International Monetary Fund

El Salvador and the IMF

Press Release:
IMF Completes Second Review Under Stand-By Arrangement for El Salvador
March 31, 2011

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El Salvador: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

March 17, 2011

The following item is a Letter of Intent of the government of El Salvador, which describes the policies that El Salvador intends to implement in the context of its request for financial support from the IMF. The document, which is the property of El Salvador, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

San Salvador, March 17, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. Strauss-Kahn:

1. The economic strategy of the Government of El Salvador, supported by the three-year Stand-By Arrangement (SBA) approved on March 17, 2010, which has been treated as precautionary, is delivering positive results. The economy began to recover in 2010, albeit at a moderate pace, with trade flows rebounding to near pre-crisis levels; inflation has remained among the lowest in the region, anchored by our fully-dollarized regime; and access to the international bond market has been adequate. Also, as envisaged, we have started a process of fiscal consolidation, based on the strengthening of tax revenue, strict control of expenditure, and protection of social spending. At the same time, financial system stability has been preserved, with capital and liquidity indicators remaining strong.

2. Looking ahead, the Government of El Salvador remains committed to its medium-term strategy of safeguarding fiscal sustainability, deepening financial system reforms, and strengthening economic growth. In 2011, we plan to make further strides in reducing the fiscal deficit, placing the public debt on a firm downward path, and reorienting spending to poverty-reducing programs. We are also moving ahead with reforms in the financial system to improve its oversight and bolster its resilience to shocks, and implementing public policies to spur economic activity, including through a strategy to encourage long-term financing to key productive sectors, while containing any financial risks.

3. The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic program of the Government of El Salvador for 2011, which is consistent with our medium-term objectives laid out in the MEFP of March 1, 2010. In support of our program, we request completion of the second review under the SBA, which we will continue to treat as precautionary. We believe the SBA provides critical support for our commitment to sound macroeconomic policies and helps anchor private sector confidence; it also provides access to liquid resources that may help ease pressures in the financial system, if these were to arise.

4. We believe that the policies described in the MEFP are sufficient to meet the goals of our program and stand ready to take additional measures that may be needed for this purpose. We maintain our commitment to consult with the Fund in advance of any revisions to the described policies, as well as the adoption of additional measures, in accordance with Fund policies on such consultations and as outlined in this MEFP. We will continue to comply with all obligations of Article VIII of the IMF's Articles of Agreement and will maintain our close dialogue with Fund staff on our economic policies after the expiration of the arrangement, for as long as there are any outstanding purchases in the upper credit tranches.

Program implementation will continue to be monitored through semi-annual reviews, with the third review to be completed on or after September 15, 2011. The performance criteria, structural benchmarks, and consultation clauses under the program are set out in Tables 2 and 3.

5. We authorize the Fund to publish this Letter of Intent and its attachments, and the related staff report.

Sincerely yours,

/s/	/s/
Carlos Cáceres Minister of Finance	Carlos Acevedo President, Central Reserve Bank of El Salvador

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. PROGRAM IMPLEMENTATION SINCE THE FIRST REVIEW[1]

1. The government's economic program yielded important results in 2010. The economy began to recover, albeit moderately, the process of gradual fiscal consolidation started, and the stability of the financial system was maintained.

- ***Macroeconomy:*** In 2010, real GDP grew by 0.7 percent (following a contraction of 3½ percent in 2009) and inflation reached 2.1 percent, the lowest level in the region. Trade flows rebounded to nearly pre-crisis levels, with buoyant exports helping limit the external current account deficit to about 2 percent of GDP, broadly in line with program projections.

- ***Fiscal outturn:*** The tax measures taken in late 2009, together with strict expenditure control, helped reduce the fiscal deficit to 4.2 percent of GDP in 2010, well below the program target of 4.8 percent, while shifting spending toward social priorities. The public debt-to-GDP ratio rose moderately to 51 percent, slowing the sharp increase caused by the economic contraction of 2009. The outturn reflects the start of a policy of gradual fiscal consolidation that continues to support economic activity.

- ***Financial stability.*** Financial soundness indicators point to adequate capital, high liquidity, and low overdue loans. The central bank's foreign reserves remain adequate, covering about one-third of bank deposits. Deposits have been growing, although bank credit to the private sector has not yet rebounded.

2. **Performance under the program.** All quantitative performance criteria on the fiscal deficit, public debt, and payment arrears for end-September and end-December 2010 were met. Since the completion of the first review in September 2010, the pace of implementation of structural benchmarks has gained momentum.

- ***Fiscal structural benchmarks:*** In November, the government obtained congressional approval of a budget for 2011 consistent with a nonfinancial public sector deficit of 3½ percent of GDP. In addition, the government improved its auditing capacity, eliminated untargeted electricity subsidies, and issued regulations to phase out untargeted subsidies for liquid propane gas (LPG) starting in April. There were unexpected delays in completing a modernization plan for the tax and customs offices and for improving coordination between them; as explained below, the government remains committed to making progress in these areas.

[1] Completed on September 15, 2010 with data through June 30, 2010.

- ***Financial structural benchmarks:*** In January 2011, congress approved the financial supervision bill, which among other aspects empowers the central bank as the sole regulator of the financial system and amended the central bank law to ease restrictions on its capacity to act as lender of last resort. The government also conducted a bank resolution exercise. In February, the government issued corporate governance norms for banks.

II. THE ECONOMIC PROGRAM FOR 2011

3. **Outlook:** The government's medium-term macroeconomic framework remains broadly unchanged from the time of the first review, with real GDP growth projected at 2½ percent for 2011. On account of higher global fuel and food prices, however, we have revised upward for 2011 end-year inflation to 4.8 percent and the external current account deficit to 3.8 percent of GDP. This deficit would be largely financed by FDI and public sector capital inflows. Weaker-than-expected remittances and private investment, and higher fuel and food prices, constitute important downside risks.

4. **Objectives:** The government's policies for 2011 will be guided by the strategy summarized in the Letter of Intent of March 1, 2010, which focuses on laying the foundation for strong economic growth, safeguarding debt sustainability, and deepening financial system reform. Consistent with these objectives, the government will prioritize growth-enhancing initiatives, including infrastructure projects with private sector participation. It also plans to facilitate access to bank credit for critical projects subject to strict guidelines to minimize fiscal risks. Also, on the financial system, the government will continue efforts to strengthen financial supervision, improve liquidity buffers, and enhance resolution arrangements.

5. **Fiscal policy:** The government is committed to keeping the fiscal deficit at or below 3½ percent of GDP in 2011 through a combination of tax administration measures and continued expenditure restraint, and to continue increasing spending on investment and social projects. The deficit will broadly stabilize the public debt-to-GDP ratio. Key elements of our fiscal strategy include:

- ***Revenue:*** For 2011, the government has set a tax revenue target of 14 percent of GDP (net of refunds; up from 13.3 percent last year) taking account of new revenue measures and the recovery in economic activity. In light of downside risks to growth (and tax revenues) we stand ready to implement additional measures, if necessary, to meet our revenue objective. The revenue measures envisaged for 2011 include:

    - ***Improving the revenue system:*** During 2011, following an extensive consultation process, the government will propose to congress a draft bill aligning our revenue system with regional standards.

    - ***Strengthening tax collection:*** The modernization plan for the internal revenue (DGII) and customs (DGA) agencies will be completed and published by end-June (structural benchmark), and revamped information systems will enable communication between the databases of the agencies by end-December (structural benchmark). In addition, income tax withholdings will be adjusted so as to reduce the amount of requests for small tax refunds and ease the burden on tax administration.

➢ ***Enhanced auditing capabilities:*** The DGII and DGA will cross check the tax records of 500 large taxpayers by end-December (structural benchmark). In addition, the value-added tax registry will be reviewed to reduce evasion, and sanctions for overdue tax obligations are being applied more consistently. We also plan to sign tax information exchange agreements with several OECD countries to facilitate the enforcement of tax obligations and strengthen tax transparency in accordance with international best practices.

- ***Expenditure policy:*** The government is committed to maintaining its prudent management of public spending, and to protect the fiscal and debt targets of the program. Within the spending ceilings of the program, we will continue to give priority to meeting long-standing social needs and fostering infrastructure projects. Concretely:

➢ ***Wage policy:*** For 2011, the government intends to increase the share of public wage and pension outlays to 10.2 percent of GDP (from 9.9 of GDP in 2010). This will allow granting wage increases to low-paid public sector workers and aligning the minimum pension with the minimum wage thus remedying long-standing inequities in our public remuneration system. This will also allow some hiring of personnel in critical areas such as internal security, education, and health.

➢ ***Improved quality of spending:*** Energy subsidy reform has freed resources equivalent to 0.4 percent of GDP on an annual basis that have been reoriented to social priorities, such as improved access to health care, increased conditional cash transfers to low-income households (*comunidades solidarias*), broadened low-income housing construction (*casa para todos)*; and assistance to low-income school children. In addition, the 2011 budget envisages a substantial increase in public investment (to 3½ percent of GDP), including for projects on roads, electricity generation, and rural development.

- ***Budgeting process:*** We will continue strengthening our budgeting process with a view to gradually adopting an indicative medium-term expenditure framework (MTEF) to help prioritize spending needs. Steps planned for 2011 include:

➢ ***Broadening budget information:*** We plan to publish a consolidated presentation of the approved budgets of nonfinancial public sector (NFPS) institutions, including the general budget, the budgets of the 69 decentralized institutions, and the four public enterprises (structural benchmark for end-February, 2012). Moreover, we will carry out a diagnostic to determine the feasibility of including the extraordinary budget and other operations in this presentation. We will also publish a pilot mid-year report on budget execution of the NFPS.

➢ ***Adoption of an MTEF:*** The government will set up an inter-institutional committee chaired by the Vice-Minister of Finance to propose guidelines and a timetable for the adoption of an MTEF. Also, MTEF units will be established in the Ministry of Finance and in at least three other expenditure ministries by end-July (structural benchmark).

- ***Debt management:*** The government places a high priority on securing a debt profile that minimizes rollover risks. In 2010, we placed 20-year bonds for about 1½ percent of GDP with domestic investors, and reduced our short-term debt (LETES) to less than 1 percent of GDP. For this year, we have already secured resources to meet our refinancing requirements, with the placement of a 30-year Eurobond for $650 million and scheduled disbursements for more than US$500 million (2¼ percent of GDP) from the World Bank, IADB, and CABEI.

6. **Medium-term fiscal consolidation:** The government remains fully committed to the goals of reducing the fiscal deficit and placing debt on a firm downward path before the end of the program. To this end, we have intensified consultations with a broad range of stakeholders to agree on a "fiscal pact" that could begin in 2011 that will allow for the increase of tax revenues (net of refunds) to at least 16 percent of GDP by 2015. Key components of the pact will be used to update our medium-term fiscal framework and will be used in the formulation of the 2012 budget and the update of our government program (*2010–14 Plan Quinquenal de Desarrollo*).

7. **Financial system:** The government will further strengthen the stability of our fully-dollarized financial system with the following measures:

- ***Financial supervision law:*** The recently approved law mandates a shift of regulatory powers to the central bank and the integration of the superintendencies of banks, pensions, and securities by end-August 2011. To ensure a smooth transition, these entities will work collaboratively on the preparation of draft norms, prepare an inventory of regulatory priorities for 2012, and standardize information systems and procedures of the superintendencies.

- ***Risk-based supervision:*** Progress in this area will be made with the issuance of an umbrella norm on risk management by end-June 2011 (structural benchmark). Specific norms on management of credit and liquidity risks will be issued by end-December (structural benchmark); in addition, norms on market and operational risks in line with best international practice will be issued.

- ***Bank resolution:*** Based on the results of the bank crisis simulation exercise recently conducted, we are preparing guidelines to improve our communication, enhance our capacity to implement purchase-and-assumption schemes, and improve the coordinated response from the superintendency, the ministry of finance, the deposit insurance fund (*Instituto de Garantía de Depositos*, IGD), and the central bank. We are also reviewing the legal framework for bank resolution, for both commercial and cooperative banks. In addition, we are exploring options for improving the funding of the deposit insurance fund.

- ***Lender-of-last-resort capacity:*** We assign high priority to strengthening the central bank's role as lender of last resort of the financial system. We will explore ways to further enhance its access to liquidity and multilateral funds, as well as engage in repurchase operations (as provided by the noted revisions to the central bank law) during periods of stress. We will formulate an action plan for enhancing lender-of-last-resort capacity by end-July (structural benchmark).

- ***Investment funds law:*** The draft law is under discussion in congress, and its approval is now expected by end-December (structural benchmark).

8. **Growth-enhancing strategy:** To jumpstart private sector investment and growth, the government has launched several programs, including public-private partnerships (PPPs) and new vehicles of credit.

- ***Initiatives:*** The government plans to submit legislation to congress by end-June to strengthen the framework for PPPs, with a view to facilitating private investment in areas such as electricity, highways, ports, airports, and public transportation. Other growth-enhancing measures include a production promotion law (which eliminated an export subsidy, strengthened the scheme to refund VAT and import duties for exports in line with the guidelines of the World Trade Organization, sets up a single window for exporters and importers, and facilitates technical assistance); a strategic agricultural plan (which seeks to assist poor farmers and facilitate agro-industry projects); and a strategic tourism plan.

- ***Development banking system:*** To provide financing to these initiatives the government will shortly propose to congress legislation creating a public development banking system. This will include a development fund (*Fondo Nacional de Desarrollo*) that will finance its credit operations partly with the issuance of bonds that will carry a government guarantee, although we do not expect to issue guarantees this year. The state-owned *Banco Multisectorial de Inversiones* will be converted into a development bank (*Banco Nacional de Desarrollo*) with first-tier operations. These institutions will provide medium- and long-term credit to productive sectors. A guarantee fund (*Fondo Salvadoreño de Garantía*) will also be established to provide guarantees to small- and medium-sized enterprises. To minimize financial risks, the operations of these new institutions will be subject to the same prudential standards as banks and assessed against strict performance indicators.

9. **Safeguards assessment:** The recent revisions to the central bank law will yield important improvements to the central bank's safeguards framework. In particular, the central bank will prepare its financial statements taking into account the requirements of applicable international accounting standards and the policies adopted by other central banks, publish the financial statements and the external auditor's opinion within three months of year-end, and select an external auditor through the use of public tender, with the contract term of no more than five years. Additionally, the revisions to the BCR law include preventing the distribution of unrealized gains and specifying the dismissal criteria for Board members.

10. **Program monitoring:** Quantitative performance criteria for the Fund program will continue to be set on a quarterly basis and program reviews will remain semiannual. The phasing of access under the arrangement and the schedule of reviews are set out in Table 1. The quantitative targets and performance criteria for end-March 2011 and end-June 2011, as well as indicative targets through end-December 2012, and adjusters are set out in Table 2. The structural benchmarks of the program are set out in Table 3.

Table 1. El Salvador: Purchase Schedule and Terms Under the Stand-By Arrangement

Date	Conditions for Purchase	Purchase Millions SDR	Millions US$ 1/	Percent of Quota	Percent of Total Access
March 17, 2010	Board approval of the SBA	171.3000	266.57	100.00	33.33
May 17, 2010	Performance criteria based on end-March 2010	21.4125	33.32	12.50	4.17
September 15, 2010	First review, based on end-June 2010 performance criteria	107.0625	166.61	62.50	20.83
November 15, 2010	Performance criteria based on end-September 2010	21.4125	33.32	12.50	4.17
March 15, 2011	Second review, based on end-December 2010 performance criteria	21.4125	33.32	12.50	4.17
May 16, 2011	Performance criteria based on end-March 2011	21.4125	33.32	12.50	4.17
September 15, 2011	Third review, based on end-June 2011 performance criteria	21.4125	33.32	12.50	4.17
November 15, 2011	Performance criteria based on end-September 2011	21.4125	33.32	12.50	4.17
March 15, 2012	Fourth review, based on end-December 2011 performance criteria	21.4125	33.32	12.50	4.17
May 15, 2012	Performance criteria based on end-March 2012	21.4125	33.32	12.50	4.17
September 17, 2012	Fifth review, based on end-June 2012 performance criteria	21.4125	33.32	12.50	4.17
November 15, 2012	Performance criteria based on end-September 2012	21.4125	33.32	12.50	4.17
March 8, 2013	Sixth review, based on end-December 2012 performance criteria	21.4125	33.32	12.50	4.17
Total 2/		513.9000	799.71	300.00	100.00

Source: Fund staff estimates.

1/ SDR/U.S. dollar exchange rate of 0.642605 as of February 15, 2011.
2/ May not reflect the sum of individual lines because of rounding.

Table 2. El Salvador: Quantitative Performance Criteria

(In millions of U.S. dollars)

	End-Mar.	End-Jun.	End-Sep. 1/	End-Dec. 1/	End-Dec. 1/
	2011				2012
Performance criteria					
Overall balance of the nonfinancial public sector (cumulative floor) 2/	-320	-390	-575	-817	-621
Gross debt of the nonfinancial public sector (cumulative flow) 3/	310	365	545	701	651
External debt service arrears of the nonfinancial public sector 4/	0	0	0	0	0
Domestic payment arrears of the nonfinancial public sector 5/	0	0	0	0	0

Consultation clauses

If at any point during the arrangement the sum of private-sector bank deposits and external short-term bank liabilities falls below US$7,875 million (10 percent below the end-December 2010 level), the authorities will contact Fund staff to discuss possible remedial actions.

If at any point during the arrangement the authorities consider it necessary to modify the reserve requirements or liquid asset requirements, they will contact Fund staff to discuss such actions.

1/ Indicative targets.
2/ Adjusted upward for 50 percent of any overperformance of tax revenue.
3/ Adjusted upward for any debt placed for prefinancing that would result in an equivalent increase in central bank deposits, until the pre-financed liabilities mature; and for any issue of government created guarantees (up to US$40 million) on the debt of the newly-state development fund.
4/ Continuous ceiling. Defined as unpaid debt service payments by the nonfinancial public sector to nonresidents beyond 30 days after the due date.
5/ Continuous ceiling. Defined as unpaid obligations overdue by more than 60 days.

Table 3. El Salvador: Structural Benchmarks 1/

	Test date
Prior actions	
Issuance of executive decree specifying the targeting of the LPG subsidy starting by April 1, 2011	Prior action
Revenue Measures	
Publication of plan for the modernization of both DGII and DGA	Jun. 30, 2011
Harmonize taxpayer registry between DGII and DGA for 500 large taxpayers	Dec. 31, 2011
Enhance coordination in the tax collection process across DGII and DGA	Dec. 31, 2011
Implement revenue measures yielding 1.5 percent of GDP	Jun. 30, 2012
Public Financial Management	
Creation of interinstitutional MTEF committee and pilot MTEF units	Jul. 31, 2011
Publish a statement of approved budgets for NFPS institutions	Feb. 29, 2012
Financial System Supervision and Development	
Issue umbrella norm for risk management for financial institutions	Jun. 30, 2011
Agree to action plan for enhancing central bank's lender of last resort capacity	Jul. 31, 2011
Issue specific norms on management of credit and liquidity risk for financial institutions under umbrella norm for risk management	Dec. 31, 2011
Congressional approval of investment funds law	Dec. 31, 2011

1/ Descriptions of the steps needed to meet these benchmarks are contained in the TMU.

Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) describes the understandings** reached between the authorities of El Salvador and IMF staff for monitoring performance under the Stand-By Arrangement (SBA). In particular, it defines concepts employed in measuring the quarterly fiscal and debt quantitative performance criteria; the continuous performance criteria on external debt and domestic payments arrears; the adjusters on performance criteria; triggers for consultation clauses; structural benchmarks; and reporting requirements under the SBA.

A. Performance Criterion on the Balance of the Nonfinancial Public Sector

2. **The fiscal balance pertains to the operations of the nonfinancial public sector (NFPS), which comprises** the central government, the rest of the general government (Instituto Salvadoreño del Seguro Social (ISSS), municipal governments, public hospitals, the national university, and other decentralized agencies), and the nonfinancial public sector enterprises (Comisión Ejecutiva Hidroeléctrica del Río Lempa (CEL), Comisión Ejecutiva Portuaria Autónoma (CEPA), Administración Nacional de Acueductos y Alcantarillados (ANDA), and Lotería Nacional de Beneficiencia (LNB)).

3. **The balance of the NFPS is measured on a cash basis from below the line**, defined as: (a) net domestic financing of the NFPS; *plus* (b) net external financing of the NFPS; *plus* (c) proceeds from exceptional sources (Table A1). They are defined as follows:

(a) **The net domestic financing of the NFPS** is the sum of: (i) the increase in net claims of the domestic financial system on the NFPS, excluding government bonds initially sold abroad; (ii) the net increase in NFPS short-term paper (LETES) and bonds held outside the domestic financial system and the NFPS, excluding bonds initially sold abroad; and (iii) floating debt of the NFPS due to expenditure operations and tax refund payments.

(b) **The net external financing of the NFPS** comprises: (i) disbursements of external loans; plus (ii) receipts from the issuance of government bonds abroad and LETES held by nonresidents; minus (iii) cash payments of principal (current maturities of loans, bonds, and LETES); minus (iv) cash payments of external arrears (principal and interest); minus (v) debt buy-backs or other prepayments of debt (at market value); and minus/plus (vi) the increase/decrease in other net foreign assets of the nonfinancial public sector.

(c) **Proceeds from exceptional sources** such as, but not limited to, privatization, the sale of licenses, and the granting of concessions are defined as: (i) the cash payments received by the Treasury from the sale of state-owned assets; plus (ii) debt-equity swaps, accounted at market values; plus (iii) up-front payments received by the Treasury for the granting of concessions for public services and capital leasing agreements.

4. **Adjuster for overperformance of tax revenue.** In the event that net tax collections exceed the program baseline of US$740 million as of end-March 2011, US$1,680 million as of end-June 2011, US$2,435 million as of end-September 2011, or US$3,234 as of end-December 2011, the performance criterion on the floor for the balance of the NFPS will be raised by 50 percent of any excess.

B. Performance Criterion on Debt Flows

5. **The performance criterion measures the sum of debt contracted by the NFPS** (as defined in paragraph 2) in the year, which shall apply to all flows of gross external debt as specified in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-00/85); all domestic gross debt flows; and any new debt with a sovereign guarantee.

6. **Adjuster for pre-financing operations.** The debt ceiling will be adjusted upward for any borrowing by the NFPS, domestic or external, raised for pre-financing purposes that will result in an equivalent increase in deposits at the central bank (BCR), until the pre-financed liabilities mature.

7. **Adjuster for sovereign guarantees.** The debt ceiling will be adjusted upward for any issuance of liabilities from the newly-created economic development fund (*Fondo de Desarrollo Económico*) that carries a central government guarantee, up to US$40 million, in 2011.

C. Non-Accumulation of External Debt or Domestic Payments Arrears

8. **The NFPS will not accumulate any external debt arrears during the program period.** For the purpose of this performance criterion, an external debt payment arrear will be defined as a payment by the NFPS that has not been made within thirty days after falling due under the contractual agreement, unless specified otherwise. The performance criterion will apply on a continuous basis.

9. **The NFPS will not accumulate any domestic payments arrears during the program period.** For the purpose of this performance criterion, a domestic payment arrear will be defined as an obligation by the NFPS that has not been paid within sixty days after falling due under the contractual agreement, unless specified otherwise. The performance criterion will apply on a continuous basis.

D. Consultation Clauses

10. **Floor on the sum of total bank deposits of the private sector and external short-term liabilities of banks.** These are defined, respectively, as deposits of the private sector in

commercial banks, and external liabilities of commercial banks with an original maturity of up to one year.[1] If at any point during the arrangement, the sum of private sector bank deposits and external short-term bank liabilities should be less than US$7,876.4 million (i.e., 10 percent below the end-2010 level), a consultation clause will be triggered, and the authorities will contact Fund staff to discuss possible remedial actions.

11. **The reserve requirements and liquid asset requirements of the banking system are defined in current regulations** (at about 22 percent and about 3 percent, in effective terms, respectively).[2] If at any point during the arrangement the authorities consider it necessary to modify the reserve requirements or liquid asset requirements, a consultation clause will be triggered, and the authorities will contact Fund staff to discuss those measures.

E. Prior Action and Structural Benchmarks

Fiscal policy

12. **Targeting of the subsidy on liquefied propane gas (LPG).** An executive decree will be issued prior to March 15, 2011 providing for the setting of retail prices of LPG in line with market prices and payment of subsidies to households with consumption of electricity less than 200 kWh per month, starting on April 1, 2011 (prior action).

13. **The authorities will publish their plan for the modernization of the Domestic Tax Administration Directorate (DGII) and the General Custom Administration Directorate (DGA).** The plan will outline steps to enhance coordination in the tax collection process across agencies (structural benchmark, June 30, 2011, rephased from September 30, 2010).

14. **Enhancing coordination of the DGII and DGA in the tax collection process,** as described in the plan for the modernization of the DGII and DGA, will allow communication between the databases of both agencies (structural benchmark, December 31, 2011, rephased from February 28, 2011.)

15. **The DGII and DGA will begin harmonization of their respective taxpayer registries** in order to allow cross-checking of the account status of 500 large taxpayers (structural benchmark, December 31, 2011).

[1] The definition consists of the sum of line items 211 (*DEPOSITOS)* and 212108 (*PRESTAMOS PACTADOS HASTA UN AÑO PLAZO—ADEUDADO A ENTIDADES EXTRANJERAS*) of the balance sheets of banks as compiled by the Superintendency of the Financial System on a weekly basis; minus the lines noted in Table A2, which represent NPFS deposits and accrued interest. As of end-2010, the sum of private sector bank deposits and external short term liabilities of banks was US$8,751.6 million.

[2] The regulations on reserve requirements and liquid asset requirements are NPB3-06 and NPB3-11.

16. **The consolidated presentation of NFPS operations will contain the following information:** a consolidated NFPS financial statement including planned revenue, expenditure, and financing for (i) the general budget (*Presupuesto General del Estado*); (ii) the four public enterprises; and (iii) 69 decentralized institutions (*Presupuestos Especiales*; structural benchmark, February 29, 2012).

17. **In order to support efforts toward implementation of a medium-term expenditure framework (MTEF),** the authorities will (i) create an inter-institutional committee chaired by the Vice-Minister of Finance to guide progress in implementing an MTEF; and (ii) create MTEF units in the Ministry of Finance and in at least three expenditure ministries (structural benchmark, July 31, 2011).

Financial sector policy

18. **The Investment Funds Law will contain the following elements:** (i) a clear legal framework for investment funds; (ii) accounting and asset valuation rules for investment funds; and (iii) terms for investor entry and exit. Congressional passage of the law is a structural benchmark for December 31, 2011 (rephased from March 31, 2011).

19. **The authorities will issue an umbrella norm on risk management** to establish a comprehensive framework according to which future norms pertaining to the management of specific risks will be put in place (structural benchmark, June 30, 2011).

20. **The authorities will strengthen the central bank's capacity as a lender-of-last-resort.** The authorities will agree to an action plan for enhancing lender-of-last-resort capacity (structural benchmark, July 31, 2011).

21. **The authorities will adopt specific norms on risk management.** To facilitate implementation of the law on financial supervision approved by congress in January 2011, the authorities will issue norms on the management of credit and liquidity risks which are aligned with international best practices (structural benchmark, December 31, 2011).

F. Reporting Requirements

22. **To facilitate monitoring of program implementation, the government of El Salvador will prepare and send to the IMF,** by e-mail or by fax, monthly data and reports within six weeks following the end of the preceding month, and quarterly data and reports within six weeks after each test date, unless specified otherwise. Such data will include (but are not limited to) the following:

(a) The BCR will provide on a monthly basis the comprehensive monetary survey and the BCR balance sheet (electronic file);

(b) The BCR will provide on a daily basis the total bank deposits in commercial banks with a lag of at most three working days;

(c) The BCR will provide on a weekly basis the balance sheets of individual banks and the total banking system, as well as detailed information on their liquidity positions, with a lag of at most five working days;

(d) The BCR will provide quarterly balance of payments data in electronic format with a lag of a quarter;

(e) The Ministry of Finance will provide monthly data on tax revenue with a lag of at most five working days;

(f) The Ministry of Finance will provide monthly data on revenue and the execution of expenditure for the central government and the rest of the general government (ISSS, the municipal governments, public hospitals, the national university, and other decentralized agencies) with a lag of at most four weeks, and quarterly data on revenue and the execution of expenditure for the four NFPS enterprises (CEL, CEPA, ANDA, and LNB);

(g) The Ministry of Finance will provide monthly information on the financing of the NFPS and stock of debt of the NFPS (as defined above) as specified in Table A1;

(h) Indicators and other statistical data on recent economic developments, such as the household consumer price index, will be provided as they become available. In addition, the BCR will provide its quarterly reports on economic activity with a lag of at most a quarter;

(i) The authorities will provide a status report on the implementation of the structural reforms specified in Table 3 of the Memorandum of Economic and Financial Policies; and

(j) The authorities will provide any other information that IMF staff may deem necessary for the effective monitoring of the SBA.

Table A1. Financing of the Non-Financial Public Sector

(Million U.S. dollars)

	2011	Q1	Q2	Q3	Q4
A. Net domestic financing of the non-financial public sector (NFPS)					
i. Net claims of the financial system (1+2+3)					
1. Net credit of commercial banks to the NFPS:					
a. Credits					
b. Deposits					
2. Net credit of the BCR to the NFPS:					
a. Credits					
b. Deposits					
3. Net credit of the non-bank financial institutions to the NFPS 1/					
a. Credits					
b. Deposits					
ii. Stock of NFPS liabilities (including Letes) held outside the domestic financial system and the NFPS 2/					
iii. Floating debt (statistical discrepancy; -(i+ii+B+C+D))					
B. Net external financing					
i. Multilateral development banks (IADB, WB, CABEI)					
a. Disbursements					
b. Amortizations					
ii. Bilateral creditors					
a. Disbursements					
b. Amortizations					
iii. Financial institutions					
of which: bonds					
of which: LETES					
iv. Other					
C. Privatization and concessions					
D. Non-financial public sector overall balance					

1/ Includes trust funds.
2/ Includes amortization of ISTA bonds.

Table A2. Public-Sector Deposit Account Numbers

Public Sector Accounts

2110010101, 2110010102, 2110010201, 2110010202, 2110020101, 2110020102, 2110020201, 2110020202, 2111010101, 2111010102, 2111010201, 2111010202, 2111020101, 2111020102, 2111020201, 2111020202, 2111030101, 2111030102, 2111030201, 2111030202, 2111040101, 2111040102, 2111040201, 2111040202, 2111050101, 2111050102, 2111050201, 2111050202, 2111060101, 2111060102, 2111060201, 2111060202, 2111070101, 2111070102, 2111070201, 2111070202, 2111080101, 2111080102, 2111080201, 2111080202, 2111130101, 2111130102, 2111130201, 2111130202, 2111140101, 2111140102, 2111140201, 2111140202, 2111990101, 2111990102, 2111990201, 2111990202, 2112010101, 2112010102, 2112010201, 2112010202, 2112020101, 2112020102, 2112020201, 2112020202, 2112030101, 2112030102, 2112030201, 2112030202, 2112040101, 2112040102, 2112040201, 2112040202, 2114010101, 2114010102, 2114010201, 2114010202, 2114020101, 2114020102, 2114020201, 2114020202, 2114030101, 2114030102, 2114030201, 2114030202, 2114040101, 2114040102, 2114040201, 2114040202, 2114050101, 2114050102, 2114050201, 2114050202, 2114060101, 2114060102, 2114060201, 2114060202, 2114070101, 2114070102, 2114070201, 2114070202.

Accrued Interest

2110019901, 2110019902, 2110029901, 2110029902, 2111019901, 2111019902, 2111029901, 2111029902, 2111039901, 2111039902, 2111049901, 2111049902, 2111059901, 2111059902, 2111069901, 2111069902, 2111079901, 2111079902, 2111089901, 2111089902, 2111139901, 2111139902, 2111149901, 2111149902, 2111999901, 2111999902, 2112019901, 2112019902, 2112029901, 2112029902, 2112039901, 2112039902, 2112049901, 2112049902, 2114019901, 2114019902, 2114029901, 2114029902, 2114039901, 2114039902, 2114049901, 2114049902, 2114059901, 2114059902, 2114069901, 2114069902, 2114079901, 2114079902.