fiscal rules, clear escape clauses, a transition path consistent with program objectives, and rules to improve budget credibility, including annual analysis and reporting of tax expenditures.	May 9, 2025 (1st review)
Fiscal transparency and responsibility	Publish Executive Budget Proposal, with a Medium-Term Fiscal Framework, transfers to and from extrabudgetary funds, SOEs and subnational governments; financing in gross terms for both external and domestic debt; multi-annual investment projects, including public-private partnerships and fiscal risk analysis.	End-October 2025 (3rd review)
Governance and transparency	Publish on a government website the names and nationalities of beneficial owners of all persons awarded public contracts together with the respective contracts information and issue regulation limiting the exceptions that allow purchases of goods and services without competitive processes, with a precise definition of the "strategic project" exemption and reporting requirements when the exemption is used.	End-March 2025 (1st review)
Financial Sector	Adopt Liquidity Coverage Ratio and Net Stable Funding Ratio regulations.	End-December 2025 (3rd review)
Financial Sector	Enact legislation to strengthen the legal framework for the bank resolution, crisis management, and deposit insurance schemes in line with recommendations from Fund technical assistance and international standards (FSB Key Attributes, IADI Core Principles for Effective Deposit Insurance Systems and Basel Core Principles).	End-June 2025 (2nd review)
Financial Sector	Approval by the BCR board of a recapitalization plan that carries the support of the government to address the capital shortfall under the IFRS.	End-December 2025 (3rd review)
Bitcoin	Send to IMF staff a signed statement listing and identifying all hot and cold wallet public addresses and the corresponding Bitcoin amounts owned by or under the control of the public sector, including all public sector entities and legal persons controlled by the State (with majority voting interest and/or direct or indirect control as defined by the 2014 GFSM), as of program approval date and as of end-March 2025.	End-March 2025 (1st review)

Table 2. El Salvador: Prior Actions and Structural Benchmarks (continued)		
Reform Area	**Structural Conditionality**	**Due Date**
Bitcoin	Send to IMF staff a signed statement listing and identifying all hot and cold wallet public addresses and the corresponding bitcoin amounts owned by or under the control of the public sector, including all public sector entities and legal persons controlled by the State (with majority voting interest and/or direct or indirect control as defined by the 2014 GFSM) as of end-June 2025.	End-June 2025 (2nd review)
Bitcoin	Send to IMF staff a signed statement listing and identifying all hot and cold wallet public addresses and the corresponding bitcoin amounts owned by or under the control of the public sector, including all public sector entities and legal persons controlled by the State (with majority voting interest and/or direct or indirect control as defined by the 2014 GFSM) as of end-December 2025.	End-December 2025 (3rd review)
Bitcoin	Adopt and publish a new business plan to stop *Chivo's* use of public funds by end-July 2025 and end public participation in *Chivo*.	End-March 2025 (1st review)
Bitcoin	Liquidate the Bitcoin trust fund *Fidebitcoin*, publish *Fidebitcoin* and AAB Court of Accounts' audits, publish *Chivo's* financial statements audited by an independent auditor with experience in the crypto space, segregate and safeguard *Chivo* clients' U.S. dollars at the central bank, and end public participation in *Chivo*.	End-July 2025 (2nd review)
Bitcoin	Enact a comprehensive framework for the management of government-owned Bitcoins and other crypto assets to enhance governance, transparency, and accountability, and define the role of the AAB, including investment guidelines and risk minimization policies AAB must comply with.	End-December 2025 (3rd review)
Bitcoin and other crypto assets	Submission to Parliament of law strengthening the regulation and supervision of crypto-asset activities and markets (including crypto-asset issuers and service providers) and fostering legal certainty in this area, in line with evolving best practices and international standards, where special emphasis will be given to addressing ML/TF risks in line with FATF recommendation 15, as well as financial stability and cybersecurity risks, strengthening market integrity and consumer protection policies, such as antifraud, anti-manipulation, and transparency policies, as well as developing governance, data frameworks, solvency, liquidity, segregation, and other prudential requirements.	August 8, 2025 (2nd review)
Financial integrity, Governance, and Transparency	In consultation with Fund staff, enact legislation to strengthen the independence and anti-corruption mandate of the Court of Audits to bring it in line with international standards (INTOSAI Mexico Declaration and the UNODC Abu Dhabi Declaration), and to ensure a clear legal basis for collaboration with the Fiscalía General de la	End-December 2025 (3rd review)

Table 2. El Salvador: Prior Actions and Structural Benchmarks (concluded)		
Reform Area	**Structural Conditionality**	**Due Date**
	República on corruption, including exchange of information and referral protocols; enact the necessary reforms to place lawyers, notaries, accountants, and auditors under a risk-based monitoring framework in compliance with FATF Recommendation 28; and enact legislation requiring the submission and updating, as needed, of beneficial ownership information by all legal persons and arrangements registered in El Salvador and ensuring the availability of such information to relevant competent authorities (as defined in and in line with the FATF standards).	

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) sets out the framework for monitoring the performance of El Salvador's Extended Arrangement under the Extended Fund Facility (EFF).** It specifies the performance criteria and indicative targets (including adjustors) under which El Salvador's performance will be assessed through program reviews as specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP). Monitoring procedures and reporting requirements are also specified.

2. **For program monitoring purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined in Table 1 below**, except for items related to fiscal operations which will be measured at current exchange rates as published by the authoritative data sources. As the U.S. dollar is the official legal tender since January 1st, 2001, the program rates reflect exchange rates against the U.S. dollar that prevailed on February 7th, 2025. Monetary gold will be valued at US$2,874.65 per troy ounce, which was the price prevailing on February 7th, 2025.

Table 1. El Salvador: Program Exchange Rates	
US Dollar per Euro	1.03
US Dollar per Pound	1.24
US Dollar per Swiss Franc	1.10
US Dollar per 100 Yen	0.66
US Dollar per Chinese Yuan	0.14
US Dollar per Mexican Peso	0.05
US Dollar per Canadian Dollar	0.70
US Dollar per Colombian Pesos	0.02
US Dollar per Guatemalan Quetzal	0.13
US Dollar per Honduran Lempira	0.04
US Dollar per SDR	1.32
Gold Price (US$/ounce)	2874.65

Source: Financial Times and Haver Analytics as of market close February 7, 2025

3. **The quantitative performance criteria (QPC) and indicative targets (IT) specified in Table 1 of the MEFP are listed as follows.**

a) a QPC on the primary balance of the nonfinancial public sector (NFPS) (floor);

b) a QPC on net domestic borrowing of the NFPS (ceiling);

c) a continuous QPC of no incurrence of external payment arrears of the NFPS (ceiling);

d) a QPC on the ratio of required liquid assets to total deposits for depository corporations (floor);

e) a continuous QPC of no voluntary accumulation of BTC by the public sector (ceiling);

f) a continuous QPC of no issuance of or guarantee by the public sector of BTC-denominated-or-indexed debt or instrument (ceiling)

g) a QPC on the stock of deposits of the NFPS at the central bank (*Banco Central de Reserva de El Salvador*, BCR) (floor);

h) a QPC on the net accumulation of domestic payments arrears of the consolidated central government (ceiling);

i) an IT on priority social spending (floor);

j) an IT on public investment of the NFPS (floor);

k) an IT on the stock of gross international reserves of the BCR (floor).

4. In addition to the performance criteria listed in Table 1 of the MEFP, the arrangement will include the performance criteria standard to all Fund arrangements, namely:

a) no imposition or intensification of restrictions on the making of payments and transfers for current international transactions;

b) no imposition or intensification of import restrictions for balance of payments reasons;

c) no introduction or modification of multiple currency practices;

d) no conclusion of bilateral payments agreements that are inconsistent with Article VIII of the IMF Articles of Agreement.

These four performance criteria will be monitored continuously.

5. Definition of concepts. Unless otherwise specified, the definitions of all variables contained in this Technical Memorandum of Understanding are those defined in the IMF's most recent statistical manuals and guidance (2014 Manual on Government Finance Statistics, 6th Edition of the Balance of Payments Manuals and the Compilation Guide).

I. Quantitative Performance Criteria

A. Common Concepts

6. Consolidated central government. For the purposes of the program and all QPCs and ITs in this TMU, the consolidated central government (CCG) comprises the budgetary central government (Administración Central) and extrabudgetary central government agencies (Gobierno Central Extrapresupuestario) (see Appendix TMU-A for a list of these entities).

7. Nonfinancial public sector. For the purposes of the program and all QPCs and ITs in this TMU, the nonfinancial public sector (NFPS) consists of the consolidated central government as defined above, the Social Security Institute (*Instituto Salvadoreño de Seguro Social*), all state-owned public pension funds (*Instituto Salvadoreño de Pensiones, Instituto de Previsión Social de la Fuerza Armada, Instituto Salvadoreño de Bienestar Magisterial*), the municipality of San Salvador Centro, and the following nonfinancial public corporations, including subsidiaries, listed in Appendix TMU-A: CEL, ANDA, CEPA, and the LNB, including subsidiaries for each of them, existing or new. The scope of the nonfinancial public sector should generally follow the concepts and definitions of the *GFSM 2014*.

8. Public sector: For the purposes of the program and all QPCs and ITs in this TMU, the public sector is defined as the NFPS, the BCR, the AAB, Chivo, and other public institutions, existing or new, including subsidiaries, as defined in the *GFSM 2014*.

9. Project loans and grants: Project loans and grants includes all grants and loans disbursed from multilateral and bilateral donors to the public sector, directly linked to (or dependent on) the execution of specific projects, programs, or investments, and/or earmarked to specific projects, programs, or investments. If a loan (or grant) is disbursed as an ex-post recognition of past expenses on project, programs, or investments, the classification of such loan (or grant) as project loan (or grant) will be discussed with the team.

10. Budget support loans and grants: Budget support loans and grants includes all grants and loans from multilateral and bilateral donors to the public sector that are not project loans and grants. It does not include SDR purchases ("disbursements") from the IMF.

B. Floor on the Primary Balance of the NFPS

11. The primary balance of the NFPS is defined as the difference between total revenue and non-interest expenditure. NFPS' revenue is recorded on a cash basis and includes taxes, social contributions, grants, and other revenues, including SOE revenues. NFPS expenditure is also recorded on a cash basis and includes expenses and net acquisition of nonfinancial assets, including of SOEs. Both revenues and expenditure that are not related to pensions or interest payments of the ISP will be measured using BCR data.

12. Monitoring. The primary balance will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

13. Adjustor. The floor on the primary balance of the NFPS will be adjusted:

a) starting with the second review, upward by 50 percent of the difference (if positive) between cumulative NFPS revenues and the cumulative program amounts plus US$100 million, that is: (i) US$5,177+ US$100 million at end-June 2025, and (ii) US$9,955 + US$100 million at end-December 2025. In other words, positive deviations up to US$100 million will not trigger the adjustor; positive deviation in excess of US$100 million will trigger the adjustor by the amount of ½ the amount of the deviation that is above US$100 million.

b) downward by the smaller between US$100 million and the cumulative excess in the U.S. dollar value of project loans and grants relative to the baseline projection reported in Table 2.

Table 2. El Salvador: Baseline Projections of Project Loans and Grants
(US$ millions)

	End-March	End-June	End-December
Projects loan and grants (cumulative since the beginning of the year)	221	535	962

C. Ceiling on Net Domestic Borrowing of the NFPS

14. Net domestic borrowing by the NFPS. Net domestic borrowing by the nonfinancial public sector includes all net financing (that is incurrence of liabilities minus repayment of liabilities) of NFPS from domestic depository corporations, the *Administradoras de Fondos de Pensiones* (AFPs), and any other domestic financial or non-financial institution. It does not include drawdown nor accumulation of NFPS deposits at the BCR nor BCR on-lending of Fund disbursements for budget support.

15. Monitoring. At each test date, net domestic borrowing by the NFPS will be measured as the cumulative value starting from the beginning of each calendar year.

16. Adjustor. For the last three reviews of the program, the ceiling on net domestic borrowing of the NFPS will be moved upward by the shortfall NFPS borrowing from non-residents that is neither project loans and grants nor budget support loans and grants, relative to the one envisioned under the program.

D. Non-Accumulation of New External Payment Arrears of the Non-Financial Public Sector

17. External arrears. External debt payments arrears for program monitoring purposes are defined as external debt obligations (principal and interest) falling due after February 19, 2025 that have not been paid, considering the grace periods specified in contractual agreements. Under the definition of debt set out below, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt. This performance criterion does not cover (i) arrears on trade credits, (ii) arrears on debt subject to renegotiation and restructuring; and (iii) arrears resulting from the nonpayment of commercial claims that are the subject of litigation initiated prior to February 19, 2025.

18. External debt. External debt is determined according to the residency criterion. The term "debt"[1] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of financial and nonfinancial assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being defined as follows:

a) **Loans**, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

b) **Suppliers' credits**, i.e., contracts where the supplier allows the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided, and,

c) **Leases**, i.e., arrangements under which the lessee has the right to use the provided property for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

19. Monitoring. This PC will be monitored on a continuous basis.

E. Floor on Required Liquid Assets to Total Deposits for Depository Corporations

1. Deposits. For the purposes of this program, deposits include the total balance on all deposits, as defined in the Monetary and Financial Statistics Manual and Compilation Guide, held by private agents at depository corporations in El Salvador.

20. Required liquid assets. Required liquid assets include (i) legal liquidity reserves of depository institutions held to comply with the norms on *reserva legal de liquidez* as established by the BCR and (ii) high-quality liquid assets held to comply with the norms NRP-87 on *activos liquidos* as established by the BCR.

21. Monitoring. At each test date, the ratio of required liquid assets to deposits will be measured using the daily average of legal liquidity reserves, high quality assets and deposits during the last full 14-day compliance period preceding the test date as defined in the norms on *reserva legal de liquidez* and NRP-87.

F. No Voluntary Accumulation of BTC by the Public Sector

22. Bitcoins by the public sector. Bitcoins by the public sector are Bitcoins in all hot and cold wallets owned by or under the control of the public sector, including Chivo, *Agencia Administradora de Bitcoin*, *Oficina Nacional del Bitcoin*, *Comision Ejecutiva Hidroelectrica del Rio Lempa* (CEL), and all other public sector entities and legal persons controlled by the State (with majority voting interest and/or direct or indirect control as defined by the 2014 GFSM), net of Chivo clients' deposits in Chivo denominated in Bitcoin.

23. Voluntary accumulation. Voluntary accumulation of bitcoins includes purchase and mining of Bitcoins and excludes the accumulation of Bitcoins resulting from forfeiture, seizure, apprehension, custody or other form of property or possession by the government arising from law enforcement measures adopted in accordance with Salvadoran law.

24. Monitoring. This PC will be monitored on a continuous basis.

G. No Public Sector Issuance of or Guarantee to Any Type of Debt or Tokenized Instrument That Is Indexed to or Denominated in Bitcoin and Implies a Liability for the Public Sector.

25. Debt or guarantee to any type of debt or tokenized instrument that is indexed to or denominated in Bitcoin and implies a liability for the public sector. For the purpose of this program, Chivo clients' deposits in Chivo denominated in Bitcoins will be excluded from the measurement of the public sector debt and guarantee mentioned in this QPC.

26. Monitoring. This PC will be monitored on a continuous basis.

H. Floor on the Stock of NFPS Deposits at the BCR

27. Monitoring. At each test date, the end-of-period stock of NFPS deposits at the BCR will be measured.

28. Adjustor. The floor on the stock of NFPS deposits at the BCR will be adjusted:

a) upward by the excess of NFPS borrowing from non-residents that is neither project loans and grants nor budget support loans and grants, relative to the one envisioned under the program as envisioned in Table 3. This adjustor will be removed in the last three reviews of the program.

b) upward for any cumulative excess in the U.S. dollar value of disbursements of budget support loans and grants relative to the baseline projection reported in Table 3.

c) downward by the smaller between US$350 million U.S. dollars and the cumulative shortfall of disbursed budget support loans and grants relative to the baseline projection reported in Table 3.

Table 3. El Salvador: Baseline Projections of Budget Support Loans and Grants
(US$ Millions)

	End-March	End-June	End-December
Budget support loans and grants (cumulative since the beginning of the year)	250	650	950

I. Ceiling on the Net Accumulation of Domestic Payment Arrears of the Consolidated Central Government

29. Domestic payment arrears. Domestic payment arrears are payments obligations overdue by more than 90 days to resident agents, businesses, corporations, or institutions.

30. Monitoring. At each test date, the net accumulation of domestic payment arrears of the consolidated central government will be measured at the difference between the stock outstanding at the test date and the stock outstanding on December 31, 2024.

II. Indicative Targets

J. Floor on Priority Social Spending

31. Priority social spending. For program monitoring purposes, priority social spending is defined as all total spending on the programs listed in Table 4.

32. Monitoring. Priority social spending will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

Table 4. El Salvador: Social Program and Projects
Education sector (*Área de Educación*)
Programa Crecer y Aprender Juntos: Desarrollo Integral de la Primera Infancia en El Salvador
"Mi Nueva Escuela" de El Salvador (formación y materiales didácticos)1/
Programa de Mejora de la Calidad y Cobertura Educativa: Nacer, Crecer, Aprender
Programa de Reducción de Brecha Digital en Centros Escolares de El Salvador
Programa de mejoramiento de ambientes educativos para la formación integral y aprendizajes, a nivel nacional
Programa de formación docente al servicio de los aprendizajes, a nivel nacional
Programa de equipamiento y capacitación docente en tecnología e innovación al servicio de los aprendizajes, a nivel nacional
Programa de Becas Bicentenario para estudiantes de tercer ciclo y educación media en los departamentos de Ahuachapán, La Libertad y La Unión
Atención a la Educación Parvularia, Básica y Media (equipamiento)
Becas Escolares
Bono de Gratuidad
Jóvenes Talento
Universidad Virtual
Paquete Escolar
Programa Protección y Ambientes Educativos Seguros
Health sector (*Área de Salud*)
Programa Creciendo Saludables Juntos: Desarrollo Integral de la Primera Infancia en El Salvador
Programa Integrado de Salud II
Programa Salud Mesoamérica 2015 – El Salvador

Table 4. El Salvador: Social Program and Projects (concluded)
Social and economic development (*Desarrollo Económico y Social*)
Programa de fomento de la empleabilidad y mejora del acceso al empleo asalariado - Componente 1, BIRF 9612-SV
Programa de Protección Social en respuesta a eventos adversos que afecten a la población vulnerable, Componente 2, BID 5785/OC-ES
Programa de promoción de oportunidades de emprendimiento - Componente 2, BIRF 9612-SV
Programa de Gestión Social y Fortalecimiento Comunitario - MOPT - KfW
Programa de inclusión productiva en el marco de programas sociales en municipios de mayor vulnerabilidad en El Salvador
Programa para la Erradicación de la Pobreza, a nivel nacional: Componente Desarrollo y Protección Social
Programa de Gestión Social y Fortalecimiento Comunitario - MIVI - KfW
Poverty eradication and local economic development programs (*Programa de Erradicación de la Pobreza y de Desarrollo Económico Local*)
Pensión al Adulto Mayor y a Personas con Discapacidad
Programa Indemnización a Víctimas de Graves Violaciones
Atención a Veteranos Excombatientes
Agricultura Familiar
Prevention of violence (*Prevención de la Violencia*)
Programa de mejoramiento de espacios seguros de convivencia para jóvenes en El Salvador (CONVIVIR) (equipamiento)

1/ It includes the following programs:
Apoyo a la Profesionalización Docente Pertinencia Curricular
Atención a la Salud y Nutrición Escolar
Atención a la Producción de Materiales Educativo y Multiplataforma
Atención de la Primera Infancia
Atención a Centros de Desarrollo Infantil.

K. Floor on Investment Spending of the NFPS

33. Investment spending. Public investment is defined as capital expenditures of the NFPS, that is acquisition of non-financial assets by the NFPS.

34. Monitoring. At each test date, net investment spending of the NFPS will be measured as the cumulative value starting from the beginning of each calendar year.

L. Floor on the Stock of Gross International Reserves of the BCR

35. Gross international reserves. Gross international reserve assets (GIR) comprise all readily available claims on nonresidents denominated in convertible foreign currencies, consistent with the Balance of Payments Manual (Sixth Edition). In particular, they include the (i) monetary claims, (ii) free gold, (iii) holdings of SDRs, (iv) the reserve position in the IMF, and (v) holdings of fixed income instruments. Specifically excluded from gross international reserves are:

- Any precious metals or metal deposits, other than monetary gold, held by the BCR;
- Assets in nonconvertible currencies and illiquid assets;
- Claims on residents; and
- Any reserve assets that are pledged, collateralized or otherwise encumbered (in so far as those assets are not already excluded from gross international reserve assets of BCR), including assets tied up in repurchase agreement transactions.

36. The main financing source for the GIR are the reserves holdings of domestic banks held at the BCR in US$. The latter comprise all liabilities of the BCR to other depository institutions, including statutory reserve requirements and excess reserve requirements. These reserves holdings are specified as a function of the other depository corporations' deposit liabilities. Other financing sources include the deposits of the consolidated government at the BCR, the BCR's own equity position as well IMF disbursements to the BCR during the program period.

37. Monitoring. The stock of gross official international reserves (GIR) will be measured at each test date. GIR data will be provided to the Fund at biweekly frequency after the end of the second business of the following week. At end-December 2024, the GIR, evaluated at market exchange rates, stood at US$3,706 million. Targets for the Program GIR are set for stock positions at the test dates and are evaluated at the program exchange rates and gold price specified in Table 1

38. Adjustors. The floor on the Stock of Gross International Reserves of the BCR will be adjusted:

a) By the equivalent amount and direction (upward/downward) as the adjustor on NFPS deposits, as described in paragraph 25, is applied.

b) Downward by the shortfall in deposits in depository taking corporations relative to the baseline projection reported in Table 5. The percentage adjustment will be equivalent to the legal liquidity reserve ratio of 12 percent.

Table 5. El Salvador: Baseline Projections of Deposits in Depository Taking Corporations
(US$ Millions)

	End-March	End-June	End-December
Deposits in Depository Taking Corporations (cumulative since the beginning of the year)	20,163	20,397	20,865

III. Data Reporting Requirements

39. Provision of data. El Salvador shall provide the Fund, through reports at intervals or dates indicated by the Fund, with such information as the Fund requests in connection with the progress of El Salvador in achieving the objectives and policies set forth in the Memorandum of Economic and Financial Policies and Letter of Intent. All program monitoring data will be provided by the Ministry of Finance and the BCR.

40. Timing and frequency of data. The timing of data provision to the Fund for program monitoring purposes will be as in Table 6. The data reporting requirements below relate to factual outturns based on the established reporting frequency, along with projections for the remainder of the respective calendar year.

Table 6. El Salvador: Reporting Requirements

Type of Data	Reporting frequency	Reporting Deadline	Reporting Institution
External Sector Data			
Family Remittances	Monthly 1/	20th day of the next month	BCR
Trade Balance, Imports, Exports of Goods (volumes, values)	Monthly 1/	20th day of the next month	BCR
Oil and fuel imports	Monthly 1/	20th day of the next month	BCR
Electricity exports	Monthly 1/	20th day of the next month	BCR
Foreign Trade Good Price Indices	Monthly	Last day of the next month	BCR
Tourist arrivals	Monthly	Last day of the next month	BCR
Gross International Reserves	Weekly	By the end of the second business day in the following week	BCR
Gross international Reserves, composition details	Every two weeks	By the end of the second business day in the following week	BCR
Net International Reserves (GIR and reserve-related liabilities (FX liabilities with a maturity of 1 year or less). Reserve-related liabilities projections for 4 quarters forward)	Monthly	10th day of the next month	BCR

Table 6. El Salvador: Reporting Requirements (continued)			
External Arrears	Continuous	Immediate reporting if the QPC is breached. The stock is reported Monthly, fifth business day in the following month	BCR
Real Effective Exchange Rates (index, US bilateral, Central America bilateral)	Monthly	20th day of the next month	BCR
Service account of the Balance of Payments, credit and debit (estimates).	Monthly	Last day of the next month	BCR
Total external debt stock of the NFPS by creditor: instrument-by-instrument data.	Monthly	Last day of the next month	BCR
Total external debt service due and debt service paid by creditor / debt instrument. Perimeter is NFPS.	Monthly	Last day of the next month	BCR
Total external debt contracted by creditor / debt instrument. Perimeter is NFPS.	Monthly	Last day of the next month	BCR
Short-term liabilities to nonresidents (maturity in one year or less), including overdraft positions and debt owed or guaranteed by the government or the BCR.	Monthly	Last day of the next month	BCR
Balance of Payments	Quarterly	2 months and 15 days after the reference quarter	BCR
International Investment Position	Quarterly	2 months and 15 days after the reference quarter	BCR
External Debt Position	Quarterly	2 months and 15 days after the reference quarter	BCR
FDI by economic sector	Quarterly	Second months of the next quarter	BCR
Monetary and Financial Data			
Total deposits	Weekly	By the end of the second business day in the following week	BCR
Deposits by deposit type (savings, term and sight)	Monthly	Last day of the next month	BCR

Table 6. El Salvador: Reporting Requirements (continued)			
Total credit to the private sector including a breakdown by sector	Monthly	Last day of the next month	BCR
Total credit to the public sector	Monthly	Last day of the next month	BCR
Net credit to the non-financial public sector from depository corporations	Monthly	Last day of the next month	BCR
Net credit to the non-financial public sector from other financial corporations	Monthly	Last day of the next month	BCR
Required liquidity reserves held at the BCR	Weekly	By the end of the second business day in the following week	BCR
Excess liquidity reserves held at the BCR	Weekly	By the end of the second business day in the following week	BCR
High-quality liquid assets computable for the purposes of the liquidity requirement as defined by NRP-87 including a breakdown by asset type (readily realizable assets, deposits in foreign banks and deposits at the BCR) and custody agent.	Every two weeks	By the end of the second business day after the end of the 14-day compliance period.	BCR
Proof of the statement accounts, issued by the custody agents, of the securities reported as liquid assets computable for the purpose of NRP-87.	Every two weeks	By the end of the second business day after the end of the 14-day compliance period.	BCR
Total deposits of the consolidated government at the BCR.	Weekly	By the end of the second business day in the following week	BCR
Total deposits of the NFPS at the BCR.	Weekly	By the end of the second business day in the following week	BCR
Fiscal Data			
Primary balance of the NFPS and of its components. 2/	Monthly	No later than 40 days after the end of the month.	BCR and ISP

Table 6. El Salvador: Reporting Requirements (concluded)

Revenues and spending not related to pensions or interest payment of the ISP (using the presentation published on BCR website).	Monthly	No later than 40 days after the end of the month.	BCR
Cash flow table of the ISP, table with issuances of COPs and stock of ISP assets and liabilities.	Monthly	No later than 31 days after the end of the month.	ISP
Net domestic borrowing by the NFPS, broken down by • disbursements/issuance and amortization (domestic and external), • type of instrument, • counterparty (depository corporations, AFPs, BCR, other domestic financial institutions, multilateral developmental organizations, bilateral, and other external creditors)	Monthly	No later than 31 days after the end of the month.	Ministry of Finance
Daily stock of domestic payment arrears of the central government, with breakdown by expenditure component.	Monthly	No later than 15 days after the end of the month	Ministry of Finance
Priority social spending, investment spending, and wage bill	Monthly	No later than 45 days after the end of the month.	Ministry of Finance

Notes:

1/ Two extra days in Holy Week (March or April depending of the calendar) and August.

2/ This data will be made consistent with annual data reporting of the Ministry of Finance, using a derivation table and a methodological note provided by the authorities.

41. Reporting of external payment arrears. Confirmation of the non-incurrence of external payment arrears will be provided in writing, by email, on a bi-weekly basis, by the Ministry of Finance. Any emergence of external payment arrears must be communicated by the Ministry of Finance promptly, with no more than one working day of delay.

42. Reporting of Bitcoins and Bitcoin-linked issuance of debt or guarantees. Confirmation that (i) the Bitcoin amounts owned by or under the control of the public sector (as identified in the statement mentioned as PA to the program and SBs) have not changed, nor that (ii) new hot or cold wallet have become owned by or have undergone the control of the public sector, nor that (iii) issuances of or guarantees to any type of debt or tokenized instrument that is indexed to or denominated in Bitcoin and implies a liability for the public sector has been done or provided, will be communicated at the end of every month in writing, via email, by Ministry of Finance for the month. If any of the circumstances mentioned in (i), (ii), or (iii) occurs within a month, this will be communicated by no later than the following business day in writing, via email.

Appendix A. Non-Financial Public Sector Entities

No.	Name of Institution	Acronym
Gobierno Central Presupuestario (Administración Central)		
1	Órgano Legislativo	AL
2	Órgano Judicial	CSJ
3	Presidencia de la República	PRESIDENCIA
4	Ministerio de Hacienda	MH
5	Tesoro Público	DGT
6	Ministerio de Relaciones Exteriores	MIREX
7	Ministerio de la Defensa Nacional	DEFENSA
8	Ministerio de Gobernación y Desarrollo Territorial	MIGOB
9	Ministerio de Justicia y Seguridad Pública	MJYSP
10	Ministerio de Educación, Ciencia y Tecnología	MINEDUCYT
11	Ministerio de Salud	MINSAL
12	Ministerio de Trabajo y Previsión Social	MTYPS
13	Ministerio de Economía	MINEC
14	Ministerio de Agricultura y Ganadería	MAG
15	Ministerio de Obras Públicas y Transporte	MOPT
16	Ministerio de Medio Ambiente y Recursos Naturales	MARN
17	Ministerio de Turismo	MITUR
18	Ministerio de Cultura	…
19	Ministerio de Vivienda	…
20	Ministerio de Desarrollo Local	…
21	Instituto de Acceso a la Información Publica	IAIP
22	Fiscalía General de la República	FGR
23	Procuraduría General de la República	PGR
24	Procuraduría para la Defensa de los Derechos Humanos	PDDH
25	Corte de Cuentas de la República	CC
26	Tribunal Supremo Electoral	TSE
27	Tribunal de Servicio Civil	TSC
28	Consejo Nacional de la Judicatura	CNJ
29	Tribunal de Ética Gubernamental	TEG
30	Fideicomisos varios que son parte del Gobierno Central Presupuestario	…

No.	Name of Institution	Acronym
Gobierno Central Extrapresupuestario		
1	Instituto Nacional de los Deportes de El Salvador	INDES
2	Instituto Salvadoreño para el Desarrollo de la Mujer	ISDEMU
3	Fondo de Inversión Social para el Desarrollo Local	FISDL
4	Agencia de Promoción de Exportaciones e Inversiones de El Salvador	...
5	Fondo Salvadoreño para Estudios de Preinversión	FOSEP
6	Instituto Salvadoreño de Desarrollo Municipal 1/	ISDEM
7	Academia Nacional de Seguridad Pública	ANSP
8	Unidad Técnica Ejecutiva del Sector Justicia	UTE
9	Consejo Nacional de Administración de Bienes	CONAB
10	Registro Nacional de las Personas Naturales	RNPN
11	Instituto Salvadoreño para el Desarrollo Integral de la Niñez y la Adolescencia 1/	ISNA
12	Consejo Nacional de la Niñez y de la Adolescencia 1/	CONNA
13	Universidad de El Salvador	UES
14	Hospital Nacional Rosales	HR
15	Hospital Nacional Benjamín Bloom	HNBB
16	Hospital Nacional de Maternidad "Dr. Raúl Arguello Escolán"	...
17	Hospital Nacional Psiquiátrico "Dr. José Molina Martínez"	...
18	Hospital Nacional de Neumología y Medicina Familiar "Dr. José Antonio Saldaña", San Salvador	...
19	Hospital Nacional "San Juan De Dios", Santa Ana	...
20	Hospital Nacional "Francisco Menéndez", Ahuachapán	...
21	Hospital Nacional "Dr. Jorge Mazzini Villacorta", Sonsonate	...
22	Hospital Nacional "Dr. Luis Edmundo Vásquez", Chalatenango	...
23	Hospital Nacional "San Rafael", Santa Tecla, La Libertad	...
24	Hospital Nacional "Santa Gertrudis", San Vicente	...
25	Hospital Nacional "Santa Teresa", Zacatecoluca	...
26	Hospital Nacional "San Juan de Dios", San Miguel	...
27	Hospital Nacional "San Pedro", Usulután	...
28	Hospital Nacional "Dr. Juan José Fernández", Zacamil	...
29	Hospital Nacional "Enfermera Angélica Vidal de Najarro", San Bartolo, San Salvador	...
30	Hospital Nacional "Nuestra Señora de Fátima", Cojutepeque, Cuscatlán	...

No.	Name of Institution	Acronym
31	Hospital Nacional de La Unión	…
32	Hospital Nacional de Ilobasco	…
33	Hospital Nacional de Nueva Guadalupe	…
34	Hospital Nacional "Monseñor Oscar Arnulfo Romero y Galdámez", Ciudad Barrios, San Miguel	…
35	Hospital Nacional de Sensuntepeque	…
36	Hospital Nacional de Chalchuapa	…
37	Hospital Nacional "Arturo Morales", Metapán, Santa Ana	…
38	Hospital Nacional "Dr. Héctor Antonio Hernández Flores", San Francisco Gotera, Morazán	…
39	Hospital Nacional de Santa Rosa de Lima	…
40	Hospital Nacional de Nueva Concepción	…
41	Hospital Nacional "Dr. Jorge Arturo Mena", Santiago de María, Usulután	…
42	Hospital Nacional de Jiquilisco	…
43	Hospital Nacional de Suchitoto	…
44	Consejo Superior de Salud Pública	CSSP
45	Instituto Salvadoreño de Rehabilitación Integral	ISRI
46	Hogar de Ancianos "Narcisa Castillo", Santa Ana	…
47	Fondo Solidario para la Salud	FOSALUD
48	Superintendencia de Regulación Sanitaria (Dirección Nacional de Medicamentos)	DNM
49	Fondo de Protección de Lisiados y Discapacitados a Consecuencia del Conflicto Armado 1/	…
50	Instituto Salvadoreño de Formación Profesional 1/	INSAFORE
51	Centro Nacional de Registros	CNR
52	Consejo Salvadoreño de la Agroindustria Azucarera	CONSAA
53	Superintendencia de Competencia	SC
54	Defensoría del Consumidor	DC
55	Consejo Nacional de Energía 1/	CNE
56	Consejo Nacional de Calidad	CNC
57	Centro Internacional de Ferias y Convenciones de El Salvador	CIFCO
58	Consejo de Vigilancia de la Profesión de Contaduría Pública y Auditoria	CVPCPYA
59	Superintendencia General de Electricidad y Telecomunicaciones	SIGET
60	Fondo de Inversión Nacional en Electricidad y Telefonía	FINET

No.	Name of Institution	Acronym
61	Fondos Especial de los Recursos Provenientes de la Privatización de ANTEL-FANTEL	
62	Comisión Nacional de la Micro y Pequeña Empresa	CONAMYPE
63	Instituto Salvadoreño de Fomento Cooperativo	INSAFOCOOP
64	Instituto Salvadoreño de Transformación Agraria	ISTA
65	Centro Nacional de Tecnología Agropecuaria y Forestal	CENTA
66	Escuela Nacional de Agricultura	ENA/IENS-ENA)
67	Consejo Salvadoreño del Café 1/	CSC
68	Fondo de Emergencia para el Café 1/	FEC
69	Autoridad Marítima Portuaria 1/	AMP
70	Fondo de Conservación Vial	FOVIAL
71	Autoridad de Aviación Civil	AAC
72	Fondo Nacional de Vivienda Popular	FONAVIPO
73	Fondo de Atención de Víctimas de Accidentes de Transito	FONAT
74	Fondo Ambiental de El Salvador 1/	FONAES
75	Instituto Salvadoreño de Turismo	ISTU
76	Corporación Salvadoreña de Turismo	CORSATUR
77	Fondo del Milenio 1/	FOMILENIO
78	Fondo del Milenio II 1/	FOMILENIO
79	Instituto Administrador de los Beneficios de los Veteranos y Excombatientes 1/	INABVE
80	Hospital Nacional El Salvador1/	…
81	Dirección Nacional de Obras Municipales	DOM
82	Consejo Nacional para la Inclusión de las Personas con Discapacidad	CONAIPD
83	Instituto de Bienestar Animal	IBA
84	Autoridad Salvadoreña del Agua	ASA
85	Dirección Nacional de Compras (Dirección Nacional de Compras Públicas)	…
86	Cuerpo de Bomberos de El Salvador	…
87	Consejo Nacional de la Primera Infancia, Niñez y Adolescencia	CONAPINA
88	Instituto Crecer Juntos	ICJ
89	Centro de Maternidad Nacer con Cariño “El Nido”	…
90	Instituto Especializado “Hospital El Salvador”	…
91	Sistema de Emergencias Médicas	SEM

No.	Name of Institution	Acronym
92	Ente Nacional de Transmisión Eléctrica	ENTE
93	Autoridad de Planificación del Centro Histórico de San Salvador	...
94	Agencia Administradora de Fondos Bitcoin	AAB
95	Comisión Nacional de Activos Digitales	...
96	Dirección General de Energía, Hidrocarburos y Minas	DGEHM
97	Instituto Salvadoreño del Café	ISC
98	Dirección de Integración	...
99	Instituto Nacional de Capacitación y Formación	...
100	Centro de Desarrollo de Comercio Agropecuario	...
Fondos de Seguridad Social		
1	Instituto Nacional de Pensiones de los Empleados Públicos 1/	INPEP
2	Instituto de Previsión Social de la Fuerza Armada	ISPFA
3	Instituto Salvadoreño de Bienestar Magisterial	ISBM
4	Instituto Salvadoreño del Seguro Social	ISSS
5	Instituto Salvadoreño de Pensiones	ISP
Sociedades Públicas no Financieras		
1	Lotería Nacional de Beneficencia	LNB
2	Centro Farmacéutico de la Fuerza Armada	CEFAFA
3	Centro Internacional de Ferias y Convenciones de El Salvador 1/	CIFCO
4	Comisión Ejecutiva Hidroeléctrica del Rio Lempa 2/	CEL
5	Comisión Ejecutiva Portuaria Autónoma	CEPA
6	Administración Nacional de Acueductos y Alcantarillados (ANDA)	ANDA

1/ No longer in operation.

2/ It holds the following subsidiaries: ETESAL, GEO, CECSA, e INE.

Statement by the IMF Staff Representative on El Salvador
February 26, 2025

This statement provides information about the completion of pending prior actions that have become available since the staff report was issued on February 12, 2025. This information does not alter the thrust of the staff appraisal.

The four pending prior actions are assessed to have been met.

- **Fiscal transparency:** This prior action is assessed to be met following publication of the pending documents, including: (i) the audited financial statements of thirty government agencies in the Court of Accounts website, as well as the list of statements audited and the status of their findings for the 2019-2023 statements for which processes are still ongoing (link, February 24); and (ii) the COVID/FOPROMID audits on the Court of Accounts' website (link, February 19). As reported in the Staff Report, the authorities had already published fiscal flow and debt stock data including the ISP (link and link), all budget amendments of the 2023 and 2024 budgets (link), and the ownership of SOEs (link).
- **Bitcoin legislation:** This prior action is assessed to be met following the enactment of the Amendments to the Bitcoin Law and its publication in the Official Gazette (January 30) as well as the publication of an internal regulation clarifying all taxes will have to be paid in U.S. dollars (link, February 24).
- **Bitcoin transparency and public e-wallet *(Chivo)* :** This prior action is assessed to be met following (i) publication of *Chivo*'s summary financial statements, including transfers to and from the government (link) and *Chivo*'s liquidity management policy (link); (ii) consolidation of all cold wallets owned or under the control of the government whose address has been public since April 2024;[1] (iii) creation of a new public entity responsible for the management of *Chivo* clients' accounts, that ensures the segregation and safeguarding of Chivo clients' assets; and (iv) the sharing with staff of information on all hot wallets' public addresses and the corresponding Bitcoin amounts owned by or under the control of the public sector. All the above actions were implemented by February 24.
- **Governance:** The prior action is assessed to be met following parliamentary approval of a new Anti-Corruption Law in line with the G-20 High-Level principles on asset disclosure by public officials, requiring publication of asset declarations by high-level senior officials. The new Law was published in the Official Gazette on February 12.

[1] As of February 24, El Salvador's Bitcoin holdings in the consolidated cold wallet reached 6,081 (around US$600 million).

Statement by Ms. Méndez Bertolo, Executive Director for El Salvador
February 26, 2025

Our authorities want to thank management and staff for their close and active commitment to successfully conclude a new program under the Extended Fund Facility (EFF). They would like to extend their appreciation to Mr. Espinoza and his team for their remarkable work, commitment, and open discussions with our authorities over the past 12 months. Throughout this process, technical assistance from the Fund has also helped enhance our technical capacity. This continued and deep engagement will be critical to secure the program's success.

The Program

Since the beginning of President Nayib Bukele's administration in 2019, authorities' efforts have centered on improving the standard of living of Salvadorans. Early decisive actions were taken not only to address the challenges posed by the global pandemic but also to eradicate a key constraint to El Salvador's growth potential: pervasive crime and gang violence. Policies protected lives and secured a rapid recovery of the economy and employment. Meanwhile, security policies lowered the homicide rate from 54 per 100,000 people in 2018 to 1.8 per 100,000 in 2024, and now El Salvador has the lowest homicide rate in Latin America. Importantly, outmigration has come to a halt, and now many Salvadoran citizens living abroad are looking to return or invest back home.

The focus of President Bukele's second term is squarely on strengthening the sustainability and growth prospects of their economy, with the support of a 40-month Fund arrangement under the Extended Fund Facility (EFF). The program is designed to support El Salvador's balance of payments needs and economic reforms and is focused on strengthening fiscal and external sustainability through the implementation of an ambitious and growth-friendly fiscal consolidation plan, as well as actions to enhance reserve buffers. In addition, the program envisages improvements in governance, transparency, and resilience to boost confidence and the country's growth potential, already enhanced by the strong security improvements.

Meanwhile, Bitcoin-related risks are being mitigated. In fact, the authorities enacted amendments to the Bitcoin Law that clarify the legal nature of Bitcoin and remove from the law the essential features of legal tender (*prior action*). Acceptance of Bitcoin will be voluntary, tax payments will be made in US dollars, and the role of the public sector in the Bitcoin project will be confined. The program is also expected to catalyze substantial additional financial support from the World Bank, the Inter-American Development Bank, and other regional development banks, and over time allow El Salvador to re-access international capital markets at more favorable rates.

Importantly, the program counts on full ownership of the authorities at the highest levels and unprecedented social and political support. According to an end-2024 CID Gallup survey, 90% of Salvadorans approve of President Bukele's performance and his second-term priorities. There is also full recognition that the continued and decisive implementation of policies described in the Memorandum of Economic and Financial Policies (MEFP) will be critical for the program's success and that policies may need to be adjusted given El Salvador's exposure shocks and its dollarization regime. Finally, the Salvadoran authorities also value the role technical assistance will play in building critical capacity in the fiscal, financial, and other key areas to secure the program's objectives.

Economic Outlook

The Salvadoran economy is growing above its historical average, despite the complex international environment. According to program estimates, the economy expanded by 2.6 percent in 2024, driven by consumption, which was supported by remittances and private credit, as well as exports and booming tourism. By economic sector, real estate, trade, and banking have been the most dynamic activities. Real GDP growth is projected to expand by 2.5 percent this year, consistent with policies enabling a moderation in consumption, a strengthening private investment, and a greater contribution from the external sector. The economy is then expected to grow by around 3 percent over the medium term, against the backdrop of a durable improvement in security—which is expected to boost potential growth—and driven by investment as structural reforms, fiscal consolidation, and larger buffers improve confidence.

It is also worth emphasizing that crime reduction is a factual issue that all the economic sectors highlight and is leading to increased economic activity across the country, especially in areas previously dominated by gangs. Reduced security costs and extortion payments by enterprises and households are boosting private investment and consumption, as well as contributing to higher tax collections, contributing to better fiscal performance.

The strong and stable relationship between El Salvador and the United States contributes to a new, improved business and investment climate. As a result, substantial growth is projected in the construction sector, including residential, commercial, and hospitality developments. Based on meetings held between authorities and investors, it is anticipated that significant investment amounts will be committed over the next three years. Also, El Salvador's established regulatory framework for digital assets, along with a dedicated regulatory body and favorable tax policies, positions the country as an attractive destination for crypto entities. For instance, Tether's decision to relocate to El Salvador underscores this attractiveness. This framework fosters a supportive environment for future crypto investments.

Inflation, after ending 2023 at 1.23 percent, has fallen further, driven by the stabilization of food and energy prices. Inflation reached 0.29 percent by end-2024, and the Central Reserve Bank of El Salvador is projecting it to remain within the 0.2 percent to 0.5 percent range in 2025.

Regarding the current account deficit, which is estimated to have narrowed to 1.4 percent of GDP in 2024, it is projected to fall further to 0.9 percent of GDP in 2025, supported by prudent fiscal policy, favorable terms of trade as well as robust tourism, exports, and remittances. Implementing reforms to improve El Salvador's export capacity, growing tourism receipts (from 8.1 percent of GDP in 2023 to 11.1 percent of GDP in 2030), and favorable trade terms are priorities. Remittances are projected to remain strong, moderating only gradually (from 24 percent of GDP in 2023 to 20 percent of GDP in 2030), reflecting expected labor market conditions.

The authorities are aware that there are risks to the outlook. Downside risks stem from a slowdown in global demand, tighter financial conditions, and higher global commodity prices from geopolitical tensions, as well as climate-related shocks. Trade and migration policies enacted overseas present downside risks but also opportunities. In this context, improvements in the security situation and steady reform implementation could lead to stronger-than-projected investment, exports, and growth, as well as earlier access to international markets on more favorable terms.

Fiscal Policy

There is strong recognition of the need to consolidate public finances, put public debt on a firm downward trajectory, and reduce reliance on financing that crowds out private sector investments. Over the past few years, efforts have been made to reduce fiscal deficits and public debt from pandemic highs. The Non-Financial Public Sector (NFPS) overall balance has fallen from -8.2 percent of GDP in 2020 to around -4.4 percent of GDP in 2024 and is projected to fall further to -3.4 percent of GDP in 2025. Public debt, after peaking at 87.3 percent of GDP in 2024, is projected to fall to around 79 percent of GDP by 2030. These efforts were supported by prudent expenditure policies and improved revenue mobilization, reflecting improvements in tax administration and security. These initial fiscal efforts, along with several liability management operations to lessen near-term gross financing, have reduced sharply the sovereign spread, which fell from over 700 bps in late-2023 to around 348 bps more recently.

Going forward, the authorities are fully committed to undertaking a 3½ percent of GDP fiscal adjustment over the next three years, which will bring public debt down to around 83 percent of GDP by 2028. This will be achieved through a balanced, growth-friendly consolidation plan, with emphasis on reducing public wages while also protecting priority social and infrastructure spending. In fact, the authorities plan to allocate at least 1½ percent of GDP annually to well-targeted in-kind transfers, school feeding, and cash transfer programs, among others. In addition, efforts will be undertaken to strengthen the targeting and effectiveness of social spending, with support from developments.

These measures will be complemented by further improvements in fiscal transparency and governance, as well as a strengthening of the public procurement and public financial management systems. In this regard, the recent publication of a three-year fiscal plan, covering the entire non-financial public sector, including the expected cost of public pensions and of interest payments on pension debt, represents an important commitment in this regard (prior action).

The fiscal consolidation plan will lower gross financing needs, which, together with the financial support from regional and multilateral development banks, is expected to support private sector credit and allow El Salvador to access international capital markets at even more affordable rates.

Financial Sector

Work will continue to strengthen the proven resilience of El Salvador's financial sector, which remains healthy, liquid, and solvent. Credit continues to grow at a healthy pace (credit-to-GDP reached 61.5 percent in 2024), and non-performing loans remain low (around 2.0 percent).

Emphasis is being placed on enhancing the buffers of the financial sector. In this vein, the Central Reserve Bank of El Salvador recently adopted normative acts to: (i) raise the average reserve requirement to 12 percent by end-January 2025, and (ii) establish a gradual buildup of the liquid asset requirement to 1 percent by end-June 2025, 2 percent by end-December 2025, and 3 percent by end-June 2026 held in high-quality liquid international assets subject to rigorous regulatory requirements (*prior action*). Fund financing will also support the central bank's gross reserves, thereby strengthening its capacity to address shocks. Reforms will continue to align bank regulation with Basel III standards on risk-based supervision and improve the supervision of cooperatives and other nonbank financial institutions.

Finally, efforts are underway to improve financial inclusion through the promotion of a payment infrastructure and a new statistics framework. The new payments infrastructure system managed by the central bank (*Transfer 365)* is successfully promoting free and fast retail payments by interconnecting financial institutions' platforms.

Structural Agenda

The authorities are firmly committed to implementing a comprehensive plan aimed at: (i) reducing trade barriers by aligning trade documentation with international standards and simplifying procedures for customs clearance; (ii) cutting waiting times and improving the predictability for obtaining permits by standardizing and digitalizing regulator procedures; and (iii) expanding and modernizing public and private infrastructure to attract private investment and tourism, but also to deal with climate shocks. The latter will also involve working with private investors to facilitate the rapid and efficient development of hotels, restaurants, theme parks, and other attractions.

Building on security gains, improving governance and transparency will be a top priority to attract investment and boost productivity. A new anti-corruption legislation has been enacted to address corruption vulnerabilities, drawing on the G-20 Higher-Level principles on asset disclosure by public officials (*prior action*). Among other aspects, the new law includes a provision requiring the publication of asset declarations from senior officials.

In addition, the authorities are committed to further strengthening their Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) legal framework. They plan to enact by mid-2025 the necessary reforms to bring AML/CFT system for Virtual Asset Service Provider (VASP) in compliance with Financial Action Task Force (FATC) recommendations (on technologies, including virtual assets and virtual asset service providers) following the recent mutual evaluation by GAFILAT.

Finally, efforts will be made to improve the quality and timeliness of the country's statistics. In line with a new institutional vision, the Central Bank completed the 2024 population and housing census and is currently working on the 2025 agricultural and fisheries census. Both censuses will help improve the information necessary to design public policies in various sectors for the benefit of the country.

Conclusion

The authorities are already implementing decisive measures to strengthen macroeconomic stability and create the conditions for stronger, more inclusive, and resilient growth. President Bukele and his economic team have full ownership of the program and will continue to create the political and social consensus to press forward with the needed adjustments and reforms. The IMF's financial and policy support for El Salvador is critical to addressing balance of payments needs, but also to guide the authorities' efforts to consolidate public finances, rebuild external and financial buffers, and strengthen governance and transparency. The authorities are confident that the steadfast program implementation will enhance confidence and attract the needed private investment to boost productivity and living standards for all Salvadorans.

The authorities of El Salvador highly appreciate the close and permanent dialogue with the Fund.