

**The Ministry of Finance El Salvador informs that the International Monetary Fund has published its Staff Report of the 2018 Article IV Consultation and Statement by the Executive Director for El Salvador.**

In accordance with the provisions of Article IV of the Statutes of the International Monetary Fund (IMF), a team of experts from that entity visited El Salvador, from February 5 to 16, to hold discussions with the Authorities and collect economic and financial data, with which the published staff report of the Article IV Consultation has been prepared.

Among the main topics addressed in the report are economic growth, public finances, public debt, the financial system and important risks for the Republic of El Salvador, as well as proposed policy measures to improve public finances and the position of the national authorities in this regard.

The IMF states that during year 2017 economic growth reached 2.3% in real terms, and it foresees that for the period 2018-2019 the growth will remain above such value. The result obtained in 2017 is lower than that of other countries in the region, and indicates that efforts must be made to increase investment, improve employment and reduce crime; however, the Executive Board welcomed the continued economic recovery in El Salvador.

In addition, the IMF acknowledges that there has been significant progress in fiscal consolidation efforts implemented by the Government, which have improved fiscal results by reducing the deficit to 2.5% of GDP and obtaining a primary surplus at the end of 2017 of 0.9% of GDP, and expects the fiscal deficit to be further reduced, to 2.2% of GDP in 2018, as the savings from the pension reform begin to materialize. The Fund also states that the downward adjustment of nominal GDP, due to the revision of national accounts by the Central Reserve Bank, caused a change in the debt / GDP ratio of 2017, going from 63% to 71% of GDP; however, it recognizes the recent improvement in the dynamics of public debt and its stabilization.

Regarding the Financial System, the IMF has expressed that it is solid, properly capitalized, with abundant liquidity and a default from debtors under control. Credit growth is 6%, which is below the other countries in the region. On the other hand, the Executive Board is encouraged by the efforts made by national authorities to improve the business climate and competitiveness, as reflected in the country's considerable rise of 22 notches in the ranking of the Doing Business 2018 report from the World Bank, and also celebrates the progress made in the implementation of the "El Salvador Seguro" plan to reduce crime, and in the process of adhesion currently under way to the customs union with Guatemala and Honduras.

On the other hand, the report indicates that there are important global risks such as the following: uncertainty in the policy measures of the United States, financial conditions that make financing more expensive, and global growth that is weaker than expected, among others. The internal risks considered refer to the need to achieve consensus among political parties to support policy formulation, and natural disasters.

In line with the above, the Executive Board emphasizes the need to support fiscal consolidation, strengthen the financial sector and implement far-reaching structural reforms to improve the business climate and support formal employment.

The IMF proposes that it should be a priority in the formulation of policy measures, the implementation of an additional fiscal adjustment of 2% of GDP, in 2019-2020, proposing among others: progressive measures such as the property tax, especially on sumptuary property and a VAT increase, to bring it up to 15%; approval of an integrated budget law, which includes updating of the Medium Term Fiscal Framework; improvement of expenditure controls, rationalizing the supply of goods and services, and implementing the Treasury Single Account; improvement of government statistics; greater efficiency of the tax and customs administration; implementation of a budget based on results; and improvement of the evaluation and execution of public investment projects and multi-year budgets.

The IMF admits that the pension reform approved in September 2017 has allowed alleviating the pressure of the system on public finances and recommends that a parametric reform be continued to increase the retirement age, to gradually improve the coverage of the poorest and most vulnerable, and to improve the efficiency of costs in terms of commissions that are too high, among others.

With the above measures, the Fund considers that the Fiscal Deficit would be reduced to -0.7% of GDP by 2020 and debt would get to 67.9% of GDP for the same year.

Regarding the measures proposed by the IMF, the Government advocates a more moderate and gradual adjustment effort, which would be achieved mainly through the collection of revenues, through better tax administration; considers that raising the VAT would have significant adverse effects on inclusive growth and is not being considered as a measure of the current presidential administration; agrees to make efforts that result in greater rationalization of spending, which could be supported by reforms such as the budget based on results; and states that work has begun on reviewing the Fiscal Responsibility Law.

The Salvadoran authorities, in terms of sovereign financing, emphasized to the IMF the efforts aimed at reaching a political consensus that ensure the raising of funds for the timely payment of securities due 2019 - 2024.

To conclude, the Salvadoran authorities are grateful for the completion of these complex studies by the IMF. The staff report of the Article IV consultation on El Salvador, as well as the pronouncement of the Executive Director for El Salvador, can be found at the following link:

<https://www.imf.org/en/Publications/CR/Issues/2018/06/07/El-Salvador-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45946>

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