INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/190

EL SALVADOR

July 2025

2025 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR EL SALVADOR

In the context of the Article IV Consultation and First Review Under the Extended Fund Facility, and Requests for Waivers of Nonobservance of Performance Criteria, and Modification of Performance Criteria, 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 and summarizing the views of the Executive Board as expressed during its June 27, 2025 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 27, 2025, following discussions that ended on May 20, 2025, with the officials of El Salvador on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 16, 2025.
- 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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR25/223

IMF Executive Board Concludes 2025 Article IV consultation and First Review Under the Extended Fund Facility for El Salvador

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded El Salvador's 2025 Article IV consultation and completed the first review of the Extended Fund Facility (EFF) arrangement, allowing for an immediate disbursement of SDR 86.16 million (about US$118 million).
- Program performance has been solid, with the economy continuing to expand as macroeconomic imbalances are being addressed.
- Key fiscal and international reserve targets were met with margins and progress continues with the ambitious reform agenda in the areas of governance, transparency, and financial resilience.

Washington, DC – **June 27, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded El Salvador's 2025 Article IV consultation[1] and completed the first review of the Extended Fund Facility (EFF) arrangement. Completion of this review allows immediate disbursement of SDR 86.16 million (about US$118 million), bringing total disbursements under this arrangement to SDR 172.32 million (about US$231 million). The authorities have consented to the publication of this Staff Report.[2]

El Salvador's 40-month EFF arrangement was approved by the Executive Board on February 26, 2025, with total access of SDR 1,033.92 million (about US$1.4 billion or 360 percent of quota). The program remains focused on strengthening public finances, rebuilding external and financial buffers, and enhancing governance and transparency frameworks to create the conditions for stronger and more resilient growth.

Program performance has been solid, with the economy continuing to expand as macroeconomic imbalances are being addressed. Key fiscal and international reserve targets were met with margins and progress continues with the ambitious reform agenda in the areas of governance, transparency, and financial resilience. Specifically, in the context of the first review, (i) a new Fiscal Sustainability Law has been enacted; (ii) a presidential decree limiting exceptions to the Procurement Law has been issued; (iii) financial information on the largest state-owned enterprises has been published; and (iv) information on public contracts has been

---

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on https://www.imf.org/en/Countries/SLV.

700 19th Street NW
Washington, DC 20431
USA

made more accessible. Steps continue to be taken to mitigate Bitcoin associated risks and unwind the public sector's participation in Chivo.

The 2025 Article IV consultation focused on policies to boost medium-term growth and resilience. Special attention was given to policies to support foreign direct investment, employment and exports, while considering the implications of a more challenging external backdrop.

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

"El Salvador's economic program, supported by the Extended Fund Facility arrangement, had an auspicious start. Notably, the economy continues to expand, inflation has further moderated, and the current account deficit has narrowed amid efforts to address macroeconomic imbalances. Fiscal consolidation remains on track, external and financial buffers are being rebuilt, and governance and transparency reforms are proceeding in line with program commitments. In light of rising external risks, agile policy making and contingency planning remain essential to protect program objectives, including in the context of the dollarization regime.

"Efforts to strengthen public finances must continue, especially through a further rationalization of the wage bill and other current spending. Beyond this year, comprehensive reforms to the civil service and pension reforms are needed to safeguard fiscal consolidation and protect priority social and infrastructure spending. Meanwhile, continued efforts to mobilize official support will help further reduce reliance on bank and pension fund financing and support private sector credit.

"Sustained efforts are needed to rebuild financial sector buffers and enhance oversight and regulation. The steady implementation of the planned increases in banks' reserve requirements and liquidity buffers is critical to enhancing resilience and preserving financial stability. These efforts should be complemented by enhancements in the oversight of banks as well as nonbank financial institutions.

"Steps to strengthen governance and transparency must continue. A consistent and evenhanded application of the new Anti-Corruption Law remains critical, alongside efforts to reinforce the AML/CFT framework in line with international best practices. Boosting confidence and investment requires elevating standards of fiscal reporting and transparency about public contracts, and improved access to public information. Focused efforts should be considered to support foreign direct investment and address infrastructure gaps, including through well-designed public-private partnerships and investor protection schemes.

"Bitcoin risks should continue to be mitigated. An early unwinding of the public sector's participation in the government's e-wallet (Chivo) remains critical, and efforts should continue to keep the public sector's holdings of Bitcoin unchanged, and to improve the oversight of crypto assets to enhance consumer and investor protection."

Executive Board Assessment[3]

---

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation

Executive Directors agreed with the thrust of the staff appraisal. They commended the Salvadoran authorities for the strong ownership and satisfactory performance under the Fund-supported program and welcomed the continued efforts to address macroeconomic imbalances. Directors noted, however, downside risks related to escalating global trade tensions and tighter immigration policies elsewhere, which could negatively impact remittances and growth. Against this backdrop, Directors emphasized the importance of sustaining the reform momentum to safeguard macroeconomic stability and durably address El Salvador's longstanding structural challenges and encouraged the authorities to stand ready to activate contingency plans as needed.

Directors underscored the need to sustain fiscal consolidation by further rationalizing the wage bill and containing current expenditures to secure space for priority social and infrastructure spending and put debt firmly on a downward trajectory. They concurred that contingency measures to broaden tax revenues and streamline tax expenditures could also be considered. Directors welcomed the new Fiscal Responsibility Law and agreed that developing and implementing civil service and pension reforms and further strengthening public financial management are essential to underpin the fiscal adjustment over the medium term. Continuing to mobilize official external support would help reduce reliance on bank and pension fund financing and support private sector credit.

While noting that the financial system remains sound, Directors emphasized the importance of further rebuilding financial sector buffers and strengthening oversight and regulation. They agreed that implementing the new Financial Stability Law and improving the supervision and governance of nonbank financial institutions in line with best practices are also key. Directors encouraged mitigating risks from the use of Bitcoin and boosting the oversight of crypto assets. They stressed the need to unwind the public sector's participation in the government e-wallet (Chivo) and to not increase overall Bitcoin holdings by the public sector and underscored the importance of clear and consistent communication in this regard. Directors also emphasized the need to enhance the autonomy of the central bank and strengthen its capital position and boost international reserves.

Directors underscored the importance of advancing structural reforms to unlock El Salvador's growth potential. They recommended further strengthening governance and transparency and, in this regard, encouraged enhancing the AML/CFT framework in line with FATF recommendations, securing the consistent and evenhanded application of the new anti-corruption framework, and strengthening the transparency of public information, including in the procurement process. Noting that the improvements in domestic security offer a unique opportunity to further boost growth, Directors welcomed the authorities' Long-term Growth Strategy and encouraged reforms to raise productivity, improve the investment climate, and enhance financial inclusion. They welcomed ongoing efforts to reduce red tape and logistics costs, as well as plans to address large infrastructure and human capital gaps, with support of the private sector. Directors also encouraged strengthening resilience to climate-related shocks.

---

of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

It is expected that the next Article IV consultation with El Salvador will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Table 1. El Salvador: Selected Economic Indicators

I. Social Indicators

Rank in UNDP Development Index 2021 (of 189)	125	Population (million, 2022)	6.3
Per capita income (U.S. dollars, 2022)	5,366	Life expectancy at birth in years (2021)	71
Percent of pop. below poverty line (2021)	24.6	Gini index (2019)	39

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

					Est.	Proj.	
	2020	2021	2022	2023	2024	2025	2026
Income and Prices							
Real GDP growth (percent)	-7.9	11.9	2.9	3.5	2.6	2.5	2.5
Consumer price inflation (average, percent)	-0.4	3.5	7.2	4.0	0.9	1.0	1.8
GDP Deflator (percent)	0.7	4.1	6.6	2.6	1.8	0.8	2.2
Money and Credit							
Credit to the private sector	65.3	61.1	62.6	61.9	62.5	66.1	69.1
Broad money	69.4	60.9	58.0	59.5	58.8	59.1	58.1
Interest rate (time deposits, percent)	4.2	4.1	4.5	5.3	5.6	…	…
External Sector							
Current account balance	1.1	-4.3	-6.7	-1.1	-1.8	-0.8	-2.1
Trade balance	-20.2	-27.3	-30.0	-26.2	-26.9	-27.0	-26.0
Transfers (net)	24.0	26.1	24.5	24.2	23.7	25.2	23.0
Foreign direct investment (net)	0.0	-1.3	-0.4	-2.0	-1.8	-2.1	-2.3
Gross international reserves (mill. of US$)	3,083	3,426	2,696	3,081	3,706	4,252	4,762
Nonfinancial Public Sector							
Overall balance	-8.2	-5.5	-2.7	-4.7	-4.5	-3.0	-2.1
Primary balance	-3.8	-1.0	2.0	-0.1	0.0	1.9	2.9
Of which: tax revenue	18.3	19.9	20.1	19.8	20.6	21.2	21.2
Gross debt 1/	95.4	88.0	83.7	85.1	87.5	88.0	86.6
National Savings and Investment							
Gross capital formation	17.2	23.4	24.5	20.7	20.3	22.0	21.6
Private fixed investment 2/	14.7	21.0	19.3	18.8	19.4	19.7	19.7
National savings	18.3	19.0	17.7	19.6	18.6	21.1	19.5
Private sector	23.9	21.4	18.3	20.4	19.4	20.9	18.4
Net Foreign Assets of the Financial System							
Millions of U.S. dollars	3,618	3,022	1,488	1,565	2,298	2,442	2,730
Memorandum Items							
Nominal GDP (billions of US$)	24.9	29.0	31.9	33.9	35.4	36.5	38.3

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 changes in inventories.

EL SALVADOR

June 16, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. El Salvador's economic expansion continues, amid a reduction in macroeconomic imbalances. However, downside risks have risen as a result of elevated global trade tensions and stricter immigration policies in other countries, although these are partly mitigated by more favorable terms of trade and potential trade diversion effects. Review discussions focused on assessing recent progress and reaching understandings on policies to safeguard macroeconomic stability and further strengthen governance and transparency, while recognizing the more challenging external backdrop.

Program performance. Most end-March targets, on the primary balance, external and financial buffers, were met with margins, and the overall stock of Bitcoin held by the public sector has remained unchanged since program approval. Substantial progress has been made in the implementation of key structural benchmarks, following initial delays, and agreement has been reached on a reform timetable. In the context of the first review, a new Fiscal Sustainability Law has been enacted, a decree limiting exceptions to the Procurement Law has been issued and the financial information of the six largest state-owned enterprises has been published. Waivers are being requested to address minor deviations in quantitative performance criteria on account of (i) a higher than programmed net borrowing by the nonfinancial public sector; and (ii) small fluctuations in Bitcoin deposits in the government e-wallet *Chivo*, which are supported through appropriate corrective measures. The commitment to end public participation in *Chivo* by end-July remains unchanged.

Article IV consultation. Consistent with the objectives of the new Fund-supported program, the 2025 Article IV consultation focused on medium-term policies to (i) strengthen fiscal and external sustainability and resilience; and (ii) create a more market-friendly environment for private investment and growth. Special attention was given to identifying historical drivers of growth, policies to encourage foreign direct investment and economic diversification, and to the implications of stricter immigration and trade policies elsewhere for El Salvador's economy and external position, considering its dollarization regime.

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

Discussions took place in San Salvador during May 12-20, 2025, and continued virtually in the weeks after. The team comprised Jose Torres (head), Rina Bhattacharya, Flora Lutz, Ryotaro Sawada, Alexander Subramaniam Beames (all WHD), Paolo Dudine (FAD), Edona Reshidi (MCM) and Liam Crowley Reidy (SPR). Mr. Monterroso (OED) also joined the discussions. Inputs were provided by Alexander Zaborovskiy (SPR) and Paula Zarazinski (LEG). Joe Ue contributed with research assistance, and Heidi Canelas and Giselle B. de Rivero (all WHD) supported the team. Staff from LEG and MCM participated virtually in some meetings.

CONTENTS

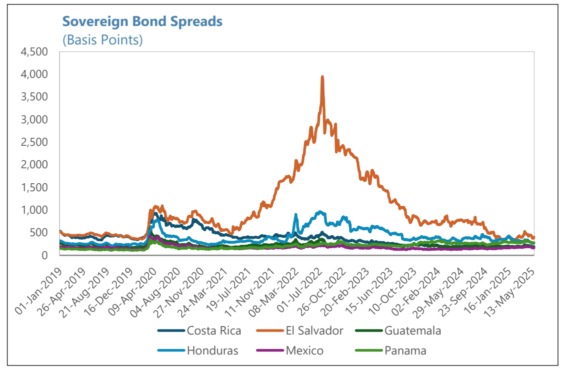
TABLES

ANNEXES

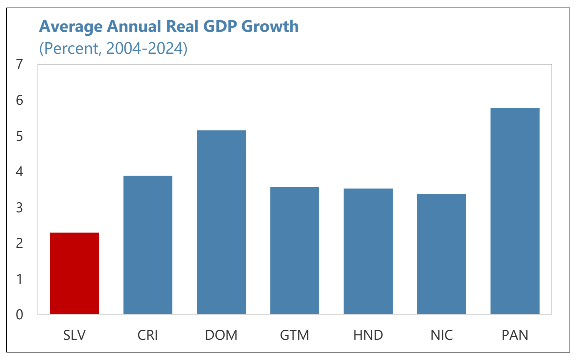
APPENDIX

CONTEXT

1. **El Salvador's economy continues to expand amid a reduction in imbalances.** Real GDP returned to its pre-pandemic trend by mid-2023, with the growth momentum supported by robust remittances and buoyant tourism and construction, amid significant improvements in security and overall confidence.[1] Meanwhile, inflation has steeply declined while the current account deficit narrowed owing to favorable terms of trade and improvements in public finances. Sovereign spreads have fallen sharply since the peaks of 2022, with several buyback operations helping to reduce near-term refinancing risks.



2. **However, macroeconomic vulnerabilities and structural impediments to growth and development remain significant, with rising global risks adding to challenges.** The debt-to-GDP ratio is high, external financing needs are still large, the financial system's exposure to the government continues to be elevated, and market access remains costly. External and financial buffers are weak, and the economy remains vulnerable to shocks (including natural disasters), particularly given rigidities posed by dollarization. Governance and fiscal transparency concerns linger. Productivity remains low, partly reflecting persistent human capital and infrastructure gaps, resulting in weak per capita growth and lagging living standards relative to regional peers. Poverty rates are high (around 25 percent), with a significant share of the population facing food insecurity. Rising global trade tensions and stricter immigration policies in other countries pose additional challenges, even if these will be partly offset by more favorable terms of trade and potential trade diversion effects.



3. **Against this backdrop, the authorities are in the initial stages of implementing the new Fund-supported program approved in February 2025.** [2] The program aims at addressing vulnerabilities by: (i) strengthening public finances, while protecting critical social and infrastructure spending; (ii) rebuilding external and financial buffers; (iii) enhancing governance and transparency

---

[1] The homicide rate has steadily declined from a peak of around 107 per 100,000 people in 2015 to 1.9 in 2024.

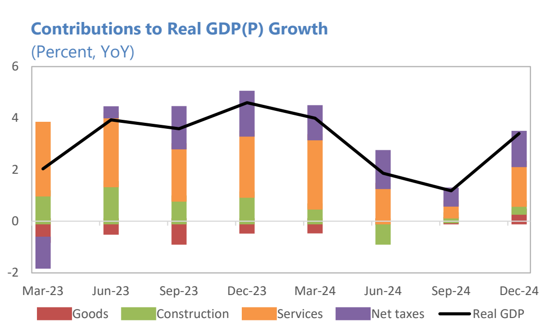
[2] The IMF Executive Board approved a 40-month arrangement under the Extended Fund Facility (EFF) for El Salvador, with access equivalent to 360 percent of quota (about US$1.4 billion), in February 2025 (see press release No. 25/43).

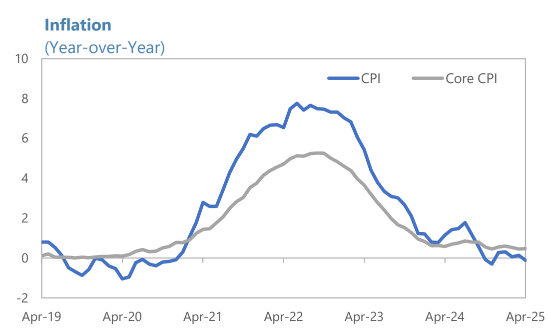
frameworks; and (iv) mitigating the risks of the Bitcoin project. Program performance has been satisfactory thus far—most quantitative targets for end-March were met and the implementation of the structural agenda is proceeding as planned following initial delays—yet continued progress is essential to strengthen stability and address deep structural challenges.

4. **The 2025 Article IV consultation focused on policies to boost medium-term growth and resilience.** Building on the progress made since the 2023 Article IV consultation (Annex I), special attention is given to identifying historical drivers of growth, policies to encourage foreign direct investment (FDI) and economic diversification, and the implications of stricter immigration and trade policies elsewhere for El Salvador's economy and external position, considering its dollarization regime.

RECENT DEVELOPMENTS

5. **Economic activity picked up at end-2024, while inflation remains subdued.** Annual real GDP growth reached 2.6 percent in 2024, despite the temporary effects from heavy flooding during Q1:2024 and minor drags from fiscal consolidation. Economic activity picked up in Q4:2024 (3.4 percent y/y), driven by a rebound in construction and services and underpinned by generally robust remittances and tourism. High-frequency indicators suggest that growth has continued in early-2025, with output now near potential. That said, the expansion remains uneven, with growth in agriculture, mining and manufacturing remaining tepid, and the *Maquila* industry continuing to contract. Both headline and core inflation remain low (reaching -0.1 and 0.5 percent y/y in April, respectively), driven by softer global commodity and local food prices and limited wage pressures.





6. **Fiscal consolidation is proceeding.** On an accrual basis, the primary balance improved during 2024, reaching a surplus of 0.6 percent of GDP (compared to a deficit of 0.5 percent in 2023)

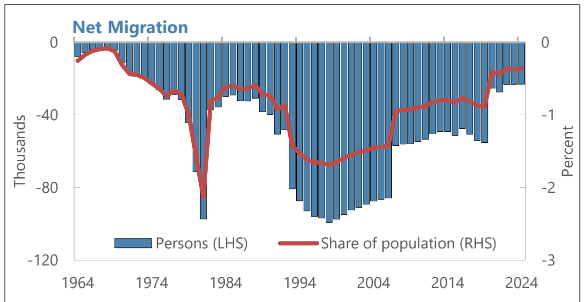
on the back of buoyant revenues and expenditure restraint. The fiscal adjustment continued in Q1:2025, with visible cuts in the wage bill and a tight control of current primary spending, which more than offset a moderate increase in public investment. Revenues held up, with tax revenues increasing by 3.1 percent (y/y) in Q1:2025, from an inflated base in Q1:2024.[3] Interest payments reached the annual equivalent of 4½ percent of GDP, although these are set to increase in 2027 once the grace period on pension interest payments expires.[4] The agreement to provide prison services to other countries is having a marginal positive impact on public finances.

El Salvador: 2025Q1 Fiscal Outturn
(in millions of US dollars)

	Preliminary Outturn	End_Mar, 2025 Prog. Target 1/	Type of Benchmark
Total Revenues	2,331		
Tax revenues	1,885		
Total expenditures	2,554		
Primary expenditures	2,122		
Wages	885	918	Memo Item
Goods and Services	432		
Priority Social Spending	164	138	IT
Gross fixed capital formation	329	204	IT
Interest Payments	431		
Primary Balance	209	180	QPC
Overall Balance	-223		

Source: BCR, Ministerio de Hacienda, and staff projections
1/ After incorporating adjustors

7. **The current account deficit remains contained, with recent data indicating a sharp pick up in remittances in 2025**. The current account deficit reached 1.8 percent of GDP in 2024, compared to 1.1 percent of GDP in 2023, with the deterioration mainly reflecting subdued goods exports growth, with some softening in the income balance.[5] The goods trade deficit was generally unchanged in Q1:2025, although remittances inflows increased sharply (up 18 percent y/y), possibly reflecting a front-loading of transfers given changes in US immigration policies and rising deportation risks, consistent with the pattern seen across the Central American region.[6] El Salvador's external position remains weaker than warranted by fundamentals and desired policies on account of insufficient reserve coverage (2.6 months of imports); deeply negative NIIP (59 percent of GDP); and costly access to international capital markets (Annex II). In fact, sovereign spreads, after tightening through 2024, have risen slightly in recent months, on account of tighter global financial conditions and a broad decline in risky asset prices.



Source: UN Population Division

8. **The banking sector remains solid, amidst a gradual improvement in reserve buffers.** Banks maintain a healthy capital position, with an adequacy ratio of 15.2 percent in March 2025, above the 12 percent minimum legal requirement. Deposit growth has been strong (11.5 percent y/y

[3] Prepayment of income taxes, which were due in April 2024, led to a robust tax collection in Q1:2024.

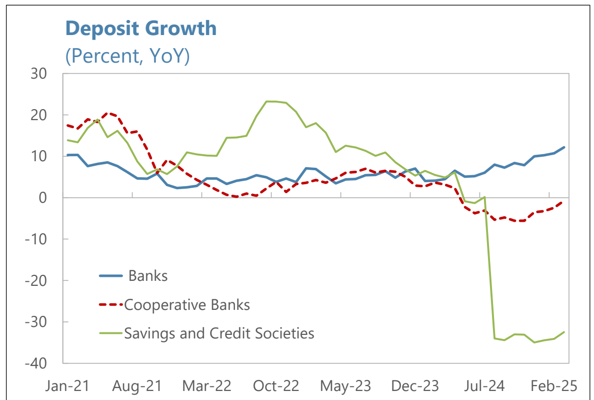
[4] The 2023 pension debt swap replaced existing pension debt instruments with new ones involving longer maturities and higher yields, with a four-year grace period on payments of both interest and principal.

[5] In 2024, tourism receipts reached 10 percent of GDP (double pre-pandemic levels), while remittances fell to around 24 percent of GDP, as net outmigration has fallen sharply in tandem with security improvements.

[6] The number of Salvadoran migrants crossing the US border has decreased even further in 2025. Over 90 percent of remittances come from the United States, where a significant number of migrants born in El Salvador or of Salvadoran origin currently reside (1.5 million and 2.6 million, respectively, as of 2023).

in May 2025), supported by vigorous remittances, strengthening bank's funding capacity.[7] Private credit growth remained at its historical average (5.3 percent y/y) in March, backed by strong business and consumer credit growth (7 and 4.1 percent y/y, respectively). Meanwhile, as of March 2025, NPLs remain low (1.6 percent of assets) with adequate provisioning (160 percent) and solid profitability ratios (13.2 percent ROE and 2.5 percent ROA). Against the backdrop of fiscal consolidation and external financing efforts, banks' holdings of government securities have declined somewhat to 11.6 percent of assets as of March 2025, although they remain significantly above pre-pandemic levels. Meanwhile, reserves held at the BCR rose to around 14.2 percent of deposits in May 2025 (from 12.6 percent in October 2024), in line with the increase in the legal reserve requirement to 12 percent implemented in January 2025. The new liquidity requirement introduced in April—set to gradually rise to 1 percent by end-June—also contributed to banking sector liquidity. That said, overall reserves remain below the pre-pandemic average of around 21 percent.[8]

9. However, strains in the non-bank financial sector are becoming evident, although systemic risks remain contained. Following the reported embezzlement of US$35 million from the credit and saving cooperative COSAVI in May 2024, cooperatives and savings and credit societies saw notable deposit outflows, adding to liquidity and solvency pressures on them. Efforts are underway to strengthen the prudential oversight of non-bank institutions and to develop a business plan to decisively resolve the funding and governance issues facing these institutions. Systemic risks are contained, however, as deposits in cooperatives only represent around 6 percent of total financial system deposits, and the exposure of the financial sector towards cooperatives and saving and credit societies remains negligible.



Sources: BCR and IMF stuff calculations.

10. Bitcoin risks are being addressed. Critical amendments to the Bitcoin Law have mitigated key risks and the authorities continue to comply with commitments not to voluntarily accumulate Bitcoin, nor issue Bitcoin-indexed/denominated debt or tokenized instruments that could create government liabilities, and work continues to secure the end participation in the government e-wallet *Chivo* before end-July.[9] However, fluctuations in *Chivo* clients' deposits denominated in Bitcoin and *Chivo's* liquidity management policy, which does not adjust to such fluctuations, led to

[7] Deposits are the main funding source for depository corporations (over 85 percent of liabilities), of which 38 percent are term deposits, 33 percent savings accounts, and 29 percent checking accounts.

[8] Banks have been complying smoothly and placing around 72 percent of the required assets in foreign securities, 13 percent in deposits abroad and 15 percent in deposits at the BCR.

[9] Increases in Bitcoin holdings in the Strategic Bitcoin Reserve Fund reflect the consolidation of Bitcoin across various government-owned wallets.

minor breaches in conditionality, which have now been addressed through corrective measures (see ¶11).

PROGRAM PERFORMANCE

11. Most quantitative performance criteria (QPCs) and all indicative targets (ITs) set for the first review under the EFF have been met.

- **QPCs.** In line with program commitments, by end-March (i) the primary balance of the nonfinancial public sector (NFPS) (US$209 million) exceeded the program floor (US$180 million); (ii) NFPS deposits at the BCR (US$702 million) stood well above the adjusted floor (US$475 million);[10] (iii) the ratio of liquid assets to total deposits reached 13.1 percent; and (iv) there was no net accumulation of either domestic payment arrears or external public-sector arrears. However, deviations arose on account of a higher-than-programmed net borrowing by the NFPS, reflecting some frontloading of debt issuances, although these have been recently addressed by using the government deposit overperformance to buyback Treasury debt. In addition, the continuous QPC preventing the issuance or guarantee by the public sector of Bitcoin-denominated or indexed debt or tokenized instruments was met. However, despite adherence to the commitment not to voluntarily accumulate Bitcoin, the continuous QPC on voluntary Bitcoin accumulation was missed with minor margins on account of temporary fluctuations in *Chivo* clients' deposits denominated in Bitcoin.[11] Corrective actions have been taken to establish a sufficient buffer to mitigate the risk of future breaches prior to the planned sale of *Chivo*.
- **ITs.** The end-March floor on priority social spending and public investment, as well as the floor on the stock of gross international reserves (GIR) were met with margins. Meanwhile, the wage bill through end-March (US$885 million) was well below the projected value (US$918 million).

12. Implementation of the structural benchmarks (SBs) has progressed following initial delays.

- The authorities published the financial information on state-owned enterprises (SOEs) (excluding their subsidiaries), a description of their ownership policy, corporate governance, performance expectations, competitive neutrality, financial and risk management, transparency, and accountability standards. In addition, they have: (i) published the quasi-fiscal activities of the

[10] Budget support disbursement from other IFIs through end-March (US$75 million) fell well below program assumptions (US$250 million), triggering a downward adjustment to the floor on deposit.

[11] *Chivo* does not adjust its Bitcoin reserves to reflect changes in clients' Bitcoin deposits. As a result, when *Chivo* clients' Bitcoin holdings decrease, and *Chivo* does not sell the corresponding amount of Bitcoin, this leads to an increase in net public-sector holdings as defined by the TMU. Since program approval, these fluctuations have been minor and short-lived, resulting in deviations from the QPC ceiling no larger than 1 percent of total public sector Bitcoin holdings. Bitcoin holdings are monitored using (i) signed statements identifying all hot and cold wallet addresses and their corresponding Bitcoin amounts; and (ii) a monitoring tool reporting daily changes of public sector holdings net of *Chivo* Bitcoin deposits.

national lottery (LNB) **(end-March 2025 SB)**.[12] (ii) uploaded information in the Comprasal website[13] on the beneficial owners of all awarded contracts and granted access to this information to any interested user, published more details on awarded public contracts and added publication requirements to the Procurement Law **(end-March 2025 SB**); and (iii) issued a presidential decree further defining the process and narrowing the conditions for the use of the "strategic project" exception to competitive public procurement approved by the Council of Ministers. This includes the requirement for a favorable opinion from the Minister of Finance, a warrant of budget allocation, public disclosure of the justifications for why standard procurement methods were not viable and, in the case of public investment, the necessary pre-feasibility and feasibility studies (**end-March 2025 SB**). Finally, the Legislative Assembly approved the Fiscal Sustainability Law (FSL) in early June **(May 9, 2025 SB)**.

- Regarding Bitcoin, (i) a regulation banning tax payments with Bitcoin became effective on May 1, 90 days after its publication in the official newspaper; (ii) a signed statement listing and identifying the public addresses of all hot and cold wallets, along with the corresponding Bitcoin amounts owned or controlled by the public sector, was shared with staff (**end-March 2025 SB**); and (iii) a new business plan to stop *Chivo's* use of public funds and end public participation in *Chivo* by end-July 2025 was adopted and published (**end-March 2025 SB**). Technical assistance on the legal framework underpinning the regulation and supervision of crypto assets is underway, which will help address remaining issues related to safeguarding and segregating assets after the end of public participation in *Chivo*.

OUTLOOK AND RISKS

13. The baseline economic outlook remains generally unchanged, as efforts continue to address macroeconomic imbalances. The somewhat weaker **external** backdrop, resulting from ongoing trade tensions and changes in immigration policies, are being offset by stronger domestic growth momentum. Specifically:

- **Real GDP growth** is expected to remain around 2½ percent during 2025-26, with improved confidence compensating for the weaker US and global growth and some moderation in remittances from changes in immigration policies elsewhere.[14] Tariffs at 10 percent on exports to the United States, imposed in April 2025, are assumed to persist but the direct impact is limited

[12] The publication included the individual financial statements of key SOEs (the water company ANDA, the armed forces pharmacy network CEFAFA, the port authority CEPA, the events and conventions center CIFCO, and national lottery LNB), as well as for the electricity company CEL and electricity transmission company ENTE. The 2024 balance sheet of CEL will be published when its audit is completed.

[13] Access can be requested at https://www.comprasal.gob.sv/registro-procesos-compra, by providing an email address.

[14] The recent pick up in remittances is projected to be short-lived and with a more limited demand impact, especially given the assumed temporary and precautionary nature of these inflows.

(Annex III). Growth is expected to gradually converge towards its long-term potential of around 2¾ percent by 2029, as fiscal drags are eased.

- **Inflation** pressures are expected to remain contained in the near term (1 percent in 2025) and close to the historical average of around 1¾ percent thereafter. The impact of higher US tariffs on domestic prices is more than compensated for the expected fall in global commodity prices. El Salvador is not expected to announce any retaliatory trade measures. Wage growth is anticipated to remain moderate partly reflecting prudent policies and more limited outmigration, despite recent increases in the private sector minimum wages.[15]

- The **current account** balance is expected to improve somewhat this year, mainly reflecting a temporary front-loading of remittance flows and slightly more favorable terms of trade. Over the medium term, the current account deficit is projected to be slightly larger (1.3 percent of GDP in 2030, compared to 0.7 percent of GDP projected at program approval) reflecting the impact of weaker external demand on the trade balance, despite a somewhat higher-than-programmed level of remittances.[16] That said, international reserves are expected to reach 4 months of imports by 2030, also supported by improvements in FDI.

- The **fiscal primary balance** path is projected to remain unchanged, rising from 1.9 percent of GDP this year to a steady-state surplus level of 3.7 percent of GDP by 2027. Under these projections, the probability of sovereign stress would remain moderate and public debt would be on a sustainable path (Annex IV). Importantly, the projected fiscal and financing plans, which envisage support from official creditors over the next years, is expected to help reduce risks from a still elevated sovereign-bank nexus (Annex V). These improvements in public finances are expected to support higher per capita growth over the medium term (see also Box 1).

14. Downside risks have increased, mainly reflecting rising global uncertainties (Annex VI).

- On the **external** front, further escalation in trade tensions and increased policy uncertainty could weigh on exports, investment, and capital flows. Tighter global financial conditions, if sustained,

[15] The government announced a 12 percent increase in the minimum wage (the last increase took place in August 2021), effective from June. The impact is expected to be limited given high informality (about 70 percent of workers have monthly earnings below the minimum wage, and the fact that it will not apply to public sector employees (who earn more than the minimum wage). The minimum pension is also not indexed to the minimum wage.

[16] Under the revised estimates (based on more granular data), remittances are assumed to gradually decline from 24 to 21 percent of GDP (while continuing to increase in US dollar terms) over the medium term, consistent with a slowdown in net migration from El Salvador to the United States. This assumes a (i) continued limited flow of legal migration to the United States in line with recent trends; (ii) deportations to LAC countries of 670,000 in 2025 (split according to 2024 country shares) and 450,000 per year in 2026-30 (split according to the country share of the 'at risk' population); and (iii) growth of average per capita remittances in line with nominal US GDP. Some moderation in tourism inflows and goods exports to the United States (currently at 6 percent of GDP) is also assumed.

could also complicate future market access and impact asset valuations.[17] Importantly, stricter immigration policies (and potential taxes on remittances) in other countries could lead to lower remittances inflows and to a substantial return of migrants. If not properly managed, this could result in weaker growth, lower reserves, and a deterioration of the fiscal position, with the potential for significant labor market disruption (see Box 2).

- On the **domestic** front, delayed implementation of the reforms envisaged under the program could negatively impact confidence and increase El Salvador's vulnerability to shocks. Natural disasters, which have become more costly and frequent, could hurt growth and hinder program performance. That said, upside risks cannot be discarded as dividends from security improvements and ongoing reforms could prove much stronger than projected. For example, vigorous remittances could prove more persistent than envisaged if they also reflect investment decisions by the diaspora to benefit from improved local prospects.

Authorities' Views

15. The authorities have a more positive view of the balance of risks. They consider that risks arising from global trade tensions and overseas immigration policy changes could be mitigated by ongoing trade negotiations with the United States and other factors. They assess that the growth dividend from the unprecedented reduction in crime could be much higher than envisaged, catalyzing even stronger dynamism in tourism and construction. They foresee that the growth momentum will continue to buoy revenue collections and contain fiscal risks, although they stand ready to take the needed fiscal measures to meet program targets. They also believe that enhancements in spending efficiency and ongoing governance reforms could have a stronger impact on overall productivity and investment.

POLICY DISCUSSIONS

16. Policy discussions focused on efforts to secure program goals over the near term and the needed reforms to boost growth and resilience over the longer term. Regarding the first review, and recognizing rising external risks, the discussions focused on policy adjustments to meet future program targets, and on refining the roadmap on structural conditionality in various areas. Special emphasis was placed on the importance of building a track record of performance under the program and avoiding shortcuts that could undermine fragile market confidence. In the context of the Article IV consultation, emphasis was given to measures to boost the drivers of growth, managing the impact of evolving external conditions (especially those related to changes in immigration policy), and formulating policies to safeguard fiscal and external sustainability and boost growth prospects, within the constraints posed by El Salvador's dollarization regime.

[17] Despite banks' increasing reliance on foreign assets in their liquidity buffers due to liquidity requirements, potential liquidity risks in the banking sector—stemming from asset valuations—are mitigated by banks' still relatively small holdings of international assets and liabilities (both less than 1 percent of total assets).

A. Fiscal and Financing Policy

17. Continued adherence to the 2025 fiscal targets remains essential. The authorities agreed to continue to exercise tight control of public spending to comply with the primary balance targets over the remainder of the year to safeguard credibility, rebuild fiscal and external buffers, and put public debt on a firmly declining path. The program floor on social spending provides space for allocating at least 1½ percent of GDP to targeted in-kind transfers, school feeding, and cash transfer programs. If revenues disappoint, they agreed to adopt contingency measures to further streamline non-priority non-wage spending. Staff recommended that consideration could also be given to measures to widen the revenue base, rationalize special tax regimes, and increase fees and other taxes (see Text table).[18]

Staff-recommended Options for Revenue Contingency Measures

- Introducing a tourist entry fee for nonresidents (e.g. $20)
- Raising excises on cigars, cigarettes and alcoholic beverages
- Elevating vehicle registration fees
- Extending the tax base for CIT and VAT (e.g. VAT on fuel consumption)
- Introducing a green carbon tax (e.g. $5 per ton of CO2 emission)
- Imposing VAT on digital services
- Imposing a capital gains tax (e.g. 30%)
- Imposing a tax on distributed dividend payments (e.g. 10%)

Source: IMF Staff

18. Continued fiscal consolidation is necessary to continue to ease financial repression, and keep spreads contained. While the fiscal consolidation proceeds, close to 60 percent of NFPS gross financing needs (just over US$2.5 billion) are projected to be covered through multilateral and bilateral external financing in 2025. This financing strategy will lessen the reliance on net domestic borrowing, allow the domestic financial system to reduce its exposure to the sovereign, safeguard private credit availability, and facilitate the accumulation of NFPS deposits at the BCR.[19] Close coordination of financing across all NFPS institutions is needed to support this strategy. To this end, the authorities have revised planned issuances of new debt and have repurchased US$132 million of debt, to secure meeting the end-June net domestic borrowing target. They have also revised the issuance plan to ensure its consistency with targets for the remainder of the year and are working, with the support of technical assistance from multilaterals, in the preparation of a Medium-Term Debt Management strategy.

19. Strong and credible actions will be needed to secure the planned fiscal consolidation over the medium term and improve its predictability. Achieving a steady state primary surplus of 3.7 percent of GDP over the next three years, which is essential to strengthen fiscal sustainability, will require high-quality structural reforms, including:

- **Civil service reform**. With technical assistance from the World Bank, a comprehensive civil service reform strategy is being developed, with publication of key objectives and a work program now requiring a few extra months to ensure the full support from stakeholders (**end-September**

[18] Furthermore, accelerating work on the preparation of a comprehensive and updated land cadaster is essential to enable the introduction of a property tax.

[19] Since end-2024, depository corporation exposure to the sovereign has declined (by US$113 million), while issuance of new pension debt has fallen significantly (to around US$171 million during Q1:2025, compared to over US$420 million during the same period last year).

2025 SB). This reform is expected to improve the employment management system, ensure remunerations are better aligned to productivity and qualifications, and avoid unnecessary expansions of public employment, and would be submitted to the Legislative Assembly by mid-2026.

- **Pension reform**. With IMF technical assistance support, the authorities now intend to publish an actuarial evaluation that assesses the financial sustainability of the pension system by end-September 2025 (SB), which will allow for more time to carefully estimate the complex benefit regimes applicable to future cohorts of retirees. A comprehensive reform of the pension system is now expected to be rolled out in early 2026 to put the system on a stronger financial footing, while containing fiscal costs and contingent liabilities (**February 10, 2026 SB)**.

- **Fiscal frameworks.** The Legislative Assembly passed a new FSL in early June (Box 3), which was elaborated with assistance from the IADB and other development partners (**May 9, 2025 SB**). Consistent with program goals, the new FSL anchors fiscal policy on reducing the debt-to-GDP ratio to 80 percent by 2030, to 75 percent by 2035, and below 70 percent by 2045, and establishes that specific primary-deficit targets would be set in the Medium-Term Fiscal Framework (MTFF), to be published every May. It also introduces (i) clear escape clauses; (ii) rules for budgetary accountability; and (iii) the obligation to publish a compliance report along with the MTFF. The new framework will be implemented in the context of the 2026 Budget and will include an assessment of fiscal risks (also published within the MTFF).[20]

- **Tax revenue administration.** Efforts will continue to strengthen tax collection by further (i) expanding electronic invoicing (now covering over 95 percent of large businesses and over 30 percent of all businesses) and the number of VAT registered businesses; (ii) simplifying taxpayer processes (pre-filled VAT and PIT presumptive tax returns now amount to about 80 and 100 percent of final returns received, respectively); (iii) expediting submission of VAT refund forms electronically (to be piloted in August for full implementation in early 2026); and (iv) mining VAT invoice data and improving data-sharing from international agreements to map, identify, and score compliance risks. In addition, efforts will continue to quantify and streamline tax expenditures, informed by IMF technical assistance.

20. These reforms will need to be coupled with strong public financial management to improve the governance and transparency of the public sector:

- **Public Financial Management (PFM) institutionalization**. The PFM framework needs to be modernized to strengthen execution control and spending quality and to progress towards result-based budgeting. Assisted by technical assistance, the authorities plan to (i) update the digital Public Financial Management system; (ii) develop tools to integrate results-based

[20] Since 2023, risk analysis has been strengthened to include a broader set of risks (natural disasters, extreme weather events, pensions, SOEs, municipal finances, and PPPs) and a more sophisticated assessment tools to assess forecast errors and help develop mitigation measures.

budgeting; and (iii) strengthen systems for allocating spending priorities and bolstering spending control (MEFP, ¶17).

- **Fiscal Transparency**. The publication of financial information of several key SOEs (**end-March 2025 SB**) represents an important milestone, although further progress is needed to publish financial information of subsidiaries of SOEs and standardize reporting across SOEs. A full transition to GFMS 2014 will be essential to modernize reporting standards of fiscal statistics, thereby facilitating a deeper and wider analysis of fiscal policy. As a first step, efforts aimed at clearly identifying flows and stocks related to the Salvadorean Pension Institute (ISP) in the fiscal reporting of the NFPS would greatly improve the presentation of fiscal data (**new continuous SB**). A Fiscal Transparency Evaluation (expected by April 2026) would help identify concrete actions to further improve transparency.

- **Public Investment Management.** Continued improvements in public investment management are necessary to boost public investment efficiency. In this regard, and in line with the 2019 PIMA, the DGICP (the directorate in charge of public investment within the Ministry of Finance) has been (i) closely coordinating with other ministries to prioritize projects in education, health, and road infrastructure; (ii) providing technical assistance to the units submitting investment requests, to enhance the technical analysis supporting requests and (iii) improving the monitoring and review of project execution. With assistance from the European Union, the authorities are updating the conceptual framework for the public investment management system, the methodology for the formulation and evaluation of projects, and the public investment information system. Going forward, integrating the Medium-Term Investment Plan (PRIPME) with the MTFF is also key to improving the financial programming of investment spending.

- **Public Financial Management (PFM)**. The PFM framework needs to be modernized to strengthen execution control and spending quality and to progress towards result-based budgeting. Assisted by technical assistance, the authorities plan to (i) adopt an integrated management system; (ii) develop tools to integrate results-based budgeting; and (iii) strengthen systems for allocating spending priorities and bolstering spending control.

- **Public Procurement**. Following publication of information on beneficial owners of all awarded public contracts and the issuance of a decree clarifying exceptions to the procurement law, efforts will focus on securing its timely implementation, including compliance with securing the publication of information on strategic projects contracted without competitive processes. These actions are necessary to enhance transparency and support the fight against corruption.

Authorities' Views

21. The authorities reaffirmed their commitment to meeting the fiscal targets under the program. They strongly recognize the importance of bringing public debt on a downward trajectory to foster fiscal sustainability and investor confidence. They remain deeply committed to meeting the fiscal targets, and stand ready to make additional spending adjustments if needed. They concur with the need to underpin the consolidation process with high quality measures and intend to bring forward the reform of the pension system to generate the needed savings. There is joint recognition that the FSL is an important instrument to anchor the sustainability of fiscal policies.

B. Strengthening Financial Stability

22. The financial system is sound, although further progress in boosting buffers is needed to deal with the more challenging external environment. Banks' capital position remains adequate. In line with BCR regulations, banks' required liquidity buffers as a share of deposits needs to continue increasing to meet program QPCs (13 percent by end-June, 14 percent by end-December, and 15 percent by end-June 2026). Efforts should continue to ensure that additional liquidity is held in high-quality liquid assets including international securities, unrestricted US dollar deposits held in the custody of pre-approved and highly-rated financial institutions or BCR deposits. While updated stress tests confirm that solvency risks remain contained, increased uncertainties, especially around remittance flows, warrant continued close monitoring.

23. Further efforts are needed to boost international reserves. While international reserves have risen above program projections, the overperformance reflects strong deposit growth, likely coming from a temporary surge in remittances. To sustain reserve accumulation and rebuild reserves from the current low base (2.6 months of imports), it will be critical to continue to strengthen fiscal buffers, recapitalize the central bank, and mobilize IFI support, especially given external risks.

24. Enhancing the BCR's legal and financial autonomy frameworks remains an important program objective. An update safeguards assessment, which is underway, found that while the BCR has further aligned its internal and external audit mechanisms with international standards and strengthened its internal control environments (under the continued oversight of an engaged and effective BCR Board), more work is needed to (i) fully implement International Financial Reporting Standards (IFRS); (ii) undertake legal reforms aimed at modernizing the BCR law, which predates the dollarization regime, and strengthen the BCR's functional, operational and personal independence; and (iii) introduce a profit distribution rule that allows the BCR to retain profits in the general reserves until it has sufficient capital to provide appropriate liquidity support, considering the dollarization of the economy. In this regard, it is expected that Fund financing will continue to be channeled to rebuild reserves (US$570 million, or about 40 percent of the overall program amount), while a recapitalization plan is adopted with the government's support (**end-December 2025 SB**).

25. Steps to modernize the supervisory and regulatory frameworks must continue. The new Financial Stability Law, which will be enacted by end-September, will strengthen early intervention, resolution, crisis management, and deposit insurance frameworks (**end-September 2025 SB**). Banks will 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 prudent management of crypto-asset exposures; and (ii) the implementation of Pillar 1 systemic risk buffers (SyRB) or Pillar 2 measures to address large sovereign exposures and promote financial stability and mitigate systemic risks. Efforts are ongoing to enhance the regulation and supervision of cooperatives and credit and savings societies, by expanding the SSF's oversight scope and enhancing their risk management and governance frameworks.[21] Technical assistance will be requested to (i) strengthen the oversight of cooperatives; and (ii) review the institutional framework of the SSF to ensure it has the operational independence, accountability, and resources to conduct intrusive and effective supervision in line with the Basel Core Principles.

Authorities' Views

26. The authorities underscored the resilience of the financial sector. They pointed to ongoing work to strengthen the supervisory and regulatory framework, including through the implementation of a new Financial Stability Law and the adoption of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) requirements. While they do not foresee a decline in remittances or any resulting adverse impact on the financial sector, they agreed on the importance of rebuilding reserves and further reenforcing the ELA framework. They also emphasized that recent deposit outflows from the non-bank financial sector do not pose systemic risks (the sector is small and isolated from the rest of the financial system), although they acknowledged the need for a comprehensive reform of the cooperative sector. Finally, they look forward to better understanding and engaging with staff to adopt the recommendations of the updated safeguards assessment.

C. Crypto Risks and Regulations

27. Efforts will continue to mitigate Bitcoin risks, including through enhanced transparency and regulation. The authorities remain committed to not increasing the public sector's exposure to Bitcoin, and to enhancing transparency by (i) publishing, on a quarterly basis, the Bitcoin financial statements of the trust fund and SOEs involved in the Bitcoin project (Fidebitcoin, Chivo, CEL, and LaGeo); (ii) ensuring that all Bitcoin operations are included in macroeconomic and fiscal statistics. Furthermore, they will continue to provide IMF staff with signed statements that update the Bitcoin owned or controlled by the public sector (**end-June 2025 SB** and **end-December 2025 SB**). Work is underway in enacting a comprehensive framework for managing government-owned Bitcoins and other crypto assets, with the aim of strengthening governance, transparency, and accountability as well as defining the role of the Bitcoin Management Agency, AAB **(end-December 2025 SB)**. Improving communications in this area will also be key.

28. The process of unwinding public participation in *Chivo* is well underway. The authorities have published a business plan aimed at ceasing *Chivo's* use of public funds and terminating public participation in *Chivo* (**end-July 2025 SB**) and discussions with potential buyers

[21] In November 2024 the Legislative Assembly passed two new laws that (i) regulate 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) enhance supervision of savings and loan associations that raise funds and grant credits (the BCR will create technical standards and the Financial Superintendency (SSF) will supervise compliance).

are proceeding.[22] The authorities are committed to executing this sale by end-July and in a manner that guarantees ongoing compliance with program conditionality. Furthermore, the authorities are committed to (i) ceasing public participation in *Chivo*; (ii) segregating and safeguarding *Chivo* clients' US dollars at the BCR; (iii) liquidating the Bitcoin trust fund Fidebitcoin and publishing Court of Account audits for AAB and Fidebitcoin; and (iv) publishing *Chivo's* financial statements audited by an independent auditor (**end-July 2025 SB)**.

29. Efforts to strengthen the regulation and supervision of digital assets are in progress. The legal and regulatory framework for digital assets, which operates under a dual system (Bitcoin is regulated and supervised by the BCR and SSF, while other crypto assets fall under the jurisdiction of the *Comisión Nacional de Activos Digitales (CNAD))* needs to be revisited, including to align it with recent amendments to the Bitcoin Law. IMF technical assistance is being provided with the aim of strengthening the legal framework underpinning the regulation and supervision of crypto-asset activities and markets (**December 9 2025 SB**), including by bringing legal certainty to the regime applicable to Bitcoin and other crypto assets. Specifically, legal amendments and regulations will enhance the legal protections related to the safeguard and segregation of clients' assets and ensure its consistency with the new AML/CFT framework.[23]

Authorities' Views

30. The authorities emphasized their commitment to mitigating Bitcoin risks and enhancing the oversight of crypto assets. They are committed to keeping the overall public sector Bitcoin holdings unchanged and to unwinding by end-July the public sector's participation in the *Chivo* wallet in strict compliance with program conditionality. Furthermore, they recognize the need to align the regulatory and supervisory framework for crypto assets with international best practices, including to addressing risks related to money laundering and financial stability while also enhancing consumer protection policies. The authorities stand ready to enact a comprehensive framework to enhance the governance and transparency in the management of government-owned Bitcoin and other crypto assets, while also better defining the role of the AAB, including in establishing proper investment guidelines and risk mitigation policies.

D. Strengthening Governance and Transparency

31. Strengthening governance and transparency, including through the strong and evenhanded implementation of the new anti-corruption framework will be key to attract investment. A new Anti-Corruption Law, which was approved by the Legislative Assembly in

[22] The published *Chivo* business plan outlines two parallel avenues: private equity issuance and convertible debt financing.

[23] Additionally, the regulations are expected to strengthen financial stability and cybersecurity frameworks, as well as enhance market integrity and establish consumer protection measures that encompass antifraud, anti-manipulation, and transparency policies. Furthermore, they are expected to require the development of governance structures, data frameworks and prudential safeguards, such as solvency, liquidity, and segregation of assets.

February, will become fully effective in August (180 days after its publication). To secure its swift implementation, a new national anti-corruption center needs to be established, along with the timely publication of asset declarations starting, at a minimum, with high-level senior officials as listed in Art. 236 of the Constitution in line with the G20 High-Level principles on asset disclosure by public officials (**new SB for June 2026**). Regarding the recently approved Foreign Agents Law (which imposes a 30 percent tax on transactions conducted by Civil Society Organizations not subject to deductions), staff underscored the need to secure its consistent and evenhanded application, including to avoid discouraging private investment and development assistance. In addition, it emphasized that efforts continue to support effective contract enforcement, as well as to strengthen judicial independence and the access to public information, also in line with best practices and international standards (Box 5).

32. Further progress is needed to strengthen the auditing and administrative capacity of the Court of Accounts (CoA). The Anti-Corruption Law will strengthen the independence of the CoA and its anti-corruption mandate, bringing it in line with international standards (INTOSAI Mexico Declaration and the UNODC Abu Dhabi Declaration) and ensuring a clear legal basis for collaboration with the *Fiscalía General de la República* on corruption, including exchange of information and referral protocols (**end-December 2025 SB**). Continued effort is needed to expand the auditing capacity of the CoA and in securing the swift publication of the 2024 audited statements of all Ministries and the most relevant SOEs in accordance with the Access to Public Information Law before end-2025.

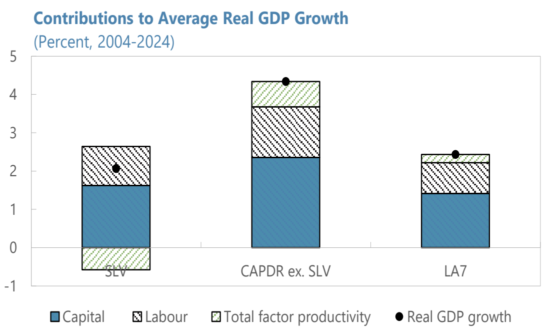
33. Efforts to bring the AML/CFT framework in compliance with FATF standards must continue. In line with the recent GAFILAT evaluation, the authorities plan to: (i) bring the AML/CFT system in compliance with FATF Recommendation 15 on new technologies, including virtual assets and virtual asset service providers (VASPs); (ii) place lawyers, notaries, accountants, and auditors under a risk-based monitoring framework (in compliance with FATF Recommendation 28); and (iii) submit and update beneficial ownership information of all legal persons and arrangements registered in El Salvador, and ensure its availability to relevant competent authorities (**end-August 2025 SB**).

Authorities' Views

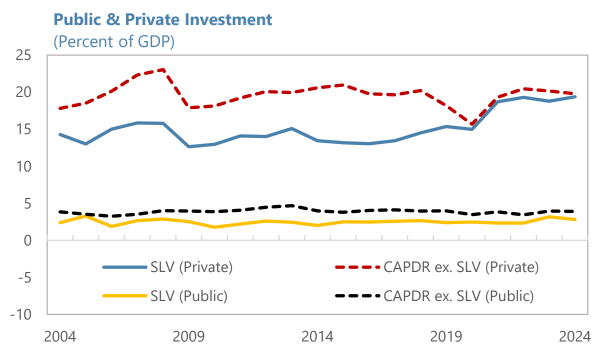
34. The authorities are actively working to strengthen the investment climate including through steady implementation of the new Anti-Corruption and AML/CFT frameworks. They envision a timely application of the new Anti-Corruption Law, including through the establishment of a National Anti-Corruption Center to conduct intelligence activities related to the prevention, investigation, and prosecution of corruption. They are also strengthening the independence and anti-corruption mandate of the CoA, with the support of technical assistance from the European Union, and are working towards the early enactment of a new AML/CFT law, consistent with FAFT recommendation. In addition, they share the understanding that further efforts will be required to boost the business climate, including though effective contract enforcement and the streamlining of regulations.

E. Boosting Growth and Resilience

35. After several decades of disappointing growth, improvements in security offer a unique opportunity. Real GDP growth in El Salvador has historically lagged the rest of the CAPDR region, limiting improvements in living standards and delaying income convergence. Part of this divergence is due to the high toll from past insecurity, which deterred private investment, fueled substantial outmigration (constraining the labor force), and resulted in low productivity growth and foreign investment. The dramatic reduction in homicide rates over the past five years, which has made the country one of the safest in the world, has improved the business climate and contributed to a surge in tourism and remittances.



Source: Penn World Tables and IMF WEO.

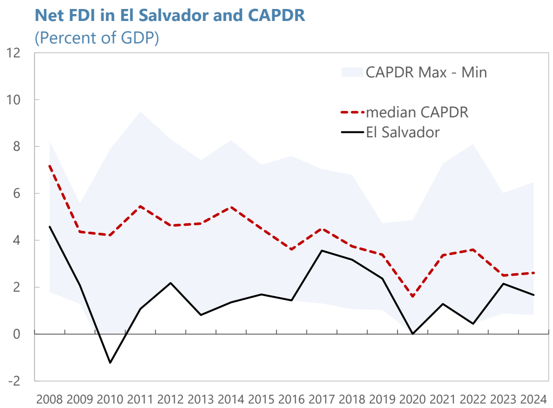


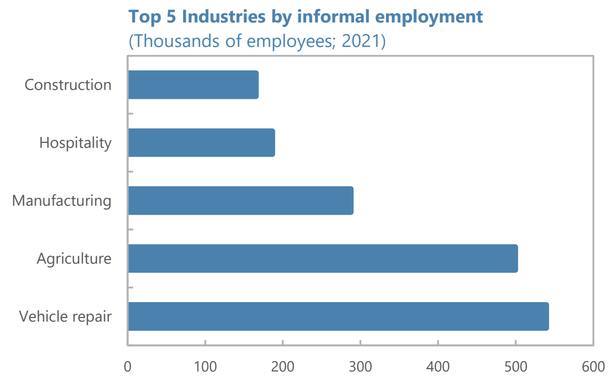
Source: IMF WEO

36. Efforts are ongoing to boost potential growth and resilience. The government is implementing a *Long-Term Growth Strategy* aimed at removing impediments to growth through government interventions and private sector engagement. The authorities have identified—by combining tools from growth diagnostics,[24] economic complexity analysis[25] and liaison with the private sector—tourism, pharmaceuticals, and high value-added manufacturing (computers, electronic and optical products) as key areas. These industries were selected considering their export potential and their proximity to products already produced in El Salvador. As El Salvador is a small and open economy with a limited domestic market, the strategy is focused on boosting exports and competitiveness.

[24] Santos, M.A., Garcia, H., and Tujillo, M.A., 2024, 'Diagnóstico de Crecimiento de El Salvador: Del fin de la violencia al desarrollo sostenible', Escuela de Gobierno y Transformación Pública Working Paper No. 2.

[25] Gomez-Zalvidar, F., Cortes, H., Espinoza, V., Morales-Arilla, J., and Santos, M.A., 2024, 'Usando proximidades tecnológicas para identificar oportunidades de diversificación productiva', Escuela de Gobierno y Transformación Pública Working Paper No. 1.





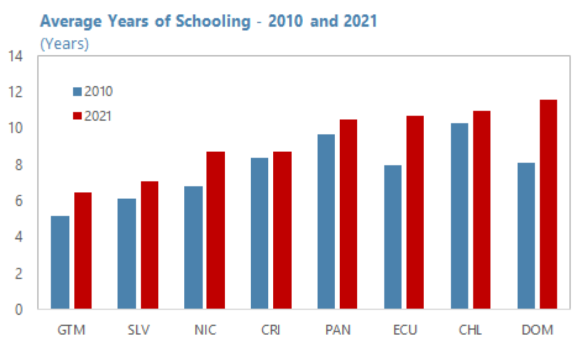
Source: BCR

37. The Long-term Growth Strategy also identifies the main obstacles and opportunities for growth. The main growth impediments are poor infrastructure, excessive regulation, and low levels of human capital. While improved security and prudent macroeconomic policies are necessary conditions for growth, these must be complemented with further efforts to enhance public investment (and its efficiency), international competitiveness, and human capital, especially against a backdrop of rising outmigration restrictions.

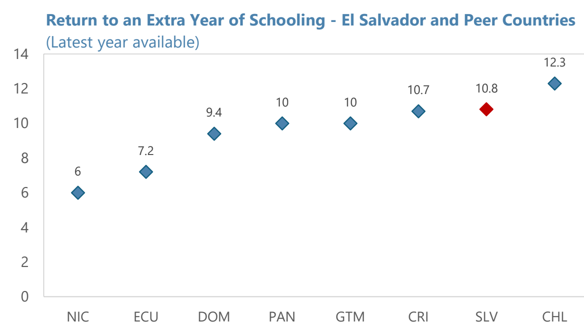
- **Infrastructure upgrades.** Efforts are underway to address significant infrastructure gaps with a program to improve highways, air and seaport facilities, and land border crossings. A key highway bypass (*La Libertad*) and initial phases of the airport modernization project have been completed, and construction on *Los Chorros* highway is now underway. Meanwhile, an ongoing public-private partnership project to modernize and expand port facilities (with investments estimated at around US$1.6 billion) is expected to more than double the container capacity at the *Acajutla* port (from 370,000 containers per year to 875,000 by 2028). Upgrades to land border crossing facilities with Honduras and Guatemala (where around half of El Salvador's goods exports pass), alongside simplified and digitalized customs declarations, have significantly reduced crossing times (from 3 days to only 30 minutes). To build on these gains, and recognizing fiscal space constraints, consideration should be given to enhancing the public-private partnership framework, with support from development partners. There are also opportunities to enhance cross-country collaboration to address intra-regional infrastructure gaps (e.g. in electricity connectivity, customs and logistics).

- **Regulation and competitiveness.** Efforts should continue to use digitalization and artificial intelligence to modernize regulatory frameworks and lower administrative barriers to trade and investment. These have reduced waiting times for health registration, customs declarations, transfer of real estate ownership and permits for the transport of hazardous goods and simplified the process for registering a new business (which now only takes around 4 hours). These efforts will not only support productivity but also strengthen the ongoing business formalization process.

- **Labor markets and human capital.** The authorities recognize that high levels of labor informality and low levels of human capital are important constraints to growth and employment. Compared to its peer group, El Salvador performs poorly on math, reading and science test scores, and ranks towards the bottom on average years of schooling. It is crucial to address this by improving the quality of education and expanding access, laying a solid foundation for long-term human capital development. Skills mismatches are also becoming more evident, as many of the new jobs generated in the services sectors (hotel, tourism, financial services, real estate) require higher levels of human capital. Against this backdrop, the authorities are collaborating with private employers to boost critical skills of workers through vocational and technical worker training programs to boost computer/data science knowledge, customer service and English language skills. These could also be complemented by efforts to attract higher-skilled workers living abroad. Staff underscored that generating new jobs and increasing the formalization of the labor force is not only essential to boost growth and employment, but also to support the sustainability of the pension system and sustain security improvements (Annex VII).



Source: Central Bank of El Salvador (BCR), and Tecnológico de Monterrey



Source: Tecnológico de Monterrey

38. Focused efforts should be devoted to attracting FDI and boosting tourism. While net FDI inflows to El Salvador have lagged peers (Annex VIII), opportunities arise from reduced crime rates and ongoing efforts to address macroeconomic imbalances. Continued efforts to upgrade infrastructure, reduce regulation and increase human capital should help attract foreign direct investment, although these will need to be complemented by governance reforms that also ensure a level playing field and equal treatment under the law. Investment protection schemes through state-investor contracts could be particularly useful at containing perceived residual risks and foster FDI. This is especially important to expand tourism capacity, which is set to increase sharply over the coming years.[26] Meeting this projected demand would require more than doubling the existing hotel room capacity, as well as enhancements in public-private partnerships so that the needed basic infrastructure is in place to crowd-in private investment. (e.g., investments in the Surf City precinct and in the revitalization of the historic city center of *San Salvador* are good examples). As discussed earlier, training programs for tourism-related occupations should be expanded.

[26] The Ministry of Tourism estimates that 3.9 million tourists visited El Salvador in 2024, an increase of 17 percent since 2023, and that about 5 million tourists are expected by 2030.

39. Efforts to increase financial inclusion need to continue, including to support underrepresented groups. While El Salvador's financial sector is relatively well developed, with a private sector credit-to-GDP ratio of around 60 percent (near the regional average), the country lags in key areas of financial inclusion (Box 4). As such, efforts should continue to expand inclusion through the following proven initiatives:

- The BCR and the National Council for Financial Inclusion and Education should continue to implement the National Financial Inclusion Policy, which is centered around providing new financial products and business models, digitalization and financial innovation, and financing for small businesses. This should be complemented by the ongoing campaign to educate school children on the products and services offered by financial institutions, with a focus on digitalization.

- The public digital payments system (Transfer365), which is providing individuals with efficient, secure, and instant digital financial services accessible via mobile phones and online banking platforms, should be expanded further.[27] Since its launch in June 2021, Transfer365 has facilitated close to 80 million transfers worth around US$70 billion, with estimates also suggesting that they account for 90 percent of retail payments, generating savings of close US$180 million for Salvadorans through reduced fees and commissions.

40. Resilience to natural disasters needs further improvement. The current *2023-2025 Crisis Response Plan*, as well as El Salvador's National Disaster Response Plan, mainly focus on crisis response and humanitarian aid, with limited measures and policies relating to crisis preparedness, risk reduction, risk transfer, and residual risk management. The 2018 *Plan Nacional de Protección Civil, Prevención y Mitigación de Desastres,* which includes priority actions to strengthen disaster resilience up to 2030, should be reviewed and, if necessary, updated with the support of development partners. In line with best practices, such a strategy should be based on three complementary pillars and focus on developing measures to improve structural, financial, and ex-post resilience to facilitate a speedy response to public needs in the aftermath of a disaster (Annex IX).

Authorities' Views

41. The authorities agreed that structural reforms are required to boost growth and resilience. They concur that a world with reconfigured trade relationships presents both upside and downside risks to their export-led growth strategy, although they expect that ongoing trade negotiations would benefit El Salvador relative to peers. The authorities noted that Salvadorans currently in the United States have picked up language and work skills during their time overseas, which would be greatly beneficial to El Salvador's growth prospects if they returned. They underscored El Salvador's growth potential, including in tourism and pharmaceuticals, and highlighted various initiatives to attract foreign investment to expand existing export capacity. In

[27] These are free of charge for transfers within El Salvador. International transfers to participating jurisdictions within Central America are charged a US$1 fee plus VAT.

particular, they emphasized ongoing efforts to upgrade port infrastructure, expand hotel accommodation, and reduce regulatory burdens. More generally, the authorities recognized the need to address deep investment gaps and are open to exploring options to enhance public-private partnerships and investor protections. They also plan to deepen inclusive growth through continued efforts to ensure a more efficient and secure payments system.

PROGRAM MODALITIES

42. Program design. A modification of QPC targets for the ratio of required liquid assets to total deposits for depository corporations is requested, to correct a previous error in the QPC table and bring the new table in line with agreed commitments.[28] The authorities are requesting waivers of nonobservance for the QPCs on: (i) net domestic NFPS borrowing, on the basis of agreed corrective action to include a revised NFPS issuance schedule and debt buybacks (totaling US$132 million; completed on June 9. 2025) to ensure adherence to the end-June cumulative borrowing target (see ¶18, above, and ¶9 in the MEFP); and (ii) the accumulation of Bitcoin, on the basis that breaches were minor in nature (see ¶11 and footnote 12) and corrective action was taken to establish a buffer to mitigate the risk of future breaches of this nature (**prior action**) (see ¶18 of the MEFP). They are also requesting modifications of the TMU definitions for the adjustors applied to the QPCs on net domestic NFPS borrowing and NFPS deposits at the BCR.[29] It is proposed that the SBs for the publication of a pension actuarial evaluation, the publication of a civil service reform plan, and the enactment of a Financial Stability Law be postponed until end-September 2025 and for the approval of a law to strengthen crypto regulation and supervision until mid-December 2025; and that the SB for submission to the Legislative Assembly of a new AML/CFT law be brought forward to end-August 2025. To reinforce improvements to fiscal reporting and data transparency, a new continuous SB has been set to ensure that published NFPS statistics disaggregate pension costs and pension debt. A new SB has been set for end-June 2026 for the publication of asset declarations of high-level public officials, in line with the requirements of the new Anti-Corruption Law to strengthen transparency and governance (Table 13). Finally, ITs for end-March 2026 have been set (see Table 14).

43. Enterprise risks. The Fund continues to face significant risks, although these are being mitigated by the satisfactory early program implementation and ownership at the highest level. Business risks arise from uncertainties regarding trade and migration policies enacted overseas, as well as crypto-related incidents, such as market volatility or security breaches. Reputational risks continue to arise from the legacy of weak governance and transparency, as well as implementation of Bitcoin conditionality, consistent with the assessment at program approval. To mitigate these risks, close monitoring and strong program conditionality, including to strengthen the legal and

---

[28] The modified QPC targets lower the floor for end-June and September (from 14 percent to 13 percent) and end-December (from 15 percent to 14 percent), in line with agreed policy (see March 2025 SR, para 23) and existing MEFP commitments (see March 2025 MEFP, para 20).

[29] These changes would apply from the third review onward and are intended to provide limited additional flexibility for asset-liability management by the authorities.

regulatory framework for crypto-asset activities and markets, will ensure that measures are in place to enhance oversight and compliance. Enterprise financial risks continue to be mitigated by strong capacity to repay metrics (¶45), the backloaded schedule of disbursements, and the use of Fund resources to rebuild reserve buffers and contain liquidity risks.

44. Statistics. Gradually enhancing the timeliness, reliability, and coverage of data provision to the Fund is critical for adequate monitoring (Annex X. Data Issues).[30] A gradual implementation of the concepts and definitions of the international standards defined in the *Government Finance Statistics Manual 2014* will also be required, including moving towards accrual accounting and gradually extending the coverage of the NFPS to include at least 75 percent of municipalities (see ¶23 and ¶37 of the program approval MEFP). In addition, coverage should be gradually expanded to include comprehensive and timely data on the social security funds, non-financial corporations and their subsidiaries[31], as well as *Chivo* and *Fidebitcoin* (see ¶28). Regarding the latter, all Bitcoin transactions by *Chivo* and other entities will now need to be fully reported in the appropriate macroeconomic and fiscal statistics in line with past STA recommendations, while data collection needs to be enhanced to improve monitoring of private sector crypto activity.

45. Capacity to Repay. Capacity to repay the Fund remains adequate, unchanged since program approval, although program risks are elevated considering rising global uncertainties (see ¶14). Fund credit outstanding (including projected purchases under the EFF) is projected to peak in 2028 at 360 percent of quota (3.3 percent of GDP, 11.9 percent of government revenues, 10.5 percent of exports, or 20.7 percent of GIR) before declining to below 100 percent of quota in 2035 and to zero by 2038. Projected debt service to the Fund is expected to peak at 71 percent of quota in 2033 (0.5 percent of GDP, 1.9 percent of government revenues, 1.6 percent of exports, or 3.0 percent of GIR). 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.

46. Financing assurances. There are firm financing commitments for the next 12 months and good prospects for the remaining program period, including from the World Bank, IADB, CAF, and CABEI. Financing from multilateral institutions in 2025 is expected to exceed US$2.2 billion (of which around half is direct budget support).[32] There are no outstanding external arrears.

47. Article VIII / Capital Flow Management Measures (CFMs). The authorities have not introduced any exchange rate restrictions or multiple currency practices (MCP) that would require

[30] El Salvador has been a subscriber to the Special Data Dissemination Standard since 1998, publishing key macroeconomic data on its National Summary Data Page.

[31] These include ETESAL (an electricity network company), LaGEO (a geothermic energy company), CECSA and INE (two electricity companies); as well as ENTE (the national electrical transmission company).

[32] Of the prospective disbursement of SDR86.16 million following the conclusion of the 1st review of El Salvador's IMF-supported program, 100 percent will be directed to the Treasury.

Fund approval, or adjusted policies in relation to capital flows, including macroprudential policy measures (MPMs) or CFMs.

STAFF APPRAISAL

48. The Salvadoran economy continues to expand amid efforts to address macroeconomic imbalances. Real GDP is expected to grow at 2½ percent during 2025-26, supported by robust remittances and tourism, as well as the dividends from the significant security improvements. Following years of chronic underinvestment, growth is expected to continue to be led by strong construction and tourism, underpinned by improved confidence as reforms proceed. Inflation remains subdued and the current account deficit contained, supported by ongoing fiscal consolidation efforts.

49. The program had an auspicious start, with the authorities displaying strong ownership and commitment. Key targets aimed at boosting fiscal, external, and financial sector buffers were met with margins, while efforts continue to protect social and investment spending. Meanwhile, implementation of the heavy structural reform agenda in the areas of governance, transparency, and fiscal framework is proceeding promptly following some initial delays. The authorities continue to adhere to the commitment to keep overall Bitcoin holdings by the public sector unchanged, notwithstanding communication challenges and minor breaches.

50. Efforts to strengthen public finances need to continue. Plans to rationalize the wage bill and keep current spending in check are essential, although consideration may need to be given to measures aimed at mobilizing revenues and streamlining tax expenditures to meet program targets. Early efforts are needed in developing comprehensive civil service and pension reforms to underpin the adjustment beyond 2025, while safeguarding fiscal space to protect the most vulnerable, enhance infrastructure and build resilience to natural disasters and climate-related shocks.

51. Limiting reliance on bank and pension fund financing remains a key objective. Reducing the exposure of domestic banks and pension funds to the public sector would allow freeing up financial resources for the private sector to invest, create jobs, and create the conditions for financial market deepening. Plans to develop a medium-term debt strategy, and annual borrowing plans are welcomed, including to ensure adequate funding to the pension system and appropriate asset diversification of the portfolios of private pension fund managers. Strong engagement with other official creditors remains essential to continue to mobilize needed financing.

52. Further efforts are needed to rebuild financial sector buffers and enhance oversight and regulation. The implementation of the agreed schedule of increases in banks' reserve requirements and liquidity buffers is paramount. These steps—alongside efforts to build up government deposits at the central bank—are critical to enhancing resilience and safeguarding financial stability while supporting continued private sector credit growth, especially in the context of a more challenging external environment. Implementation of the new Financial Stability law will reinforce the early intervention, resolution, crisis management, and deposit insurance frameworks.

Greater focus should be given to strengthening the oversight of cooperatives, enhancing the ELA framework and progressively aligning bank regulation and supervision with Basel III standards.

53. Decisive actions are needed to further strengthen governance and transparency. A consistent and evenhanded application of the new Anti-Corruption Law is critical to enhance governance, accountability, and transparency. Continued efforts are also needed to bring the AML/CFT system in compliance with the recent GAFILAT evaluation in a timely manner. Importantly, enhancing confidence and investment requires further progress in elevating standards of fiscal reporting, enhancing transparency about publicly awarded contracts, and strengthening judicial independence and the access to public information, in line with best practices and international standards, remains critical.

54. Boosting productivity and resilience remains a priority. Staff welcome the authorities' *Long-Term Growth Strategy* aimed at facilitating export-led growth through broader infrastructure and human capital improvements, as well as reforms to promote financial inclusion and reduce administrative and regulatory barriers to investment and exports. Focused efforts are needed to boost FDI, especially to harness the country's tourism potential, including through well-designed public-private partnerships that maintain a level playing field. Investment protection schemes, including state-investor contracts, can assist in limiting perceived risks and facilitating investment. Importantly, and in the context of dollarization, labor markets should remain flexible, although efforts will be required to improve employment opportunities, address skills mismatches and encourage formalization.

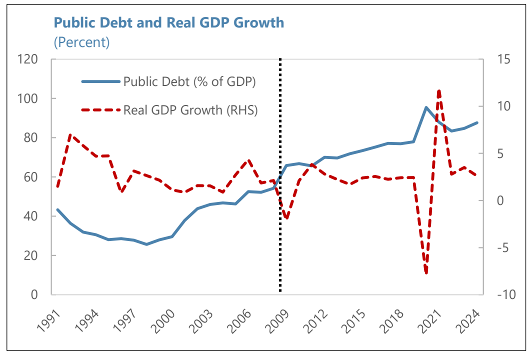
55. In the face of rising external risks, agile policy making will be essential to safeguard program objectives. A further escalation in trade tensions and the associated policy uncertainties could weigh on trade and foreign investment, while even stricter immigration policies could lead to lower remittances and labor absorption challenges from a substantial and rapid return of migrants. While some of these risks are mitigated by more favorable terms of trade and trade diversion effects, agreed contingency plans may need to be activated to safeguard stability and the agreed improvements in fiscal and external buffers.

56. Staff supports the authorities' requests for waivers of nonobservance, program modifications, and the completion of the first review under the EFF arrangement. Corrective actions to offset deviation on the unmet QPCs have been taken and targets for the rest of 2025 remain within reach. Most SBs for the first review have been completed, following initial delays, and work is underway to meet one pending SB.

57. It is recommended that the next Article IV consultation take place on a 24-month cycle.

Box 1. El Salvador: Estimation of 'Debt Overhang' Thresholds

Economic theory posits that an elevated debt burden constrains long-term growth through various channels. In the short run, public debt accumulation can help stimulate growth. In the long run, however, higher public debt reduces output as it: i) lowers national savings, increases interest rates and reduces investment (Barro 1990; Saint-Paul 1992); ii) requires higher future distortionary taxation (Barro, 1979); iii) generates inflationary pressures due to fiscal dominance (Sargent and Wallace 1981); and iv) could lead to higher economic volatility as it constrains the scope for countercyclical policy (e.g., Aghion and Kharroubi 2013).



The negative relationship between debt and growth has also been confirmed empirically. Several studies have analyzed the robustness of the results from Reinhart and Rogoff (2010) confirming a strong negative relationship between high levels of public debt and growth,[1] and have even tested potential non-linearities in this relationship.[2]

El Salvador's elevated public debt is above the threshold beyond which further accumulation affects growth. A smooth transition regression suggests that for El Salvador, a debt ratio that exceeds 63 percent of GDP is detrimental to the real per-capita growth. El Salvador's debt ratio has exceeded this threshold since 2009.[3]

Country	Mean Debt	Debt 2023	Threshold	Δ debt (low)	Δ debt (high)
Costa Rica	41.91	61.12	39.15***	-0.15	-0.04
Dominican Republic	40.34	60.02	34.63***	-0.31***	-0.11
El Salvador	**56.35**	**84.68**	**62.80*** **	**0.10**	**-0.19*** **
Guatemala	23.74	27.20	25.11***	-0.13	-0.18
Honduras	60.53	44.95	55.99***	0.02	-0.37***
Panama	50.28	52.39	65.93***	-0.45***	-1.04***

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

The analysis suggests that the proposed fiscal consolidation plan, together with reforms to improve spending efficiencies, could elevate El Salvador's growth potential.

____

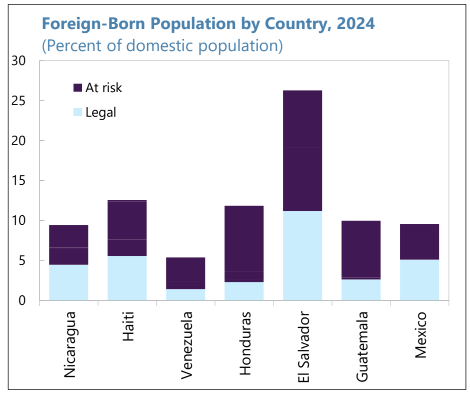
1/ Important contributions include Kumar and Woo (2010), Cecchetti, Mohanty, and Zampolli (2012) and Checherita-Westphal and Rother (2012), Kumar and Woo (2010), Panizza and Presibitero (2012) and Checherita-Wetphal and Rother (2012). Panizza and Presbitero (2013) provide an in-depth literature review.

2/ Key contributions include Checherita-Westphal and Rother (2012), Kumar and Woo (2012), Egert (2012), Cecchetti, Mohanty, and Zampolli (2012), Baum, Checherita-Westphal, Kourtellos, Stengos, and Tan (2012), among others.

3/ In the CAPDR region, Costa Rica, Dominican Republic and Guatemala also have debt ratios that exceed their respective debt thresholds.

Box 2. El Salvador: A Downside Scenario for Remittances

A faster pace of US deportations could have significant macroeconomic implications given the large number of Salvadorans at risk of deportation and the country's reliance on remittances.[1] A downside scenario in which removals to LAC countries reached 1 million per year in 2026-30 (compared to 450,000 in the baseline projections), could see El Salvador experience significant net positive inward migration for the first time in over sixty years—reducing the level of remittances in 2030 by an estimated US$1.2 billion.[2]



Lower remittances would impact growth, and the external and fiscal positions. Accounting just for the direct effects on spending, GDP growth would be lower by around 0.3 percentage points per year; the current account deficit would be 1.3 percentage points of GDP wider by 2030; reserve coverage would remain insufficient (peaking at 3.3 months of imports in 2028 and declining thereafter); and tax revenue would be around US$420 million lower over the period, worsening the primary balance and the public debt outlook.[3] These estimates do not account for higher labor supply (which could offset the hit to GDP in the medium term) or multiplier effects associated with higher unemployment and lower investment (which would worsen the impact).

	Impact of Downside Scenario					
	2025	2026	2027	2028	2029	2030
Remittances (USD mn)	0	-214	-437	-669	-910	-1,160
Current account balance (ppts of GDP)	0.0	-0.3	-0.6	-0.8	-1.1	-1.3
Gross international reserves (USD bn)	0.0	-0.1	-0.3	-0.7	-1.1	-1.7
Level of real GDP (%)	0.0	-0.3	-0.5	-0.8	-1.0	-1.3
Primary govt. balance (ppts of GDP)	0.0	-0.1	-0.1	-0.2	-0.2	-0.3

This downside scenario would imply an additional 129,000 returnees by 2030 relative to the baseline projections, equivalent to around 3.8 percent of the labor force. If returnees participate in the labor market at the same rate as those already residing, the economy will need to absorb around 26,000 extra workers (about 0.75 percent of the labor force) per year. This compares to an average annual growth in the working-age population of slightly less than 1 percent over the last decade. An increased labor force would imply higher potential growth, with the potential to offset a large proportion of the direct hit to growth if returnees are employed (for example, in rapidly expanding sectors such as tourism and construction). But in the interim, this could increase slack in the labor market and potentially increase public spending pressures.

Were these risks to crystalize, additional effort would be required to meet program targets for reserve accumulation and fiscal consolidation, while risks to debt sustainability would likely increase. Bringing the program back on track would require additional expenditure and revenue measures—presenting a challenging trade-off in an environment of below-trend growth and elevated social needs. In the above scenario, additional measures worth US$880 million during 2026-30 (about 0.2 percent of GDP per year) would be needed to bring the debt-to-GDP ratio to 79 percent by 2030. Rebuilding buffers would require additional external financing and/or a further contraction in imports (of a cumulative US$1.7 billion by 2030).

1/ The population considered at risk for the purpose of this box includes TPS holders, asylum seekers and parolees, and unauthorized migrants.

2/ Net migration data are taken from the UN World Population Prospects (2024). The impact on remittances is calculated assuming uniform remittances per capita that grow in line with nominal US GDP.

3/ These estimates assume (i) an elasticity of 1 of total final expenditure to remittances (with half assumed to be spent on imports), based on analysis of these relationships in LAC countries over the period 1990-2023, (ii) an elasticity of 1 of tax revenues to GDP and imports, and (iii) primary and interest spending unchanged from the baseline.

Box 3. El Salvador: The 2025 Fiscal Sustainability Law

The new FSL squarely anchors fiscal policy on reducing debt and re-introduces transparency and fiscal management provisions. The new FSL:

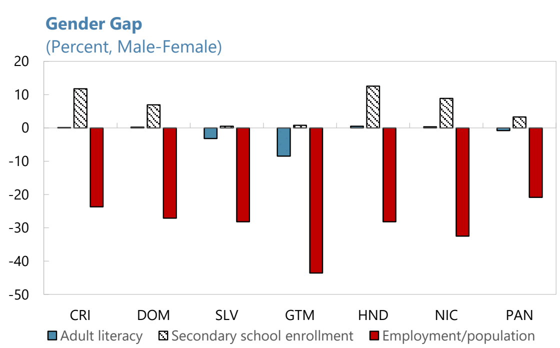
- Sets clear prudential targets for the debt-to-GDP ratio: 80 percent by 2030, 75 percent by 2035, and 70 percent by 2045 the long run.
- Requires the government to "comply or explain". In May of each year, through the Medium-Term Fiscal Framework (MTFF), the government will set primary deficit targets consistent with reducing debt to the prudential targets. However, a new MTFF will set the primary balance floors for the first two years ahead. The MTFF will be the base for budget of the following year and will also contain a report on compliance with the primary deficit and debt targets.
- Defines an escape clause. The reduction of the debt-to-GDP ratio to target can be postponed if GDP contracts by 1.5 percent or more for two consecutive quarters, or in case of a grave national emergency (pandemic, natural disaster, war, etc.) with an impact if at least 1 percent of GDP. The suspension cannot exceed three fiscal years.
- Re-introduces transparency and reporting standards. The MTFF will have to (i) contain detailed macro fiscal projections for five years ahead, (ii) describe the fiscal strategy, (iii) assess fiscal risks, contingent debt, and debt sustainability (including pension debt), and (iv) report the financial situation of SOEs.

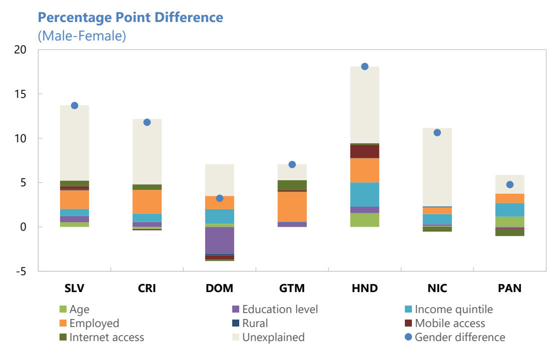
The new FSL improves on the previous one. The 2016 FSL had introduced a complex fiscal rule, with six quantitative limits that overly prescribed fiscal policy and were difficult to comply with. In addition, it did not establish a calendar of publications, and its escape clauses were too blunt (allowing for the suspension of the entire law, including its transparency provision. The new FSL fixes these problems, appropriately putting greater focus on debt reduction objectives. This implies the need to develop robust capacity for fiscal policy to respond to shocks (tight execution of the budget) and for planning to extend beyond the annual budget.

Box 4. El Salvador: Drivers of Financial Inclusion

Access to financial services is an important driver of inclusive growth. Financial inclusion, or the ability to access and use financial services such as banking, payments, credit and insurance, is a key enabler of the Sustainable Development Goals (World Bank 2025).[1] Those with access to formal financial services are more capable of supporting themselves and their families by saving and investing for health, education, retirement and entrepreneurial activities, and are better able to smooth consumption. Having a bank account is a first step towards broader financial inclusion as it provides a safe place to store savings, and to send and receive payments. For women, greater access to financial services also gives more leverage in household decisions and more control over their financial resources.

Enhancing labor force participation and education can elevate financial inclusion. There are substantial differences in account ownership in the CAPDR region. In El Salvador, only 34 percent of women have access to a bank account, compared to 48 percent for men, despite broadly similar levels of literacy and school enrollment. Differences in internet access, mobile phone access and rural location only explain a small portion of gaps in account ownership, suggesting other factors (such as norms) may explain these gender differences. Efforts to boost female labor force participation and education should take priority—data for El Salvador, using methodology developed by Fairlie (1999),[2] finds that women who are employed or better educated, or those living in a higher income household are much more likely to own a bank account.





____

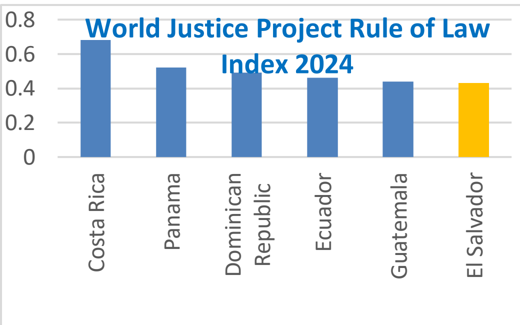
1/ World Bank, 2025, *Financial Inclusion*, https://www.worldbank.org/en/topic/financialinclusion/overview

2/ Fairlie, R,W. 1999, "The Absence of the African-American Owned Business: An Analysis of the Dynamics of Self-Employment," Journal of Labor Economics, 17(1): 80-108.

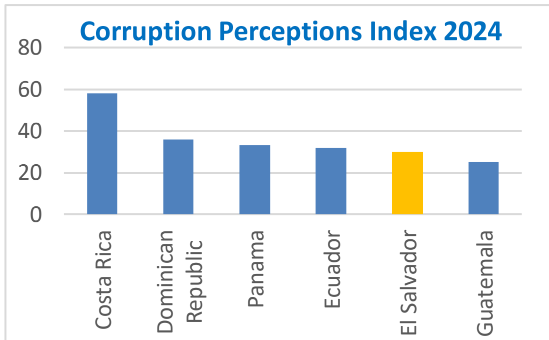
Box 5. El Salvador: Strengthening the Protection of Economic Rights to Support the Investment Climate

A strong and predictable investment climate is essential to foster growth. As shown in vast economics literature, the effective enforcement of commercial and property rights supports credit availability, private investment, and market access in more favorable terms. The quality of the judiciary, both in terms of its technical capacity and independence from private influence and public interference, is also critical to ensure the enforcement of economic rights.[1]

Towards this end, continued progress on governance and anti-corruption remains essential. Durably reducing sovereign spreads and supporting FDI requires continued efforts to reduce macroeconomic imbalances, but also steady actions to enhance governance and transparency. El Salvador continues to hold speculative-grade ratings from the three major credit rating agencies, partly reflecting concerns over judicial independence, institutional quality, and perceptions of corruption—as the country lags regional peers in widely used perception-based indicators such as the Worldwide Governance Indicators, the World Justice Project Rule of Law Index, and the Transparency International Corruption Perceptions Index.[2] As such, efforts should continue to reinforce contract enforcement, including by strengthening alternative dispute resolution (ADR) mechanisms, land governance, judicial independence and the access to public information. Specifically:



Source: World Justice Project



Source: Transparency International

- **Commercial dispute resolution.** Ongoing efforts to reduce bureaucracy and streamline government services, including electronic signatures, are positive steps towards a more reliable legal system. Court decisions are published online, and statistics on judicial performance and case processing times are available upon request. Nevertheless, the average time to resolve commercial disputes remains elevated, reflecting overburdened courts and changes to the arbitration law (enacted in 2009) that allowed parties to challenge arbitral awards. Sound implementation of the new Anti-Corruption Law will help minimize risks of judicial corruption and increase legal certainty, although revisions to the arbitration framework may also need to be considered.
- **Land governance system.** Land records are well managed through a centralized digital system (SIRYC) which allows users to consult property information both in-person and remotely. In addition, mortgage-backed loans are common and effective, and the broader collateral framework allows for the use of any asset with economic value. However, practical constraints, such as unregistered titles, legal disputes, and gaps in rural coverage, pose obstacles to land security. As such, efforts should continue in expanding the land registry and in improving its accessibility and transparency.
- **Judicial independence**. While safeguarding the autonomy and integrity of the judiciary remains a priority for the authorities, reforms are needed to ensure that judicial transfers and reassignments are governed by transparent, objective, and merit-based criteria established by law and consistent with international standards. Tenure of judges also needs to be protected.
- **Regulatory procedures and access to public information.** Progress in streamlining regulatory procedures for establishing a business (e.g., digitalizing of over 300 government services, introducing simplified Joint Stock Companies) and to strengthen the Access to Public Information Agency are commendable. In line with program commitments, priority should be given to ensuring the full implementation of the Access to Public Information Law and strengthening the procurement framework.

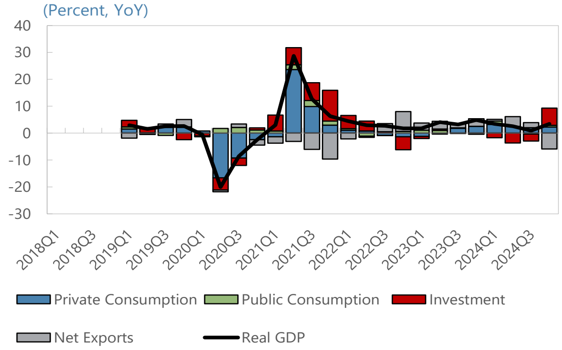
1/ 2018 IMF Framework for Enhanced Engagement on Governance

2/ See: Fitch Affirms El Salvador at 'B-'; Outlook Stable and Ratings.Moodys.com/ratings-news/398427

Figure 1. El Salvador: Real Sector Developments

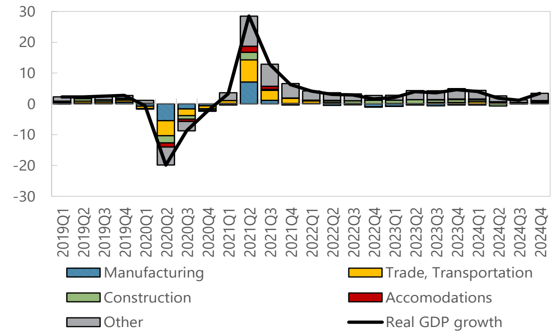
Real GDP growth increased by 3.4 percent in the year to December 2024

Contributions to Growth
(Percent, YoY)



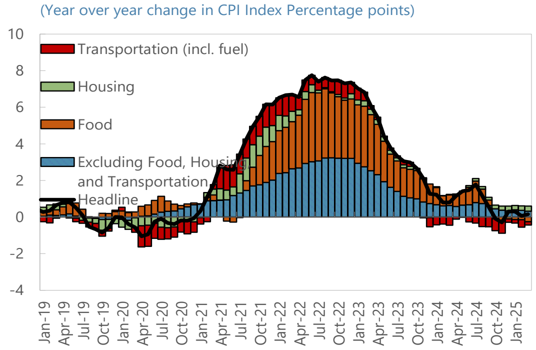
Flooding delayed construction activity in the first half of 2024…

Contributions to Real GDP Growth by Sectors
Year-over-year (Percentage points)



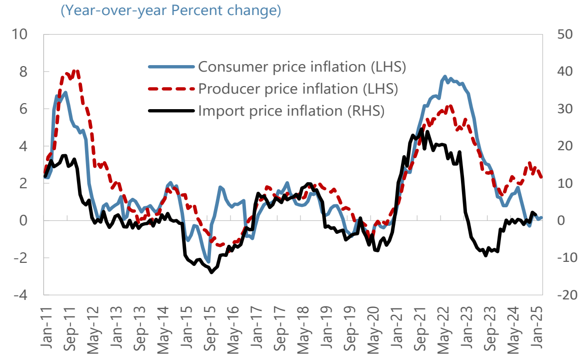
…and temporarily increased inflation, especially for food.

Contribution to Annual Inflation
(Year over year change in CPI Index Percentage points)



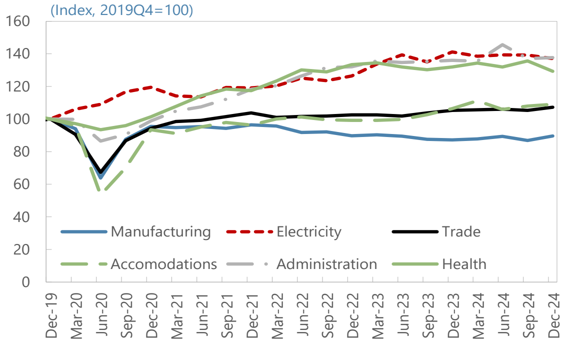
Producer prices also experienced a temporary acceleration.

Headline Inflation, Producer and Import Prices
(Year-over-year Percent change)



Most sectors have recovered from the pandemic…

Economic Activity In Sectors
(Index, 2019Q4=100)



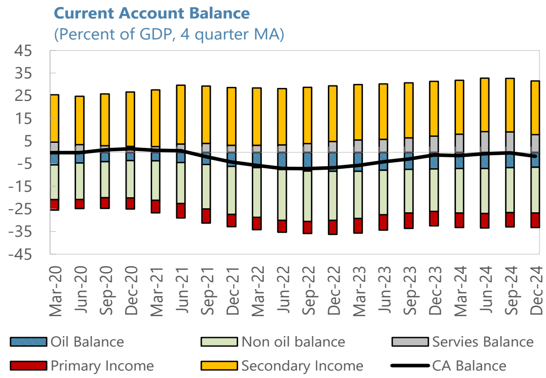
… and industrial production is solid.

Monthly Production
(Percent, year over year growth)

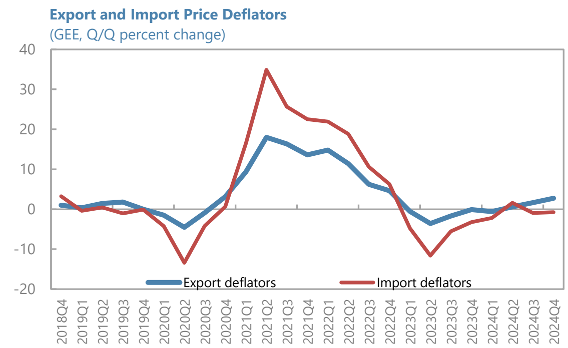
Source: Haver Analytics and IMF staff calculations.

Figure 2. El Salvador: Balance of Payments Developments

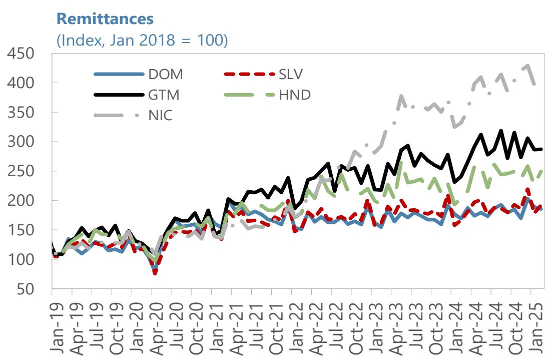
The current account deficit has narrowed from the elevated post-pandemic level…



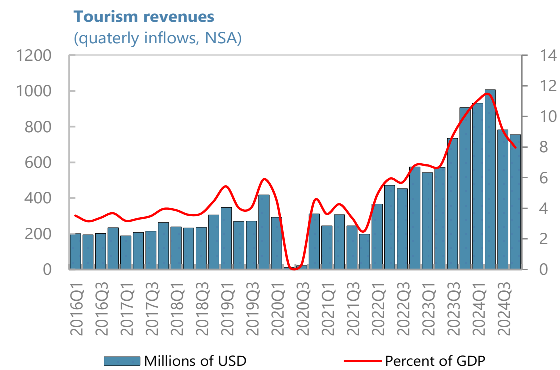
… supported by favorable terms of trade, due to falling commodity prices.



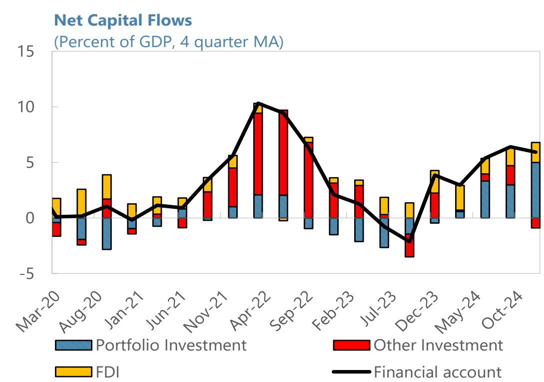
Remittances have remained resilient….



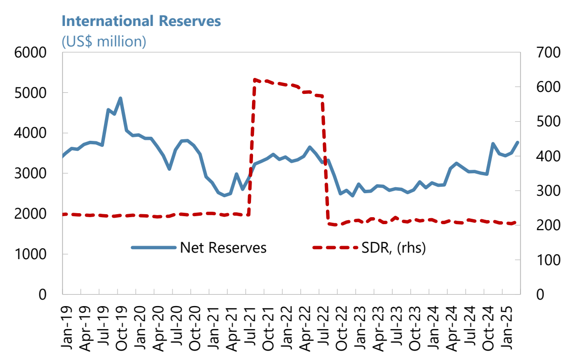
… and tourism revenues are booming.



FDI has been gradually recovering …



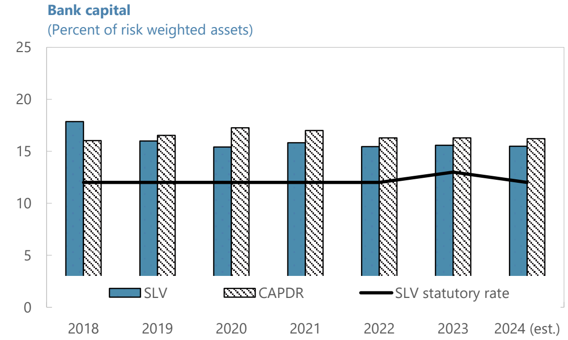
…helping to support a gradual rebuild of reserves.



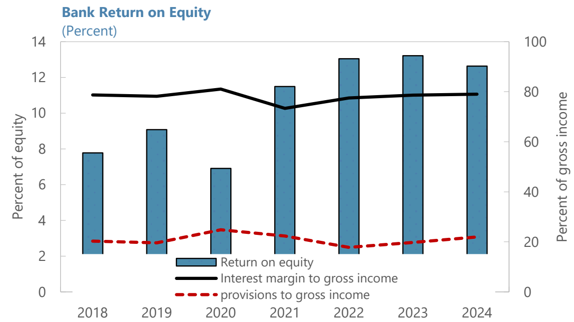
Sources: Central Reserve Bank of El Salvador, Haver Analytics, IMF World Economic Outlook, IMF Balance of Payments, and Fund staff calculations.

Figure 3. El Salvador: Financial Sector Developments

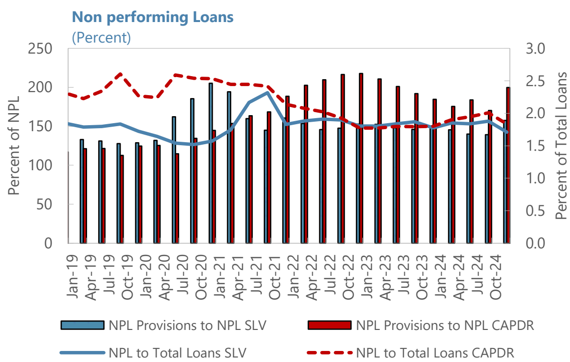
Banks are adequately capitalized....



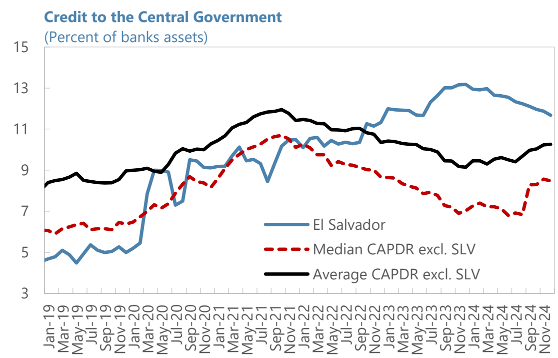
...and profitable.



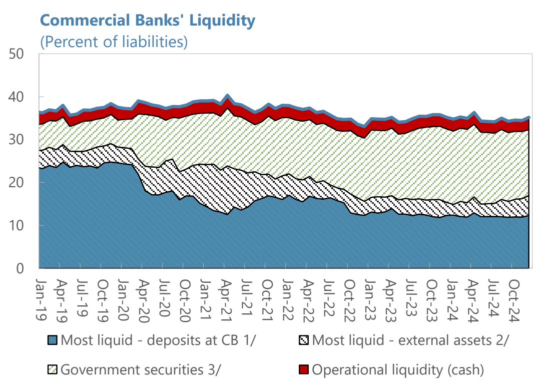
Non-performing loans remained subdued and well provisioned....



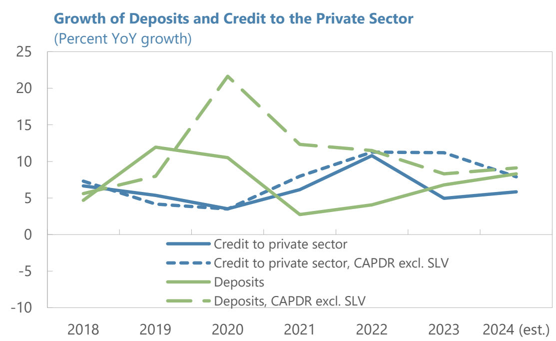
...but bank's sovereign exposure remains elevated.



Liquidity buffers have significantly declined, especially when excluding government securities.



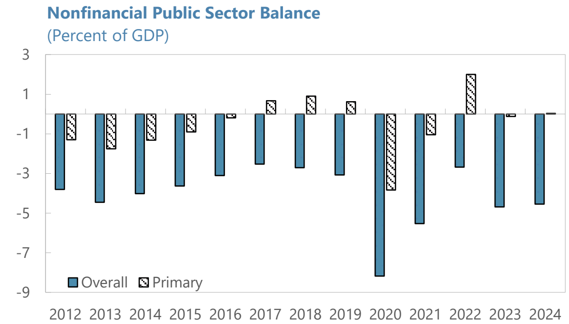
Credit to the private sector and deposit growth are robust.



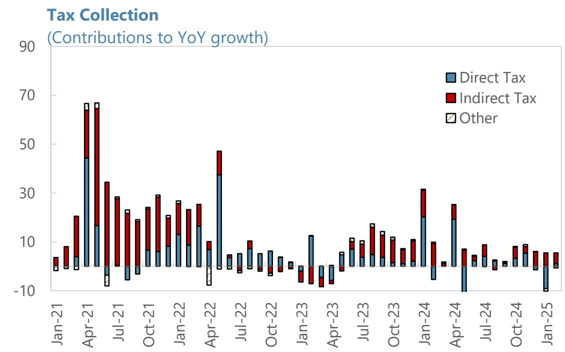
Note: Full Data for Nicaragua in 2024 is not yet available.
Sources: IMF Financial Stability Indicators and staff calculations.
1/ Includes reserve requirements.
2/ Deposits and securities abroad.
3/ Holdings of central government treasuries and securities.

Figure 4. El Salvador: Fiscal Developments

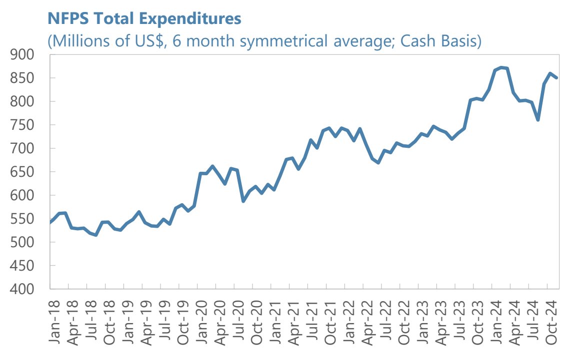
The fiscal position, including pension costs, improved slightly in 2024.



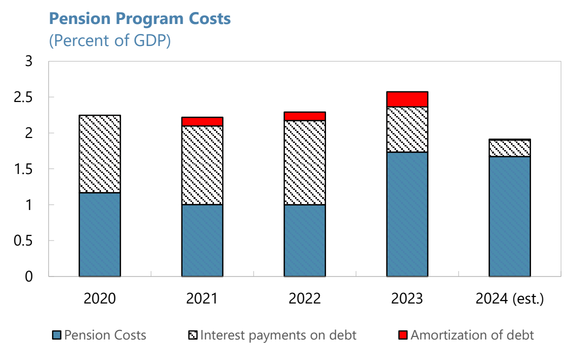
Total revenues are rising as a share of GDP….



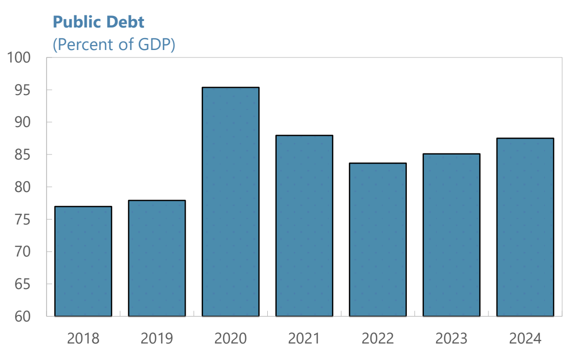
and public expenditures falling on an accrual basis in 2024, but rising on a cash basis due to the clearance of arrears ….



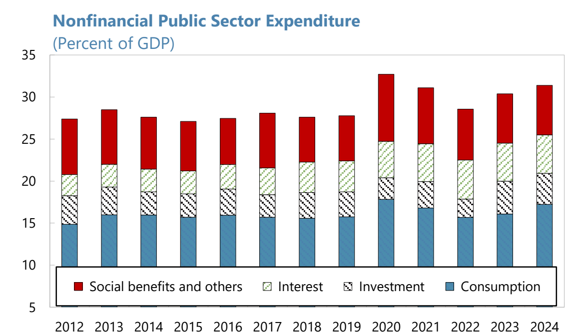
Pension debt servicing costs have been contained, thanks to the 2023 pension debt swap and liability-management operations.



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



Total expenditures remain above their pre-pandemic level, driven by social benefits, investment, and the interest bill.



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)	6.3
Per capita income (U.S. dollars, 2022)	5,365.5	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)	2.9	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	0.9	1.0	1.8	1.8	1.8	1.8	1.8
GDP deflator (percent)	6.6	2.6	1.8	0.8	2.2	2.1	1.9	1.8	2.0
External Sector									
Current account balance	-6.7	-1.1	-1.8	-0.8	-2.1	-1.5	-1.4	-1.3	-1.3
Oil prices (U.S. dollars per barrel)	96.4	80.6	79.2	66.9	62.4	62.7	63.6	64.3	64.9
Trade balance	-30.0	-26.2	-26.9	-27.0	-26.0	-24.9	-24.4	-23.9	-23.3
Exports (f.o.b.)	18.3	16.3	15.8	15.1	14.7	14.9	14.8	14.8	14.9
Imports (f.o.b.)	48.4	42.5	42.7	42.1	40.7	39.8	39.2	38.7	38.2
Services and income (net)	-1.2	0.9	1.4	1.0	1.0	1.0	1.2	1.3	1.3
Transfers (net)	24.5	24.2	23.7	25.2	23.0	22.3	21.7	21.2	20.7
Foreign direct investment	-0.4	-2.0	-1.8	-2.1	-2.3	-2.2	-2.4	-2.5	-2.6
Gross international reserves (millions of U.S. dollars)	2,696	3,081	3,706	4,252	4,762	5,467	6,111	6,635	7,186
Nonfinancial Public Sector									
Overall balance	-2.7	-4.7	-4.5	-3.0	-2.1	-1.8	-2.1	-1.9	-1.5
Primary balance	2.0	-0.1	0.0	1.9	2.9	3.7	3.7	3.7	3.7
Of which: Tax Revenue	20.1	19.8	20.6	21.2	21.2	21.6	21.6	21.6	21.6
Gross debt 1/	83.7	85.1	87.5	88.0	86.6	84.5	82.9	81.4	79.5
National Savings and Investment									
Gross capital formation	24.5	20.7	20.3	22.0	21.6	21.5	21.6	21.6	21.8
Private fixed investment 2/	19.3	18.8	19.4	19.7	19.7	19.7	19.8	20.0	20.2
Public fixed investment 2/	2.3	3.2	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Change in inventories	2.8	-1.3	-1.8	-0.5	-0.9	-1.0	-0.9	-1.1	-1.2
National savings	17.7	19.6	18.6	21.1	19.5	20.0	20.2	20.3	20.5
Private sector	18.3	20.4	19.4	20.9	18.4	18.5	19.1	18.9	18.9
Public sector	-0.5	-0.8	-0.9	0.2	1.1	1.4	1.1	1.3	1.7
Money and Credit									
Credit to the private sector	62.6	61.9	62.5	66.1	69.1	72.1	75.1	77.0	79.9
Broad money	58.0	59.5	58.8	59.1	58.1	57.9	59.0	60.5	62.0
Interest rate (time deposits, percent)	4.5	5.3	5.6	...	...	...	...	...	...
Net Foreign Assets of the Financial System									
Millions of U.S. dollars	1,488	1,565	2,298	2,442	2,730	3,038	3,516	4,146	4,753
Percent of deposits	8.5	8.4	11.8	12.0	13.0	13.7	14.8	16.1	17.2
Memorandum Items									
Nominal GDP (billions of U.S. dollars)	31.9	33.9	35.4	36.5	38.3	40.2	42.3	44.3	46.4
Terms of trade, percent change	-2.9	5.7	-2.3	2.6	0.7	0.1	-0.2	-0.2	0.1
Real effective exchange rate (+ = appreciation)	3.5	-2.8	0.5	...	...	...	...	...	...
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	9.7	6.2	4.5	3.3	4.7	5.2	5.1	4.7	4.9
GDP deflator	6.6	2.6	1.8	0.8	2.2	2.1	1.9	1.8	2.0
Real GDP growth	2.9	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	0.5	0.0	-0.5	-0.2	0.2	0.3	0.4
Inflation (average)	7.2	4.0	0.9	1.0	1.8	1.8	1.8	1.8	1.8
				(Contribution to real GDP growth, percentage points)					
Private consumption	-0.1	0.7	2.5	2.5	2.6	2.2	1.8	1.5	1.4
Public consumption	0.0	0.5	0.4	-0.9	-0.3	-0.1	0.5	0.4	0.4
Private investment	0.6	0.9	1.3	0.7	0.8	0.9	1.0	1.0	1.2
Public investment	0.0	1.0	-0.3	0.0	0.1	0.1	0.1	0.1	0.1
Change in inventories	0.4	-2.3	-1.2	2.2	0.0	0.0	0.0	0.0	0.0
Net exports	2.0	2.4	0.0	-1.9	-0.7	-0.2	-0.2	-0.2	-0.3
				(Percentage changes)					
Exports of goods, f.o.b.	11.3	-5.5	1.2	-1.2	1.5	6.6	4.7	5.0	5.3
Volume	-2.4	-4.9	4.0	-2.2	2.3	6.6	4.1	4.1	4.2
Price	14.0	-0.7	-2.7	1.1	-0.8	0.1	0.6	0.8	1.0
Imports of goods, f.o.b.	16.9	-6.7	5.0	1.9	1.2	2.8	3.5	3.5	3.4
Volume	-0.4	-0.7	5.5	3.4	2.7	2.9	2.7	2.5	2.5
Price	17.4	-6.0	-0.5	-1.5	-1.5	-0.1	0.8	1.0	0.9
Terms of trade	-2.9	5.7	-2.3	2.6	0.7	0.1	-0.2	-0.2	0.1
				(Percent of GDP)					
Primary fiscal balance	2.0	-0.1	0.0	1.9	2.9	3.7	3.7	3.7	3.7
Overall fiscal balance	-2.7	-4.7	-4.5	-3.0	-2.1	-1.8	-2.1	-1.9	-1.5
Public sector gross debt 1/	83.7	85.1	87.5	88.0	86.6	84.5	82.9	81.4	79.5
Current account balance	-6.7	-1.1	-1.8	-0.8	-2.1	-1.5	-1.4	-1.3	-1.3
Exports of goods, f.o.b.	18.3	16.3	15.8	15.1	14.7	14.9	14.8	14.8	14.9
Imports of goods, f.o.b.	48.4	42.5	42.7	42.1	40.7	39.8	39.2	38.7	38.2
Of which: Petroleum products	8.4	7.3	6.6	5.6	5.1	5.0	4.9	4.9	4.8
Current transfers	24.5	24.2	23.7	25.2	23.0	22.3	21.7	21.2	20.7
Gross capital formation	24.5	20.7	20.3	22.0	21.6	21.5	21.6	21.6	21.8
Private fixed investment 2/	19.3	18.8	19.4	19.7	19.7	19.7	19.8	20.0	20.2
Public fixed investment 2/	2.3	3.2	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Change in inventories	2.8	-1.3	-1.8	-0.5	-0.9	-1.0	-0.9	-1.1	-1.2
Gross national saving	17.7	19.6	18.6	21.1	19.5	20.0	20.2	20.3	20.5
Private sector	18.3	20.4	19.4	20.9	18.4	18.5	19.1	18.9	18.9
Public sector	-0.5	-0.8	-0.9	0.2	1.1	1.4	1.1	1.3	1.7
External saving	6.7	1.1	1.8	0.8	2.1	1.5	1.4	1.3	1.3
Memorandum Items				(Percentage changes)					
Private consumption	-0.1	0.9	3.2	3.2	3.3	2.8	2.2	1.9	1.8
Public consumption	0.2	3.3	2.4	-5.4	-2.1	-0.4	3.3	2.6	2.7
Private fixed investment 2/	3.4	4.9	6.9	3.5	4.2	4.5	4.8	5.1	5.5
Public fixed investment 2/	0.2	46.3	-8.3	1.6	4.0	4.5	4.4	4.0	4.2

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	**-2,144**	**-368**	**-633**	**-301**	**-803**	**-622**	**-607**	**-595**	**-585**
Merchandise trade balance	-9,569	-8,854	-9,509	-9,856	-9,961	-10,029	-10,304	-10,577	-10,819
Export of goods (f.o.b.)	5,842	5,521	5,586	5,521	5,606	5,978	6,259	6,571	6,917
Import of goods (f.o.b.)	15,410	14,375	15,095	15,377	15,567	16,006	16,563	17,148	17,736
Of which: Petroleum products	2,673	2,488	2,320	2,053	1,969	2,012	2,087	2,156	2,210
Services, net	1,552	2,449	2,741	2,807	2,939	3,071	3,300	3,519	3,702
Of which: Travel receipts	1,864	2,755	3,476	3,607	3,834	4,112	4,443	4,763	5,054
Primary income, net	-1,947	-2,139	-2,256	-2,442	-2,566	-2,650	-2,792	-2,934	-3,087
Of which: Interest	-759	-808	-884	-799	-804	-630	-625	-612	-597
Secondary income, net	7,821	8,176	8,392	9,190	8,786	8,986	9,189	9,397	9,618
Of which: Workers' remittances (credits)	7,828	8,262	8,461	9,245	8,864	9,072	9,284	9,500	9,730
Capital Account, net	**242**	**336**	**286**	**278**	**278**	**283**	**292**	**283**	**283**
Financial Account (Net lending (+)/Net borrowing (-))	**-1,261**	**-957**	**-1,522**	**319**	**-220**	**137**	**-68**	**-312**	**-303**
Foreign direct investment, net	-143	-688	-636	-763	-876	-881	-1,011	-1,110	-1,219
Net acquisition of financial assets	-117	-45	288	139	119	176	146	153	156
Net incurence of labilities	26	643	924	903	995	1,057	1,157	1,263	1,376
Of which: Reinvested earnings	-111	507	486	330	373	386	435	489	550
Portfolio investment, net	503	141	-1,820	280	247	-255	-171	-49	-329
Net acquisition of financial assets	-125	-173	-144	180	247	197	299	302	290
Net incurence of labilities	-628	-314	1,676	-100	0	451	470	351	619
Of which: Public sector 2/	-648	-311	1,681	-100	0	451	470	351	619
Financial derivatives, net	0	-12	-11	0	0	0	0	0	0
Other investment, net	-922	-767	336	257	-100	568	470	322	694
Net acquisition of financial assets	-119	554	390	318	443	444	605	618	631
Net incurence of labilities	803	1,321	54	61	544	-123	135	296	-63
Change in Reserve Assets (+=increase)	-699	369	608	546	509	705	644	524	552
Change in reserve position in the IMF	0	0	0	0	0	0	0	0	0
Other changes in reserve assets	-699	369	608	546	509	705	644	524	552
Errors and Omissions, net	641	-926	-1,176	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	3,706	4,252	4,762	5,467	6,111	6,635	7,186
In months of imports	1.8	2.2	2.4	2.7	3.0	3.4	3.6	3.8	4.0
In percent of total short-term external debt	113.8	105.8	139.9	162.8	177.3	204.8	222.7	240.8	260.0
In percent of ARA metric	27.1	31.5	36.9	40.2	43.4	47.2	50.2	52.0	56.3

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	**-6.7**	**-1.1**	**-1.8**	**-0.8**	**-2.1**	**-1.5**	**-1.4**	**-1.3**	**-1.3**
Merchandise trade balance	-30.0	-26.2	-26.9	-27.0	-26.0	-24.9	-24.4	-23.9	-23.3
Export of goods (f.o.b.)	18.3	16.3	15.8	15.1	14.7	14.9	14.8	14.8	14.9
Import of goods (f.o.b.)	48.4	42.5	42.7	42.1	40.7	39.8	39.2	38.7	38.2
Of which: Petroleum and products	8.4	7.3	6.6	5.6	5.1	5.0	4.9	4.9	4.8
Services, net	4.9	7.2	7.7	7.7	7.7	7.6	7.8	8.0	8.0
Of which: Travel receipts	5.8	8.1	9.8	9.9	10.0	10.2	10.5	10.8	10.9
Primary income, net	-6.1	-6.3	-6.4	-6.7	-6.7	-6.6	-6.6	-6.6	-6.7
Of which: Interest	-2.4	-2.4	-2.5	-2.2	-2.1	-1.6	-1.5	-1.4	-1.3
Secondary income, net	24.5	24.2	23.7	25.2	23.0	22.3	21.7	21.2	20.7
Of which: Workers' remittances (credits)	24.6	24.4	23.9	25.3	23.2	22.5	22.0	21.5	21.0
Capital Account, net	**0.8**	**1.0**	**0.8**	**0.8**	**0.7**	**0.7**	**0.7**	**0.6**	**0.6**
Financial Account (Net lending (+)/Net borrowing (-))	**-4.0**	**-2.8**	**-4.3**	**0.9**	**-0.6**	**0.3**	**-0.2**	**-0.7**	**-0.7**
Foreign direct investment, net	-0.4	-2.0	-1.8	-2.1	-2.3	-2.2	-2.4	-2.5	-2.6
Net acquisition of financial assets	-0.4	-0.1	0.8	0.4	0.3	0.4	0.3	0.3	0.3
Net incurence of labilities	0.1	1.9	2.6	2.5	2.6	2.6	2.7	2.9	3.0
Of which: Reinvested earnings	-0.3	1.5	1.4	0.9	1.0	1.0	1.0	1.1	1.2
Portfolio investment, net	1.6	0.4	-5.1	0.8	0.6	-0.6	-0.4	-0.1	-0.7
Net acquisition of financial assets	-0.4	-0.5	-0.4	0.5	0.6	0.5	0.7	0.7	0.6
Net incurence of labilities	-2.0	-0.9	4.7	-0.3	0.0	1.1	1.1	0.8	1.3
Of which: Public sector 2/	-2.0	-0.9	4.8	-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	-2.3	1.0	0.7	-0.3	1.4	1.1	0.7	1.5
Net acquisition of financial assets	-0.4	1.6	1.1	0.9	1.2	1.1	1.4	1.4	1.4
Net incurence of labilities	2.5	3.9	0.2	0.2	1.4	-0.3	0.3	0.7	-0.1
Change in Reserve Assets (+=increase)	-2.2	1.1	1.7	1.5	1.3	1.8	1.5	1.2	1.2
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	1.7	1.5	1.3	1.8	1.5	1.2	1.2
Errors and Omissions, net	**2.0**	**-2.7**	**-3.3**	**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	2,696	3,081	3,706	4,252	4,762	5,467	6,111	6,635	7,186
In months of imports	1.8	2.2	2.4	2.7	3.0	3.4	3.6	3.8	4.0
In percent of total short-term external debt	114	106	140	163	177	205	223	241	260
In percent of ARA metric	27	32	37	40	43	59	50	52	56

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)

	2025	2026	Proj. 2027	2028	2029	2030
			(Millions of U.S. dollars)			
Gross Financing Requirements (A)	**5,200**	**5,032**	**5,267**	**5,088**	**5,691**	**5,648**
Current account deficit	301	803	622	607	595	585
Debt amortization (public and private)	4,899	4,229	4,645	4,481	5,095	5,063
Public debt amortization	316	510	959	802	1,287	1,112
Including to the IMF	94	0	0	0	19	71
Private debt amortization	4,583	3,719	3,686	3,680	3,808	3,951
Gross Financing Sources (B)	**3,957**	**4,127**	**3,641**	**3,941**	**4,491**	**4,648**
Capital account flows (net)	278	278	283	292	283	283
FDI (net)	763	876	881	1,011	1,110	1,219
Private sector and other capital flows	3,463	3,483	3,182	3,282	3,622	3,698
Change in reserves (+ is decrease)	-546	-509	-705	-644	-524	-552
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)	14.2	13.2	13.1	12.0	12.9	12.2
Current account deficit	0.8	2.1	1.5	1.4	1.3	1.3
Debt amortization (public and private)	13.4	11.1	11.5	10.6	11.5	10.9
Public debt amortization	0.9	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	12.5	9.7	9.2	8.7	8.6	8.5
Gross Financing Sources (B)	10.8	10.8	9.0	9.3	10.1	10.0
Capital account flows (net)	0.8	0.7	0.7	0.7	0.6	0.6
FDI (net)	2.1	2.3	2.2	2.4	2.5	2.6
Private sector and other capital flows	9.5	9.1	7.9	7.8	8.2	8.0
Change in reserves (+ is decrease)	-1.5	-1.3	-1.8	-1.5	-1.2	-1.2
Balance of Payments Need (C) = (A) - (B)	3.4	2.4	4.0	2.7	2.7	2.2
Official financing (D)	2.5	1.6	1.4	0.2	0.0	0.0
o/w World Bank	0.7	0.7	0.6	0.0	0.0	0.0
o/w CABEI	0.4	0.3	0.2	0.2	0.0	0.0
o/w IADB	1.2	0.7	0.5	0.0	0.0	0.0
o/w Other official	0.5	0.3	0.2	0.2	0.0	0.0
CAF	0.1	0.0	0.0	0.0	0.0	0.0
Bilateral	0.0	0.0	0.0	0.0	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	4,252	4,762	5,467	6,111	6,635	7,186
In months of imports	2.7	3.0	3.4	3.6	3.8	4.0
In percent of total short-term external debt	163	177	205	223	241	260
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**	**8,747**	**9,482**	**9,898**	**10,403**	**11,101**	**11,662**	**12,210**	**12,803**
Taxes	6,572	6,882	7,484	7,745	8,126	8,684	9,117	9,546	10,002
Taxes on income	2,782	2,877	3,103	3,205	3,357	3,531	3,710	3,884	4,073
Taxes on property	47	54	59	61	64	67	70	74	77
Taxes on goods and services	3,358	3,518	3,852	3,969	4,157	4,373	4,594	4,809	5,043
Taxes on foreign trade	319	322	341	377	381	408	422	444	458
Other taxes	65	110	130	134	167	305	320	335	351
Social contributions	724	762	801	828	867	912	958	1,003	1,052
Other revenue	964	1,083	1,165	1,325	1,410	1,505	1,587	1,661	1,749
Grants	19	21	33	0	0	0	0	0	0
Expenditure	**9,134**	**10,334**	**11,091**	**10,993**	**11,206**	**11,809**	**12,555**	**13,031**	**13,512**
Expense	**8,443**	**9,008**	**9,791**	**9,824**	**9,983**	**10,522**	**11,204**	**11,617**	**12,030**
Compensation of employees	3,478	3,755	4,094	3,964	3,989	4,026	4,226	4,421	4,633
Purchases of goods and services	1,541	1,715	1,997	1,898	1,867	1,924	2,024	2,120	2,220
Interest	1,492	1,545	1,621	1,795	1,913	2,197	2,458	2,462	2,425
Domestic	789	785	860	709	753	1,007	1,263	1,252	1,260
Foreign	703	759	760	1,086	1,160	1,190	1,195	1,210	1,165
Subsidies 1/	96	1	57	58	61	63	66	71	74
Social benefits	1,438	1,621	1,606	1,669	1,702	1,815	1,907	1,996	2,094
Other expense	398	371	417	440	451	497	522	547	583
Current	228	240	282	301	305	321	337	353	370
Capital	170	132	135	139	146	176	185	194	213
Net acquisition of nonfinancial assets	**691**	**1,326**	**1,300**	**1,169**	**1,223**	**1,286**	**1,351**	**1,414**	**1,482**
Net lending/borrowing	**-855**	**-1,587**	**-1,609**	**-1,095**	**-803**	**-708**	**-894**	**-821**	**-709**
Net financial transactions	**-855**	**-1,587**	**-1,609**	**-1,095**	**-803**	**-708**	**-894**	**-821**	**-709**
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**	**1,587**	**1,609**	**1,095**	**803**	**708**	**894**	**821**	**709**
Foreign	8	81	1,240	2,208	1,383	1,292	1,101	873	903
Loans	8	81	1,240	2,208	1,383	1,292	1,101	873	903
Disbursement	769	1,174	3,548	2,524	1,893	2,251	1,903	2,160	2,015
Amortizations	-761	-1,093	-2,308	-316	-510	-959	-802	-1,287	-1,112
Domestic	873	1,506	369	-1,114	-579	-585	-207	-52	-194
Loans	549	1,530	904	-1,014	-379	-435	-57	98	-44
Other	-72	0	0	0	0	0	0	0	0
Memorandum items (mill. of US$ unless otherwise specified):									
Revenue	8,279	8,747	9,482	9,898	10,403	11,101	11,662	12,210	12,803
Taxes	6,572	6,882	7,484	7,745	8,126	8,684	9,117	9,546	10,002
Expenditure	9,134	10,334	11,091	10,993	11,206	11,809	12,555	13,031	13,512
Interest	1,492	1,545	1,621	1,795	1,913	2,197	2,458	2,462	2,425
Net lending	-855	-1,587	-1,609	-1,095	-803	-708	-894	-821	-709
Taxes (percent of revenue)	79.4	78.7	78.9	78.2	78.1	78.2	78.2	78.2	78.1
Compensation of employees (percent of expenditure)	38.1	36.3	36.9	36.1	35.6	34.1	33.7	33.9	34.3
Interest (percent of expenditure)	16.3	14.9	14.6	16.3	17.1	18.6	19.6	18.9	18.0
Primary balance	636	-42	12	700	1,109	1,489	1,565	1,641	1,717
Gross total debt	26,661	28,806	30,949	32,144	33,147	34,005	35,049	36,020	36,878
External disbursements	769.1	1,173.8	3,547.7	2,524.4	1,892.6	2,251.0	1,902.5	2,160.0	2,015.0
Nominal GDP	31,870	33,854	35,365	36,522	38,256	40,242	42,277	44,257	46,412

Sources: Central Reserve Bank of El Salvador, IMF staff estimates and projections.
1/ Only includes subsidies on liquified gas.

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	**26.0**	**25.8**	**26.8**	**27.1**	**27.2**	**27.6**	**27.6**	**27.6**	**27.6**
Taxes	20.6	20.3	21.2	21.2	21.2	21.6	21.6	21.6	21.6
Taxes on income	8.7	8.5	8.8	8.8	8.8	8.8	8.8	8.8	8.8
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	10.4	10.9	10.9	10.9	10.9	10.9	10.9	10.9
Taxes on foreign trade	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other taxes	0.2	0.3	0.4	0.4	0.4	0.8	0.8	0.8	0.8
Social contributions	2.3	2.3	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	3.8	3.8	3.8
Grants	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**28.7**	**30.5**	**31.4**	**30.1**	**29.3**	**29.3**	**29.7**	**29.4**	**29.1**
Expense	**26.5**	**26.6**	**27.7**	**26.9**	**26.1**	**26.1**	**26.5**	**26.2**	**25.9**
Compensation of employees	10.9	11.1	11.6	10.9	10.4	10.0	10.0	10.0	10.0
Purchases of goods and services	4.8	5.1	5.6	5.2	4.9	4.8	4.8	4.8	4.8
Interest	4.7	4.6	4.6	4.9	5.0	5.5	5.8	5.6	5.2
Domestic	2.5	2.3	2.4	1.9	2.0	2.5	3.0	2.8	2.7
Foreign	2.2	2.2	2.1	3.0	3.0	3.0	2.8	2.7	2.5
Subsidies 1/	0.3	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social benefits	4.5	4.8	4.5	4.6	4.4	4.5	4.5	4.5	4.5
Other expense	1.2	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.3
Current	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Capital	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Net acquisition of nonfinancial assets	**2.2**	**3.9**	**3.7**	**3.2**	**3.2**	**3.2**	**3.2**	**3.2**	**3.2**
Net lending/borrowing	**-2.7**	**-4.7**	**-4.5**	**-3.0**	**-2.1**	**-1.8**	**-2.1**	**-1.9**	**-1.5**
Net financial transactions	**-2.7**	**-4.7**	**-4.5**	**-3.0**	**-2.1**	**-1.8**	**-2.1**	**-1.9**	**-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**	**4.5**	**3.0**	**2.1**	**1.8**	**2.1**	**1.9**	**1.5**
Foreign	0.0	0.2	3.5	6.0	3.6	3.2	2.6	2.0	1.9
Loans	0.0	0.2	3.5	6.0	3.6	3.2	2.6	2.0	1.9
Disbursement	2.4	3.5	10.0	6.9	4.9	5.6	4.5	4.9	4.3
Amortizations	-2.4	-3.2	-6.5	-0.9	-1.3	-2.4	-1.9	-2.9	-2.4
Domestic	2.7	4.4	1.0	-3.0	-1.5	-1.5	-0.5	-0.1	-0.4
Loans	1.7	4.5	2.6	-2.8	-1.0	-1.1	-0.1	0.2	-0.1
Other	-0.2	0.0	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)	79.4	78.7	78.9	78.2	78.1	78.2	78.2	78.2	78.1
Compensation of employees (percent of expenditure)	38.1	36.3	36.9	36.1	35.6	34.1	33.7	33.9	34.3
Interest (percent of expenditure)	16.3	14.9	14.6	16.3	17.1	18.6	19.6	18.9	18.0
Primary balance	2.0	-0.1	0.0	1.9	2.9	3.7	3.7	3.7	3.7
Cyclically adjusted primary balance	1.8	-0.4	-0.1	1.9	3.0	3.8	3.6	3.6	3.6
Gross total debt	83.7	85.1	87.5	88.0	86.6	84.5	82.9	81.4	79.5
External disbursements	2.4	3.5	10.0	6.9	4.9	5.6	4.5	4.9	4.3
Nominal GDP	31,870	33,854	35,365	36,522	38,256	40,242	42,277	44,257	46,412

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

1/ Only includes subsidies on liquified gas.

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**	**7,560**	**8,048**	**8,443**	**9,016**	**9,467**	**9,911**	**10,384**
Taxes	6,416	6,710	7,279	7,745	8,126	8,684	9,117	9,546	10,002
Taxes on income	2,708	2,809	3,045	3,205	3,357	3,531	3,710	3,884	4,073
Taxes on property	47	54	59	61	64	67	70	74	77
Taxes on goods and services	3,278	3,414	3,705	3,969	4,157	4,373	4,594	4,809	5,043
Taxes on foreign trade	319	322	341	377	381	408	422	444	458
Other taxes	65	110	130	134	167	305	320	335	351
Other revenue	217	334	281	303	317	332	350	365	381
Grants	17	0	0	0	0	0	0	0	0
Expenditure	**7,557**	**7,831**	**8,835**	**8,783**	**9,016**	**9,472**	**10,092**	**10,456**	**10,812**
Expense	**7,071**	**6,733**	**7,935**	**7,847**	**8,035**	**8,440**	**9,008**	**9,321**	**9,622**
Compensation of employees	2,218	2,360	2,857	2,686	2,650	2,618	2,746	2,872	3,009
Purchases of goods and services	687	731	944	816	803	827	870	912	955
Interest	1,375	1,200	1,540	1,705	1,817	2,087	2,335	2,339	2,304
Domestic	0	0	0	0	0	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0
Subsidies 1/	7	5	5	5	5	6	6	6	7
Grants	1,638	1,356	1,416	1,423	1,490	1,568	1,647	1,724	1,808
Current	1,630	1,303	1,361	1,366	1,430	1,505	1,581	1,655	1,735
Capital	8	53	55	57	60	63	66	69	72
Social benefits	942	936	978	1,010	1,058	1,113	1,169	1,224	1,284
Other expense	203	144	195	202	211	222	233	244	256
Current	33	12	13	13	14	14	15	16	17
Capital	170	132	183	189	198	208	218	229	240
Net acquisition of nonfinancial assets	**486**	**1,098**	**900**	**936**	**981**	**1,032**	**1,084**	**1,135**	**1,190**
Net lending/borrowing	**-906**	**-787**	**-1,274**	**-735**	**-573**	**-456**	**-625**	**-545**	**-428**
Net financial transactions	**-906**	**-787**	**-1,274**	**-735**	**-573**	**-456**	**-625**	**-545**	**-428**
Net acquisition of financial assets	**17**	**737**	**672**	**360**	**230**	**251**	**269**	**276**	**280**
Foreign	0	0	0	0	0	0	0	0	0
Domestic	17	737	672	360	230	251	269	276	280
Net incurrence of liabilities	**923**	**1,524**	**1,947**	**1,095**	**803**	**708**	**894**	**821**	**709**
Foreign	15	42	1,293	2,208	1,383	1,292	1,101	873	903
Loans	11	36	1,285	2,208	1,383	1,292	1,101	873	903
Disbursement	732	1,073	3,540	2,524	1,893	2,251	1,903	2,160	2,015
Amortizations	-720	-1,037	-2,255	-316	-510	-959	-802	-1,287	-1,112
Domestic	907	1,482	654	-1,114	-579	-585	-207	-52	-194
Loans	549	1,530	904	-1,014	-379	-435	-57	98	-44
Other	-40	-27	281	0	0	0	0	0	0
Memorandum items (mill. of US$ unless otherwise specified):									
Revenue	6,651	7,044	7,560	8,048	8,443	9,016	9,467	9,911	10,384
Taxes	6,416	6,710	7,279	7,745	8,126	8,684	9,117	9,546	10,002
Expenditure	7,557	7,831	8,835	8,783	9,016	9,472	10,092	10,456	10,812
Interest	1,375	1,200	1,540	1,705	1,817	2,087	2,335	2,339	2,304
Taxes (percent of revenue)	96.5	95.3	96.3	96.2	96.2	96.3	96.3	96.3	96.3
Compensation of employees (percent of expenditure)	33.4	33.5	37.8	33.4	31.4	29.0	29.0	29.0	29.0
Interest (percent of expenditure)	18.2	15.3	17.4	19.4	20.2	22.0	23.1	22.4	21.3
Primary balance	470	413	265	970	1,244	1,631	1,711	1,794	1,876
External disbursements	732	1,073	3,540	2,524	1,893	2,251	1,903	2,160	2,015
Nominal GDP	31,870	33,854	35,365	36,522	38,256	40,242	42,277	44,257	46,412

Sources: Central Reserve Bank of El Salvador, IMF staff estimates and projections.
1/ Only includes subsidies on liquified gas.

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	**20.9**	**20.8**	**21.4**	**22.0**	**22.1**	**22.4**	**22.4**	**22.4**	**22.4**
Taxes	20.1	19.8	20.6	21.2	21.2	21.6	21.6	21.6	21.6
Taxes on income	8.5	8.3	8.6	8.8	8.8	8.8	8.8	8.8	8.8
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	10.3	10.1	10.5	10.9	10.9	10.9	10.9	10.9	10.9
Taxes on foreign trade	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other taxes	0.2	0.3	0.4	0.4	0.4	0.8	0.8	0.8	0.8
Other revenue	0.7	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**23.7**	**23.1**	**25.0**	**24.0**	**23.6**	**23.5**	**23.9**	**23.6**	**23.3**
Expense	**22.2**	**19.9**	**22.4**	**21.5**	**21.0**	**21.0**	**21.3**	**21.1**	**20.7**
Compensation of employees	7.0	7.0	8.1	7.4	6.9	6.5	6.5	6.5	6.5
Purchases of goods and services	2.2	2.2	2.7	2.2	2.1	2.1	2.1	2.1	2.1
Interest	4.3	3.5	4.4	4.7	4.7	5.2	5.5	5.3	5.0
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 1/	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	3.0	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
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**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**
Net lending/borrowing	**-2.8**	**-2.3**	**-3.6**	**-2.0**	**-1.5**	**-1.1**	**-1.5**	**-1.2**	**-0.9**
Net financial transactions	**-2.8**	**-2.3**	**-3.6**	**-2.0**	**-1.5**	**-1.1**	**-1.5**	**-1.2**	**-0.9**
Net acquisition of financial assets	**0.1**	**2.2**	**1.9**	**1.0**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.1	2.2	1.9	1.0	0.6	0.6	0.6	0.6	0.6
Net incurrence of liabilities	**2.9**	**4.5**	**5.5**	**3.0**	**2.1**	**1.8**	**2.1**	**1.9**	**1.5**
Foreign	0.0	0.1	3.7	6.0	3.6	3.2	2.6	2.0	1.9
Loans	0.0	0.1	3.6	6.0	3.6	3.2	2.6	2.0	1.9
Disbursement	2.3	3.2	10.0	6.9	4.9	5.6	4.5	4.9	4.3
Amortizations	-2.3	-3.1	-6.4	-0.9	-1.3	-2.4	-1.9	-2.9	-2.4
Domestic	2.8	4.4	1.8	-3.0	-1.5	-1.5	-0.5	-0.1	-0.4
Currency and deposits	1.2	-0.1	-1.5	-0.3	-0.5	-0.4	-0.4	-0.3	-0.3
Loans	1.7	4.5	2.6	-2.8	-1.0	-1.1	-0.1	0.2	-0.1
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	0.8	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	96.3	96.2	96.2	96.3	96.3	96.3	96.3
Compensation of employees (percent of expenditure)	33.4	33.5	37.8	33.4	31.4	29.0	29.0	29.0	29.0
Interest (percent of expenditure)	18.2	15.3	17.4	19.4	20.2	22.0	23.1	22.4	21.3
Primary balance	1.5	1.2	0.8	2.7	3.3	4.1	4.0	4.1	4.0
External disbursements	2.3	3.2	10.0	6.9	4.9	5.6	4.5	4.9	4.3
Nominal GDP	31,870	33,854	35,365	36,522	38,256	40,242	42,277	44,257	46,412

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

1/ Only includes subsidies on liquified gas.

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**	**5,505**	**6,436**	**3,684**	**2,129**	**2,197**	**2,127**	**3,183**	**3,290**
Overall deficit	855	1,587	1,609	1,095	803	708	894	821	709
Public debt amortizations	3,703	3,919	4,827	2,589	1,326	1,489	1,233	2,362	2,581
External	761	1,093	2,308	316	510	959	802	1,287	1,112
Multilateral and bilateral	311	489	670	216	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	2,273	816	530	432	1,075	1,469
Sources of Financing	**4,558**	**5,505**	**6,436**	**3,684**	**2,129**	**2,197**	**2,127**	**3,183**	**3,290**
External	769	1,174	3,548	2,524	1,893	2,251	1,903	2,160	2,015
Multilateral	381	1,106	1,282	2,242	1,833	1,601	1,048	900	950
o/w IMF	0	0	0	340	198	201	98	0	0
Bilateral/other	23	68	118	282	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	4,332	2,889	1,160	237	-54	224	1,023	1,275
Unidentified Financing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
				(Percent of GDP)					
Gross Financing Requirements	**14.3**	**16.3**	**18.2**	**10.1**	**5.6**	**5.5**	**5.0**	**7.2**	**7.1**
Overall deficit	2.7	4.7	4.5	3.0	2.1	1.8	2.1	1.9	1.5
Public debt amortizations	11.6	11.6	13.6	7.1	3.5	3.7	2.9	5.3	5.6
External	2.4	3.2	6.5	0.9	1.3	2.4	1.9	2.9	2.4
Multilateral and bilateral	1.0	1.4	1.9	0.6	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	6.2	2.1	1.3	1.0	2.4	3.2
Sources of Financing	**14.3**	**16.3**	**18.2**	**10.1**	**5.6**	**5.5**	**5.0**	**7.2**	**7.1**
External	2.4	3.5	10.0	6.9	4.9	5.6	4.5	4.9	4.3
Multilateral	1.2	3.3	3.6	6.1	4.8	4.0	2.5	2.0	2.0
IMF	0.0	0.0	0.0	0.9	0.5	0.5	0.2	0.0	0.0
Bilateral/other	0.1	0.2	0.3	0.8	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	11.9	12.8	8.2	3.2	0.6	-0.1	0.5	2.3	2.7
Unidentified Financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items									
Nominal GDP	31,870	33,854	35,365	36,522	38,256	40,242	42,277	44,257	46,412

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**	**2,964**	**3,047**	**3,252**	**3,481**	**3,878**	**4,421**	**5,043**
Of which: Gross international reserves 1/	2,696	3,081	3,706	4,252	4,762	5,467	6,111	6,635	7,186
Of which: Gross international reserves net of liabilities to depository corps. 2/	573	730	1,152	1,577	2,008	2,563	3,001	3,295	3,599
Net Domestic Assets	**960**	**817**	**-41**	**-3**	**-130**	**-209**	**-399**	**-713**	**-1,087**
Nonfinancial public sector (net)	1,001	987	481	627	624	675	623	453	233
Claims 3/	1,199	1,205	1,194	1,440	1,637	1,838	1,936	1,916	1,846
Liabilities 4/	198	219	713	813	1,013	1,163	1,313	1,463	1,613
Rest of the financial system (net)	-63	41	46	46	46	46	46	46	46
Other items (net)	22	-211	-568	-676	-800	-930	-1,068	-1,212	-1,366
Liabilities	**2,127**	**2,356**	**2,559**	**2,680**	**2,758**	**2,909**	**3,115**	**3,345**	**3,592**
Base Money	2,124	2,352	2,556	2,677	2,755	2,905	3,111	3,341	3,589
Liabilities to depositary corporations 5/	2,122	2,351	2,554	2,675	2,753	2,904	3,110	3,340	3,587
Other liabilities to the public	3	3	3	3	3	3	3	3	3
					II. Depository Corporations				
Net Foreign Assets	**-577**	**-465**	**-693**	**-638**	**-559**	**-481**	**-401**	**-315**	**-331**
Of which: High quality liquid assets held abroad	1,071	1,130	1,185	1,668	1,776	1,881	1,990	2,104	2,210
Net Domestic Assets	**18,229**	**19,305**	**20,288**	**21,370**	**21,949**	**22,963**	**24,522**	**26,272**	**28,268**
Nonfinancial public sector (net)	2,716	3,482	3,248	2,261	1,396	845	738	869	774
Claims	2,986	3,708	3,588	2,613	1,748	1,197	1,089	1,221	1,129
Of which: LETES, CETES, and securities	2,680	3,399	3,247	392	109	77	300	778	940
Liabilities	269	226	340	352	352	352	352	352	352
Rest of the financial system (net)	1,381	1,042	1,233	1,333	1,373	1,444	1,516	1,593	1,675
Of which: Reserve requirements	2,020	2,246	2,479	2,675	2,753	2,904	3,110	3,340	3,587
Credit to the private sector	16,898	17,735	18,770	20,885	22,388	24,046	25,886	27,704	30,289
Other items (net)	-2,766	-2,954	-2,963	-3,110	-3,208	-3,372	-3,618	-3,894	-4,470
Liabilities to the Private Sector	**17,669**	**18,847**	**19,596**	**20,732**	**21,390**	**22,481**	**24,121**	**25,957**	**27,937**
Deposits	16,986	18,130	18,915	20,044	20,695	21,780	23,413	25,249	27,228
Securities	683	716	681	688	695	702	709	709	709
					III. Other Financial Corporations 6/				
Net Foreign Assets	**524**	**117**	**27**	**33**	**37**	**38**	**39**	**40**	**41**
Net Domestic Assets	**14,209**	**16,067**	**17,583**	**17,841**	**18,368**	**18,788**	**19,321**	**19,811**	**20,359**
Nonfinancial public sector (net)	11,040	11,918	13,562	13,778	13,450	12,831	12,301	12,119	12,020
Rest of the financial system (net)	1,430	2,366	2,234	2,348	2,414	2,524	2,690	2,876	3,077
Credit to the private sector	3,057	3,221	3,328	3,255	4,044	4,973	5,871	6,357	6,803
Other items (net)	-1,318	-1,438	-1,541	-1,541	-1,541	-1,541	-1,541	-1,541	-1,541
Liabilities to the Private Sector	**14,733**	**16,183**	**17,610**	**17,874**	**18,405**	**18,826**	**19,360**	**19,851**	**20,400**
Pension fund contributions	14,380	15,824	17,235	17,499	18,030	18,466	19,000	19,490	20,038
					IV. Financial System				
Net Foreign Assets	**1,488**	**1,565**	**2,298**	**2,442**	**2,730**	**3,038**	**3,516**	**4,146**	**4,753**
Net Domestic Assets	**31,392**	**34,402**	**35,746**	**36,643**	**37,544**	**38,734**	**40,430**	**42,128**	**44,051**
Net claims on nonfinancial public sector	14,757	16,386	17,290	16,666	15,470	14,352	13,662	13,441	13,026
Credit to private sector	19,955	20,956	22,099	24,140	26,432	29,019	31,757	34,060	37,092
Other	-3,321	-2,940	-3,643	-4,163	-4,359	-4,636	-4,988	-5,374	-6,068
Liabilities to the Private Sector	**32,879**	**35,966**	**38,044**	**39,085**	**40,274**	**41,772**	**43,946**	**46,273**	**48,804**
Money	4,728	4,732	5,238	5,395	5,323	5,364	5,404	5,445	5,488
Quasi-money	13,771	15,411	15,572	16,191	16,921	17,942	19,542	21,339	23,277
Pension fund contributions	14,380	15,824	17,235	17,499	18,030	18,466	19,000	19,490	20,038
Memorandum Items		(Percent changes relative to previous year's liabilities to the private sector)							
Net domestic assets	9.3	9.2	3.7	2.4	2.3	3.0	4.1	3.9	4.2
Nonfinancial public sector	3.5	5.0	2.5	-1.6	-3.1	-2.8	-1.7	-0.5	-0.9
Credit to the private sector	7.0	3.0	3.2	5.4	5.9	6.4	6.6	5.2	6.6
Liabilities to the private sector	4.4	9.4	5.8	2.7	3.0	3.7	5.2	5.3	5.5
					(Percent of GDP)				
Credit to the private sector	62.6	61.9	62.5	66.1	69.1	72.1	75.1	77.0	79.9
Liabilities to the private sector	103	106.2	107.6	107.0	105.3	103.8	103.9	104.6	105.2
Excluding pension contributions	58.0	59.5	58.8	59.1	58.1	57.9	59.0	60.5	62.0
Credit to the private sector	12.4	5.0	5.5	9.2	9.5	9.8	9.4	7.3	8.9
Private sector deposits in depository corporations	4.2	6.7	4.3	6.0	3.2	5.2	7.5	7.8	7.8
Total deposits 7/	17,519	18,706	19,674	20,598	21,273	22,388	24,056	25,931	27,951
Depository corporations liquid deposits at central bank (In percent of total deposits)	12.5	13.0	13.5	13.3	13.3	13.3	13.3	13.2	13.2
Nominal GDP	31,870	33,854	35,365	36,522	38,256	40,242	42,277	44,257	46,412

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)

	2020	2021	2022	2023	2024	March 2025
Capital Adequacy						
Regulatory capital to risk-weighted assets	15.4	15.8	15.4	15.6	15.5	15.2
Tier 1 capital to risk-weighted assets	12.5	12.7	12.0	11.9	11.6	11.7
Asset Quality						
Nonperforming loans to total gross loans	1.6	1.8	1.8	1.8	1.7	1.6
Nonperforming loans net of provisions to capital	-9.9	-6.7	-6.0	-5.6	-6.1	-5.2
Credit growth to private sector	2.5	9.1	12.4	5.0	5.5	15.2
Domestic sovereign debt to total assets [1 2]	9.7	11.6	12.5	13.3	12.5	11.6
Profitability						
Return on assets	1.1	1.7	2.0	1.9	1.8	2.5
Return on equity	6.9	11.5	13.0	13.2	12.6	13.2
Interest margin to gross income	81.0	73.4	77.5	78.6	79.0	78.8
Noninterest expense to gross income	57.1	53.8	54.9	54.8	54.1	58.1
Liquidity						
Liquid assets to total assets	19.7	20.1	15.8	17.7	18.0	18.9
Liquid assets to short-term liabilities	27.7	28.2	22.6	26.0	25.7	27.2
Customer deposits to total (noninterbank) loans	110.5	106.3	99.7	101.8	105.2	106.2
Legal liquidity reserves to total deposits [2]	9.1	14.4	11.5	11.4	12.9	13.1

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	Est. 2025
Fiscal Indicators						
Overall balance of the nonfinancial public sector	-8.2	-5.5	-2.7	-4.7	-4.5	-3.0
Primary balance of the nonfinancial public sector	-3.8	-1.0	2.0	-0.1	0.0	1.9
Gross public sector financing requirement	13.8	14.3	14.3	16.3	18.2	10.1
Public sector debt (gross)	95.4	88.0	83.7	85.1	87.5	88.0
Public sector external debt	41.0	37.8	33.4	32.5	35.3	40.9
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	24.3	3.2
Financial Indicators						
Broad money (percent change, end-of-period)	8.9	2.3	4.6	8.9	3.3	3.7
Private sector credit (percent change, end-of-period)	2.5	9.1	12.4	5.0	5.5	9.2
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	9.0	0.0
Imports of goods and services (percent change, 12-month basis)	-16.2	48.2	17.4	-6.3	7.7	1.5
Current account balance	1.1	-4.3	-6.7	-1.1	-1.8	-0.8
Capital and financial account balance	9.9	2.8	6.0	2.7	2.2	2.6
Gross international reserves (millions of U.S. dollars)	3,082.7	3,426.1	2,695.8	3,080.7	3,706.0	4,252.4
Months of imports of goods and services, excluding maquila	3.7	2.8	1.9	2.2	2.5	2.8
Percent of short-term debt	164.7	151.7	113.8	105.8	139.9	162.8
Percent of gross external financing requirements	81.2	65.5	38.2	53.0	49.3	81.8
Percent of broad money	17.8	19.4	14.6	15.3	17.8	19.7
Public external debt service	3.6	3.0	4.3	5.2	8.6	3.0
External debt to exports of goods and services (percent)	300.0	242.9	202.1	207.4	209.7	218.4
External interest payments to exports of goods and services (percent)	-24.7	-21.9	-22.1	-24.2	-23.3	-24.9
External amortization to exports of goods and services (percent) 2/	66.6	47.7	48.3	51.2	59.4	42.3
REER, depreciation is negative (percent change, end-of-period)	-2.9	2.6	3.5	-2.8	0.5	-1.9

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

Table 11. El Salvador: Scheduled Purchases 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, 2025-39
(in millions of SDRs, unless otherwise indicated)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Existing Fund credit (SDR million)															
Disbursements	258	230	359	187	0	0	0	0	0	0	0	0	0	0	0
Stock of Fund credit (end of period)	258	488	847	1,034	1,020	967	871	714	542	370	212	92	16	0	0
Obligations	86	22	33	46	63	100	139	195	204	198	177	134	87	24	8
Principal (repayments/repurchases)	72	0	0	0	14	53	96	157	172	172	158	120	77	16	0
Charges and interest	14	22	33	46	49	47	44	38	32	26	19	14	11	9	8
Fund obligations (repurchases and charges) in percent of:															
Quota	30	8	11	16	22	35	48	68	71	69	62	47	30	8	3
GDP	0.3	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.5	0.5	0.4	0.3	0.2	0.0	0.0
Exports of goods and services	1.0	0.2	0.3	0.5	0.6	0.9	1.2	1.6	1.6	1.5	1.3	0.9	0.6	0.2	0.1
Gross international reserves	2.7	0.6	0.7	0.9	1.2	1.7	2.3	3.0	3.0	2.8	2.4	1.7	1.1	0.3	0.1
Government revenue	1.2	0.3	0.4	0.5	0.7	1.1	1.4	1.9	1.9	1.7	1.5	1.1	0.7	0.2	0.1
External debt service, public	11.1	2.4	3.0	4.9	4.9	8.7	11.6	15.5	15.5	14.4	12.3	8.9	5.5	1.5	0.5
Fund credit outstanding in percent of:															
Quota	90	170	295	360	355	337	303	249	189	129	74	32	5	0	0
GDP	0.9	1.7	2.8	3.3	3.1	2.8	2.4	1.9	1.4	0.9	0.5	0.2	0.0	0.0	0.0
Exports of goods and services	3.0	5.5	9.0	10.5	9.8	8.9	7.7	6.0	4.4	2.8	1.6	0.6	0.1	0.0	0.0
Gross international reserves	8.1	13.1	19.3	20.7	18.8	16.5	14.2	11.2	8.1	5.3	2.9	1.2	0.2	0.0	0.0
Government revenue	3.5	6.3	10.2	11.9	11.2	10.2	8.8	6.9	5.0	3.2	1.8	0.7	0.1	0.0	0.0
External debt, public	2.3	3.9	6.2	7.0	6.5	5.8	5.0	3.9	2.8	1.9	1.0	0.4	0.1	0.0	0.0
Memorandum items[1]:															
Quota (SDR million)	287.2	287.2	287.2	287.2	287.2	287.2	287.2	287.2	287.2	287.2	287.2	287.2	287.2	287.2	287.2
Gross domestic product (USD million)	36,522	38,250	40,237	42,272	44,252	46,406	48,666	51,035	53,520	56,126	58,859	61,725	64,730	67,882	71,187
Exports of goods and services (USD million)	11,585	11,899	12,601	13,271	13,960	14,654	15,368	16,116	16,900	17,723	18,586	19,491	20,440	21,435	22,479
Gross international reserves (USD million)	4,252	4,968	5,886	6,715	7,279	7,885	8,269	8,671	9,093	9,536	10,001	10,487	10,998	11,534	12,095
Government revenue (USD million)	9,898	10,402	11,100	11,660	12,208	12,802	13,425	14,079	14,764	15,483	16,237	17,027	17,856	18,726	19,638
External debt service, public (USD million)	1,031	1,214	1,456	1,266	1,738	1,550	1,625	1,704	1,787	1,874	1,966	2,061	2,162	2,267	2,377
Total external debt, public (USD million)	14,932	16,644	18,281	19,768	21,069	22,439	23,531	24,677	25,878	27,138	28,460	29,845	31,299	32,822	34,421

Source: IMF staff calculations.

1/ Values beyond 2030 are indicative projections.

Table 13. El Salvador: Prior Actions and Structural Benchmarks			
Reform Area	**Structural Conditionality**	**Objective**	**Due Date/Status**
Prior Actions for 1st Review			
Bitcoin	Establish a buffer of at least US$3 million equivalent between the level of public sector Bitcoin holdings net of *Chivo* clients' deposits dominated in Bitcoin and the continuous QPC ceiling.	Ensure a sufficient buffer relative to the QPC ceiling to mitigate the risk that daily fluctuations in *Chivo* Bitcoin deposits lead to future breaches of the QPC.	Completed
Structural Benchmarks for 1st 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, performance expectations, competitive neutrality, financial and risk management, transparency, and accountability standards, among others.	Improve budget credibility, transparency, and accountability.	End-March 2025 Not met, implemented with delay
Fiscal transparency and responsibility	Approval by the Legislative Assembly of a new FSL, 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 Not met, implemented with delay
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 Not met, implemented with delay
Bitcoin	Send to IMF staff a signed statement listing and identifying all hot and cold wallet public addresses and the corresponding BTC amounts owned by	Reduce risks related to BTC.	End-March 2025 Met

Table 13. El Salvador: Prior Actions and Structural Benchmarks (continued)			
Reform Area	**Structural Conditionality**	**Objective**	**Due Date/Status**
	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.		
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 to BTC.	End-March 2025 Met
Proposed Structural Benchmarks for Future Reviews			
Expenditure policy	Prepare a civil service reform plan in line with IMF recommendations.	Ensure the quality and permanence of the fiscal adjustment.	End-September 2025 (2nd Review) (previously end-June 2025)
Expenditure policy	Publish independent actuarial evaluation of the pension system.	Assess the sustainability of the pension system.	End-September 2025 (2nd Review) (previously end-July 2025)
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	All published fiscal statistics (including but not limited to *Estadisticas Basicas Sobre Las Finanzas Publicas*, MTFF, *Mensaje de Proyecto de Presupuesto*) show and clearly disaggregate pension costs and pension debt when reporting statistics on total NFPS expenditures and public debt.	Improve transparency of NFPS accounts	**Proposed.** Continuous
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)

Table 13. El Salvador: Prior Actions and Structural Benchmarks (continued)

Reform Area	Structural Conditionality	Objective	Due Date/Status
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 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).	Strengthen the framework for early intervention, resolution, crisis management and deposit insurance.	End-September 2025 (2nd Review) (previously end-June 2025)
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 end-June 2025.	Reduce risks related BTC.	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.	Reduce risks related BTC.	End-December 2025 (3rd review)

Table 13. El Salvador: Prior Actions and Structural Benchmarks (continued)			
Reform Area	**Structural Conditionality**	**Objective**	**Due Date/Status**
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 US dollars at the BCR, and end public participation in *Chivo*.	Reduce risks related to BTC.	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 mitigation policies AAB must comply with.	Reduce risks related to BTC.	End-December 2025 (3rd review)
Bitcoin and other crypto assets	Submission to the Legislative Assembly 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, and solvency, liquidity, segregation, and other prudential requirements.	Reduce risks related to crypto markets and VASPs.	December 15, 2025 (3rdd Review) (previously August 8, 2025)

Table 13. El Salvador: Prior Actions and Structural Benchmarks (concluded)			
Reform Area	**Structural Conditionality**	**Objective**	**Due Date/Status**
Governance	Submission to the Legislative Assembly of a new AML/CFT law 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 AML/CFT framework	End-August 2025 (2nd Review) (previously end-December 2025)
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.	Strengthen the independence and anticorruption framework and the AML/CFT framework.	End-December 2025 (3rd Review) Met
Financial integrity, Governance, and Transparency	Publish asset declaration of high-level public officials, as required by the new Anti-Corruption Law.	Strengthen the anticorruption framework.	**Proposed** End-June 2026 (4th review)

Table 14. El Salvador: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) 2025-26 1/
(Millions of U.S. Dollars, unless otherwise stated)

	2025								2026
	March QPC					June QPC	Sept. IT	Dec. QPC	March IT
	Prog	Adj. Prog	Actual	Status	Notes	Prog	Prog	Prog	Prog
Performance criteria									
Primary Balance of the nonfinancial public sector (floor) 2/	180	180	209	Met		530	750	700	300
Net Domestic Borrowing of the nonfinancial pubic sector (ceiling) 2/	0	0	164	Not met	Waiver requested on the basis of corrective action	-100	-415	-331	-50
External payment arrears of the public sector (continuous ceiling) 3/	0	0	0	Met		0	0	0	0
Ratio of required liquid assets to total deposits for depository corporations (floor) in percent	13	13	13	Met		13	13	14	14
Voluntary accumulation of BTC by the public sector (continuous ceiling) 3/	0	0	-	Not met	Waiver requested on the basis of (i) minor breach and (ii) corrective action	0	0	0	0
Issuance or guarantee by the public sector of BTC-denominated-or-indexed debt or tokenized instruments (continuous ceiling) 3/	0	0	0	Met		0	0	0	0
Floor on stock of nonfinancial public sector deposits at the BCR (floor)	650	475	702	Met		780	790	810	860
Net accumulation of domestic payments arrears by the consolidated central government (ceiling) 4/	0	0	0	Met		0	0	0	0
Indicative targets									
Priority social spending (floor) 2/	138	138	164	Met		276	413	551	145
Public investment of the NFPS (floor) 2/	204	204	329	Met		438	651	919	215
Stock of gross international reserves of the BCR, US$ millions (floor)	3,704	3,529	3,771	Met		3,898	4,025	4,110	4,280
Memorandum items:									
Wage bill of the nonfinancial public sector (ceiling) 2/	918	918	885	Met		1,896	2,808	3,964	924

1/ As defined in the Technical Memorandum of Understanding.
2/ Cumulative, since the beginning of the calendar year.
3/ To be applied on a continuous basis.
4/ Cumulative, since end-2024.

Annex I. Implementation of Recommendations of the 2023 Article IV Consultation

Recommendations	Policy Actions
Fiscal policy	
A growth-friendly fiscal adjustment, backed by structurally sound measures amounting to around 3½ percent of GDP over the next three years to put public debt on a credible downward path.	**Implemented.** The authorities' program supported by the EFF arrangement envisions a 3½ percent of GDP adjustment over 3 years, putting the debt-to-GDP ratio on a downward path over the medium term.
A comprehensive financing strategy to restore debt sustainability, reduce rollover risks, and gradually recover external market access.	**Implemented.** The authorities have conducted debt-management operations in 2024 aimed at lengthening debt maturity and reducing financing costs. Multilateral financing will provide the bulk of financing under the EFF-supported program, with a return to external private financing only in 2027, reducing rollover risks.
Strengthening the incentives and financial sustainability of the pension system remains necessary to limit contingent liabilities and encourage capital market development.	**Not implemented yet.** The authorities have committed to publish an actuarial evaluation of the pension system to assess its financial sustainability. This will inform a reform proposal to strengthen the sustainability of the system.
Restoring and upgrading the Fiscal Responsibility Law is crucial for the transparency and credibility of fiscal policy.	**Implemented.** The Legislative Assembly passed a new Fiscal Sustainability Law in June 2025.
Financial stability	
Reserve requirements should be raised as soon as possible to 15 percent and brought to pre-pandemic levels over time.	**Partially implemented.** 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). This reserve path and liquid asset requirement is expected to be an intermediate step in returning to pre-pandemic levels of liquidity at the end of the program (2028).
The Financial Stability Bill should be enacted, as well as efforts to recapitalize the central bank and an overhaul of the legal framework for cooperative banks.	**Partially implemented.** The Financial Stability Law was approved by the Legislative Assembly (pending Presidential sanction) but still needs to be aligned with international standards. The recapitalization plan is already being implemented and is expected to be approved by the BCR board with the support of the government by December-2026. Additional conditionality to broaden the supervisory scope to incorporate smaller institutions and enhance risk management and governance frameworks will be considered in upcoming reviews supported by IMF's technical assistance.

Recommendations	Policy Actions
Bitcoin and *Chivo*	
Bitcoin (BTC) risks should be mitigated, and its legal tender status removed.	**Implemented.** Prior actions have effectively laid the groundwork for mitigating key risks associated with BTC and removed the essential features of its legal tender status. During the period from February to March, no taxes were paid in BTC, and although its use for tax payments overall has been minimal, a regulation banning such payments - introduced as a prior measure – took effect on May 1. However, Bitcoin regulation and the liquidity management of the *Chivo* wallet need further refinements.
Initiatives to expand government exposure to BTC, including by issuing tokenized bonds, should be abandoned.	**Partially implemented.** No issuance or guarantee of BTC-denominated or indexed debt or tokenized instruments has occurred by the public sector; however, since *Chivo*'s reserve holdings do not adjust to changes in individual BTC amounts, a decrease in individuals' BTC holdings without corresponding sales by *Chivo* implicitly led to an increase in public-sector holdings.
Greater transparency over the government's transactions in BTC and the financial situation of the state-owned BTC-wallet (*Chivo*) remains essential, especially to assess underlying fiscal contingencies and counterparty risks.	**Implemented.** A signed statement detailing the public addresses of all hot and cold wallets, along with the corresponding BTC amounts owned or controlled by the public sector, was shared with staff. Additionally, the authorities published *Chivo's* summary financial statements and liquidity management policies.
Governance and transparency	
The revised AML/CFT legislation should be promptly finalized.	**Not implemented yet.** The authorities have committed to bring the AML/CFT system in compliance with FATF recommendation 15 on new technologies by August 2025.
The conditions under which special procurement frameworks can be approved should be tightened	**Implemented.** The authorities issued a guideline that clearly defines strategic projects and the cases, and process to follow, to authorize purchases of goods and services without competitive process.
Efforts should continue in protecting judicial independence and in ensuring impartial access to the court system to attract investment and enhance the business climate.	**Not implemented yet**. Reforms are needed to ensure that judicial transfers and reassignments are governed by transparent, objective, and merit-based criteria established by law and consistent with international standards. Tenure of judges also needs to be protected.
Growth and resilience	
Efforts should continue to strengthen security, diversify exports, improve education quality, reduce barriers to trade and investment,	**Partially implemented.** The authorities have embarked on an ambitious strategy to diversify exports into more complex activities and reduce dependence on a limited number of low value-added activities, improve economic resilience and attract FDI. The authorities have identified industries with the most potential. Work is ongoing to enhance education, work skills and port infrastructure.

Annex II. External Sector Assessment

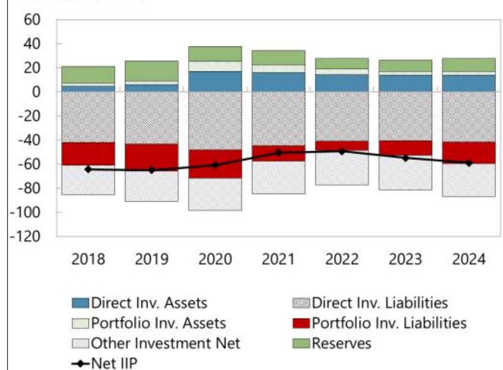
Overall Assessment: *The external position of El Salvador in 2024 was weaker than the level implied by fundamentals and desirable policies. This assessment reflects large macroeconomic imbalances originating in public sector deficits, deeply negative net IIP, weak reserve coverage, fragile international market access, and competitiveness problems (coming also from US dollar appreciation in the context of dollarization). Sizable errors and omissions in external sector statistics also point to unexplained outflows.*

Potential Policy Responses: *Continued fiscal consolidation is required to support the rebuilding of buffers and ensure medium-term fiscal and external 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 and attract foreign direct investment would further strengthen the country's competitiveness and balance of payments.*

Foreign Assets and Liabilities: Position and Trajectory

Background. El Salvador's Net International Investment Position (NIIP) is deeply negative, reflecting persistent current account deficits, and includes 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 (17.2 percent of GDP, mostly private sector assets of varying long-term maturity in foreign banks). Foreign liabilities are dominated by direct investment (41.4 percent of GDP). With the sovereign's fragile market access and a series of Eurobonds buy-backs in 2023 and 2024, portfolio investment liabilities increased to about 18 percent of GDP in 2024. The NIIP is projected to further decline in the medium term, given projected current account deficits.

International Investment Position
(Percent of GDP)



Sources: BCR/Haver Analytics, IMF staff calculations.

Assessment. The negative NIIP is estimated to have reached 59 percent of GDP in 2024, around 4ppt larger than in 2023. This is largely attributable to historical current account deficits resulting from macroeconomic imbalances originating in a persistent fiscal deficit and increases El Salvador's vulnerability to external shocks. Risks are mitigated by the fact that the bulk of the liabilities are in the form of FDI and official debt, although vulnerabilities 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, limits to market access continue to heighten liquidity risks.

2024 (% GDP)	NIIP: -59	Gross Assets: 43	Debt Assets: 25	Gross Liab.: 102	Debt Liab.: 66

Current Account

Background. The current account deficit reached 1.8 percent of GDP, compared to 1.1 percent of GDP in 2023. This originated in a persistent public sector deficit, which manifested in a worsening of the trade deficit, as El Salvador's terms of trade deteriorated slightly, and a further dip in remittances—still a robust 24 percent of GDP—from their 2021 high of 26 percent of GDP. Tourism revenues reached 10 percent of

GDP; while the primary income deficit remained relatively constant at -6.4 percent of GDP, in part reflecting the interest cost on external debt. Net errors and omissions increased to -3.3 percent of GDP, highlighting concerns around data quality and possible unreported outflows or over-invoicing.

Assessment. The cyclically adjusted current account (CA) deficit per the EBA-Lite model is estimated to have reached 1.7 percent of GDP, compared to a model-based 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) and noting the uncertainty surrounding model-based estimates, the external sustainability approach supports efforts to achieve a significant NIIP improvement. For example, reducing the NIIP to -39 percent of GDP over 5 years (representing an achievable pace of external adjustment that would reduce external vulnerabilities) would yield a CA norm of 0.4 percent of GDP, resulting in a CA gap of -2 percent of GDP, implying an external position that is weaker than the level suggested by medium-term fundamentals and desirable policies. The gap is policy-driven, based on the CA model, and explained by the elevated fiscal deficit, inadequate reserve coverage, and impediments to productivity and competitiveness (see below).

Table 1. El Salvador: EBA-lite Model Results, 2024

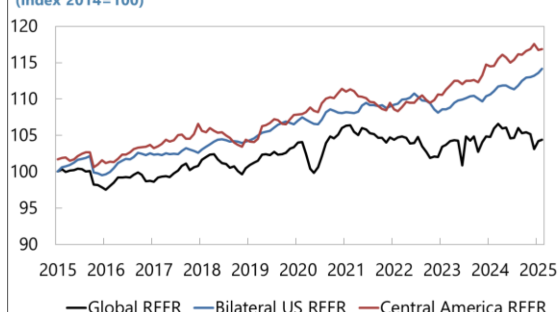
	CA model 1/	REER model 1/	ES model
		(in percent of GDP)	
CA-Actual	**-1.8**		
Cyclical contributions (from model) (-)	-0.1		
Natural disasters and conflicts (-)	0.1		
Adjusted CA	**-1.7**		
CA Norm (from model) 2/	**-1.6**		**0.4**
CA Gap	**-0.2**	**0.3**	**-2.1**
o/w Relative policy gap	-3.9		
Elasticity	-0.3		
REER Gap (in percent)	**0.7**	**-1.0**	**8.4**

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

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 13 percent since 2018 relative to other Central American countries driven by the strength of the US dollar, although these US dollar trends have started shifting since end-2024. Competitiveness has been held back by cumbersome bureaucratic processes, inefficient markets for certain key inputs, and insufficient provision of key public goods, including infrastructure and skills formation (see OECD 2023 Multi-dimensional Review of El Salvador).[1] Flexible labor markets continue to help in the adjustments to shocks in the context of dollarization.

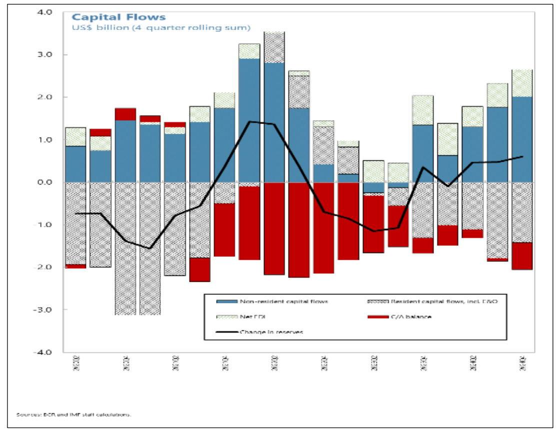
Real Effective Exchange Rate
(Index 2014=100)



Sources: BCR, IMF staff calculations.

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 weaker than the level implied by medium-term fundamentals and desirable policies, and the REER is moderately overvalued.

Capital and Financial Accounts: Flows and Policy Measures

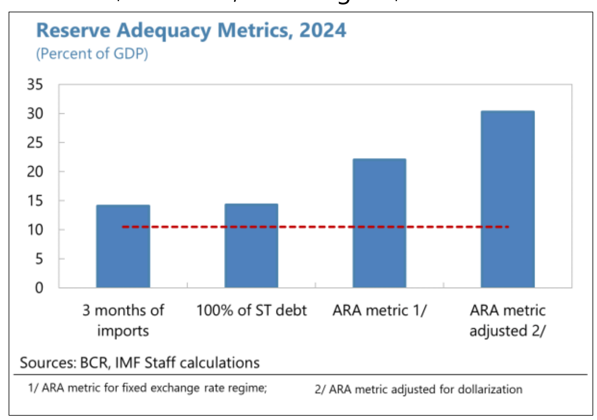


Background. The financing of the current account deficit has traditionally been driven by FDI inflows as well as other investment flows, including financing from official creditors. These trends changed during the pandemic and shortly after, as net FDI inflows dried up and resident capital outflows picked up (fueled by rising sovereign spreads as the fiscal situation deteriorated) and reserves fell (shortfalls were partially offset by non-resident flows in the form of multilateral loans to debt buyback operations).[2] Since 2023, the situation improved, as policies tightened, and external pressures subsided and net FDI recovered somewhat. That said, errors and omissions remain significant, pointing to unexplained outflows of capital.

Assessment. Given balance of payment needs, sustained fiscal consolidation coupled with strong IFI backing, is necessary to address significant external vulnerabilities, and ensure lasting market access on affordable terms. Specifically, El Salvador needs to rebuild reserve buffers and implement reforms to boost exports, attract FDI and reduce sovereign spreads.

FX Intervention and Reserves Level

Background. El Salvador is officially dollarized. Gross International Reserves (GIR) reached US$3.7 billion by end-2024, with Net International Reserves (NIR) at about US$3.5 billion, reflecting 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 estimated to have increased by US$400 million in 2024, reflecting the improved current account balance and a growing deposit base. Import coverage is expected to improve gradually—reaching 3 months of imports in 2026 and 4 months of imports in 2028.



Assessment. The level of international reserves is well 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 sufficient FX to finance external obligations and other balance of payments needs. As such, and given limited market access and debt sustainability concerns, implementation of the agreed fiscal consolidation plan, along with actions to rebuild reserves, are essential to rebuild buffers and improve the central bank's capacity to act as lender of last resort. Rising external risks and heavy reliance on remittances and tourism-related inflows support the need to quickly rebuild reserve buffers to hedge against external shocks.

[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 III. Impact from Trade Policy Changes

The direct effect on El Salvador from the recently announced increase in tariffs by the United States is expected to be small, although El Salvador is still exposed indirectly through global value chain linkages. The most vulnerable industries are textiles and apparel, agriculture and industries that are heavily reliant on imported intermediate inputs. The effects could be mitigated if El Salvador and the United States agree a reduction in the current level of tariffs.

A. Introduction

1. Rising tariffs and trade policy uncertainties are expected to impact trade flows. On April 9, the United States announced a minimum 10 percent tariff rate on imports from all countries, with higher rates levied on countries where the US has bilateral trade deficits. The minimum tariff rate of 10 percent is applied to exports from most countries in the CAPDR region, with whom the United States has had a free trade agreement since 2006 (CAFTA-DR).[1] On May 12, the United States and China announced an agreement to de-escalate trade tensions by reducing their reciprocal tariffs from above 100 percent to closer to 20-30 percent with a 90 day pause, with no change to the minimum 10 percent rate levied on El Salvador. These trade policy changes, and uncertainty in relation to the prospects of future changes (Figure 1),[2] are expected to impact trade flows through direct and indirect linkages, although the timing and magnitude of these effects is highly uncertain.

Figure 1. US Policy Uncertainty
(Index)

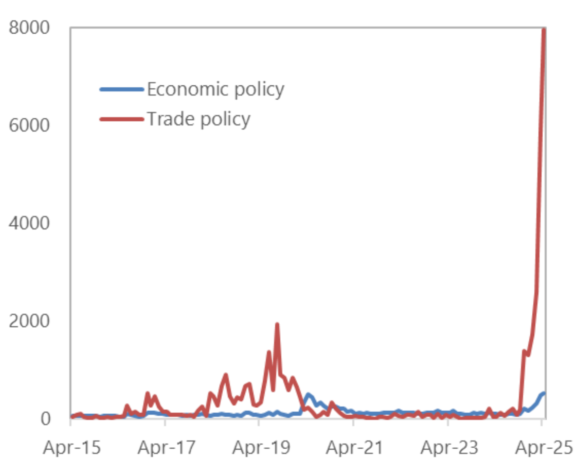
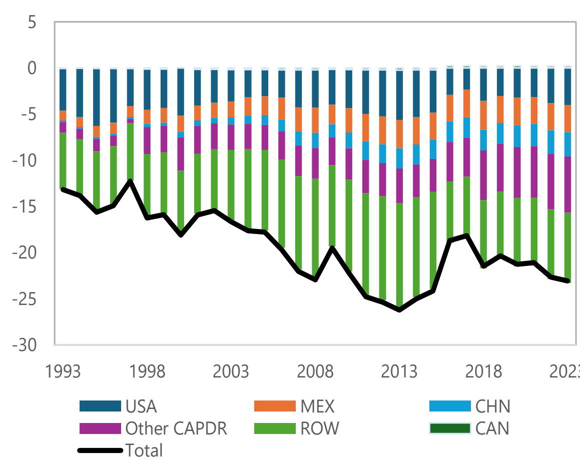


Figure 2. El Salvador's Trade Balance
(Percent of GDP, goods and services)



Sources: For Chart 1, Baker, Bloom and Davis, 2025, www.PolicyUncertainty.com. For Chart 2, EORA and IMF staff calculations.

[1] The exception is Nicaragua, with a tariff rate of 18 percent.

[2] This chart does not capture the reduction in uncertainty since April, including the announcement of a reduction in tariffs between the US and China in early May.

B. El Salvador's Trade Linkages

2. El Salvador, which mostly trades with the United States and other CAPDR countries, has been running trade deficits for decades. The total trade deficit (including goods and services) has averaged around 20 percent of GDP over the past three decades (Figure 2), although El Salvador has been exporting more services (especially tourism) in recent years.[3] The bulk of the trade deficit has been financed through rising remittances.[4] El Salvador runs bilateral deficits with most trading partners, namely the United States, Mexico, China, and other CAPDR countries. Around 80 percent of exports are directed towards the CAPDR region and the United States, which are roughly equally split (around 40 percent to both CAPDR and United States, Figure 3). Imports are somewhat more diversified (Figure 4)—the United States and CAPDR each account for one-third of all imports, and imports from Mexico, Europe and China are also important.

Figure 3. Export Destinations
(Percent of Exports)

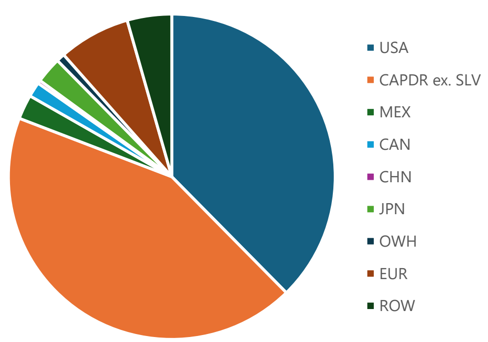
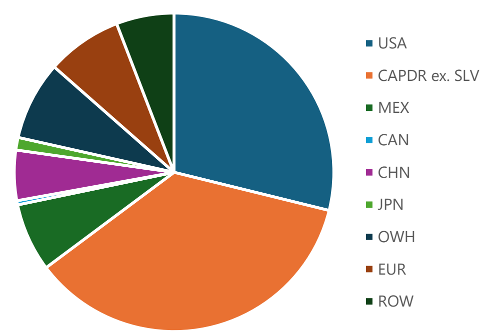


Figure 4. Import Sources
(Percent of Imports)



Note: USA – United States of America, CAPDR ex. SLV – Costa Rica, Guatemala, Honduras, Nicaragua, Panama and Dominican Republic, MEX – Mexico, CAN – Canada, CHN – China, JPN – Japan, OWH – Other Western Hemisphere, EUR – Europe, ROW – Rest of World.
Source: For Chart 3 and 4, EORA and IMF staff calculations

C. Exposure to Tariff Increases

3. El Salvador's exposure to changes in overseas trade policies can be explored through a multi-country general equilibrium model of international trade. Using an Eaton and Kortum (2002) gravity trade model with industry detail, trade in intermediate goods and a variable factor of production (capital), bilateral trade costs are calibrated depending on the distance between trading partners and other factors that are standard in the trade literature (Head and Mayer, 2014).[5] While

[3] The potential impact of trade policy changes on tourism exports is outside the scope of the analysis.

[4] Over this period, El Salvador's strong remittance inflows (around 24 percent of GDP in 2024, primarily from the United States), have allowed imports to outstrip exports while maintaining a relatively contained current account deficit.

[5] These factors include border effects, whether borders are contiguous, common trade agreement membership, colonial origins and common language.

the model can provide an indication of the effect of trade policies over the short run (when capital remains fixed) and the long run (after capital has had time to adjust), it does not trace out how prices, quantities and the trade balance adjust during the transition period. The model also abstracts from the effects of uncertainty, financial market volatility and the effects of other policies enacted in the United States, notably immigration policies.

4. Given elevated uncertainty about future trade policies, several scenarios are modelled. In the first scenario, the United States increases trade costs on all goods imports from China, Canada and Mexico by 25 percentage points, and by 10 percentage points on goods imports from all other countries. In the second scenario, the rest of the world retaliates symmetrically – that is China, Canada and Mexico increase trade costs on all goods imported from the United States by 25 percentage points, and all other countries increase trade costs on goods imported from the United States by 10 percentage points.[6] These scenarios are simulated under two assumptions for how the capital stock adjusts. In the first, the capital stock is held fixed at its pre-policy change level (representing adjustment over the short-run, when frictions may prevent factors of production from adjusting immediately), while in the second the capital stock adjusts in response to the policy change (representing adjustment over the long-run, when frictions may be absent). The results are presented in figures 5 and 6.

Figure 5. Modelling Results—Fixed Capital
(Percentage deviation from no policy change)

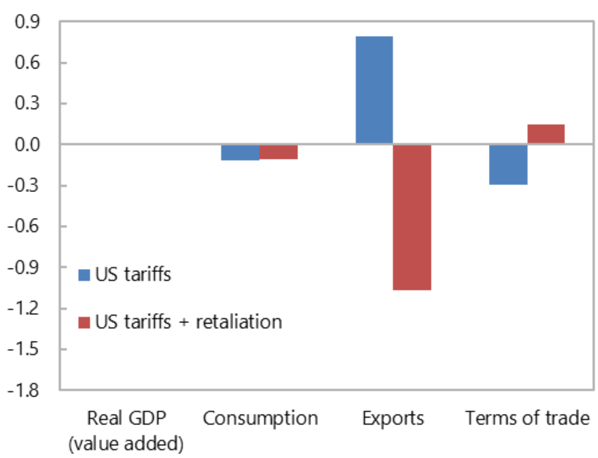
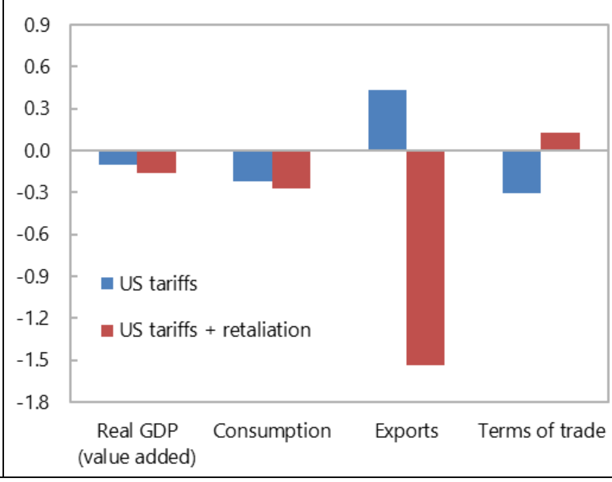


Figure 6. Modelling Results—Variable Capital
(Percentage deviation from no policy change)



Sources: IMF staff calculations

5. Trade diversion effects could lead to higher exports in the short run. The direct effect on El Salvador from the uniform tariff on all countries other than China, Canada and Mexico is small, as it reduces trade diversion incentives given that most countries receive equal treatment. With higher tariffs on China, Canada and Mexico it becomes more attractive for the United States to purchase goods from alternative locations, and exports from El Salvador increase. Trade diversion

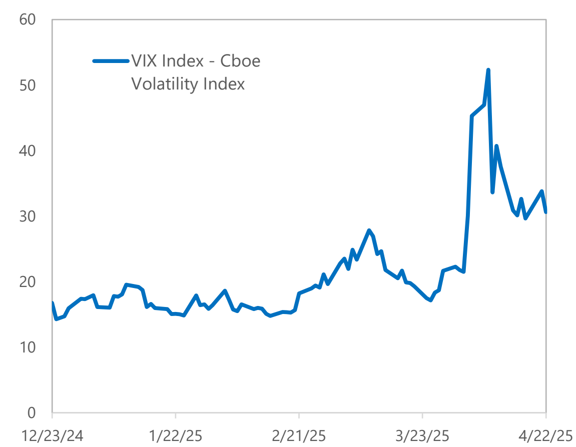
[6] This scenario represents an upper bound as not all countries are likely to retaliate.

effects would be more expansionary for exports in the short run,[7] before factors of production have had time to adjust. If El Salvador can negotiate a zero-tariff agreement with the United States, then this would also magnify the benefits of trade diversion (especially over the short run), but El Salvador would still be subject to spillovers from polices in the rest of the world.

6. **Trade diversion effects are likely to be less important over the long run.** Over a longer period, factors of production have time to adjust and domestic production of goods subject to tariffs expands, while the initial boost to exports from trade diversion towards El Salvador unwinds. If other countries retaliate by raising tariffs on imports from the United States (especially those subject to higher tariffs such as China, Canada and Mexico) the resulting contraction in world-wide income offsets the potential for trade diversion, and exports from El Salvador fall.

7. **El Salvador is also exposed through the effect of trade policies on uncertainty.** The size and scope of US tariff increases was unexpected by financial markets, resulting in large rises in market volatility (Figure 7). With rising levels of uncertainty, households and businesses tend to delay major decisions, especially if downside risks are large. For example, Caldara et. al (2019) find that increased trade policy uncertainty reduces investment, with the effects concentrated in exporting firms. El Salvador's household spending and business investment would not be directly impacted by higher uncertainties (including on the immigration policy front), but also indirectly through its effects on economic activity in the United States and other major trading partners. However, the overall impact would likely be mitigated by softer commodity (energy) prices, and the observed weakness in the US dollar. Precise estimation of these effects is outside the scope of this Annex.

Figure 7. Financial Market Volatility—VIX
(Index)



Source: Bloomberg.

D. Exposure by Industry

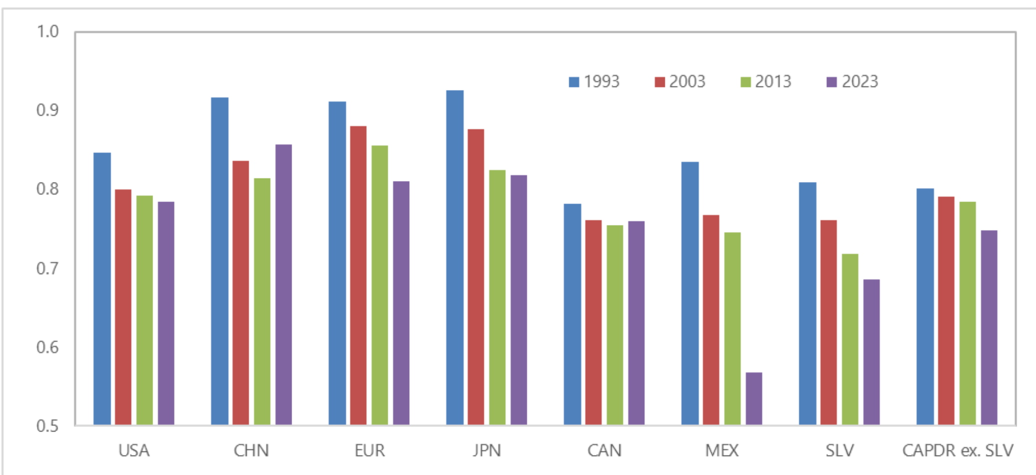
8. **El Salvador could be vulnerable to tariff changes for specific industries or products**. Tariff changes for specific industries induce expenditure switching within industries and across countries, magnifying the effects of trade diversion. Thus far, the US has raised tariffs on imports of steel and aluminum, and vehicles and auto parts. El Salvador is not heavily exposed to these industries and these targeted tariff increases are unlikely to have a large effect. Nonetheless, potential future tariff increases targeted at specific industries could become important.

[7] The extent to which El Salvador is able to take advantage of trade diversion will also depend on standards compliance, regulatory fit, logistics and other non-tariff barriers.

9. El Salvador's exports of textiles, apparel and agricultural products are expected to be the most directly exposed to tariff changes.[8] While exports of manufacturing and agricultural goods have been declining in importance, they still account for around 63 and 13 percent of exports respectively. The main manufacturing export is textiles and apparel, which is mostly sent to the United States (about 12 percent of exports, or 3.5 percent of GDP). Specific tariffs on these industries would affect El Salvador, with potential benefits from trade diversion effects if higher tariffs are targeted at competitor countries.

10. El Salvador is also indirectly exposed through its Global Value Chain (GVC) linkages. Gross export measures do not provide a full picture of El Salvador's participation in GVCs because they do not account for intermediate inputs that are imported to produce exports. For instance, El Salvador may build manufacturing equipment that is exported to the United States, but if this equipment was designed in the United States, then part of the 'value' of gross exports by El Salvador would be 'added' outside the country. This highlights the usefulness of examining 'value added exports' (VAX), which tracks where the value to gross exports was added (whether domestic or foreign) using multi-region input output tables and techniques described by Aslam et. al. (2017), Johnson (2018) and Koopmans et. al (2014).

Figure 8. VAX-to-Gross Exports by Country—2023
(Ratio)



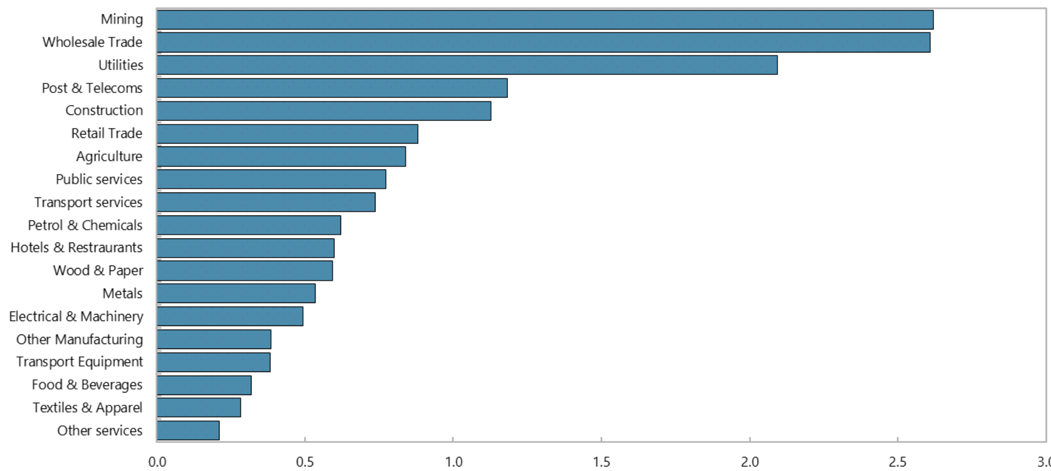
Source: IMF staff calculations.

11. El Salvador has become more integrated into GVCs, especially its manufacturing industry. The VAX/gross exports ratio shows the share of the value of exports that can be attributed to domestic production and to production that originated overseas. Figure 8 shows that the foreign component of exports has become more important as El Salvador has integrated into GVCs (as have many other countries). While this has benefited El Salvador, it also means that the country has

[8] Although is the impact on net exports would be somewhat mitigated by the fact that many of the intermediate inputs used to produce textiles and apparel are imported from the United States.

become more exposed to overseas trade policy changes. Examining the VAX/gross exports ratio within El Salvador reveals industries that are more integrated into GVCs and therefore more exposed (Figure 9). Services that are 'less traded' and primary industries such as agriculture and mining have a higher domestic content in their exports, while 'more traded' services and manufacturing industries have a higher foreign content. It is these industries that are most exposed to overseas tariff policy changes, especially textiles and apparel.

Figure 9. VAX-to-Gross Exports by Industry—El Salvador 2023
(Ratio)



Source: IMF staff calculations.

12. Manufacturing industries are more exposed to tariff changes through GVC linkages. When global production is organized through global value chains, tariff changes can have a variety of direct and indirect effects depending on the stage of production to which they are applied. The effect of tariffs applied to agriculture, mining and 'upstream' manufacturing industries that produce intermediate inputs accumulate as they flow 'downstream', and the output of these industries is used by other manufacturing and services industries that are closer to the final consumer. Eugster et. al, (2022) find that the effects of tariffs applied at different stages of the value chain are quantitatively significant, including on countries and industries not directly targeted.

E. Conclusions

13. The effect on El Salvador of tariff increases by the United States is likely to be small, although potentially contractionary over the longer-term. El Salvador is exposed to tariff increases by the United States through direct trade links and indirect GVC linkages, especially through other countries in the region and China. Textiles and apparel are the most exposed industries, followed by agriculture and industries that rely heavily on imported intermediate inputs. El Salvador is also affected by the surge in trade (and immigration) policy uncertainties. The impact of global trade tensions is mitigated over the short-term by potential trade diversion effects, as well as El Salvador's growing exports of tourism and services, which have not been directly affected by US tariff increases.

References

Aslam, A., Novta, N., and Rodrigues-Bastos, F., 2017, *Calculating Trade in Value Added*, IMF Working Paper No. WP/17/178.

Caldara, D., Iacoviello, M., Molligo, P., Prestipino, A., and Raffo, A., 2019. 'The Economic Effects of Trade Policy Uncertainty', *Journal of Monetary Economics*, vol. 109: 38-59.

Eaton, J., and Kortum, S., 2002, 'Technology, Geography, and Trade', *Econometrica,* vol. 70: 1741–1779.

Eugster, J., Jaumotte, F., MacDonald, M., and Piazza, R., 2022, *The Effect of Tariffs on Global Value Chains*, IMF Working Paper No. WP/22/40.

Head, K., and Mayer, T., in Gopinath, G., and Rogoff, K. (eds), 2014, 'Gravity Equations: Workhorse, Toolkit and Cookbook', in *Handbook of International Economics*, vol. 4: 131-194.

Johnson, R.C., 2018, 'Measuring Global Value Chains', *Annual Review of Economics*, vol. 10: 207–236.

Koopmans, R., Wang, Z., and Wei, S.J., 2014, 'Tracing Value Added and Double Counting in Gross Exports', *American Economic Review,* vol. 104(2): 459–494.

Annex IV. Sovereign Risk and Debt Sustainability Framework

A. Assessment

1. **Staff's assessment is that the proposed steady fiscal consolidation under the program makes public debt sustainable.** Debt is projected to fall from 87.5 percent of GDP in 2024 to around 78 percent of GDP by 2030, conditional on steadfast implementation of the fiscal consolidation measures and other medium-term structural reforms proposed under the program.[1] External public debt is projected to rise slightly from 52.5 percent of GDP to 53.7 percent of GDP over this projection period, while domestic debt is projected to decline from around 35.0 percent of GDP to 24.2 percent of GDP. Recent liability management operations, following sharp reductions in sovereign spreads, have dramatically lower GFN projections over the medium term to 6.3 percent of GDP on average over the period 2025-2030 (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. Public debt has been rising since, reflecting limited fiscal consolidation and a series of debt reprofiling operations adding to interest costs, and reached an estimated 87.5 percent of GDP at end-2024.

3. **The coverage of official public debt data is reasonably 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. Pension debt is made of CFTs and COPs, and is included in staff's estimates of NFPS debt. 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

[1] The projected growth path over the medium-term may look somewhat optimistic vis-à-vis what is shown in Figure 6. This largely reflects the fact that staff's growth projections assume higher potential growth due to the improved security situation.

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$238 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 6.3 percent of GDP over 2025-2030, with around 40 percent of GFNs coming from the need to rollover short term debt. The GFN financeability index is estimated at 12.7, 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 around 78 percent of GDP by end-2030. 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, on affordable terms that would not pose a threat to fiscal / debt sustainability.
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 on affordable terms, 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 falls steadily to sustainable levels and GFNs will remain at manageable levels, conditional on implementation of fiscal adjustment measures that are assessed as feasible. Given the strong fiscal reform measures included in the program, both on revenues and expenditures, staff's assessment is that public debt is sustainable, consistent with the mechanical SRDSF assessment.
Debt stabilization under an IMF program			Yes

DSA Summary Assessment

Commentary: Staff assessed public debt in El Salvador to be sustainable under the program scenario, mainly due to successful implementation of a fiscal consolidation package which improves the primary balance by 3.7 percentage points of GDP over the course of the program. The program includes a number of key structural reform measures, including civil service and pension reform and laying the groundwork for implementing a property tax. These reforms are expected to have a long-term positive impact on public finances and enable El Salvador to access external financing on more affordable terms, as a declining trajectory 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, consistent with staff's assessment. Staff recognizes that 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:						
Subsectors captured in the baseline					Inclusion	
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		

Subsector groupings: CPS (1–8); NFPS (1–6); GG: expected (1–5); CG (1–3).

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

Green (chosen coverage): NFPS; Yes (1–6); Currency & deposits; Loans; Debt securities; Cash basis; Nominal value 5/; Non-consolidated. Red (missing from recommended coverage): Oth acct. payable 2/; IPSGSs 3/. Grey (not applicable): No (7–8).

Reporting on Intra-Government Debt Holdings

Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
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

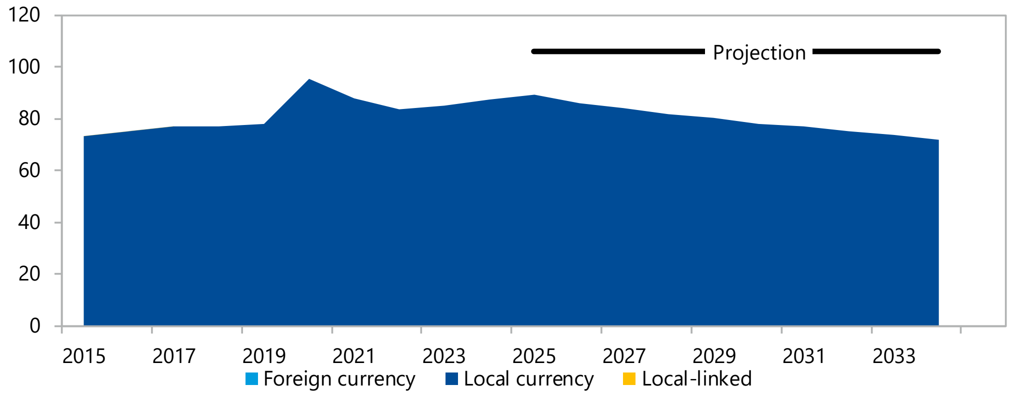
Issuer groupings: CPS (1–8); NFPS (1–6); GG: expected (1–5); CG (1–3).

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.

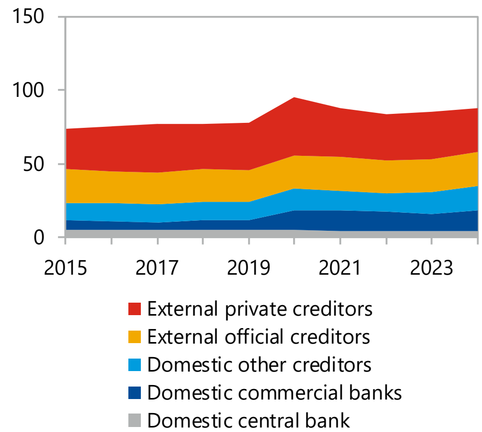
Figure 3. El Salvador: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



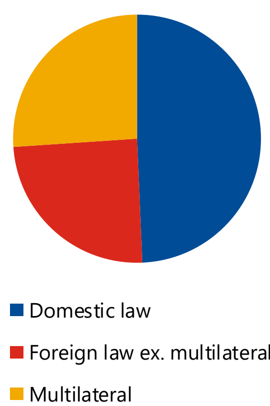
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)

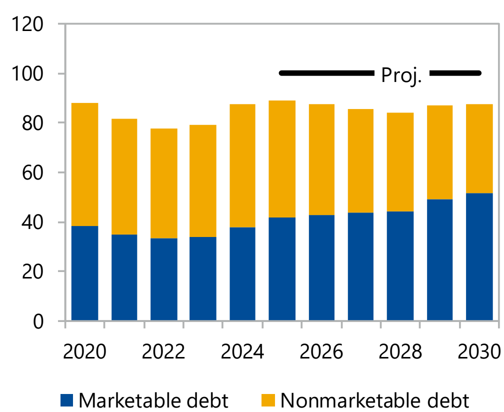


Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)

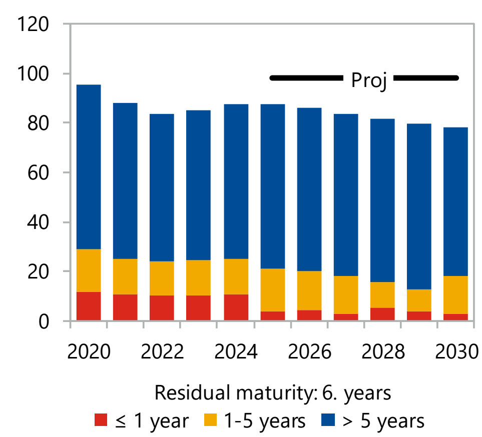


Debt by Instruments (Percent of GDP)



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.

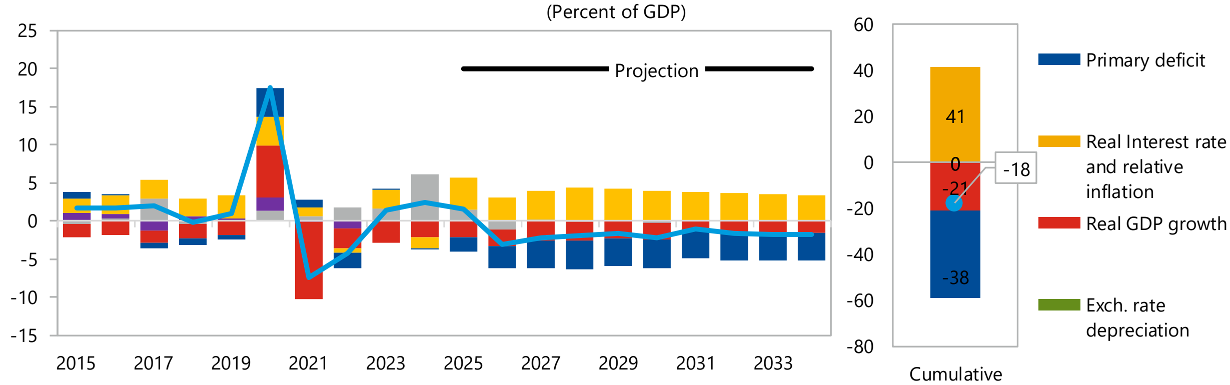
Figure 4. El Salvador: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	87.5	89.1	86.1	83.8	81.9	80.2	77.9	76.9	75.3	73.6	71.8
Change in public debt	2.4	1.6	-3.0	-2.2	-1.9	-1.7	-2.3	-1.1	-1.6	-1.7	-1.8
Contribution of identified flows	-3.7	0.1	-1.9	-2.5	-1.8	-1.7	-2.0	-1.1	-1.6	-1.7	-1.8
Primary deficit	0.0	-1.9	-2.9	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7
Noninterest revenues	26.8	27.1	27.2	27.6	27.6	27.6	27.6	27.6	27.6	27.6	27.6
Noninterest expenditures	26.8	25.2	24.3	23.9	23.9	23.9	23.9	23.9	23.9	23.9	23.9
Automatic debt dynamics	-3.6	2.0	1.0	1.2	1.9	2.0	1.7	2.6	2.1	2.0	1.9
Real interest rate and relative inflatioı	-1.5	4.2	3.2	3.7	4.4	4.2	3.9	3.8	3.6	3.5	3.4
Real interest rate	-1.5	4.2	3.2	3.7	4.4	4.2	3.9	3.8	3.6	3.5	3.4
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	-2.2	-2.1	-2.2	-2.5	-2.5	-2.2	-2.2 .	-1.2	-1.5	-1.5	-1.5
Real exchange rate	0.0	…	…	…	…	…	… .	…	…	…	…
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	6.1	1.5	-1.1	0.3	-0.1	0.0	-0.3	0.0	0.0	0.0	0.0
Gross financing needs	13.6	11.5	5.9	6.2	5.4	7.3	6.0	6.4	8.4	7.4	9.2
of which: debt service	13.6	13.4	8.8	9.9	9.1	11.0	9.7	10.1	12.1	11.1	12.9
Local currency	13.6	13.4	8.8	9.9	9.1	11.0	9.7	10.1	12.1	11.1	12.9
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)	2.6	2.5	2.5	3.0	3.1	2.8	2.8	1.5	2.0	2.1	2.1
Inflation (GDP deflator; percent)	1.8	0.8	2.2	2.1	1.9	1.8	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	4.5	3.3	4.7	5.2	5.1	4.7	4.9	3.6	4.1	4.1	4.1
Effective interest rate (percent)	0.0	5.7	5.9	6.7	7.4	7.2	7.1	7.1	6.9	6.8	6.8

Contribution to Change in Public Debt

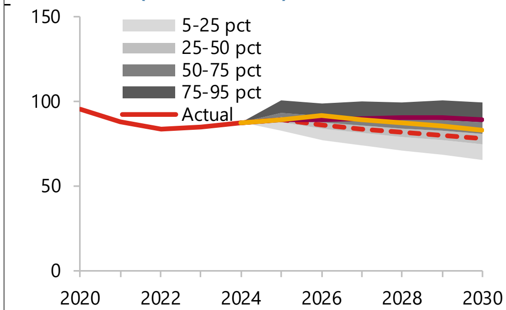
(Percent of GDP)



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 3.7 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.

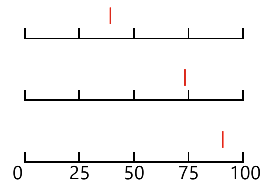
Figure 5. El Salvador: Medium-Term Risk Assessment

Final Fanchart (Percent of GDP)

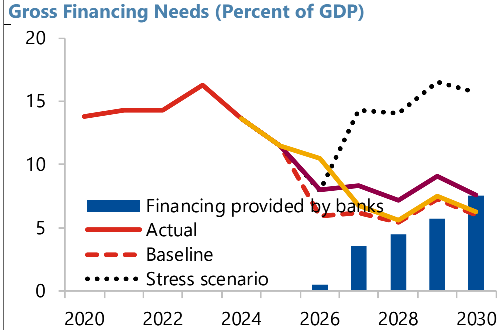


Debt fanchart module

	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	34.4	0.5	
Probability of debt non-stabilizaiton *(percent)*	11.9	0.1	
Terminal debt-to-GDP x institutions index	51.0	1.1	
Debt fanchart index (DFI)		1.7	
Risk signal: 3/		**Moderate**	

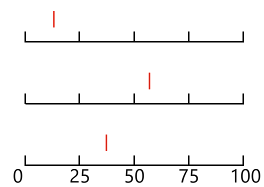


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

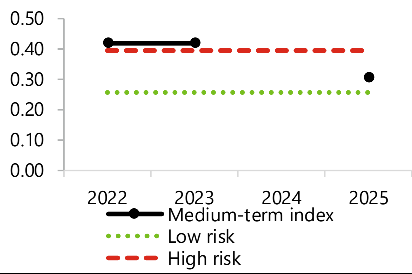
	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	7.0	2.4	
Initial Banks' claims on the gen. govt *(pct bank assets)*	15.0	4.9	
Chg. In banks' claims in stress *(pct banks' assets)*	14.2	4.7	
GFN financeability index (GFI)		12.0	
Risk signal: 4/		**Moderate**	



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	1.7	0.4	0.5	0.2
GFN finaceability index	12.0	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 26.1 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 (2025-2030).

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

Forecast Track Record 1/

	t+1	t+3	t+5
Public debt to GDP			
Primary deficit			
r - g			
Exchange rate depreciaton			
SFA			

	real-time	t+3	t+5
Historical Output Gap Revisions 2/			

Comparator Group:

Emerging Markets, Non-Commodity Exporter, Program

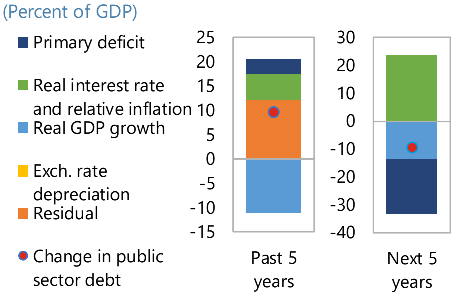
Color Code:

Optimistic: > 75th percentile; 50-75th percentile

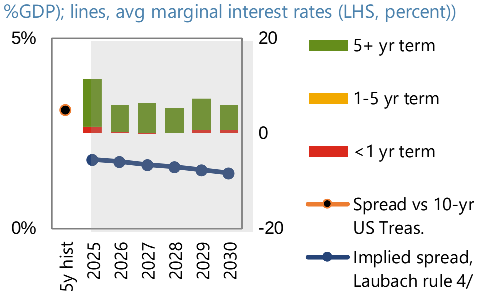
Pessimistic: 25-50th percentile; < 25th percentile

Public Debt Creating Flows

(Percent of GDP)

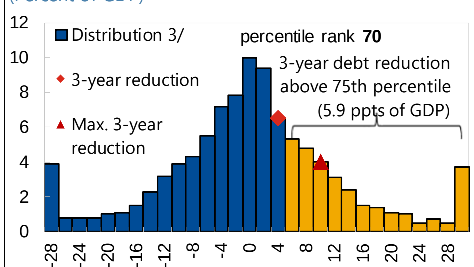


Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

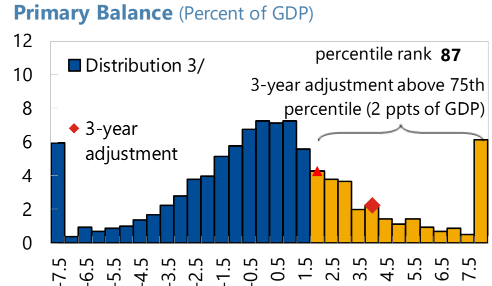


3-Year Debt Reduction

(Percent of GDP)

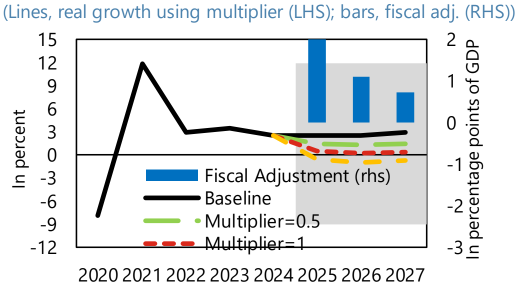


3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



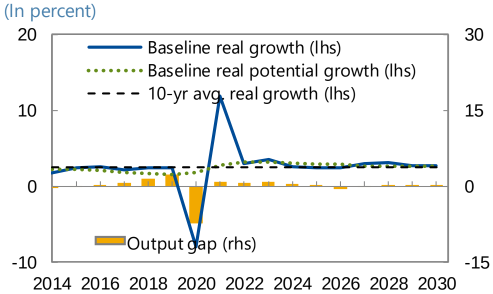
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(In percent)



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

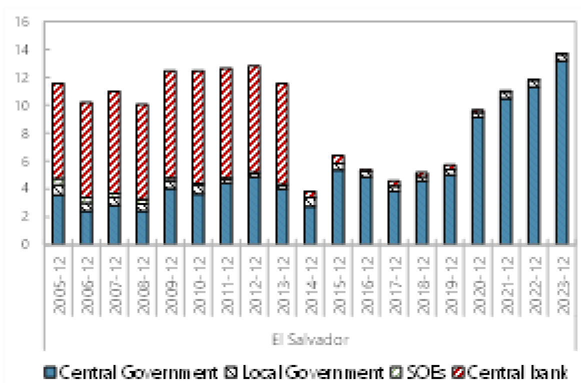
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex V. Evolution of the Sovereign-Bank Nexus

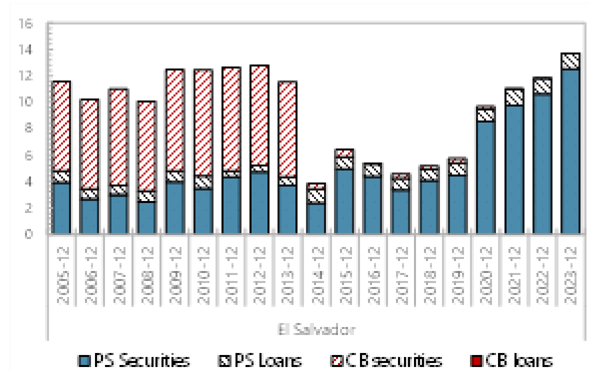
The sovereign-bank nexus in El Salvador is elevated and has significantly increased since the pandemic. Policies to unwind these increases are essential to sustain private-sector credit and strengthen financial stability.

Figure 1. El Salvador: Public Sector

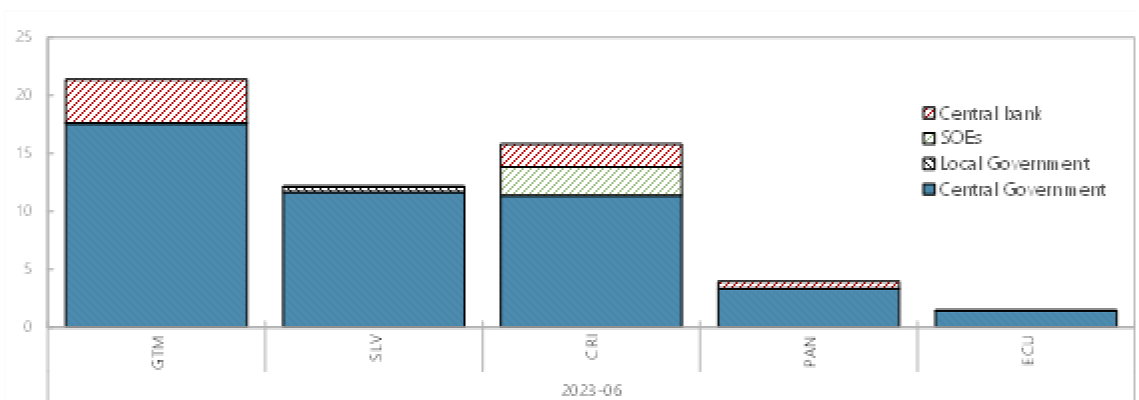
1. Banks' Exposure to the Public Sector
(By public entity, percent of assets)



2. Banks' Exposure to the Public Sector
(By financial instrument, percent of assets)



3. Public Sector-Bank Nexus
(By public entity, including loans and debt securities, percent of banks' assets)



Source: IMF's Public Sector Bank Nexus Toolkit

1. Banks' exposure to the public sector has increased rapidly since the pandemic. Following a sharply expansionary fiscal policy in response to the pandemic, the gross financing needs of the nonfinancial public sector surged to 15.9 percent of GDP in 2024 from 11.4 percent of GDP in 2019. As both domestic and external sources of financing became scarcer and more expensive, banks' holdings of government securities increased to about US$3.4 billion at end-2024 from $1.1 billion prior to the pandemic. A reprofiling of government debt held by domestic banks in September 2023 further increased banks' exposure to the government (see Box 1). As a result, government's securities increased to 11.7 percent of capital at end-2024 from only 5 percent in 2019. Since 2014, the exposure to the public sector has completely shifted away from the Central Bank towards the central government.[1] The exposure to the public sector is lower than in Guatemala or Costa Rica but substantially higher than in Panama or Ecuador. The high volatility inherent in speculative-grade securities exposes banks to asset-liability mismatches in case of falling prices of government bond holdings and adversely affect banks' capitalization, as Salvadoran banks value most of the securities in their investment portfolios at fair value.

2. The increase in banks' holdings of sovereign debt coincided with a steady reduction in reserve requirements. Banks are well-capitalized and have relatively low NPL ratios. However, banks' holdings of government debt have zero risk weighting in the calculation of capital adequacy ratios, and there are no provisioning requirements to cover the inherent credit risk. Reserve requirements were continuously reduced to 11.5 percent by December 2022 from 22 percent in December 2019, significantly lowering financial system's liquidity buffers. At end-January 2025, the reserve requirement ratio was raised to 12 percent, 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). The current 12 percent reserve requirement is in line with those in neighboring countries, while growth in excess reserves has been raising the total bank reserves to deposits ratio in recent months, to 13.1 percent at end-March 2025 and to 14.2 percent by mid-May 2025.

3. A high sovereign-bank nexus could threaten macro-financial stability through various channels. As IMF (2022) notes, an adverse feedback loop could operate through three channels:

- the *exposure channel*—higher sovereign borrowing rates and declining prices of sovereign bonds affect banks' funding conditions and balance sheets through capital losses on banks' holdings of sovereign assets.
- the *safety net channel*—tighter borrowing conditions reduce governments' ability to support banks through implicit or explicit guarantees—the financial safety net—and increase stress in the banking sector.
- the *macroeconomic channel* - widening of sovereign spreads amid constrained fiscal space could lead to a rapid withdrawal of policy support to the real economy, hurting economic growth and intensifying bank losses. A substantial rise in corporate bankruptcies could also undermine banks' capital adequacy and diminish their willingness and ability to lend, further undermining economic activity and straining sovereign balance sheets.

[1] The Central Bank of El Salvador (BCR) stopped issuing its own securities in 2008. This decision was part of a broader strategy to manage the country's fiscal situation, control public debt levels and enhance monetary policy effectiveness. The BCR also considered that the issuance of central bank securities was no longer needed for liquidity management and that these securities were not useful for the conduct of monetary policy in a dollarized economy.

4. In El Salvador, the rise in sovereign-bank nexus did not seem to have a strong crowding out effect on credit to the private sector, on account of a series of factors.

- Results from a regression of bank credit to the private sector against various measures of banks' exposure to the government (as in Bouis 2019), suggest that bank credit to the private sector is mostly demand driven with limited evidence about a constraint on credit supply (Table 1).[2] Although bank's claims on the government measured as a share of lagged GDP have a statistically significant negative impact on private sector credit, they are not significant when measured either as a share of lagged assets or the growth rate of claims on the government.
- Results based on individual bank-level data suggest a somewhat stronger crowding out effect. The results from fixed effects panel regressions with yearly dummies (Table 2) show that bank claims on the government (measured both as a share of lagged GDP and with the growth rate) have a significant negative impact on lending to the private sector. While the growth rate of bank deposits and the lagged rate of return on bank assets have a strong positive impact on private sector credit growth, the lagged NPL ratio has a negative impact (significant at the 10 percent level.
- More generally, the absence of a clear crowding-out effect reflects a series of other factors, including the high pre-pandemic levels of bank liquidity and the steady reduction in reserve requirements that ensued. Moreover, banks' funding (which comes mostly from deposit growth) was not adversely affected during this period, thanks to a sharp rise in remittances and the reduction in sovereign spreads.

5. That said, ongoing efforts to rebuild fiscal and external buffers, are essential to safeguard financial stability and support credit growth. Reducing elevated exposures to the government and reliance on financial repression, will support bank profitability and an expansion of private credit, while also shielding banks from potential asset-liability mismatches given the inherent volatility in speculative-grade sovereign bonds.

[2] The regressions used quarterly data covering the period 2005Q1 to 2024Q2.

Box 1. El Salvador: September 2023 Reprofiling of Government Debt Held by Banks

The 2023 government debt reprofiling lowered near-term financing needs but raised financing costs. In September 2023, the government undertook a debt reprofiling operation with the Banking Association (ABANSA) to ease rollover and liquidity pressures. The reprofiling involved the issuance of around US$1.4 billion in longer-term notes (2, 3, 5, and 7 years) to substitute short-term debt instruments (CETES and LETES). This operation raised the average maturity of domestic government securities to 2.6 years (from under one year) and the weighted average interest rate on the restructured debt to 8.8 percent (from 8.3 percent).[1] The reprofiling did not increase the net financing by domestic banks to the government but extended the banks' exposure to the government.

El Salvador: New Debt Structure Following 2023 ABANSA Debt Reprofiling

Instrument	Weighted average maturity of debt instrument	Amount (US$ milllions)	Weight	Weighted interest rate
LETES / CETES	1.00	386	27%	8.25%
2 year Bonds	1.92	272	19%	8.50%
3 year Bonds	2.77	272	19%	8.75%
5 year Bonds	3.97	250	17.5%	9.25%
7 year Bonds	4.25	250	17.5%	9.75%
TOTAL	2.60	1,430	100%	8.83%

1/ Had the government borrowed from abroad it would have paid an interest rate of around 9½ percent on a 5-year bond in September 2023.

Table 1. El Salvador: Crowding Out Regression Results

	(1) Private Credit Growth Rate	(2) Private Credit Growth Rate	(3) Private Credit Growth Rate	(4) Private Credit Growth Rate	(5) Private Credit Growth Rate	(6) Private Credit Growth Rate	(7) Private Credit Growth Rate	(8) Private Credit Growth Rate	(9) Private Credit Growth Rate	(10) Private Credit Growth Rate
Total Bank Deposits Growth Rate	0.065	0.082	0.081	0.081	0.080	0.068	0.238***	0.248***	0.253***	0.224***
	(0.061)	(0.054)	(0.053)	(0.053)	(0.053)	(0.059)	(0.074)	(0.077)	(0.076)	(0.081)
Private Credit Share of Deposits = L,	-0.042	-0.068*	-0.078**	-0.077**	-0.093**	-0.083**	-0.335***	-0.335***	-0.347***	-0.311***
	(0.044)	(0.038)	(0.038)	(0.038)	(0.040)	(0.033)	(0.082)	(0.083)	(0.084)	(0.081)
Real GDP Growth = L,	0.012	0.014	0.015	0.015	0.011	0.008	-0.023	-0.021	-0.044	-0.016
	(0.057)	(0.047)	(0.044)	(0.043)	(0.045)	(0.045)	(0.024)	(0.024)	(0.029)	(0.025)
Lending Interest Rate = L,	-0.340**	-0.505***	-0.320	-0.327	-0.256	-0.273*	-0.285	-0.297	-0.327	-0.342
	(0.129)	(0.154)	(0.206)	(0.207)	(0.214)	(0.143)	(0.263)	(0.268)	(0.246)	(0.265)
Inflation Rate	0.379***	0.197	0.223	0.221	0.239*	0.187	0.262	0.261	0.281*	0.181
	(0.133)	(0.142)	(0.139)	(0.139)	(0.140)	(0.157)	(0.162)	(0.162)	(0.158)	(0.163)
NPL = L,	-0.850***	-1.059***	-1.134***	-1.126***	-1.222***	-1.163***	-1.824**	-1.869**	-2.063**	-2.153**
	(0.287)	(0.272)	(0.274)	(0.274)	(0.285)	(0.242)	(0.848)	(0.855)	(0.814)	(0.852)
Government Claims Share of Bank Assets	-0.082	0.066	0.007				-0.404			
	(0.056)	(0.072)	(0.086)				(0.262)			
Change in Reserve Requirement Ratio	0.041	0.042	0.027	0.027	0.023	0.022	-0.109**	-0.106**	-0.075*	-0.090*
	(0.046)	(0.040)	(0.038)	(0.038)	(0.038)	(0.035)	(0.047)	(0.048)	(0.040)	(0.053)
Public Debt to GDP = L,		-0.063***	-0.055**	-0.056**	-0.045*	-0.053***	-0.154***	-0.160***	-0.121**	-0.203***
		(0.024)	(0.025)	(0.025)	(0.026)	(0.017)	(0.045)	(0.045)	(0.045)	(0.050)
Return on Bank Assets = L,			0.505	0.494	0.573*	0.586**	0.289	0.276	0.235	0.161
			(0.315)	(0.315)	(0.313)	(0.242)	(0.334)	(0.339)	(0.297)	(0.328)
Government Claims Share of Lagged Bank As:				1.380				-36.332		
				(8.448)				(25.742)		
Government Claims Share of Lagged GDP					-1.519				-14.635**	
					(2.716)				(6.998)	
Government Claims Growth Rate						-0.010				-0.008
						(0.007)				(0.007)
Constant	9.506*	17.241***	16.183***	16.133***	16.905***	16.368***	51.385***	51.694***	51.963***	51.223***
	(5.271)	(5.275)	(5.375)	(5.360)	(5.396)	(5.074)	(10.353)	(10.461)	(10.323)	(10.572)
Observations	77	77	77	77	77	77	77	77	77	77
R-squared	0.430	0.503	0.524	0.525	0.527	0.547	0.746	0.743	0.754	0.739
Quarterly Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed effect	No	No	No	No	No	No	Yes	Yes	Yes	Yes

Robust standard errors in parentheses
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Table 2. El Salvador: Crowding Out Regression Results Using Bank-Level Data

	(1) Private Credit Growth Rate	(2) Private Credit Growth Rate	(3) Private Credit Growth Rate	(4) Private Credit Growth Rate
Total Bank Deposits Growth Rate	0.686***	0.693***	0.707***	0.683***
	(0.150)	(0.147)	(0.144)	(0.147)
Private Credit Share of Deposits = L,	-0.534	-0.566	-0.707*	-0.427
	(0.358)	(0.350)	(0.335)	(0.313)
Lending Interest Rate = L,	-0.428	-0.456	-0.564	-0.312
	(0.463)	(0.466)	(0.461)	(0.415)
Nonperfomring Loan Ratio = L,	-3.596*	-3.591*	-3.366*	-3.256*
	(1.872)	(1.801)	(1.638)	(1.537)
Return on Bank Assets = L,	0.600**	0.616**	0.611**	0.504*
	(0.266)	(0.255)	(0.224)	(0.259)
Government Claims Share of Bank Assets	-3.136			
	(2.419)			
Government Claims Share of Lagged Bank Assets		-3.544		
		(2.360)		
Government Claims Share of Lagged GDP			-0.013***	
			(0.004)	
Government Claims Growth Rate				-0.001**
				(0.000)
Constant	74.793	78.620*	93.743**	59.885
	(42.783)	(41.665)	(40.155)	(35.289)
Observations	95	95	95	95
R-squared	0.664	0.668	0.690	0.662
Number of id	12	12	12	12
Year Fixed Effect	Yes	Yes	Yes	Yes

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

References

Global Financial Stability Report (GFSR), April 2022, Chapter 2, "The Sovereign-Bank Nexus in Emerging Markets: A Risky Embrace", *International Monetary Fund*, Washington, D.C., U.S.A.

Bouis, Romain, October 2019, "Banks' Holdings of Government Securities and Credit to the Private Sector in Emerging Market and Developing Economies", IMF Working Paper WP/19/224, *International Monetary Fund*, Washington, D.C., U.S.A.

Annex VI. Risk Assessment Matrix[1]

Source of Risk	Likelihood /Impact	Policy Response
Global Risks		
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further US dollar appreciation, tighter financial conditions, and higher inflation.	High likelihood High impact	Implement a fiscal consolidation to reduce financing needs and strengthen financial buffers, while minimizing the impact on growth. Minimize trade barriers and implement reforms to boost competitiveness and ease labor market adjustment.
Tighter financial conditions and systemic instability. Higher interest rates and term premia amid looser financial regulation, and higher trade barriers trigger asset repricing, market dislocations, financial sector distress, and US dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	Medium likelihood High impact	Implement a fiscal consolidation to reduce financing needs and strengthen financial buffers, while minimizing the impact on growth. Accelerate efforts to strengthen the supervisory and regulatory frameworks for the domestic financial sector. Ensure the BCR has sufficient resources and capacity to provide support.
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, curbs to labor mobility, and fracturing technological and payments systems lead to higher input costs, and lower trade and potential growth.	High likelihood Medium impact	Adjust fiscal policy as necessary to respond to macroeconomic spillovers and manage financing needs. Maintain trade openness, support trade in the region and with new markets, and undertake reforms to boost export competitiveness. Develop contingency plans to respond to potential disruption to labor markets or remittances.
Domestic Risks		
Domestic policy slippages. Ambitious fiscal consolidation and other structural reforms may prove politically challenging and/or weigh on growth by more than expected. Delayed implementation may weaken investor confidence and increase vulnerability to shocks.	Medium likelihood High impact	Implement contingency plans (with an emphasis on accelerated revenue mobilization, while protecting priority infrastructure and social spending) to address slippages. Strengthen policy credibility, PFM, and fiscal responsibility—including via passage of the FSL.
Deterioration in public institutions. Limited checks and balances, amid a continued state of emergency, have the potential to weigh on business investment and growth if not addressed.	Medium likelihood High impact	Continue timely implementation of agreed measures to strengthen governance and transparency, including legal reforms, and steps to address corruption and AML/CFT.
Natural disasters. More frequent extreme weather and other natural disasters to which El Salvador is highly exposed (such as earthquakes and volcanoes), cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	Medium likelihood High impact	Improve resilience by implementing appropriate risk reduction, risk transfer, and residual risk management measures and developing a comprehensive national strategy on disaster resilience. Ensure sufficient fiscal buffers to support vulnerable segments of the population.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex VII. El Salvador: Crime, Violence, and Growth

El Salvador boasts a dramatic turnaround in security and is now the safest country in the region. These improvements have been associated with a substantial increase in security spending and should be complemented by reforms to develop the conditions for higher and more inclusive growth and employment.

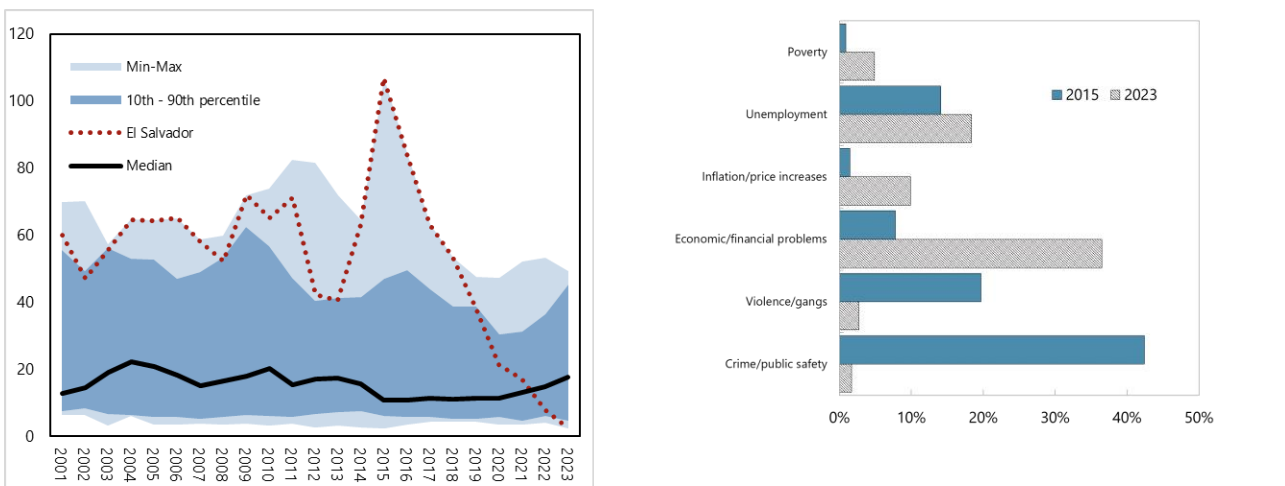
A. Outstanding Improvements in Public Safety

1. **El Salvador has experienced a dramatic turnaround and is now the safest country in the region.** Starting from the early 2000s, the homicide rate in El Salvador remained high at around 60 per 100,000 people and peaked at 106.8 people in 2015, the highest in the world. Since then, helped by the strengthening of the police and military and measures to control gangs, the country experienced a dramatic turn of events and is now the safest in the region—with a homicide rate of only 1.9 in 2024 per 100,000 people (Figure 1, panel 1).

Figure 1. El Salvador: Improvement in Security Conditions

1. Homicides in Latin America and the Caribbean (Homicides rates per 100,000 people)

2. Perception of the Main Problems Facing the Country (Percentage of respondents)



Source: For Panel 1, UN Survey of Crime Trends and Operations of Criminal Justice Systems; and IMF staff calculations. For Panel 2, Latinobarómetro (2015 and 2023); and IMF staff calculations.

2. **With insecurity becoming less of a concern, public attention has now switched to economic issues** (Figure 1, panel 2). By 2023, only 5 percent of the population considered that violence, gangs, crimes, and public safety was a top concern (compared to 60 percent in 2015). Instead, economic and financial difficulties, poverty and unemployment are now identified as the main concerns. President Bukele has also redirected his agenda, with his second term focused on addressing economic imbalances and boosting growth.

B. Costs of Crime

3. Crime and violence were a major development burden for El Salvador. UNDP-USAID (2022) estimated the direct welfare costs of crime in El Salvador at more than 12 percent of GDP in 2019 (Figure 2, panel 1), including material losses, health costs, and security costs, including public security and judiciary and private security costs. El Salvador's security costs, of about 4.5 percent of GDP, are also substantially higher than in other countries in the region. Furthermore, these measures are likely only a lower bound as they do not consider the indirect effects of crime on employment, investment, tourism, outmigration, business and consumer confidence, and governance.

4. In particular, insecurity was a major constraint on businesses. World Bank Enterprise Surveys conducted between 2016 and 2018 indicated that almost 50 percent of firms in El Salvador declared that crime, theft, and disorder as a major or very severe obstacle to their businesses (Figure 2, panel 2), compared to about 26 percent for the average Latin America and the Caribbean. The surveys also reported that security spending in El Salvador represented about 4.1 percent of annual sales, well above the regional average of 3.1 percent.

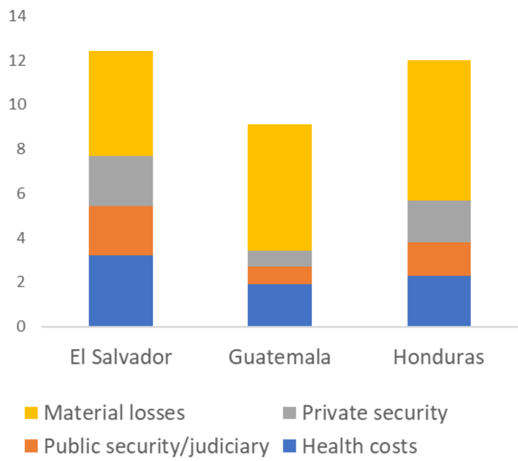
5. Recent security improvements have significantly reduced the costs of crime. In the 2023 World Bank Enterprise Survey, only 14 percent of firms considered that crime, theft, and disorder were major or very severe barriers to doing business. Vincent et al. (2024), estimate that the direct costs of crime have significantly declined from 6.4 percent of GDP in 2014 to 3.9 percent of GDP in 2022 (Figure 3, panel 1), but with an increase of public costs.[1] Although the direct costs have declined to the Latin America and Caribbean (LAC) average, elevated public costs are still a burden.

6. The tourism sector has been among the most benefited from the improved security. Vincent et al. (2024) find, with a panel data estimation for LAC countries, that increases in the homicide rate are inversely associated with tourism flows. In El Salvador, the number of inbound tourists has surged thanks to the security achievements, having doubled compared to the pre-pandemic level (Figure 3, panel 2), providing an important tailwind for growth.

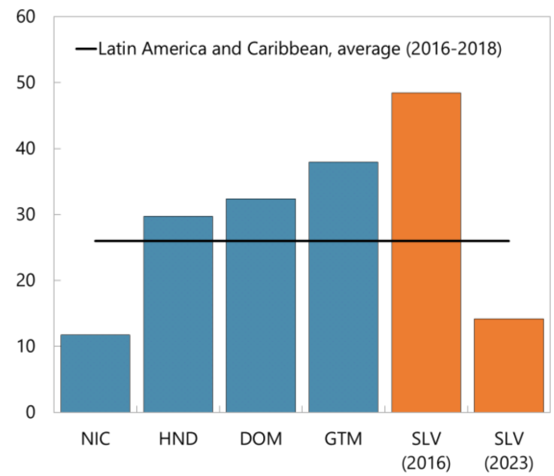
[1] The direct costs of crime are defined as the sum of public costs (including justice, police, and prison administration costs), private costs, and costs in human capital (derived from homicides, reported non-lethal victims, and people deprived of liberty).

Figure 2. El Salvador: Costs of Crime

1. Direct Costs of Crime in the Northern Triangle
(Percentage of GDP, 2019)



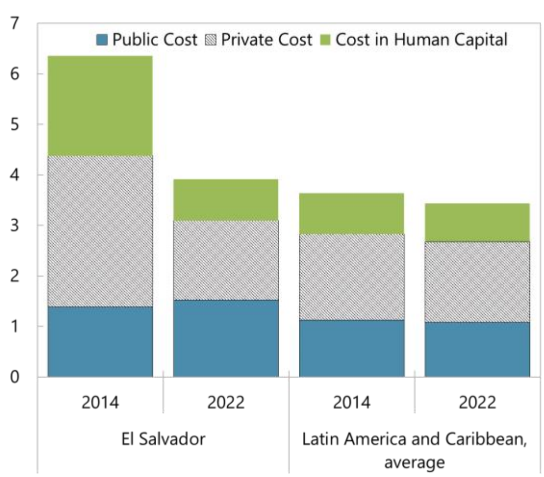
2. Crime as a Barrier to Doing Business
(Percent of firms declaring that "Crime, theft, and disorder" is major or very severe obstacle)



Source: For Panel 1, UNDP-USAID (2022); and IMF staff calculations. For Panel 2, World Bank, 2016-2018, and 2023 Enterprise Surveys; and IMF staff calculations.
Note: For Panel 2, Latin America and the Caribbean includes Argentina, Bolivia, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Peru, and Uruguay.

Figure 3. El Salvador: Benefits from Improvements in Security

1. Change in the Cost of Crime
(Percent of GDP, 2014 and 2022)



2. Inbound tourists to El Salvador and Expenditure
(Million people (Left) and Billion USD (Right))

Source: For Panel 1, Vincent et al. (2024); and IMF staff calculations. For Panel 2, UN Tourism; and IMF staff calculations.
Note: For Panel 2, Global Trend is calculated by a change of total inbound tourists in the world from 2015 based on the number of inbound tourists to El Salvador in 2015.

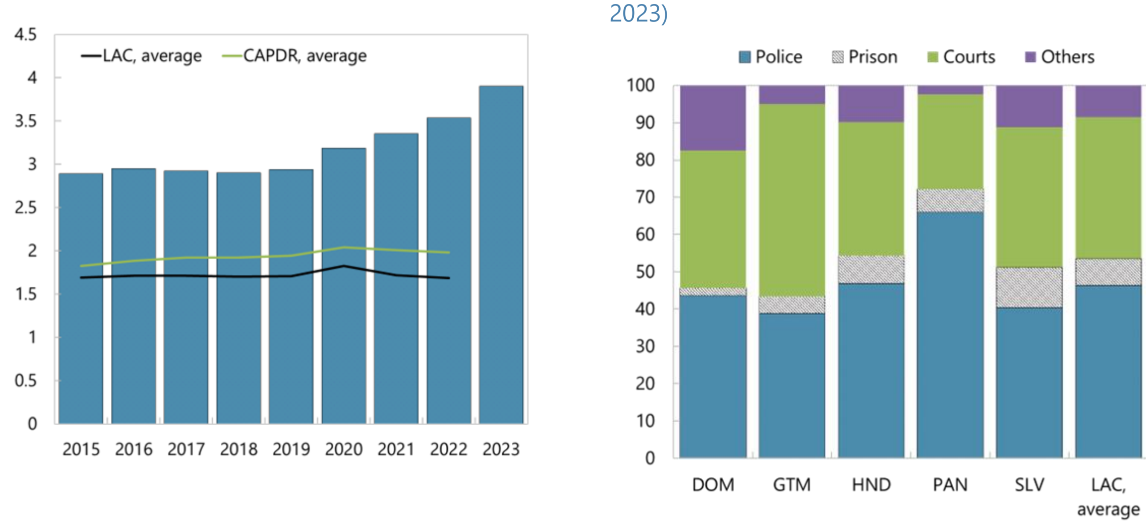
C. Fiscal Costs

7. **Improvements in security coincided with a significant rise in spending on public order and safety.** Since 2019, spending security has risen from a historical average of 3 percent of GDP to around 4 percent of GDP, well above the 1.5 percent of GDP average for Latin America and the Caribbean (Figure 4, panel 1).[2] Security spending corresponded to about 17 percent of total spending in 2023 (twice the LAC average), with a high share of this spending in prisons and courts. (Figure 4, panel 2).[3]

Figure 4. El Salvador: Increasing Costs of Crime on Public Sector

1. Spending on Public Order and Safety
(Percent of GDP)

2. Composition of Spending on Public Order and Safety
(Percentage of expenditure on public order and safety, 2023)



Source: Government Financial Statistics, IMF.
Note: LAC=Latin America and Caribbean. For Panel 1, the 2024 averages cannot yet be estimated due to data availability.

D. Consolidating Security Improvements

8. **Safeguarding security achievements will require complementary reforms.** The outstanding security achievements have greatly benefited the Salvadorans. They have lowered the cost of doing business, improved business and consumer confidence, lowered outmigration and revived tourism. To consolidate these achievements, greater focus will need to be given to reforms aimed at improving governance, attracting investments, enhancing job creation, and securing a higher and more inclusive growth.[4]

[2] This does not include military expenses which have also increased as part of the national strategy to control gangs.

[3] El Salvador has the highest number of prisoners per capita in the world, with over 1,650 prisoners per 100,000 people (World Prison Brief data).

[4] Bisca et al. (2024) shows that macroeconomic instability, higher inequality, and weaker governance are associated with increased in homicides.

9. In particular, greater priority needs to be placed on policies encouraging employment, especially for the young. With a greater share of the labor force remaining or returning to the country (because of changes in other country's migration policies), El Salvador will need to generate more jobs. The ongoing economic diversification strategy which aims at attracting more FDI and supporting tourism will help create jobs. At the same time, continued effort is required to enhance the skills in the labor force through both training and education to address skills mismatches and be complemented with education reform to make the curriculums more relevant.

References

Latinobarómetro 2015. https://www.latinobarometro.org/latContents.jsp

Latinobarómetro 2023. https://www.latinobarometro.org/latContents.jsp

Paul M Bisca, Vu Chau, Paolo Dudine, Raphael A Espinoza, Jean-Marc Fournier, Pierre Guérin, Niels-Jakob H Hansen, and Jorge Salas. "Violent Crime and Insecurity in Latin America and the Caribbean: A Macroeconomic Perspective", *Departmental Papers* 2024, 009 (2024), https://doi.org/10.5089/9798400288470.087

Perez-Vincent, Santiago M., David Puebla, Nathalie Alvarado, Luis Fernando Mejía, Ximena Cadena, Sebastián Higuera, and José David Niño. 2024. *The Costs of Crime and Violence: Expansion and Update of Estimates for Latin America and the Caribbean*. https://doi.org/10.18235/0013238

UN Development Program and US Agency for International Development. 2022. *The Economic Costs of Violence in the Northern Central American Countries*. UNDP, Panama.

United Nations Office on Drugs and Crime data UNODC. https://dataunodc.un.org/

UN Tourism, Tourism Statistics Database. https://www.unwto.org/tourism-statistics/key-tourism-statistics

World Bank Enterprise Surveys. www.enterprisesurveys.org

Annex VIII. El Salvador: Drivers of Foreign Direct Investment

Net FDI inflows to El Salvador have lagged peers. Boosting net FDI will not only require sustaining security improvements, but also steadily addressing macroeconomic imbalances and moving forward with structural reforms under the IMF-supported program. Ongoing efforts to leverage and develop new free-trade agreements and bilateral-investment treaties, and to identify and adopt measures to boost El Salvador's services export potential, enhance competitiveness, productivity, infrastructure, and human capital, are critical.

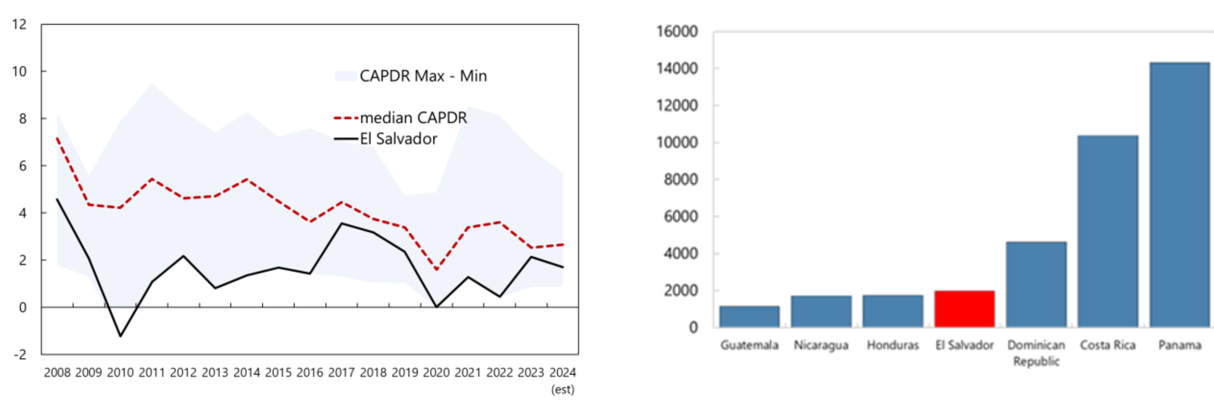
A. Dynamics of FDI: Assessing Flows and Stock Positions

1. Net FDI inflows have consistently trailed regional peers. Over the past 15 years, annual net FDI inflows in El Salvador have averaged 2.1 percent of GDP, roughly half the CAPDR median of 4.2 percent of GDP (Figure 1, panel 1) and little changed over the past decade. There were also significant drops in net FDI inflows during the Covid-19 pandemic and following the Global Financial Crisis (GFC)—to below 0.5 percent of GDP in 2010, 2020, and 2022, making it the only CAPDR country to experience such declines over the last 15 years. As a result, the accumulated stock of inward gross FDI is relatively low (Figure 1, panel 2), at around US$2,000 per capita, close to Honduras and Nicaragua but significantly behind Panama, Costa Rica, and the Dominican Republic. Net FDI inflows fell to only around US$630 million in 2024 (1.8 percent of GDP), slightly below the 15-year average of 2.1 percent of GDP.

Figure 1. FDI in El Salvador and CAPDR

1. Net FDI in El Salvador and CAPDR
(percentage points of GDP)

2. Direct Investment Liabilities per capita
(US dollars, 2023, prelim.)



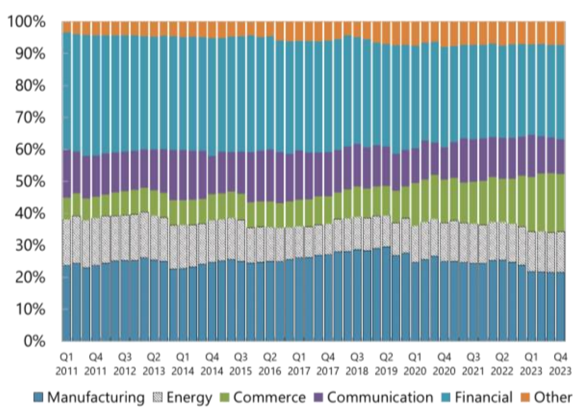
Source: For Panel 1 and 2: October 2024 WEO Database and IMF staff calculations.

2. The growth in FDI has been in sectors catering to domestic demand. While the largest share (around 30 percent) of the total net FDI stock is in the financial and insurance activities, the growth in FDI has been concentrated in the wholesale and retail commerce sectors, consistent with a rise in remittances which supports domestic consumption (Figure 2, panel 1). The shares of manufacturing and energy have remained broadly stable, accounting for roughly 20 and 13 percent of the overall FDI stock, respectively.

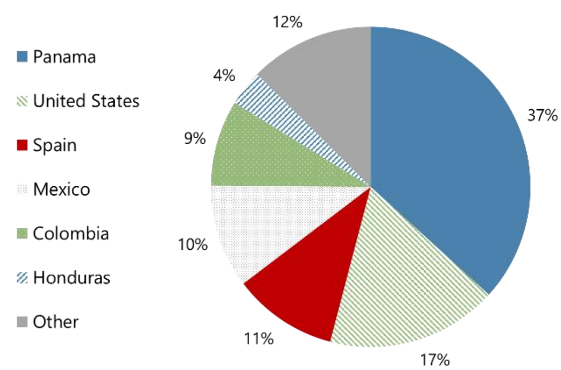
3. **The investor landscape has rotated but remains concentrated.** Panama, the United States, Spain, Mexico, and Colombia represent about 85 percent of the stock of inward FDI (Figure 2, panel 2). These shares have evolved over the last 15 years: (i) Panama's share increased to 37 percent in 2023, offset by a decline in the share of other offshore financial centers (British Virgin Islands, Luxembourg, and the Netherlands); (ii) the United States share declined to 17 percent in 2023 (from 32 percent in 2009); (iii) Colombia has increased its exposure to around 10 percent in 2023 (from under 1 percent in 2009) mainly in the financial services. Mexican and Spanish companies have maintained their exposure (around 10 percent), and Asian investors continue to play a minimal role (with mainland China and Hong Kong accounting for only 0.3 percent) as some announced projects are yet to be materialized and reflected in the data. The observed rotation in the investor base partly reflects the exit or downsizing of some US-based institutions from retail banking and manufacturing creating an opening for Colombian financial groups and regional investors.

Figure 2. FDI Stock: Sectoral and Geographic Structure

1. Net FDI Positions by Economic Sector
(percent of total stock)



2. Inward FDI Positions in El Salvador by an Investor Country
(percent of total, 2023, prelim)



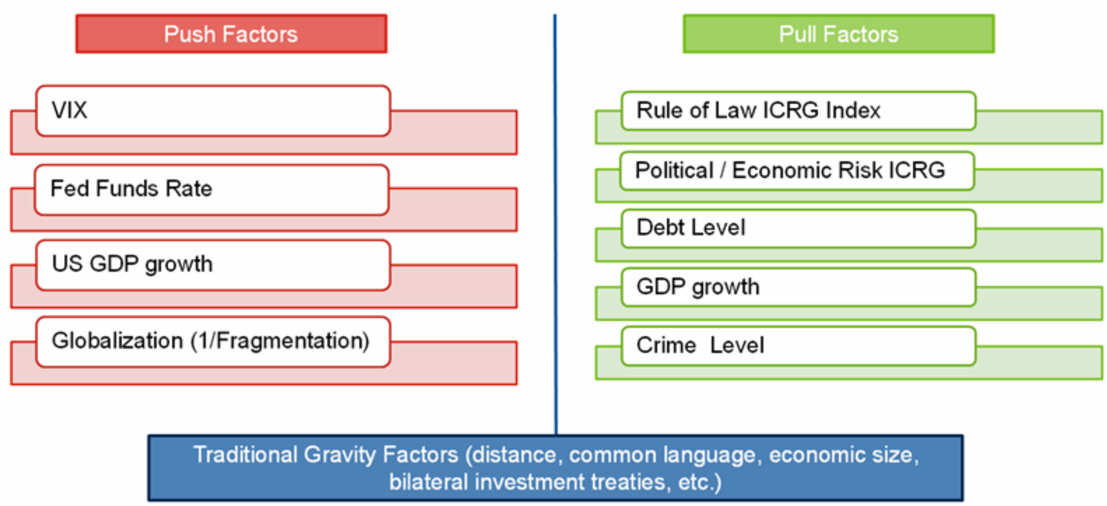
Source: For Panel 1 and 2: BCR Data and IMF staff calculations.

B. Pull-Push Models with Gravity

4. **Push-pull models are not conclusive in explaining FDI dynamics.** Capital flow research (Koepke 2015; Yeyati and Zuniga 2015; Cerutti, Claessens, and Rose 2017; Gelos et al. 2019) distinguishes between push and pull factors that drive capital flows (Figure 3). Push factors are external to recipient economies and driven by global/regional economic forces beyond domestic policymakers' control. Pull factors are within the control of domestic policy makers and relate to policy and institutional fundamentals in recipient economies. Empirical evidence on the role of push and pull factors in explaining FDI dynamics is among the least conclusive across all capital flow types

(FDI equity and debt, portfolio equity and debt, and bank lending). As Blonigen and Piger (2014) argue many traditional covariates included as FDI determinants are not robust across different specifications and time periods. Additionally, other research (Cerutti, Claessens, and Puy 2015; Cerutti, Claessens, and Rose 2017) suggests the classical push-pull model may overstate the importance of fundamentals and policy factors, while investor base and financial market structures may matter more—if not for determining capital inflow levels, then for their dynamics, particularly during periods of stress and global volatility.

Figure 3. Stylized Presentation of the Push-Pull Theoretical Framework



Source: IMF staff.

5. **However, "gravity factors" can successfully complement the push-pull framework.** As noted by (Mercado 2020), classic "gravity factors" – such as geographical distance between countries, cultural links, common language, and economic size –play an important explanatory role not only for trade flows but also for capital flows, including FDI. Contagion variables in the capital flow literature (Valdes, Hernández, and Melado 2001) can also be considered through the "gravity lens" since the main contagion channels (trade ties, financial linkages, and country similarities) can be categorized as gravity variables.

6. **The adjusted push-pull framework suggests that external and domestic policy shocks can explain El Salvador's FDI dynamics.** Impulse-response functions derived from a regression with pull-push factors (Table 1, Text Box) shows that: (i) increases in the US interest rate exert a significant negative influence (close to 0.1 percentage points of GDP decline over four quarters); (ii) US output shocks play only a relatively modest role, with widening confidence intervals suggesting considerable uncertainty around the magnitude of this relationship; (iii) political and economic stability risk indicators display increasingly significant impacts on FDI trend inflows; (iv) improvements in law and order indicators have strong positive effects, generating cumulative FDI gains exceeding 0.1 percentage points of GDP in FDI trend inflows over a year.

Table 1. El Salvador: Cumulative Response of FDI Trend Inflows to Specified Variables
(percentage points of GDP)[1,2]

Variable	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Federal Funds Rate[a]	−0.01***	−0.02***	−0.04***	−0.07***
US GDP Growth[a]	0.00	0.00	0.01	0.01
Economic Risk[b]	−0.00	−0.01	−0.03	−0.05*
Political Risk[b]	−0.00	−0.01	−0.02	−0.04*
Law and Order[a]	0.01***	0.04***	0.08***	0.13***

a/ A one-unit increase in the variable; b/ A one-standard deviation increase in the variable.

1/ The Table shows the estimated coefficients of the Impulse Response Functions (IRF) of the FDI trend inflows to the specified increases in variables of interest, controlling for the lagged FDI trend inflows, GDP growth, inflation, and global crisis dummies, using the Local Projection method (Jordà, 2005). The impact is in percentage points of GDP. A coefficient of -0.1 (+0.1) corresponds to a 0.1 percentage point of GDP decrease (increase) in FDI trend inflows following the shock. While the IRFs demonstrate statistical relationships between the variables of interest and FDI trend inflows, these results, in many cases, should be interpreted as correlational rather than causal. Despite controlling for various factors endogeneity and reverse causality may still be present. The identification method traces dynamic relationships but does not fully address all sources of endogeneity. The IRFs are estimated on quarterly data from Q1-2002 to Q1-2023, which excludes preliminary data for more recent quarters which tends to be subject to substantial revisions. Asterisks denote statistical significance at the 1 percent (***), 5 percent (**), and 10 percent (*) levels, respectively. The impulse response estimates become progressively less precise at longer horizons. These associations may be unstable over time and influenced by global economic conditions or structural breaks.

2/ The Federal Funds Rate and US GDP Growth refer to macroeconomic indicators sourced from US official statistics. Economic Risk and Political Risk are composite indices from the International Country Risk Guide (ICRG), reflecting country's macroeconomic and institutional characteristics respectively. These indices have been inverted and rescaled such that a higher value indicates higher perceived risk. The Law-and-Order variable represents the respective sub-component of the ICRG Composite Risk Rating which entails two elements: the Law score, assessing the strength and impartiality of the legal system, and the Order score, reflecting the extent of public compliance with legal norms. Higher values indicate lower risk (i.e., stronger legal institutions and greater societal order). For more detail on scoring procedures and component definitions see the ICRG Methodology Note.

7. **FDI inflows are also affected by swings in global risk sentiment.** Swings in risk appetite, as measured by the VIX Index, are also found to be a significant determinant of FDI inflows (Figure 4, panel 1). While FDI flows are relatively more stable than other categories of capital flows, they are significantly impacted during periods of extreme uncertainty, as observed during the GFC and Covid-19 pandemic. On average, an increase of one standard deviation in the VIX is estimated to reduce FDI trend inflows over 4 quarters by approximately 0.06 percentage points of GDP. However, during shock episodes sharp increases in the VIX are observed and the linear relationship may likely not hold (Figure 4, panel 2). In 2010, El Salvador registered a net outflow of FDI of 1.2 percentage points of GDP, while in 2020, net FDI inflows fell close to zero (Figure 1, panel 1).

8. **Geopolitical fragmentation could also negatively impact FDI inflows.** Using the geopolitical fragmentation index developed by (Fernández-Villaverde, Mineyama, and Song 2024)

through factor analysis, FDI trend inflows to El Salvador show a cumulative decline of approximately 0.4 percentage points of GDP over 4 quarters in response to one point increase in the index. Despite considerable uncertainties regarding the magnitude of the effect, this finding is largely consistent with others in the literature (Gopinath et al. 2025). That said, given El Salvador's geographical location, the potential for near and friend-shoring could offset the fragmentation losses (see also WEO 2023; Aiyar, Malacrino, and Presbitero 2024).

Figure 4. FDI Inflows: The Impact of Uncertainty as Measured by the VIX Index

1. Cumulative response of FDI Trend Inflows to a one-standard deviation increase in the VIX Index[1]
(percentage points of GDP)

Quarters	IRF	Std.Err.
1	-0.015**	0.007
2	-0.028**	0.014
3	-0.043**	0.023
4	-0.060**	0.034

** Significant at 5% level

2. Chicago Board Options Exchange Volatility Index
(VIX Index, points)

1/ The table shows Impulse Response Functions (IRF) of the FDI trend inflows to one-standard deviation increase in the VIX Index, controlling for the lagged FDI trend inflows, GDP growth, inflation, using the Local Projection method (Jordà, 2005) in a contemporaneous specification. The impact is in percentage points of GDP. A coefficient of -0.1 (+0.1) corresponds to a 0.1 percentage point of GDP decrease (increase) in FDI trend inflows following a one-unit increase in the VIX Index. The IRFs are estimated on quarterly data from Q1-2002q1 to Q1-2023, which excludes preliminary data for more recent quarters which tends to be subject to substantial revisions.

Source: Panel 1: October 2024 WEO Database and IMF staff calculations; Panel 2: Chicago Board Options Exchange via FRED.

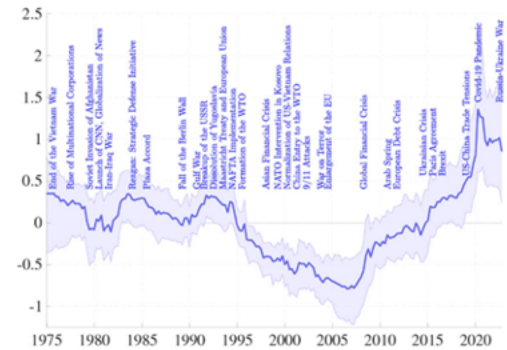
Figure 5. FDI Inflows and Geopolitical Fragmentation Risks

1. Cumulative response of FDI trend inflows to a one-unit increase in the Fragmentation Index[1,2]
(percentage points of GDP)

Quarters	IRF	Std.Err.
1	-0.048*	0.029
2	-0.135	0.085
3	-0.254	0.168
4	-0.394	0.275

* Significant at 10% level

2. Geopolitical Fragmentation Index[2]
(points)



1/ The table shows Impulse Response Functions (IRF) of the FDI trend inflows (measured in percentage points of GDP) to one-unit increases in the Geopolitical Fragmentation Index, controlling for the lagged FDI trend inflows, GDP growth, inflation, and global crisis dummies, using the Local Projection method (Jordà 2005). The IRFs are estimated on quarterly data from Q1-2002 to Q1-2023, which excludes preliminary data for more recent quarters which tends to be subject to substantial revisions.

2/ (Fernández-Villaverde, Mineyama, and Song 2024)

Source: Panel 1: October 2024 WEO Database and IMF staff calculations; Panel 2: (Fernández-Villaverde, Mineyama, and Song 2024).

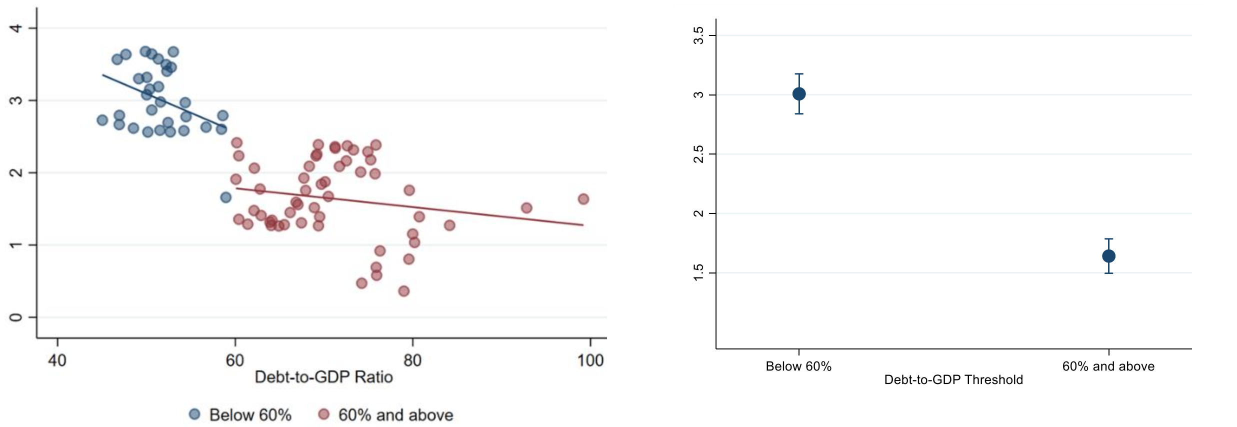
C. The Role of Public Debt and Crime

9. Debt overhang negatively impacts FDI inflows. Elevated debt vulnerabilities are found to be important deterrents to FDI inflows (Figure 6, panel 1), as unsustainable debt is a good predictor of economic crises and future tax increases. For these reasons, Tanna and Li (2018) argue that high indebtedness can constrain economies from reaping growth benefits from FDI. This is consistent with cross-country studies suggesting that greater country risk reduces all types of capital flows (Koepke 2015). Meanwhile, threshold regressions find that when the debt ratio exceeds 60 percent of GDP, the conditional mean of FDI trend inflows decreases to only 1.6 percent of GDP, from around 3 percent of GDP when debt levels are lower (Figure 6, panel 2).

Figure 6. FDI Inflows and Debt Overhang

1. **FDI Trend Inflows and Debt-to-GDP Ratio** (percentage points of GDP, quarterly data)

2. **Conditional Means of FDI Trend Inflows by the Debt-to-GDP Threshold** (percentage points of GDP)



Source: October 2024 WEO Database and IMF staff calculations.

10. Elevated levels of crime also negatively affect FDI inflows. Findings based on the approach in Bisca et al. (2024), which involves constructing a news-based high-frequency (quarterly) crime indicator, suggest that a crime spike or shock (equivalent to one standard deviation from the mean), are associated with a decline in FDI trend inflows by 0.15 percentage points of GDP over a 12 month period (Figure 7). These results confirm that crime shocks are macro-critical for El Salvador.

Figure 7. FDI Inflows and Crime Shocks

1. **Cumulative response of FDI Trend Inflows to a one-standard deviation increase in the Crime Index**[1,2] (percentage points of GDP)

Quarters	IRF	Std.Err.
1	-0.013	0.009
2	-0.037	0.025
3	-0.083	0.053
4	-0.153*	0.092

* Significant at 10% level

2. **The News-Based Crime Index for El Salvador**[2] (points)

1/ The table shows Impulse Response Functions (IRF) of the FDI trend inflows to a one-standard deviation increase in the News-Based Crime Index, controlling for the lagged FDI trend inflows, GDP growth, inflation, and global crisis dummies, using the Local Projection method (Jordà, 2005). The impact is in percentage points of GDP. A coefficient of -0.1 (+0.1) corresponds to a 0.1 percentage point of GDP decrease (increase) in FDI trend inflows following the shock. The IRFs are estimated on quarterly data from Q1-2002 to Q1-2023, which excludes preliminary data for more recent quarters which tends to be subject to substantial revisions.
2/ (Bisca et al. 2024).
Source: Panel 1: October 2024 WEO Database and IMF staff calculations; Panel 2: (Bisca et al. 2024)

D. The Traditional FDI Gravity Model

11. 'Traditional' gravity model determinants can adequately explain FDI inflows to El Salvador. Findings of a gravity model, using panel data on bilateral FDI inflows to El Salvador from 192 countries over the period 2012-21 (comprising 1,728 observations) and the Poisson Pseudo-Maximum Likelihood estimation approach (Silva and Tenreyro 2006), suggest that key determinants of bilateral FDI inflows include geographical distance, partner country GDP, Free Trade Agreements (FTAs), common language, and Bilateral Investment Treaties (BITs). That said, El Salvador's GDP level or growth rate are not statistically significant at conventional levels.

Table 2. El Salvador: Determinants of Bilateral FDI Inflows—PPML Gravity Model Estimation

Variable	Coefficient	Std. Err.	z	P> |z|	[95% Conf. Interval]
Log Distance	**-0.438*** **	**0.164**	**-2.67**	**0.01**	**[-0.760, -0.117]**
Log Origin GDP	**0.527*** **	**0.098**	**5.35**	**0.00**	**[0.334, 0.720]**
Log SLV GDP	−3.288	4.377	−0.75	0.45	[-11.867, 5.291]
FTA	**1.332*** **	**0.404**	**3.30**	**0.00**	**[0.541, 2.124]**
Common Language	**1.757*** **	**0.428**	**4.10**	**0.00**	**[0.918, 2.597]**
Investment Treaty	**0.577* **	**0.330**	**1.75**	**0.08**	**[-0.069, 1.223]**
Log Crime Index	−0.190	0.381	−0.50	0.62	[-0.938, 0.558]
Log EMBIG	−0.621	0.744	−0.83	0.40	[-2.078, 0.837]
Lag Dipl. Disagreement	0.048	0.277	0.17	0.86	[-0.495, 0.590]

Number of observations: 1,728
Pseudo R^2: 0.5134
Estimation method: PPML (Poisson Pseudo-Maximum Likelihood)

Notes:
Significance levels: *** $p<0.01$, ** $p<0.05$, * $p<0.1$
Bold variables indicate statistical significance at least at the 10% level

12. Friend-shoring and supply chain reconfigurations could create opportunities to attract FDI and strengthen the export base. Since bilateral FDI is increasingly concentrated among countries with similar geopolitical views, reshoring and friend-shoring of supply chains is high on the agenda of many multinational corporations. El Salvador's proximity to the United States and Mexican market, combined with supportive policy choices, could allow the country to proactively exploit the opportunities (or at least mitigate the costs of) geoeconomic fragmentation trends.[1]

E. Conclusions

13. El Salvador faces a window of opportunities to reinvigorate FDI inflows. Reduced crime rates and ongoing efforts to address macroeconomic imbalances under the new IMF-supported

[1] "Public-Private Partnership Has Generated More than $4.2 Billion in Private Sector Commitments for Northern Central America" (Available at https://www.whitehouse.gov/briefing-room/statements-releases/2023/02/06/fact-sheet-vice-president-harris-announces-public-private-partnership-has-generated-more-than-4-2-billion-in-private-sector-commitments-for-northern-central-america/)

program present a good opportunity for El Salvador to increase FDI inflows. While risks from heightened global trade policy uncertainties could add to headwinds, these can be mitigated by ongoing efforts to enhance fiscal sustainability, governance and transparency, and overall productivity and competitiveness (with special emphasis on critical investments in infrastructure to lower the cost of doing business and reforms to boost labor skills). Opportunities also emerge from ongoing efforts to sign new FTAs and BITs and to leverage the existing ones, and to develop a comprehensive FDI attraction strategy, which is consistent with diversification goals and opportunities that emerge from new sectors (like tourism).

14. A well-crafted FDI attraction strategy can support the ongoing economic diversification. Attracting capital into high-potential areas such as tourism, digital services (including call centers and IT platforms), regional financial operations, and specialized technical services (i.e., aircraft maintenance), could help catalyze growth and crowd in private investment in emerging sectors. To further unlock this potential, stronger trade logistics and infrastructure are essential. Upgrading ports and transport networks would ease long-standing cost and delivery constraints, while carefully designed public-private partnerships can help bridge financing gaps and contain fiscal risk. Human capital development – especially in technical, digital, and language skills – will also be critical. Private credit, which is expected to pick up under the IMF-supported program, can further support these investments. Aligning investment promotion with these priorities will help El Salvador move up the value chain and compete more effectively in regional and global markets.

References

Aiyar, Shekhar, Davide Malacrino, and Andrea F. Presbitero. 2024. "Investing in Friends: The Role of Geopolitical Alignment in FDI Flows." *European Journal of Political Economy* 83 (June):102508. https://doi.org/10.1016/j.ejpoleco.2024.102508.

Bisca, Paul, Vu Chau, Paolo Dudine, Raphael A. Espinoza, Jean-Marc Fournier, Pierre Guerin, Niels-Jakob Hansen, and Jorge Salas. 2024. "Violent Crime and Insecurity in Latin America and the Caribbean." *Departmental Papers* 2024 (009): 1. https://doi.org/10.5089/9798400288470.087.

Blonigen, Bruce A., and Jeremy Piger. 2014. "Determinants of Foreign Direct Investment." *The Canadian Journal of Economics / Revue Canadienne d'Economique* 47 (3): 775–812.

Cerutti, Eugenio M., Stijn Claessens, and Damien Puy. 2015. "Push Factors and Capital Flows to Emerging Markets: Why Knowing Your Lender Matters More Than Fundamentals." *IMF Working Papers* 2015 (127). https://doi.org/10.5089/9781513526638.001.A001.

Cerutti, Eugenio M., Stijn Claessens, and Andrew K. Rose. 2017. "How Important Is the Global Financial Cycle? Evidence from Capital Flows*." *IMF Working Papers* 2017 (193). https://doi.org/10.5089/9781484316603.001.A001.

Fernández-Villaverde, Jesús, Tomohide Mineyama, and Dongho Song. 2024. "Are We Fragmented Yet? Measuring Geopolitical Fragmentation and Its Causal Effect." Working Paper. Working Paper Series. National Bureau of Economic Research. https://doi.org/10.3386/w32638.

Gelos, R. G., Lucyna Gornicka, Robin Koepke, Ratna Sahay, and Silvia Sgherri. 2019. "Capital Flows at Risk: Taming the Ebbs and Flows." *IMF Working Papers* 2019 (279). https://doi.org/10.5089/9781513522906.001.A001.

Gopinath, Gita, Pierre-Olivier Gourinchas, Andrea F. Presbitero, and Petia Topalova. 2025. "Changing Global Linkages: A New Cold War?" *Journal of International Economics* 153 (January):104042. https://doi.org/10.1016/j.jinteco.2024.104042.

Hodrick, Robert J., and Edward C. Prescott. 1997. "Postwar U.S. Business Cycles: An Empirical Investigation." *Journal of Money, Credit and Banking* 29 (1): 1–16. https://doi.org/10.2307/2953682.

Jordà, Òscar. 2005. "Estimation and Inference of Impulse Responses by Local Projections." *American Economic Review* 95 (1): 161–82. https://doi.org/10.1257/0002828053828518.

Koepke, Robin. 2015. "What Drives Capital Flows to Emerging Markets? A Survey of the Empirical Literature." 2015. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2569249.

Mercado, Rogelio. 2020. "Bilateral Capital Flows: Gravity, Push, and Pull." BIS Paper. https://www.bis.org/ifc/publ/ifcb52_22.pdf.

Silva, J. M. C. Santos, and Silvana Tenreyro. 2006. "The Log of Gravity." *The Review of Economics and Statistics* 88 (4): 641–58. https://doi.org/10.1162/rest.88.4.641.

Tanna, Sailesh, and Chengchun Li. 2018. "FDI and Economic Growth: An External Debt Treshold Effect." *American Economic Association*. https://www.aeaweb.org/conference/2018/preliminary/paper/zRFTFa8T.

Valdes, Rodrigo O., Leonardo Hernández, and Pamela Melado. 2001. "Determinants of Private Capital Flows in the 1970's and 1990's: Is There Evidence of Contagion?" *IMF Working Papers* 2001 (064). https://doi.org/10.5089/9781451848564.001.A001.

WEO. 2023. "Geoeconomic Fragmentation and Foreign Direct Investment." https://www.imf.org/-/media/Files/Publications/WEO/2023/April/English/ch4.ashx.

Yeyati, Eduardo Levy, and Jimena Zuniga. 2015. "Varieties of Capital Flows: What Do We Know?" 2015. https://www.hks.harvard.edu/centers/cid/publications/faculty-working-papers/varieties-capital-flows.

Annex IX. Mitigating the Exposure to Natural Disasters

El Salvador is exposed to costly natural disasters, including earthquakes, volcanic eruptions, floods and landslides. To better prepare and respond to these events a new comprehensive and holistic national strategy on disaster resilience should be developed, drawing on lessons and in coordination with development partners. The current Crisis Response Plan expires at end-2025.

1. **El Salvador is heavily exposed to several types of natural disasters:**

- **Earthquakes.** Being in a seismically active region exposes the country to frequent and possibly severe earthquakes.
- **Volcanic eruptions.** The country has several active volcanoes, such as the Chaparrastique and Santa Ana (Ilamatepec), which have erupted in recent years.
- **Hurricanes and Tropical Storms.** During the rainy season (June to November), El Salvador experiences hurricanes and tropical storms.
- **Floods and landslides.** Heavy rains, especially during the hurricane season, cause significant flooding and landslides, particularly in mountainous areas.

2. **These natural disasters can be quite costly.** The 1986 San Salvador earthquake had an estimated cost of around 40 percent of GDP, while the two earthquakes in January/February 2001 cost of over 15 percent of GDP (resulting in over 940 deaths and significant landslides). Meanwhile, Hurricane Mitch in 1998 also caused considerable economic damage, with an estimated cost of over 3½ percent of GDP. Natural disasters also tend to disproportionately affect the most vulnerable segments of the population. Within the CAPDR region, El Salvador has been the country most affected by natural disasters—notably earthquakes and floods and landslides (Table 1).

Table 1. CAPDR: Summary Statistics of Reported Natural Disasters, 1960-2024 1/

(Median estimated economic cost of damages in percent of GDP)

	Earthquakes	Volcanic eruptions	Hurricanes / Storms	Floods / Landslides	All
Costa Rica	0.16	0.65	0.49	0.20	0.30
Dominican Republic	n.a	n.a	0.18	0.01	0.09
El Salvador	3.99	n.a	0.52	4.93	2.63
Guatemala	0.21	n.a	0.69	0.13	0.21
Honduras	0.69	n.a	0.36	0.30	0.37
Nicaragua	0.84	0.13	0.69	0.01	0.23
Panama	n.a	n.a	0.09	0.02	0.04

1/ Includes only events reported in the EM-DAT database

3. **These extreme events carry a significant macroeconomic impact.** In the specific case of El Salvador, high-frequency indicators and various econometric techniques suggest that economic activity growth contracts by around 0.4 ppts (y/y) on average a couple of months after the disaster, partly mitigated by a temporary pick-up in remittances growth (0.23 ppts y/y) in the first month following the event (Figure 1).[1]

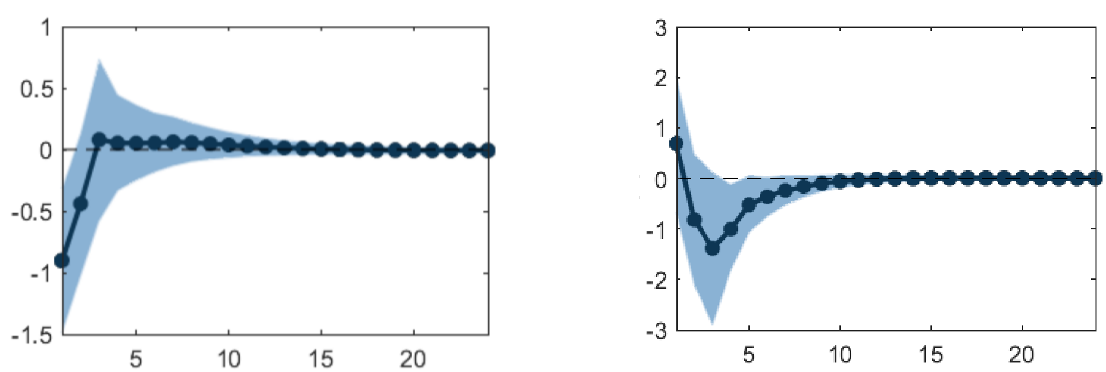
[1] See Hee Soo Kim, Carlos Chaverri, Emilio Fernandez-Corugedo, and Pedro Juarros, December 2022, "On the Macro Impact of Extreme Climate Events in Central America: A Higher Frequency Investigation", IMF Working Paper WP/22/37, Figure B5, pg. 30, International Monetary Fund, Washington, D.C., U.S.A.

4. To prepare itself, El Salvador has implemented several plans and policies focused on preparedness, response, and risk mitigation. A Crisis Response Plan 2023-25 was developed in partnership with the International Organization for Migration (IOM), aimed at strengthening the institutional and community capacities to better prepare for, and respond to, natural disasters. The plan includes measures for disaster prevention, emergency preparedness, and support for displaced populations. In addition, the IOM's localization strategy focuses on building strong alliances with key partners at national and local levels to carry out humanitarian actions quickly and effectively. This includes providing basic needs, camp management, protection, and mental health support during emergencies.[2] However, the Plan mainly focuses on crisis response and humanitarian aid, with limited measures and policies relating torisk reduction, risk transfer, and residual risk management. Similarly, El Salvador's National Disaster Response Plan, led by the General Directorate for Civil Protection (DGPC), has the same focus and weaknesses.

Figure 1. EL Salvador: Response of IMAE and Remittances Growth Using Natural Disaster Dummies

1. IMAE Growth
(Percentage points)

2. Remittance Growth
(Percentage points)



Source: IMF staff calculations

5. Going forward, it will be essential to develop a new comprehensive national strategy on disaster resilience, consistent with the financing constraints faced by the government and the fiscal targets of the authorities' IMF-supported program under the EFF arrangement. The 2018 *Plan Nacional de Protección Civil, Prevención y Mitigación de Desastres,* which includes priority actions to strengthen disaster resilience up to 2030, should be reviewed, and if necessary updated, with the support of development partners. This strategy should be based on three complementary pillars, with detailed measures to improve structural, financial, and ex-post resilience. The structural resilience component will require selecting and prioritized investments that limit the impact of natural disasters. The financial resilience component involves building the necessary fiscal buffers and pre-arranged financial investments and lines of credit to manage recovery costs in the wake of a natural disaster. Ex-post resilience requires contingency planning to support a speedy response to

[2] For 2025 the Crisis Response Plan has earmarked expenditures of $0.8 million for basic needs and multi-purpose cash assistance; $3.5 million for shelter and settlements; $1.4 million for water, sanitation and hygiene; $1.9 million for disaster risk management; $2.0 million for health; and $0.2 million for mental health and psychosocial support.

public needs in the aftermath of a natural disaster. The planned actions under each pillar will need to be grounded on a sound diagnostic of El Salvador's vulnerability to disaster risk and the quality of its preparedness and response mechanisms. They also need to align with the authorities' medium-term macroeconomic policy framework under the IMF-supported program and developed in coordination with development partners.

Annex X. Data Issues

Table 1. El Salvador: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

A

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	B	B	A	A	A	A

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency
Coverage	B	B	B	A	A	
Granularity 3/	A		A	A	A	
			B		B	
Consistency			C	B		A
Frequency and Timeliness	A	A	A	A	A	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provided to the Fund for surveillance are generally timely, comprehensive, and adequate for macroeconomic and financial surveillance. Data coverage, frequency, and timeliness are generally in line with expectations and requirements set in the IMF Data Standards Initiatives. The current National Accounts reference year (2005) is outdated and fails to capture current economic structures and relationships. Similarly the CPI relies on household surveys from 2005-06 and covers only urban consumers. The fiscal data have some shortcomings that somewhat hamper surveillance. For example, lack of fiscal data on local authorities and on the subsidiaries of public corporations such as CEL makes it difficult to have an accurate picture of the fiscal situation of the consolidated public sector. A gradual implementation of the GFSM 2014 is required, including moving towards accrual accounting, extending the coverage of the NFPS to include more municipalities, and comprehensive and timely data on social security funds, non-financial corporations and their subsidiaries (including Chivo and Fidebitcoin). We note the authorities are already undertaking active steps to improve the National Accounts, CPI and fiscal statistics. All BTC transactions by Chivo and other entities need to be fully reported in the appropriate macroeconomic and fiscal statistics in line with past STA recommendations. Sizeable net errors and omissions in the BOP raise concerns around data quality and unreported capital flows, and methodological issues with the calculation of gross international reserves are being addressed.

Changes since the last Article IV consultation. The overall assessment of data adequacy is broadly aligned with the one included in the 2023 Article IV consultation, with the exception of data relating to the cost of pensions and debt service on pension debt which is no longer published. This data is important for assessing the sustainability of the pension system.

Corrective actions and capacity development priorities. While the authorities are actively working on the GDP rebasing, it is essential to continue capacity development (CD) activities to further enhance the adequate provision of economic data. There was a recent Monetary Statistics TA in January 2025 that recommended the introduction of a "use of Fund credit" account in the BCR's accounting catalog, exclusion of long-term deposits from broad money, and the implementation of an action plan to improve statistical quality. Additionally, the mission emphasized the importance of data from banks to support the compilation of the other depository corporations survey. STA and CAPTAC-DR provided technical assistance on fiscal statistics with missions in April and May. These missions made good progress aligning fiscal data published by the BCR and MoH on a cash basis. A technical assistance mission is scheduled for July 2025 focusing on the implementation of BPM7.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff adjust published gross debt for the cost of pension debt and use unpublished data on public arrears obtained from the authorities to derive estimates of fiscal statistics on an accrual basis.

Other data gaps. The lack of timely and detailed labour market statistics.

Table 2. El Salvador: Data Standards Initiatives

El Salvador subscribes to the Special Data Dissemination Standard (SDDS) since June 1998 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. El Salvador: Table of Common Indicators Required for Surveillance

As of May 30, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	El Salvador[8]	Expected Timeliness[6,7]	El Salvador[8]
Exchange Rates	May-25	May-25	D	D	D	D	...	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May-25	May-25	W	W	M	M	1W	NLT 1M
Reserve/Base Money	Mar-25	May-25	M	M	M	M	2W	1W
Broad Money	Mar-25	May-25	M	M	M	M	1M	NLT 4W
Central Bank Balance Sheet	Mar-25	May-25	M	M	M	M	2W	1W
Consolidated Balance Sheet of the Banking System	Mar-25	May-25	M	M	M	M	1M	NLT 4W
Interest Rates[2]	Mar-25	May-25	M	M	D	D	...	1W
Consumer Price Index	Apr-25	May-25	M	M	M	M	1M	1W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Mar-25	May-25	M	M	A	M	2Q	1M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Mar-25	May-25	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar-25	May-25	M	M	Q	Q	1Q	2M
External Current Account Balance	Q4-24	Q1-25	Q	Q	Q	Q	1Q	NLT 1Q
Exports and Imports of Goods and Services	Apr-25	May-25	M	M	M	M	8W	NLT 1M
GDP/GNP	Q4-24	Q1-25	Q	Q	Q	Q	1Q	3M
Gross External Debt	Q4-24	Q1-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	Q4-24	Q1-25	Q	Q	Q	Q	1Q	NLT 1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Appendix I. Letter of Intent

San Salvador, El Salvador
June 11, 2025

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

Dear Ms. Georgieva

Under the decisive leadership of President Bukele, El Salvador remains strongly committed to continue addressing macroeconomic imbalances and creating the conditions for stronger and more inclusive and resilient growth. In the context of the First Review of the Extended Fund Facility (EFF) arrangement approved in February 2025, we have been taking all the necessary actions to successfully achieve the objectives of our program. We are ahead of schedule on key program targets and structural benchmarks to strengthen our fiscal and external buffers, place public debt on a firmly downward path, and improve governance, transparency and overall resilience. In addition, in line with commitments under the program, the stock of Bitcoins held by the public sector remains unchanged and we are taking steps to mitigate fiscal risks by reducing the public sector's role in the *Chivo* wallet and reframing the Bitcoin project.

Against this backdrop of strong program performance, we are requesting the conclusion of the First Review, which would allow for the disbursement of SDR 86.16 (about US$117 million). In addition, we request Executive Board approval for waivers of nonobservance for the end-March quantitative performance criteria (QPC) relating to net domestic borrowing of the nonfinancial public sector and continuous QPC on daily accumulation of Bitcoin by the public sector, where corrective actions were taken to deal with minor breaches. We also request approval for minor amendments to the QPC targets for banks' liquid assets and program adjustors for the QPCs on net domestic borrowing and NFPS deposits at the BCR, as reflected in the attached documents.

We are confident that the continued and decisive implementation of policies described in the attached Memorandum of Economic and Financial Policies (MEFP) will allow El Salvador to continue delivering on the program's objectives. That said, and recognizing the country's exposure to shocks and the more challenging external environment, 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 key program objectives. We will also submit all monitoring information, on a regular and timely basis, as outlined in the attached Technical Memorandum of Understanding (TMU), pro-actively sharing any other information that may be necessary to evaluate progress. Meanwhile, the BCR and the Ministry of Finance will continue to follow the framework agreement on their respective responsibilities for servicing financial obligations to the IMF. Finally, we authorize the IMF to publish the Staff Report for the First Review, this letter, the attached MEFP, TMU, Annexes, and the Sovereign Risk and Debt Sustainability Analysis.

We will continue to consult with IMF staff well in advance of enacting or announcing any changes to our policies, and are confident that the steadfast implementation of our program will entrench macroeconomic stability and lead to greater prosperity for all Salvadorans.

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. Updated Memorandum of Economic and Financial Policies

I. CONTEXT

1. **The Salvadoran economy continues to expand, while imbalances continue to narrow despite a more challenging global backdrop.** Annual real GDP growth reached 2.6 percent in 2024. Economic activity picked up in the final quarter of the year (3.4 percent y/y) supported by a rebound in construction and services. High-frequency indicators suggest that growth has continued in early-2025, underpinned by robust remittances, with output now near potential. Meanwhile, both headline and core inflation remain low (reaching -0.1 and 0.5 percent y/y in April, respectively), driven by softer global commodity and local food prices and limited wage pressures. Similarly, the current account deficit remains contained, supported by tight fiscal policies, favorable terms of trade, and strong tourism and remittance flows. Sovereign spreads stand at around 400 bps (about 380 bps lower than a year ago), despite rising global uncertainties and tighter global financial conditions.

II. PROGRAM OBJECTIVES AND PERFORMANCE

2. **We remain fully committed to implementing the IMF-supported program.** We are working actively to (i) reinforce fiscal sustainability by placing public debt on a firmly downward path; (ii) expand financial system buffers and international reserves; (iii) boost the country's growth potential through structural reforms that enhance governance, transparency, and the fight against corruption; and (iv) improve the management of our Bitcoin project. Our partnership with other multilateral and regional development banks has deepened, and efforts continue to mobilize the needed financial and technical support on a timely basis. We recognize that steadfast implementation of the program will be critical to entrench confidence, attract private investment, and support a more prosperous future for all Salvadorans.

3. **In the context of the first review, we have taken all the necessary actions to achieve the objectives of the program.** Key fiscal and external targets through end-March were comfortably met, and progress continues in implementing the agreed structural agenda.

- On the quantitative front, through end-March, we met with ample margins key quantitative performance criteria (QPCs) on the primary balance, the accumulation of nonfinancial public sector (NFPS) deposits at the central bank (BCR), the ratio of required liquid assets to total deposits for depository corporations, and the non-accumulation of domestic arrears. We also met the continuous QPCs on the external payment arrears of the public sector and on the issuance or guarantee by the public sector of Bitcoin-denominated-or-indexed debt or tokenized instruments. Indicative targets (ITs) through end-March on priority social spending, public investment, and the stock of gross international reserves were also met, and the wage bill was below our target ceiling. Waivers of nonobservance are being requested in relation to the QPC on net domestic borrowing and the continuous QPC on the voluntary accumulation of Bitcoin (where deviations were minor in nature), supported by corrective actions.

- On the structural front, progress continues in implementing the structural benchmarks (SBs) under the program. Financial statements of state-owned enterprises (SOEs) and information on beneficial owners of awarded public contracts have been published, and guidelines defining exemptions for allowing purchases of goods and services without a competitive process have been issued. The Legislative Assembly passed a new Fiscal Sustainability Law, with minor delays reflecting the need to reflect inputs from development partners and other experts. On the Bitcoin front all SBs have been met, including through the (i) provision of information to Fund staff on the public addresses of all hot and cold wallets, along with the corresponding Bitcoin amounts owned or controlled by the public sector; and (ii) the publication and adoption of a new business plan to stop *Chivo's* use of public funds and end public participation in *Chivo*.

III. OUTLOOK AND RISKS

4. **El Salvador's baseline outlook is expected to remain generally unchanged despite the more challenging external backdrop.** The economy is projected to expand by 2½ percent in 2025-26 (unchanged from program approval), as strong domestic growth momentum and improved confidence compensates for weaker US and global growth. Thereafter, and as fiscal drags are eased, growth is expected to converge towards its long-term potential of around 2¾ percent over the medium term. Meanwhile, inflation is projected to remain contained (under 2 percent), and the current account balance is expected to improve this year, on account of more favorable terms of trade and stronger remittances. The baseline assumes an unchanged fiscal path, where the primary balance is projected to increase from zero percent of GDP in 2024 to a surplus of 3.7 percent of GDP by 2027 and to remain at that level to ensure a gradual reduction of the debt ratio.

Key Economic Indicators (changes since program approval)

	Actual	Forecast		Changes vs. March '25 SR	
	2024	2025	2026	2025	2026
Real GDP growth (percent)	2.6	2.5	2.5	0.0	0.0
Consumer price inflation (period average, percent)	0.9	1.0	1.8	-0.8	0.0
Current account balance (% of GDP)	-1.8	-0.8	-2.1	0.1	-1.2
Gross international reserves (millions of U.S. dollars)	3,706	4,252	4,762	140.0	-94.0
Primary balance (% of GDP)	0.0	1.9	2.9	0.0	0.0

5. **Against the backdrop of rising global risks, our policy making will remain agile to secure program objectives.** Further escalation in trade tensions and uncertainties could weigh on exports, investment, and capital flows, including through tighter global financial conditions. Similarly, changes in immigration policies in other countries could weigh on remittances and growth. Recognizing the need to rebuild fiscal and external buffers, we will adjust policy accordingly and activate contingency plans, as needed, to secure program objectives. Despite these challenges, upside risks cannot be discarded as dividends from security improvements and ongoing reforms

could prove stronger than projected. Meanwhile, changes in trade and migration policies abroad also present new opportunities for El Salvador that we are working to seize.

IV. STRENGTHENING FISCAL SUSTAINABILITY

6. **We are proceeding with our frontloaded fiscal consolidation plans.** We exceeded the primary surplus **QPC** floor for end-March 2025 with a sizeable margin (US$209 million vs, the US$180 million target). This overperformance was led by strong tax revenues (which rose by 3.1 percent y/y in Q1:2025), and a contraction in primary spending (down almost 2 percent y/y). The latter was underpinned by hiring restrictions, which have supported a more than 20 percent reduction in the wage bill in Q1:2025 (0.7 percent of annual GDP). These adjustments allowed for an expansion in priority social assistance programs and public investment, well above the respective end-March **ITs**.

7. **Efforts continue to secure our fiscal goals for the remainder of this year.** Policies are in place to deliver a primary fiscal surplus of 1.9 percent of GDP by end-2025, with emphasis on the expenditure front. The ongoing rationalization of public wages (0.7 percent of GDP) and spending on goods and services are expected to contribute to deliver a 1.5 percent of GDP reduction in primary spending. These efforts are being complemented with ongoing improvements in revenue administration, including through an expansion in the use of electronic invoicing, as well as reductions of tax expenditures (0.3 percent of GDP). These efforts will provide the needed fiscal space to protect infrastructure spending (floor of 2.5 percent of GDP; ***IT***) and priority social spending (floor of 1.5 percent of GDP; ***IT****)*.

8. **Work is underway in the development of high-quality reforms to support our medium-term fiscal consolidation goals.** We are in the process preparing the draft 2026 budget, which we will submit to the Legislative Assembly in September and publish in October 2025, and in identifying the underlying policies to support the programmed fiscal adjustment next year and beyond. Policy reform efforts include:

- On the **revenue mobilization** front, we have requested IMF technical assistance to support our goals to broaden the revenue base, address health and environmental externalities, and continue improving our tax and customs administrations. These plans are expected to be implemented in early 2026 to support the fiscal consolidation process.

- On the **civil service** front, work continues with the World Bank to strengthen our public employment management system and formulate a strategy for a comprehensive civil service reform. As a first step we will publish a paper that illustrates the main objectives, and the work program to prepare such reforms (***end-September 2025, SB***). We plan to present a reform proposal to the Legislative Assembly no later than mid-2026, which will aim at harmonizing the compensation system to ensure public wages are related to civil servants' productivity and qualifications and applying stricter criteria for recruitment to avoid unnecessary expansion of public sector employment. These reforms are expected to reduce the public sector wage bill by around 1½ percent of GDP by 2027.

- On the **pension** front, we are committed to strengthen the financial viability of the pension system. As a first step, we will publish an independent actuarial evaluation of the pension system that assesses its sustainability. However, to appropriately model the different benefits for various cohorts of future retirees, we now plan to complete this evaluation by end-September (***end-September 2025, SB***). Work is also underway, with the support of IMF technical assistance, to prepare and publish a reform proposal (***February 10, 2026, SB***) that could go into effect in mid-2026 to strengthen the system's sustainability and start generating fiscal savings.

- On the **social assistance** front, we are engaging with our development partners to strengthen the targeting and effectiveness of social spending and to implement periodic reviews. Meanwhile, reforms to the legal and institutional frameworks for the delivery of social assistance are being considered, including to expand the digital payments system to reach the poorest segments of society, especially in cases of emergencies or natural disasters.

V. REBUILDING BUFFERS AND STRENGTHENING FINANCIAL RESILIENCE

9. We are strengthening financial and external buffers. Fiscal consolidation efforts are being complemented by a strategy to mobilize official financing to reduce recourse to short-term domestic financing and support the accumulation of fiscal buffers and international reserves. Performance has been strong through end-March. There have been no external arrears (**QPC**) or further accumulation of domestic arrears (***QPC***)--the stock of domestic arrears fell by US$12 million through end-March. Government deposits at the central bank (QPC) were much higher than targeted through end-March (US$702 million vs. US$475 million adjusted target), in part reflecting the fiscal overperformance, but also some frontloading in debt issuance, which led to a higher-than-targeted net domestic borrowing of the NFPS (**QPC**) of roughly US$164 million. In this regard, steps are being taken to strengthen our overall public debt management, and we have used the government's deposit overperformance to buyback debt held by banks to secure the end-June targets. In addition, efforts will continue to secure a timely delivery of other official support, which fell short of expectation through end-March (US$75 million received against US$250 million expected).

10. Limiting the sovereign-bank nexus and improving the profile of domestic debt remains a key objective. Work is underway in the preparation of a medium-term debt strategy (MTDS) and an annual borrowing plan by the NFPS. The MOF will prepare this with technical assistance support from multilaterals. A diagnostic analysis of our current debt management practices and needs is expected by early-2026. The plan intends to be comprehensive and ensure adequate funding to the ISP. Our efforts aim to reduce the exposure of domestic banks and pension funds to the public sector and free up financial resources for the private sector to invest, create jobs, and grow. They also are expected to catalyze international market access at more affordable terms.

11. In addition, we continue to bolster the liquidity framework of the financial system. Banks' reserves at the BCR rose to around 13.1 percent of deposits as of end-March, in compliance with the **QPC** on the ratio of liquid assets to deposits. We remain committed to gradually increasing bank liquidity buffers to reach the end-June target (of 13 percent of deposits), end-2025 target (of 14 percent of deposits), and June 2026 target (of 15 percent of deposits). Buffers will continue to be held in high-quality liquid international assets, subject to rigorous regulatory requirements set by the BCR. This reserve path and liquid asset requirement will be an intermediate step in returning to required levels of liquidity by the end of the program.

12. We remain committed to strengthening the BCR's financial position. Gross international reserves exceeded the end-March **IT** (by roughly US$240 million), on account of strong deposit growth leading to higher central bank required reserves. Our central bank recapitalization plan is proceeding as scheduled, and work is underway to adopt a BCR recapitalization plan with government's support by the end of the year (***end-December 2025, SB***). We will implement the recommendations of the recent IMF safeguards assessment, and seek IMF technical assistance to enhance the BCR's capacity to provide Emergency Liquidity Assistance, taking into account the progress and developments in the financial system, in the context of a dollarized economy.

13. Our supervisory and regulatory frameworks continue to be strengthened. By end-September, in line with IMF TA recommendations and international standards, we will enact a Financial Stability Law to strengthen early intervention, resolution, crisis management, and deposit insurance frameworks (***end-September 2025, SB***). In addition, 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 (***end-December 2025, SB***). In this regard, work is underway in: (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; and (iv) improving credit risk analysis and operative processes in public banks. Emphasis is also being given to strengthening the prudential oversight of non-bank institutions, including cooperatives and savings and credit societies. In this regard, we will request TA from the IMF to guide our ongoing efforts to extend the regulatory perimeter of the SSF and conditionality in the context of future reviews. Finally, TA will be sought to review the institutional framework of the SSF to ensure it has the operational independence, accountability and resources required to conduct intrusive and effective supervision in line with the Basel Core Principles.

VI. IMPROVING FISCAL TRANSPARENCY AND GOVERNANCE

14. Progress is ongoing in strengthening fiscal transparency and accountability. Since program approval, we have published comprehensive fiscal information regarding the pension system and SOEs and are working to further improve our fiscal data. Specifically:

- On **pensions,** we have published the debt stocks of the ISP and other public entities associated with the pension system. To further advance fiscal reporting standards, we will ensure that all published statistics and fiscal reports for the NFPS include ISP stocks and flows and clearly disaggregate pension costs and pension debt when reporting statistics on total NFPS expenditures and public debt (***proposed continuous SB***).

- On **public corporations and SOEs**, in line with the end-March SB, we have published (i) our ownership policy, corporate governance, performance expectations, competitive neutrality, financial and risk management, transparency, and accountability standards of SOEs; and (ii) financial statements of individual and consolidated SOEs, which we clarified correspond to the parent company only. Further, we expect to publish the audited financial statements of CEL and ENTE and present preliminary balance sheets and operation statements of SOEs along with the information for the consolidated SOEs that we published in the Ministry of Finance's website (***end-March 2025, SB***). Finally, we will review the comprehensiveness of quasi-fiscal activities, and we plan to publish financial statements for each subsidiary of SOEs and standardize the reporting of SOEs' financial statements by end-May 2026.

- On the **statistical front,** we are committed to aligning our fiscal statistics with best international practices and plan to publish, timely and more accurate data to support fiscal analysis and decision making. By end-September 2026, we intend to begin reporting monthly fiscal data for the consolidated central government, on a cash basis, consistent with the IMF's 2014 Government Finance Statistics Manual (GFSM), with emphasis on accrual-based recording of both fiscal and public debt information. In addition, we plan to finalize a full migration to the 2014 GFSM for the whole NFPS (including ISP, INPEP, IPSFA, ISBM, ISSS, all municipalities and non-financial public corporations consolidated with subsidiaries) by end-December 2027. These are essential to improve the conduct of fiscal policy, strengthening budget oversight and accountability.

15. Work is underway to further strengthen our public procurement framework.

- **Published information**. In March, we published on the Comprasal website information on the name and nationalities of beneficial owners of all awarded public contracts. By end-May, we granted access to this information to any interested user, published more details on awarded public contracts and added publication requirements to the Procurement Law (***end-March 2025, SB)***.

- **Exemptions to the public procurement law**. In March, DINAC issued an administrative guideline to the Council of Ministers describing the exceptions and the process for allowing the purchase of goods and services without competitive processes. We have reissued the guideline as a presidential decree, which will (i) include information requirements for strategic projects; and (ii) require the publication in Comprasal of an explanation of why standard procurement methods are not viable for a particular project before approval, while ensuring transparency and public disclosure (***end-March 2025, SB****)*.

16. Important steps are being taken to strengthen the fiscal framework. The new Fiscal Sustainability Law (FSL), developed in collaboration with the IADB, was approved by the Legislative Assembly on June 10 (***May 9, 2005, SB****)*. This law aims at: (i) simplifying the fiscal rule, by introducing a transition fiscal path which is consistent with program objectives and an escape clause; and (ii) improving budgetary accountability, by requiring an annual analysis of tax expenditures, which details the cost of each exemption and their distributional impact. By

October 2025, we will publish the 2026 Executive Budget Proposal, consistent with program targets, and include a Medium-Term Fiscal Framework, with detailed information (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, SB***). Going forward, conditionality for future reviews will be informed by recommendations from an IMF Fiscal Transparency Evaluation (FTE) which will take place in early 2026.

17. Modernization of our public financial management (PFM) will support improvements in the efficiency and control of public spending. We have been expanding and deepening the analysis of fiscal risks, which we will start publishing in October, as part of the 2026 MTFF. 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 2021 IMF's Public Investment Management Assessment (PIMA); (ii) upgrade the Financial Management System and develop tools to implement results-based budgeting over the medium term; and (iii) improve the systems to allocate spending execution and payment quota to ministries and institutions, processes for verifying the emergence of obligations 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.

VII. MITIGATING BITCOIN RISKS AND ENHANCING CRYPTO OVERSIGHT

18. Efforts continue to mitigate Bitcoin risks and unwind the public sector's participation in the *Chivo* wallet. Following amendments to the Bitcoin Law and publication of *Chivo's* summary financial statements and liquidity management policies, we continue to take steps to mitigate fiscal risks, enhance transparency and improve confidence to users. Specifically:

- **Ending public participation in *Chivo*.** We recently published the business plan to stop *Chivo's* use of public funds and end public participation in *Chivo* by end-July. This process is underway and will be completed in a manner that ensures continued compliance with program conditionality—including targets on the primary fiscal balance and the voluntary accumulation of Bitcoin by the public sector. By end-July, we will (i) cease public participation in *Chivo*; (ii) segregate and safeguard *Chivo* clients' U.S. dollars at the BCR; (iii) liquidate the Bitcoin trust fund *Fidebitcoin* and publish Court of Account audits for AAB and *Fidebitcoin*; and (iv) publish *Chivo's* financial statements audited by an independent auditor (***end-July 2025, SB***). Meanwhile, we will enact by end-December a comprehensive framework for the management of government-owned Bitcoin and other crypto assets to enhance governance, transparency, and accountability, and define the role of the Bitcoin Agency (AAB), including investment guidelines and risk mitigation policies (***end-December 2025, SB***).

- **Bitcoin non accumulation policy and transparency.** Since program approval, we have not voluntarily accumulated Bitcoin. This policy will remain intact, and we will continue to neither issue nor guarantee any type of Bitcoin-indexed or denominated debt or tokenized instruments that would imply a liability for the government (***continuous QPCs***). To strengthen transparency, we will (i) publish, on a quarterly basis, the Bitcoin financial statements of the trust fund and SOEs involved in the Bitcoin project (including *Fidebitcoin*, *Chivo*, CEL and LaGeo); and (ii) ensure all Bitcoin operations are reported in macroeconomic and fiscal statistics. Furthermore, we will continue to provide to Fund staff signed statements updating the Bitcoin owned or controlled by the public sector through end-June and end-December (***SBs***). While Bitcoin holdings by the public sector have remained unchanged, temporary and involuntary fluctuations in *Chivo* clients' deposits denominated in Bitcoin have led to minor breaches in the **continuous QPC**. Going forward, our liquidity management policies have been slightly adjusted to ensure any future breaches of the QPC ceiling are corrected within a 48-hour window.

19. Meanwhile, the regulatory and supervisory framework for crypto assets is being modernized in line with best international practices. We will submit a Law to the Legislative Assembly by mid-December to strengthen the regulation and supervision of crypto-asset activities and markets, including crypto-asset issuers and service providers (***December 15, 2025, SB***). To support these efforts, we have requested IMF technical assistance to ensure legislation is in line with best practices with sufficient legal clarity over crypto assets and protections to safeguard and segregate the clients' assets. 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.

VIII. STRENGTHENING COMPETITIVENESS, RESILIENCE AND GOVERNANCE

20. We are fully focused on creating the right conditions for strong private sector led growth. In addition to our steadfast efforts to reduce macroeconomic imbalances and ensure safety for all Salvadorans, we are in the process of implementing a road map for productivity enhancing reforms across multiple areas and sectors, including:

- **Addressing trade barriers and red tape**. We are reducing trade barriers by aligning trade documentation with international standards and simplifying procedures for customs clearance at our land borders with Honduras and Guatemala. In addition, we have reduced wait times and improved the predictability for obtaining permits by standardizing and digitalizing regulatory procedures, including those required to start a new business.

- **Reducing infrastructure and human capital gaps**. Efforts continue to expand and modernize public infrastructure (roads, airports, ports), with the aim of attracting private investment, tourists, and migrants living abroad. These efforts involve upgrading port capacity and working with private investors, including to facilitate rapid and efficient development of hotels, restaurants, theme parks and other attractions. Training programs have been developed to enhance human capital, address skills mismatches and improve English language skills, especially in the context of reduced net outward migration.

- **Boosting diversification**. We have identified areas of comparative advantage, especially given structural shifts and new opportunities arising from improvements in security and changes in trade and migration policies abroad. Focus will be given to tourism, high value-added manufacturing industries and pharmaceuticals, especially those that are tied into value chains passing through the United States.

- **Resilience to natural disasters.** Given vulnerability to costly natural disasters, efforts are underway to strengthen our dialogue with development partners to develop a comprehensive natural disaster (climate) mitigation strategy, building on the Disaster Risk Finance Management Strategy that was approved by MOF in 2021. The strategy will promote risk reduction, risk transfer, and residual risk management to natural disasters while continuing to strengthen our capacity to respond to them.

21. We are committed to continue strengthening our governance and accountability frameworks.

- **Anti-corruption.** The new Anti-Corruption Law was approved by the Legislative Assembly in February and becomes effective in August. To ensure its proper application, we will publish the asset declarations of senior public officials (***end-June 2026, proposed SB***). We will also establish a National Anti-Corruption Center to carry out intelligence activities related to the prevention, investigation, and prosecution of corruption in line with the law.

- **Court of Accounts (CoA).** We are retraining staff to expand the auditing capacity of the CoA and are also improving its administrative capacity with technical assistance from the European Union. By end-December 2025, we will publish the 2024 audited statements of all Ministries and the most relevant SOEs in accordance with the Access to Public Information Law. We recently enacted legislation to strengthen the independence and anti-corruption mandate of the CoA (***end-December 2025, SB***), which included: (i) a clearly articulated independence and anticorruption mandate in line with international practices (INTOSAI Mexico Declaration and UNODC Abu Dhabi Declaration); and (ii) legal basis to ensure collaboration, including exchange of information and referral protocols, between the CoA and the Fiscalía General de la República. Going forward, our work will center on ensure the CoA can deliver on its key mandate, including in detecting and investigating corruption.

- **AML/CFT.** We will submit to the Legislative Assembly by August 2025 a new AML/CFT law and the necessary reforms to bring the AML/CFT system for Virtual Asset Service Providers (VASPs) in compliance with FATF Recommendation 15 (on new technologies, including virtual assets and virtual asset service providers). In addition, the law will also (i) place lawyers, notaries, accountants, and auditors under a risk-based monitoring framework in compliance with FATF Recommendation 28; and (ii) require 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 the availability of such information to relevant competent authorities (***end-August 2025, SB***). We are also committed to enhancing the role of the Financial Intelligence Unit (FIU) and other agencies in investigating financial crimes and in allowing the recovery of criminal assets, informed by recommendations from the recent GAFILAT evaluation.

IX. PROGRAM MONITORING

22. The program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks. The agreed dates are detailed in Tables 1 and 2. Definitions and data requirements are provided in the attached Technical Memorandum of Understanding. The initial two reviews will be at quarterly frequency. Thereafter, reviews will be semi-annual, conditional on continued strong policy implementation. We will continue to remain closely engaged with Fund staff and provide timely information to ensure proper program monitoring in line with the Technical Memorandum of Understanding.

Table 1. El Salvador: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) 1/ 2025-26

(Millions of U.S. Dollars, unless otherwise indicated)

	2025								2026
	March QPC					June QPC	Sept. IT	Dec. QPC	March IT
	Prog	Adj. Prog	Actual	Status	Notes	Prog	Prog	Prog	Prog
Performance criteria									
Primary Balance of the nonfinancial public sector (floor) 2/	180	180	209	Met		530	750	700	300
Net Domestic Borrowing of the nonfinancial pubic sector (ceiling) 2/	0	0	164	Not met	Waiver requested on the basis of corrective action	-100	-415	-331	-50
External payment arrears of the public sector (continuous ceiling) 3/	0	0	0	Met		0	0	0	0
Ratio of required liquid assets to total deposits for depository corporations (floor) in percent	13	13	13	Met		13	13	14	14
Voluntary accumulation of BTC by the public sector (continuous ceiling) 3/	0	0	-	Not met	Waiver requested on the basis of (i) minor breach and (ii) corrective action	0	0	0	0
Issuance or guarantee by the public sector of BTC-denominated-or-indexed debt or tokenized instruments (continuous ceiling) 3/	0	0	0	Met		0	0	0	0
Floor on stock of nonfinancial public sector deposits at the BCR (floor)	650	475	702	Met		780	790	810	860
Net accumulation of domestic payments arrears by the consolidated central government (ceiling) 4/	0	0	0	Met		0	0	0	0
Indicative targets									
Priority social spending (floor) 2/	138	138	164	Met		276	413	551	145
Public investment of the NFPS (floor) 2/	204	204	329	Met		438	651	919	215
Stock of gross international reserves of the BCR, US$ millions (floor)	3,704	3,529	3,771	Met		3,898	4,025	4,110	4,280
Memorandum items:									
Wage bill of the nonfinancial public sector (ceiling) 2/	918	918	885	Met		1,896	2,808	3,964	924

1/ As defined in the Technical Memorandum of Understanding.
2/ Cumulative, since the beginning of the calendar year.
3/ To be applied on a continuous basis.
4/ Cumulative, since end-2024.

Table 2. El Salvador: Prior Actions and Structural Benchmarks		
Reform Area	**Structural Conditionality**	**Due Date/Status**
Prior Actions for 1st Review		
Bitcoin	Establish a buffer of at least US$3 million equivalent between the level of public sector Bitcoin holdings net of *Chivo* clients' deposits dominated in Bitcoin and the continuous QPC ceiling.	*Completed*
Structural Benchmarks for 1st 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, performance expectations, competitive neutrality, financial and risk management, transparency, and accountability standards, among others.	End-March 2025 Not met, implemented with delay
Fiscal transparency and responsibility	Approval by the Legislative Assembly of new FSL, 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 Not met, implemented with delay
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 Not met, implemented with delay
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 Met
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 Met
Proposed Structural Benchmarks for Future Reviews		
Expenditure policy	Prepare a civil service reform plan in line with IMF recommendations.	End-September 2025 (2nd Review) (previously end-June 2025)
Expenditure policy	Publish independent actuarial evaluation of the pension system.	End-September 2025 (3nd Review)

Table 2. El Salvador: Prior Actions and Structural Benchmarks (continued)		
		(previously end-July 2025)
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)
Fiscal transparency and responsibility	All published fiscal statistics (including but not limited to *Estadisticas Basicas Sobre Las Finanzas Publicas*, MTFF, *Mensaje de Proyecto de Presupuesto*) show and clearly disaggregate pension costs and pension debt when reporting statistics on total NFPS expenditures and public debt.	**Proposed** Continuous
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)
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-September 2025 (2nd Review) (previously end-June 2025)
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 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	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	End-July 2025 (2nd review)

Table 2. El Salvador: Prior Actions and Structural Benchmarks (concluded)		
	safeguard *Chivo* clients' U.S. dollars at the BCR, and end public participation in *Chivo*.	
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 mitigation policies AAB must comply with.	End-December 2025 (3rd review)
Bitcoin and other crypto assets	Submission to the Legislative Assembly 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, and solvency, liquidity, segregation, and other prudential requirements.	December 15, 2025 (3rd Review) (previously August 8, 2025)
Governance	Submission to the Legislative Assembly of a new AML/CFT law 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).	End-August 2025 (2nd Review) (previously end-December 2025)
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.	End-December 2025 (3rd Review) Met
Financial integrity, Governance, and Transparency	Publish asset declarations of high-level public officials, in line with the requirements of the new Anti-Corruption Law.	**Proposed** End-June 2026 (4th review)

Attachment II. Updated Technical Memorandum of Understanding

June 11, 2025

1. **This Updated 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 Updated 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 Updated 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 Updated 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 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 NFPS 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 NFPS is equal to incurrence of liabilities minus repayment of liabilities to 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 or at other depository corporations, nor BCR on-lending of IMF disbursements under the EFF arrangement 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. The ceiling on net domestic borrowing of the NFPS will be adjusted:

a) Upward by the excess, if any, of NFPS deposits at the BCR relative to the adjusted QPC floor for the same test date up to a maximum of US$100 million. This adjustor will apply only starting with the third review of the program.

b) Upward by the shortfall in NFPS net borrowing from nonresidents that is neither project loans and grants nor budget support loans and grants, relative to the one envisioned under the program. This adjustor will apply only for the last three reviews of 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

20. 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.

21. 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.

22. 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

23. Bitcoins held by the public sector. Bitcoins held 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. Following the cessation of public participation in *Chivo*, Bitcoins held by the public sector will no longer be calculated net of *Chivo* clients' Bitcoin deposits.

24. 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.

25. 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.

26. 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.

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

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

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

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

a) upward by the excess of NFPS gross borrowing from non-residents that is neither project loans and grants nor budget support loans and grants, relative to that envisioned under the program as shown in Table 3. Starting with the third review, NFPS borrowing used explicitly and exclusively for the repurchasing or refinancing of existing NFPS debt will be excluded for the calculation of this adjustor, subject to advance consultation with and written consent from IMF staff on a case-by-case basis. 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 NFPS Loans and Grants
(US$ Millions)

	End-March	End-June	End-December
Gross borrowing from non-residents excluding project loans and grants and budget support loans and grants	0	0	0
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

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

31. 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

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

33. 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
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

Table 4. El Salvador: Social Program and Projects (concluded)
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

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

35. 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

36. 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.

37. 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.

38. 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.

39. 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

40. 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.

41. 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
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

Table 6. El Salvador: Reporting Requirements (continued)			
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
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

Table 6. El Salvador: Reporting Requirements (continued)			
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
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

Table 6. El Salvador: Reporting Requirements (concluded)			
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.

42. 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.

43. 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
61	Fondos Especial de los Recursos Provenientes de la Privatización de ANTEL-FANTEL	

No.	Name of Institution	Acronym
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
92	Ente Nacional de Transmisión Eléctrica	ENTE
93	Autoridad de Planificación del Centro Histórico de San Salvador	…
94	Agencia Administradora de Fondos Bitcoin	AAB

No.	Name of Institution	Acronym
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 Xiana Méndez Bertolo, Executive Director for El Salvador and Oscar Monterroso, Advisor to Executive Director
June 27, 2025

The Salvadoran authorities would like to convey their appreciation to staff for their close and dynamic engagement in successfully concluding Article IV consultation and the first review under the Extended Fund Facility (EFF).

Despite ongoing global challenges, decisive implementation of the El Salvadoran economic program, supported by the EFF, is helping to strengthen macroeconomic stability and to create the conditions for more inclusive, resilient, and stronger growth. Most program targets set for the first review were comfortably met, and implementation of the structural benchmarks is progressing well. Corrective measures have been taken to deal with minor deviations in performance criteria. Meanwhile, the program continues to catalyze financial support from other official creditors, which is also helping to strengthen market confidence and rebuild policy buffers.

The authorities are confident that the continued and decisive implementation of policies in the Memorandum of Economic and Financial Policies (MEFP) will allow El Salvador to continue delivering on the program's objectives. They recognize the country's exposure to shocks and the more challenging external environment and stand ready to take the needed fiscal measures to achieve program objectives. Contingency plans would focus on streamlining expenditure.

The authorities value technical assistance from the Fund and other official creditors, which is helping enhance their technical capacity and ability to implement their ambitious reform program.

Recent economic developments and outlook

The Salvadoran economy continues to expand, while imbalances continue to narrow despite a more challenging global backdrop. According to the program, the economy expanded by 2.6 percent in 2024, driven by private investment and private consumption, which was supported by remittances and private credit, as well as exports and booming tourism. In the economic sector, real estate, trade, and banking have been the most dynamic activities. El Salvador's outlook is expected to remain generally unchanged despite the more challenging external backdrop. Real GDP growth is projected to expand by 2.5 percent in 2025 (unchanged from program approval), as strong domestic growth momentum and improved confidence compensate for weaker US and global growth.

It is also worth emphasizing that crime reduction is leading to increased economic activity across the country. Private investment and consumption remain robust, contributing to higher tax collections and strong fiscal performance. The construction sector is expected to continue to expand sharply, including residential, commercial, and hospitality developments, and it is anticipated that significant investment will be committed over the next three years. As a result, the economy is then expected to grow by at least 3 percent over the medium term, driven also by ongoing efforts to strengthen stability and structural reforms to boost governance, transparency, and the business climate.

Inflation fell to 0.29 percent by end-2024, driven by the stabilization of food and energy prices as well as prudent macroeconomic policies. Inflation is projected to remain within the 0.5 percent to 1.0 percent range in 2025 and below US inflation, backed by softer global commodity and local food prices and limited wage pressures.

Meanwhile, the current account deficit, which is estimated to have narrowed to 1.8 percent of GDP in 2024, is projected to fall further to 0.8 percent of GDP in 2025, supported by prudent fiscal policy, favorable terms of trade, as well as robust tourism, exports, and remittances. The implementation of reforms to improve El Salvador's export capacity, growing tourism receipts (from 9.8 percent of GDP in 2024 to 10.2 percent of GDP in 2027), as well as generally favorable terms of trade. Remittances are projected to remain strong, moderating only gradually (from 23.9 percent of GDP in 2024 to 22.5 percent of GDP in 2027).

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. The overall deficit of the Non-Financial Public Sector (NFPS) has fallen from 8.2 percent of GDP in 2020 to around 4.5 percent of GDP in 2024. It is projected to fall further to 3.0 percent of GDP in 2025. This will allow gross public debt to fall from a peak of 87.5 percent of GDP in 2024 to around 84.5 percent of GDP by 2027. These efforts are being underpinned by prudent expenditure policies as well as improved revenue mobilization, reflecting improvements in tax administration and security. These efforts, along with several liability management operations to lessen near-term gross financing, have supported a sharp reduction in sovereign spreads (from over 700 bps in late-2023 to around 390 bps in June 2025).

Policies are in place to deliver a primary fiscal surplus of 1.9 percent of GDP by end-2025, with emphasis on the expenditure front. The ongoing rationalization of public wages (0.7 percent of GDP) and spending on goods and services is expected to contribute to delivering a 1.5 percent of GDP reduction in primary spending. These efforts are being complemented by ongoing improvements in revenue administration, including through an expansion in the use of electronic invoicing, as well as reductions of tax expenditures (0.3 percent of GDP). These efforts are providing the needed fiscal space to protect infrastructure spending and priority social spending.

Work on high-quality reforms to support their medium-term fiscal consolidation goals is underway. Indeed, the Legislative Assembly passed a new Fiscal Responsibility Law (FRL) in early June, which was elaborated with assistance from the Inter-American Development Bank (IADB) and other development partners. Consistent with program goals, the new FRL anchors fiscal policy on reducing the debt-to-GDP ratio to 80 percent by 2030, to 75 percent by 2035, and below 70 percent by 2045, and establishes that specific primary-deficit targets would be set in the Medium-Term Fiscal Framework (MTFF), to be published every May.

Similarly, the authorities are preparing the draft 2026 budget, which they will submit to the Legislative Assembly in September, and are in the process of identifying the underlying policies to support the programmed fiscal adjustment next year and beyond. Policy reform efforts include revenue mobilization, civil service, pension systems, and social assistance.

These measures will be complemented by further improvements in fiscal transparency and governance. Since program approval, they have published comprehensive fiscal information regarding the pension system and State-Owned-Enterprises (SOEs), and they are working to further improve their fiscal data. Specifically, on pensions, they have published the debt stocks of the Instituto Salvadoreño de Pensiones (ISP) and other public entities associated with the pension systems. To further advance fiscal reporting standards, they will ensure that all published statistics and fiscal reports for the Nonfinancial Public Sector (NFPS) include ISP stocks and flows and clearly disaggregate pension costs and pension debt. On public corporations and SOEs, they have published their ownership policy, corporate governance, financial and risk management, and accountability standards of SOEs.

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. It remains solid amidst a gradual improvement in reserve buffers.

Banks maintain a healthy capital position, with an adequacy ratio of 15.2 percent in March 2025, above the 12 percent minimum legal requirement. Deposit growth has been strong (11.5 percent y/y in May 2025), supported by vigorous remittances, strengthening the bank's funding capacity. Private credit growth has remained at its historical average (5.3 percent y/y) in March, backed by strong business and consumer credit growth (7.0 and 4.1 percent y/y, respectively).

Meanwhile, as of March 2025, Nonperforming Loans (NPLs) remain low (1.6 percent of assets) with adequate provisioning (160 percent) and solid profitability ratios (13.2 percent ROE and 2.5 percent ROA). Reserves held at the Central Reserve Bank of El Salvador rose to around 14.2 percent of deposits in May 2025 (from 12.6 percent in October 2024), in line with the increase in the legal reserve requirement to 12 percent implemented in January 2025. The new liquidity requirement introduced in April—set to gradually rise to 1 percent by end-June—also contributed to banking sector liquidity.

On Bitcoin, building on significant earlier efforts to mitigate risks, the authorities are taking steps to unwind the government's participation in the Chivo Wallet and are in the process of receiving technical assistance to strengthen the regulation and supervision of crypto asset markets.

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

In addition to their steadfast efforts to address macroeconomic imbalances and ensure the safety of all Salvadorans, the authorities are in the process of implementing a road map for productivity-enhancing reforms across multiple areas and sectors. The government's Long-Term Growth Strategy is aimed at removing obstacles to growth through targeted government interventions and improved private-sector engagement. The authorities have identified tourism, pharmaceuticals, and high-value-added manufacturing (computers, electronics, and optical products) as key areas, which were selected considering their export potential and their proximity to products already produced in El Salvador.

In order to crowd in private investment, efforts are underway to address infrastructure gaps, including through programs to improve highways, air and seaport facilities, and land border crossings. A key highway bypass (La Libertad) and initial phases of the airport modernization project have been completed, and construction on the Los Chorros highway is now underway. Upgrades to land border crossing facilities with Honduras and Guatemala (where around half of El Salvador's goods exports pass), alongside simplified and digitalized customs declarations, have significantly reduced crossing times (from 3 days to only 30 minutes). Opportunities to enhance cross-country collaboration to address intra-regional infrastructure gaps (e.g., in electricity connectivity, customs, and logistics) are also being considered.

Special efforts are expected to continue to use digitalization and artificial intelligence to modernize regulatory frameworks and lower administrative barriers to trade and investment. These are already reducing waiting times for health registration, customs declarations, transfer of real estate ownership, and permits for the transport of hazardous goods and simplifying the process of registering a new business (which now only takes around 4 hours). These efforts will not only support productivity but also strengthen the ongoing business formalization process.

The authorities are actively working to strengthen the investment climate, including through steady implementation of the new Anti-Corruption and AML/CFT frameworks. They envision a timely application of the new Anti-Corruption Law, including through the establishment of a National AntiCorruption Center to conduct intelligence activities related to the prevention, investigation, and prosecution of corruption. They also are strengthening the independence and anti-corruption mandate of the CoA with the support of technical assistance from the European Union and are working towards the early enactment of a new AML/CFT law, consistent with FAFT recommendations. In their view, certain third-party indicators used by staff do not properly capture the ongoing improvements in governance and transparency.

Last but not least, efforts will be made to improve the quality and timeliness of the country's statistics. In line with a new institutional vision. Indeed, 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

We would like to emphasize the authorities' ownership of the EFF and their appreciation for the Fund's support throughout this process.

The support of the IMF for El Salvador is crucial to addressing balance of payments needs, but also to guiding the authorities' efforts to consolidate public finances, rebuild external and financial buffers, and strengthen governance and transparency. The Salvadoran authorities have full ownership of the program and will continue to create the consensus to press forward with the needed adjustments and reforms.

They are confident that steadfast program implementation will enhance confidence and attract the needed private investment to boost productivity and living standards for all Salvadorans.