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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR

PROGRAM TO SUPPORT MACROECONOMIC AND FISCAL SUSTAINABILITY IN EL SALVADOR

(ES-L1153)

LOAN PROPOSAL

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ANNEXES	
Annex I	Results Matrix
Annex II	Policy Matrix

LINKS
REQUIRED:
1. Policy Letter
2. Means of Verification Matrix
3. El Salvador - Extended Arrangement under the Extended Fund Facility
OPTIONAL:
1. International Monetary Fund (IMF) Press Release No. 24/485

ABBREVIATIONS

BCR	Banco Central de Reserva (Central Reserve Bank of El Salvador)
CABEI	Central American Bank for Economic Integration
CAF	Development Bank of Latin America and the Caribbean
DEA	Data envelopment analysis
EFF	International Monetary Fund Extended Fund Facility
EMBI	Emerging Markets Bond Index
FDI	Foreign direct investment
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LRF	Law on Fiscal Responsibility for Public Finance Sustainability and Social Development
MTFF	Medium-term Fiscal Framework
NFPS	Nonfinancial public sector
p.p.	Percentage point(s)
PCR	Project completion report
QPC	Quantitative performance criteria
SDL	Special development lending and special development loan

PROJECT SUMMARY

EL SALVADOR
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(ES-L1153)

<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3">Borrower:</td><td colspan="2">Special Development Lending[a]</td></tr>
<tr><td colspan="3">Republic of El Salvador</td><td>Amortization period:</td><td>7 years</td></tr>
<tr><td colspan="3">Executing agency:</td><td>Disbursement period:</td><td>1 year</td></tr>
<tr><td colspan="3">Ministry of Finance</td><td>Grace period:</td><td>3 years</td></tr>
<tr><td>Source</td><td>Amount (US$)</td><td>%</td><td>Interest rate:</td><td>SOFR-based plus 1.15% of the fixed margin plus variable margin of the IDB financing for Ordinary Capital</td></tr>
<tr><td rowspan="2">IDB (Ordinary Capital):</td><td rowspan="2">500,000,000</td><td rowspan="2">100</td><td>Initial fee:</td><td>1% of the loan principal, payable within 30 days following the effective date of the contract</td></tr>
<tr><td>Commitment fee:</td><td>0.75%</td></tr>
<tr><td rowspan="2">Total:</td><td rowspan="2">500,000,000</td><td rowspan="2">100</td><td>Weighted average life:</td><td>5 years</td></tr>
<tr><td>Approval currency:</td><td>United States dollar</td></tr>
</table>

<table>
<tr><th>Project at a Glance</th></tr>
<tr><td>Program objective/description: The general development objective of the operation is to bolster the macroeconomic stability of El Salvador. The specific development objectives are: (i) ensure fiscal sustainability; and (ii) improve financial integrity and stability.
The program is aligned with the International Monetary Fund’s (IMF’s) Extended Fund Facility (EFF), approved by the Executive Board of the IMF on 26 February 2025. The Policy Matrix (Annex II) includes the prior actions required under the EFF. The budgetary support provided by the special development loan (SDL) will assist in addressing the country’s short-term financing needs and support its macroeconomic stability and public finance sustainability. The program, conceived under the SDL instrument, is structured as a single loan operation, with its proceeds to be disbursed in a single tranche contingent on fulfillment of the conditions set out in the Policy Matrix.</td></tr>
<tr><td>Contractual conditions precedent to the disbursement of loan proceeds: The loan proceeds will be disbursed in a single tranche (US$500 million), contingent on fulfillment of the conditions set out in the Policy Matrix (Annex II) and Policy Letter and all other conditions established under the loan contract (paragraph 4.2).</td></tr>
<tr><td>Exceptions to Bank policies: None.</td></tr>
</table>

<table>
<tr><th colspan="8">Strategic Alignment</th></tr>
<tr><td>Objectives:[b]</td><td colspan="2">O1 ☒</td><td colspan="3">O2 ☐</td><td colspan="2">O3 ☐</td></tr>
<tr><td>Operational focus areas:[c]</td><td>EO1 ☐</td><td>EO2-G ☐
EO2-D ☐</td><td>EO3 ☒</td><td>EO4 ☐</td><td>EO5 ☐</td><td>EO6 ☐</td><td>EO7 ☐</td></tr>
</table>

[a] Under the terms of the special development lending category (AB-3134) and its operating guidelines (GN-2031-17), this operation will be documented under the Flexible Financing Facility, with limited debt management options. The borrower has the option of requesting currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests. The amortization schedule applicable to this loan will consist of equivalent, six-monthly installments that will begin to accrue at the conclusion of the grace period.

[b] O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

[c] EO1 (Biodiversity, natural capital, and climate action); EO2-G (Gender equality); EO2-D (Inclusion of diverse population groups); EO3 (Institutional capacity, rule of law, and citizen security); EO4 (Social protection and human capital development); EO5 (Productive development and innovation through the private sector); EO6 (Sustainable, resilient, and inclusive infrastructure); EO7 (Regional integration).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 **Macroeconomic context.** Even before the COVID-19 pandemic,[1] El Salvador was facing structural challenges that restricted its growth and compromised its fiscal stability. The health crisis not only aggravated this situation but rendered the country unable to embark on a path of fiscal consolidation and sustainability that could contribute to macroeconomic stability. Instead, the health crisis deepened El Salvador's structural imbalances and made it more vulnerable to external shocks. Despite an atypical economic recovery in 2024, estimates placed the overall deficit at 4.4% of gross domestic product (GDP), the primary balance at -0.2% of GDP, and public debt at 87.3% of GDP (exceeding the regional average of 55% of GDP). At the same time, the pension system accounted for 30 percentage points (p.p.) of total debt, which was thus kept at unsustainable levels (Table 1). As a result, the financial and external reserves stand below prudential levels, exposing the economy to considerable vulnerability, particularly in view of the rigidity imposed by the dollarization system. As the debt becomes more costly and less sustainable, the refinancing risk intensifies, exacerbating the uncertainty as to the country's capacity to manage its commitments without jeopardizing macroeconomic stability.

1.2 At the structural level, growth per capita remains low, insufficient to close the income gaps and reduce poverty, which still affects 27% of the population (the approximately 2.3 million people who have difficulty meeting their basic needs). This dynamic has encouraged significant migration, which, however, has recently decreased due to improvements in the country's citizen security. Nonetheless, El Salvador remains highly vulnerable to natural disasters and external shocks, while a rise in international competition has adversely affected manufacturing sector exports. Shortcomings in infrastructure and human capital continue to limit productivity and private investment, thereby restricting the country's economic growth potential.[2]

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[1] The mitigation measures represented 12% of GDP, leading in 2020 to an overall deficit of 10% of GDP, a primary balance of -5.6% of GDP, and public debt equivalent to 87% of GDP. This increased the financing cost. In 2023, the debt reached 87.4% of GDP.

[2] International Monetary Fund (IMF), (2024). Press release (optional link 1).

Table 1. Main macroeconomic variables

Variable	2019	2020	2021	2022	2023	2024 est.	2025 proj.
Real GDP growth rate (%)	2.4	-7.9	11.9	2.8	3.5	2.6	2.5
Period-end inflation (%)	0.0	-0.1	6.1	7.2	4.0	1.0	1.8
Current account (% GDP)	-0.4	1.1	-4.3	-6.8	-1.4	-1.4	-0.9
Foreign direct investment (FDI) (% GDP)	-2.4	0.0	-1.3	-0.4	-2.1	-1.7	-1.9
International reserves							
International reserves balance (US$ billions)	4.446	3.083	3.426	2.696	3.081	3.708	4.112
International reserves balance (% GDP)	16.5	12.4	11.8	8.4	9.1	10.5	11.2
Nonfinancial public sector (NFPS) finances (% GDP)[a]							
Primary balance	0.6	-3.8	-1.0	2.0	-0.1	0.2	1.9
Fiscal balance	-3.1	-8.2	-5.5	-2.7	-4.7	-4.4	-3.4
Tax revenue	17.7	18.5	19.9	20.5	20.2	21.2	21.2
Primary expenditure	23.5	28.3	27.2	23.9	25.9	26.6	25.2
Wages and salaries	10.8	12.4	11.6	10.9	11.0	11.6	10.8
Interest	3.7	4.4	4.3	4.7	4.5	4.6	5.3
Public investment	2.6	2.2	2.3	2.0	2.5	3.0	2.7
Public debt	71.3	89.2	88.0	83.3	84.7	87.3	87.6

Source: IMF, (2022) Article IV; IMF (2025) EFF Program.

[a] The fiscal indicators include pensions.

1.3 **Macrofiscal imbalance.**[3] Two factors have exacerbated the fiscal deficits and reliance on short-term debt. In the first place, the monetary rigidity derived from dollarization curtails the Central Reserve Bank's (BCR) autonomy in implementing monetary and foreign-exchange policies, forcing the BCR to manage its liquidity solely through the fiscal balance and the accumulation of reserves. In a context of elevated reliance on external financing and increasingly restricted access to the international markets (paragraph 1.6), the country's ability to sustain its liquidity needs has significantly deteriorated.

1.4 In the second place, El Salvador is faced with a narrow fiscal space, which restricts the country's ability to boost expenditures or reduce taxes without compromising the sustainability of the public finances. This problem has its roots in issues such as: (i) inflexible public spending, a high proportion of which is allocated to public sector wages and salaries, post-pandemic extraordinary spending,[4] the growing cost of the pension system, and the debt service, limiting the capacity for fiscal adjustments; and (ii) challenges for the tax administration, where there is a need to expand the tax base in order to strengthen revenue collection and not rely

[3] Pursuant to paragraph 1.1 of the policy set out in document AB-3134, this scenario requires that prudential reserves be maintained while access to financing under favorable conditions for meeting payment obligations is guaranteed.

[4] For example, an extraordinary economic reactivation budget was approved to ensure the liquidity needed to mitigate the impact of COVID-19 on the most vulnerable population sectors and support a sustainable economic recovery.

solely on tax rate increases, which could adversely affect investment and economic growth.

1.5 Lastly, persistent concerns about fiscal transparency and governance have affected market confidence. The adoption of bitcoin as legal tender has created uncertainty in the financial markets due to both the volatility of its trading price and the lack of clarity as to its integration into the fiscal and regulatory policy framework.

1.6 **Dollarization and liquidity management.** The dollarization facing El Salvador limits the country's ability to implement countercyclical policies to stimulate the economy at times of crisis. For example, in terms of financing, the country relies heavily on remittances, which in 2024 accounted for 24% of GDP,[5] as well as on foreign investment and borrowing as sources of liquidity. This dependence creates increased economic vulnerability as these sources are very susceptible to external shocks, narrowing the leeway for economic policy.

1.7 Even in periods of low global interest rates, Salvadoran sovereign bond spreads remained high. Until 2019, El Salvador's Emerging Markets Bond Index (EMBI) behaved in line with the region's index, although reflecting greater uncertainty and perceived risk in 2009, 2011, 2012, and 2015 to 2017. After the pandemic, the country risk experienced a sustained rise. The EMBI climbed sharply in 2022 and 2023,[6] from 5% to 35%, exceeding the average for Latin America and the region's other countries by more than seven-fold.

1.8 El Salvador's liquidity risk is exacerbated by the low level of international reserves, which in 2024 are estimated to have totaled US$3.708 billion, equivalent to a mere two months of exports.[7] This level is lower than the median for Latin America, which is about five months, and also lower than the minimum threshold for dollarized economies, highlighting the country's vulnerability to external shocks and limiting its capacity to respond to economic crises. In addition, this creates risks in terms of the country's ability to maintain macroeconomic stability and dollarization in the medium and long term, which could erode investor confidence and affect El Salvador's access to external financing.

1.9 The rise in financing costs and the decline in debt affordability reflect the country's liquidity problems. Affordability, measured as interest payments as a percentage of fiscal revenue, has been decreasing for over a decade. At present, interest payments account for 18% of fiscal revenue, and 3 percentage points of that figure is attributable to pension debt (Figure 1). A key factor in this decline is the change in the composition of the external debt:[8] for example, lower-rate loans have been

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5 According to BCR data as of December 2024.

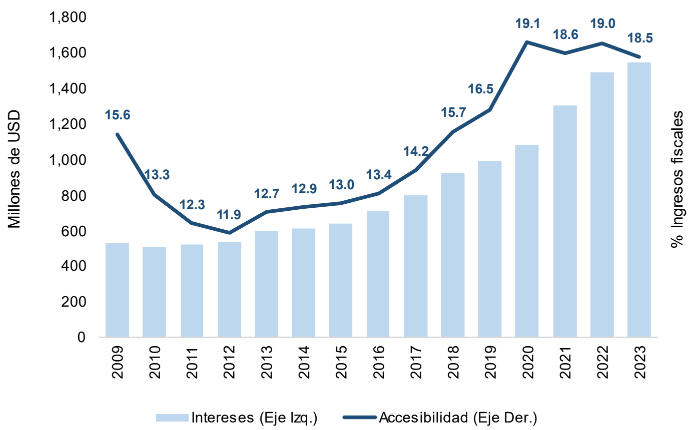
6 In July 2022, the EMBI reached an all-time high of 35%. Since then, it has trended downward but remains elevated, making El Salvador's country risk one of the highest in Latin America. Technical Staff Concluding Statement of the 2023 Article IV Mission (IMF, 2023).

7 Since the Salvadoran economy is dollarized, the BCR's reserves come from actual bank reserves. At present, the reserve requirement ratio remains at historically low levels at 10.8%, while the actual ratio is 11.6%. Prior to the pandemic, the requirement ratio was about 20% (and the actual ratio was close to 23%). The IMF's Article IV (2023) recommends raising the reserve requirement ratio to at least 15% of deposits.

8 In 2023, according to Ministry of Finance data, the external debt accounted for approximately 60% of the country's total debt stock.

replaced by a more extensive issuance of bonds in international markets, making debt service more expensive.

Figure 1. Interest on NFPS debt
(in US$ millions and as % of fiscal revenue)

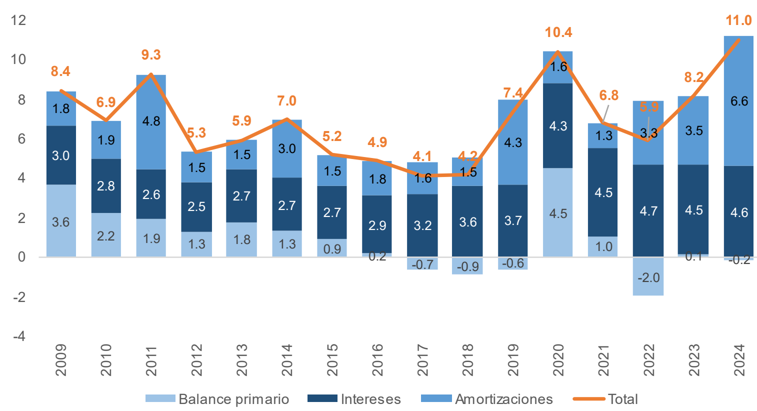


Source: Ministry of Finance data.

1.10 If the State is unable to generate sufficient funds to finance its long-term debt obligations, the liquidity problem can become a solvency problem, eroding investor confidence and affecting macroeconomic stability. In a context such as this, the absence of monetary flexibility further reduces El Salvador's leeway to mitigate financial risks, turning fiscal policy into the primary tool to address economic challenges.

1.11 Furthermore, the liquidity problems translate into greater financing needs and fewer resources available for public investment. The post-pandemic financing needs have continuously increased, and in 2024 are estimated to have reached similar levels to those observed during the pandemic. Of the total, 11 p.p. of GDP relate to debt service, while the primary balance adjustments offset merely 0.2 p.p. of these needs (Figure 2). In relative terms, El Salvador now allocates to its debt service more than twice the amount it invests in education and health.

Figure 2. NFPS financing needs (% of GDP)



Source: Authors' calculations based on data from El Salvador's Ministry of Finance.

1.12 **Narrow fiscal space due to persistent gaps.** Ensuring fiscal sustainability in El Salvador requires closing structural gaps in government finances. The fiscal space for countercyclical maneuvering is limited due to a persistent fiscal deficit[9] and the size and profile of the debt, with maturities concentrated in the short-term portion of the spectrum. This situation erodes investor confidence and curtails the feasibility of development strategies by limiting investment in infrastructure and essential social programs, thereby creating a negative impact on long-term growth and economic stability. Diminished investor confidence also restricts opportunities for debt management and profiling and for better maturity and cost terms. The main structural challenges aggravating this problem include pressures on expenditure, weaknesses in revenue collection, the sustainability of the pension system, fiscal transparency, and bitcoin management.

1.13 **Public expenditure: inefficiency and rigidity.** El Salvador's public expenditure exhibits significant inefficiencies, including the fact that a large portion of the budget is inflexibly allocated to wages and salaries,[10] pensions,[11] and debt service.[12] Expenditure inefficiency exceeds the regional average, amounting to 6.5% of GDP versus 4.4% of the regional GDP.[13] This is due to cost overruns in the wage bill for the public sector, inefficient public procurement, and leakages in transfers and in subsidies on water, gas, and electricity use.[14] The wage bill is the largest component as well as the main source of inefficiency. Between 2010 and 2013, wages and salaries accounted on average for 41% of NFPS expenditures.[15] The absence of a civil service law regulating wage increases allows many public agencies to set their own wage adjustment parameters based on their own budget availability,[16] creating distortions and inequalities in human resource management.

1.14 In terms of public procurement, the efficiency index, measured under the DEA methodology,[17] is 0.42, ranking the country in 56th place out of 100 worldwide. In addition, high budgetary rigidity reduces the ability to optimize spending, since close to 80% of expenditures are committed in the form of legal allocations and unavoidable expenses. A structural reform was proposed in 2012 with the aim of shifting to a results-based budget, but as of 2025 this reform has yet to be consolidated. Improving the quality of expenditures will require modernizing and creating efficiencies, optimizing the programming and assessment of public

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9 In the last decade, it has averaged 4% of GDP, according to Ministry of Finance and IMF data.

10 In 2023, it accounted for approximately 11% of GDP, according to IMF data.

11 In 2023, it accounted for approximately 28% of GDP, according to BCR data.

12 In 2023, debt service accounted for approximately 37% of fiscal revenue, according to Ministry of Finance data.

13 BIDeconomics (2024). *El Salvador: panorama de oportunidades, El Salvador 2024*.

14 In response to the pandemic, expenditure was increased mainly to pay for transfers, subsidies, and procurement of works, goods, or services. Just in 2020, current spending rose by 5.4% of GDP, lending rose by 1.8% of GDP, and capital expenditure declined by 0.4% of GDP.

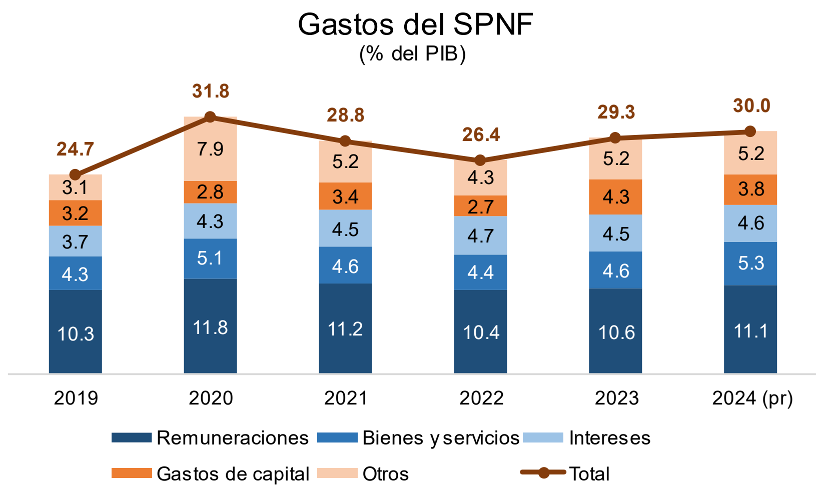
15 For example, there was an annual 3% increase in the number of positions.

16 During the pandemic, this item increased to 11.5% of GDP.

17 Input-oriented data envelopment analysis (DEA) with variable production frontiers. In other words, the estimation process responds to the following question: Given a certain expenditure level (input), which countries achieve better performance in terms of indicators (output)? An indicator equal to 1 corresponds to the most efficient country. Estimates were developed for 100 countries between 2000 and 2020 in the case of investment and between 2000 and 2023 in the case of procurement.

investment, and revising the administrative structure with a view to maximizing the use of available resources.

Figure 3. Composition of expenditures

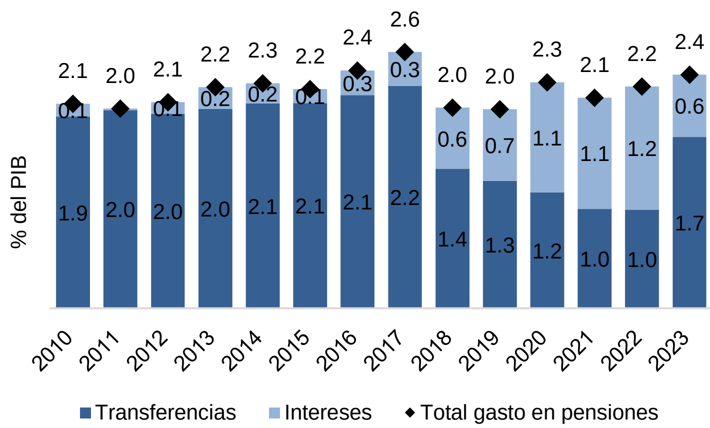


Source: Prepared by the authors based on Ministry of Finance data.

1.15 **Unsustainability of the pension system.** Despite the implementation of reforms, the retirement system remains unsustainable. The transition in 1998 from a pay-as-you-go system to the Pension Savings System was aimed at ensuring financial sustainability and improving pensions. However, it was not accompanied by appropriate fiscal measures to cover the transition costs and acquired commitments. Factors such as dollarization, decline in interest rates, and increase in minimum pensions have affected the profitability of the system.

1.16 Subsequent reforms, such as that of 2017, introduced new financing mechanisms but raised the cost of pension debt due to the growing interest rates on pension investment certificates. The most recent reform, approved in 2022, increased benefits, decoupling them from the accumulated balances in individual savings accounts, and ordered private pension funds to finance the remainder of the prior pay-as-you-go public system. This also created an implicit fiscal contingency in respect of the two (public and private) systems. Even though pension-related transfers increased from 1.0% to 1.7% of GDP between 2022 and 2023, the grace period under the reform reduced the interest burden associated with the pension debt to 0.6% of GDP. However, there are persistent challenges associated with an ageing population, labor market fluctuations, and fiscal pressure arising from the growing number of retirees and the need to supplement the minimum pensions, all of which could affect long-term fiscal sustainability (Figure 4).

Figure 4. NFPS pension expenditures[18]



Source: Authors' calculations based on data from El Salvador's Ministry of Finance.

1.17 **Revenue: strengthening the tax administration.** The country has succeeded in increasing its tax revenue thanks to the implementation of the Anti-Evasion Plan,[19] which has enabled it to boost revenue collection by close to 2 p.p. of GDP with respect to the pre-pandemic level. However, sustaining this achievement continues to be a challenge. While tax evasion in El Salvador has been trending downward, studies conducted by the Inter-American Center of Tax Administrations indicate that inefficiencies in corporate income tax collection between 2019 and 2022 were equivalent, on average, to 55% of potential revenue, highlighting significant gaps in tax compliance and suggesting that opportunities exist for improving tax compliance oversight and control.

1.18 The extent of informal employment in the Salvadoran economy limits the country's ability to capture revenue from a significant portion of the population and businesses. Against this backdrop, a key strategy for making revenue collection more sustainable without increasing tax rates, which could discourage investment and growth, is to expand the tax base. At the same time, mass use of electronic invoicing and improvements in customs management have proven to be effective tools for enhancing the traceability of commercial transactions, reducing evasion, and strengthening transparency in the tax administration. Therefore, supporting these initiatives will be essential for consolidating fiscal progress.

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[18] As of January 2023, pension debt issued by the new pension institute is no longer recorded in the official NFPS statistics, in noncompliance with the standards of the IMF's Government Finance Statistics Manual.

[19] The plan consisted of tax audits, repeated short-term amnesties, and collaboration with the Attorney-General's Office in reporting tax crimes.

1.19 **Fiscal transparency and governance: challenges to public trust.** Despite the existence of legal guarantees of access to information,[20] a mechanism for fiscal information disclosure,[21] and initiatives aimed at implementing international standards for the exchange of information for tax purposes, the quality, content, and timely delivery of data are insufficient. For example, according to the Open Budget Survey (2024), El Salvador has experienced a decline in transparency and public participation in its budgetary process. Between 2021 and 2023, its budget transparency score fell from 41 to 24 to stand below the global and regional averages of 45 and 51, respectively.[22] This was due to the failure to timely publish the general State budget proposal, the absence of midyear reviews, and the insufficiency of audit reports. In addition, citizen participation, already limited, declined even further (to a score of 13 in 2023), due to the closure of avenues for monitoring public expenditure execution.[23] These factors have a dampening effect on public trust in public finance management, while also making it difficult to identify fiscal vulnerabilities, creating uncertainty among investors and affecting the country's risk ratings. Absent improvements in fiscal transparency and governance, El Salvador will continue to face obstacles to regaining public trust and obtaining access to financing on favorable terms.

1.20 **Bitcoin's risks for macro and financial stability are contained due to its limited use, and reforms are needed to minimize fiscal risks and improve governance.** Bitcoin's risks to monetary and financial stability are contained due to the limited use of bitcoin, the preference for using the U.S. dollar as a form of payment, and the financial sector's lack of exposure to bitcoin. However, the recent rise in the price of bitcoin and its increased global acceptance could lead to a rise in vulnerability and speculative risks. In addition, the financial statements of the Chivo public digital wallet[24] show that its assets, which are equivalent to approximately 1% of GDP, are in their entirety denominated in bitcoin, evidencing a significant dependence on a volatile cryptocurrency. Furthermore, one fourth of the money deposited by the wallet's users is in U.S. dollars, creating a foreign exchange mismatch since the system relies on bitcoin to back up deposits in another currency; this could create risks if the price of bitcoin should fall.

1.21 The Bitcoin Fund Management Agency manages the bitcoins of Chivo customers, and there are persistent concerns about its governance and security. Its main

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[20] While there is no specific legislation on fiscal transparency, there does exist a broader legal framework containing regulations on this matter. For example, the Law on Access to Public Information (LAIP), which became effective in May 2011, enshrines the right of access to public information, including fiscal information. Similarly, the Law on Fiscal Responsibility for Public Finance Sustainability and Social Development (LRF), currently suspended, established principles and standards ensuring fiscal sustainability through, among other means, greater transparency and better accountability (principle of transparency and unrestricted access to fiscal information).

[21] Ministry of Finance Fiscal Transparency Portal. This is the official site for the disclosure of budget information (preparation and execution), information on public investment execution, public debt profile, tax revenue, State financial management reports, and other fiscal statistics. This portal is governed by the rules for making government finance information available to the public (Ministerial Resolution No. 850, dated 21 July 2010).

[22] Open Budget Survey, General Summary (2024).

[23] Open Budget Survey, El Salvador (2024).

[24] In 2021, the Republic of El Salvador created a digital wallet known as Chivo Wallet, which is used to make payments in U.S. dollars or in bitcoin.

exposure is in its management of 6,070 bitcoins (US$600 million). Meanwhile, Chivo faces annual operating costs equivalent to 0.1% of GDP, primarily due to the subsidies on US$-BTC conversions. In addition, potential risks have been identified in relation to money laundering, terrorism financing, and cybersecurity.[25] Although bitcoins are stored in a cold wallet, there are concerns as to their protection from cyber and operational threats.

B. Program with the International Monetary Fund

1.22 El Salvador has established a reform program to strengthen fiscal sustainability and improve the economic growth outlook, supported by an arrangement with the IMF that was approved on 26 February 2025. This arrangement, under the IMF's Extended Fund Facility (EFF), is to be in effect for 40 months and provide access to 1.03392 billion Special Drawing Rights (SDRs), equivalent to approximately US$1.4 billion, or 360% of quota.[26] The general objective of the program is to restore fiscal sustainability, increase reserves, strengthen governance and transparency, and boost growth and resilience for El Salvador. The specific objectives are: (i) adjust the primary balance by 3.5% of GDP over three years to favor economic growth, with the support of structural reforms aimed at ensuring a sustainable reduction in public debt; (ii) rebuild the liquidity reserves to strengthen financial stability and external feasibility; (iii) improve financial governance and integrity by strengthening fiscal transparency as well as the anticorruption and the anti-money laundering and combating the financing of terrorism frameworks (AML/CFT); and (iv) address the risks of the bitcoin project, including its alignment with IMF policies and best international practices, through a legislative reform that stipulates that bitcoin acceptance by the private sector is to be voluntary, taxes are to be paid only in U.S. dollars, and bitcoin purchases by the country are to be banned during the program while State participation in the Chivo wallet is to be gradually scaled back.

1.23 The program will be monitored semiannually by the IMF, although the first two reviews will be quarterly so as to strengthen its implementation in the initial stages. Completing the prior actions in all key areas of the program is a prerequisite for Board consideration. The program's quantitative performance will be monitored by means of quantitative performance criteria (QPCs), indicative targets, and structural benchmarks.

1.24 **Prior actions.** The program's prior actions include a series of measures that El Salvador implemented (required link 3) before final approval of the arrangement to cure critical vulnerabilities, ensure the credibility of the program, and show the country's commitment to the reforms. These prior actions included: (i) approval of the 2025 budget in line with the program objectives and publication of a three-year fiscal plan; (ii) adoption of fiscal transparency standards aligned with good international practices; (iii) BCR issuance of regulatory provisions aimed at raising reserve requirements to 12% of deposits and at gradually accumulating liquidity cushions of up to 15% of deposits; (iv) publication of the public addresses

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[25] IMF (2024) EFF Policy Note 2025.

[26] The EFF is backloaded, as set out in Table 11, page 48, showing that disbursements will total SDR 258.48 million in the first year, distributed in 3 tranches; SDR 229.76 million in 2026, distributed in 2 tranches; SDR 359 million in 2027, distributed in 2 tranches; and SDR 186.68 million in 2028, in a single disbursement.

of all wallets held or controlled by the public sector, segregation and safeguarding of Chivo customers' funds, and disclosure of Chivo's summary financial statements, including liquidity management policies and transfers into and from the country; (v) amendment of the Bitcoin Law to clarify the legal nature of bitcoin and removal of bitcoin's essential characteristics as legal tender from the law; and (vi) enactment of a new anticorruption law in line with the high-level G-20 principles on asset disclosure by public officials.

1.25 The structural actions are aimed at strengthening fiscal management, promoting financial stability, improving governance and transparency, and improving bitcoin management. In terms of expenditure policy, they are the following: (i) prepare a civil service reform plan in line with IMF recommendations; (ii) publish an actuarial assessment of the pension system; and (iii) publish a proposal for reform of the pension system to strengthen the system's sustainability and generate fiscal savings. In terms of fiscal transparency, they are the following: (i) publish comprehensive fiscal information on State-owned enterprises, including estimates on quasi-fiscal activities as well as property policies, corporate governance, performance expectations, competitive neutrality, financial and risk management, and transparency and accountability standards; (ii) legislative approval of a new fiscal responsibility law that includes fiscal rules, clear escape clauses, a transition path consistent with the program's objectives, and provisions to improve budgetary credibility, including an analysis and annual report on tax expenditure; and (iii) publish a budget proposal, including a Medium-Term Fiscal Framework (MTFF), transfers to and from extrabudgetary funds, State-owned enterprises, and subnational governments, gross financing of both the external and domestic debt, multiyear investment plans, including public-private partnerships, and fiscal risk analysis. In terms of governance and transparency, they are the following: (i) publish on one of the country's official websites the names and nationalities of the beneficial owners of all public contract awardees together with the information on their respective contracts, and issue a regulation limiting the exceptions that allow procurement of goods and services through noncompetitive methods, providing a precise definition of the "strategic project" waiver and introducing reporting requirements whenever this waiver is applied.

1.26 The structural actions related to the financial sector are as follows: (i) adopt liquidity coverage ratio and net stable funding ratio regulations; (ii) enact legislation to strengthen the legal framework for bank resolution, crisis management, and deposit insurance arrangements; (iii) secure BCR Board approval of a recapitalization plan backed by the Republic of El Salvador to address the capital deficit in accordance with International Financial Reporting Standards and financial integrity, governance, and transparency; (iv) enact legislation to strengthen the independence and anticorruption mandate of the Court of Auditors, aligning it with international standards, and ensure the existence of a clear legal basis for collaboration with El Salvador's Office of the Attorney-General in cases of corruption, including protocols for information exchange and case referrals; and (v) enact the necessary reforms for subjecting lawyers, notaries, accountants, and auditors to a risk-based supervision framework, in compliance with FATF Recommendation 28.[27]

1.27 **The performance of the EFF will be monitored by the IMF by means of QPCs and indicative targets** established for the end of March, June, September, and December 2025.[28] These include: (i) the nonfinancial public sector's consolidated primary balance; (ii) the nonfinancial public sector's consolidated net domestic debt; (iii) delays in central government domestic payments; (iv) delays in external debt payments; (v) the nonfinancial public sector's deposits at the BCR; (vi) the banks' required liquid assets as a percentage of total deposits; (vii) non-accumulation of bitcoin by the government; and (viii) ban on issuing or guaranteeing bitcoin-denominated or bitcoin-indexed debt as well as tokenized instruments.

1.28 In addition, there are indicative targets for the BCR's gross international reserves, priority social expenditure, and public investment. They will also include adjustments to ensure that a portion of the surplus revenue is saved, the nonfinancial public sector's reserve and deposit targets are adjusted in the event of unforeseen changes in official financing and/or bond issues, and the potential sale of bitcoin is not used to meet the established targets. The structural benchmarks, coupled with the prior actions and quantitative performance criteria, provide a comprehensive framework for monitoring the program's progress.

1.29 Upon implementation of the arrangement and policy measures, it is expected that the actions to generate expenditure savings (adjustment in wages and salaries, reduction in the goods and services account, prioritization of transfers to municipalities) and revenue collection efforts (expansion of the tax base and reduction in tax expenditures,[29] electronic invoicing, and improvement in the tax and customs administration) will achieve a fiscal adjustment by gradually improving the fiscal and external imbalances. The structural spending and revenue strengthening measures, equivalent to about 3.5% of GDP over the course of the three-year program, will take the primary surplus from 0.2% of GDP in 2024 to 1.9% of GDP in 2025 and 3.7% of GDP in 2027. This is consistent with an overall deficit of 2.1% of GDP in 2028, with rising interest payments reflecting the various debt management policies and transactions, especially in relation to pension debt. Through this increase in primary surplus and a better outlook for economic growth offsetting interest, the public debt will take a downward path as a percentage of GDP, coming to stand at about 83% of GDP by 2028. In addition, the fiscal adjustment will enable an improvement in several macroeconomic indicators. Although real growth is initially expected to slow, it will subsequently stabilize (at around 3%), inflation will remain low (at close to 2%), and the current account deficit will be contained (at around 1% of GDP). It is expected that these measures, coupled with financial and technical support by international financial institutions such as the IDB and the World Bank (paragraph 2.16), will lead to a sustainable fiscal consolidation.

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[27] The EFF arrangement, approved on 26 February 2025, contains more information on bitcoin-related measures (Table 13. Prior Actions and Structural Benchmarks).

[28] Starting in 2026 and until the end of the program, the QPC targets will be reviewed in the semiannual monitoring reviews.

[29] Tax expenditures are estimated to amount to 3.5% of GDP.

1.30 **Revenue mobilization.** The tax administration will continue to be reinforced through measures designed to mobilize revenue on the order of 0.3% of GDP in 2025. Subsequently, efforts will be made to expand the tax base, reducing tax expenditures while addressing environmental and health externalities.

Table 2. Composition of fiscal adjustment[30]
(Estimated cumulative impact as a % of GDP)

Component	Measure	2025	2026	2027
Revenue	Expand the tax base, reducing tax expenditure	0.2	0.3	0.5
Revenue	Electronic invoicing	0.2	0.2	0.2
Revenue	Improve tax and customs administration	0.0	0.0	0.1
Revenue subtotal		***0.3***	***0.4***	***0.7***
Expenditure	Wages and salaries adjustment	0.8	1.3	1.6
	Of which structural measures on salaries	*0.2*	*0.7*	*1.0*
Expenditure	Reduction in the goods and services account	0.5	0.8	1.0
Expenditure	Prioritization of transfers to municipalities	0.1	0.2	0.2
Expenditure subtotal		***1.4***	***2.2***	***2.8***
Total		**1.7**	**2.7**	**3.5**

Source: El Salvador's Ministry of Finance and arrangement with the IMF.
Notes: The structural measures on wages refer to an adjustment of, or limit on, wage increases, and do not include payroll modifications.

1.31 **Expenditure efficiency measures.** The expenditure streamlining measures are intended to yield savings equivalent to 2.8% of GDP, initially leveraged through a payroll adjustment derived from the pension plan, coupled with the restriction on wage increases, with partial application of the scale in the health sector. These adjustments will be supplemented by a structural reform of the civil service. In addition, the technical inefficiencies associated with expenditures in goods and services will be addressed, and intergovernmental transfers will be prioritized, seeking to preserve public investment and targeted social spending. The aforementioned spending measures will make it possible to implement the adjustment without affecting capital spending, which is essential for maintaining the momentum in productivity and growth.[31]

1.32 **Enhancing fiscal transparency and responsibility.** The country agreed to publish fiscal data, such as fiscal flows and data on NFPS debt balances. In line with this measure, a new fiscal responsibility framework will be published, which will include the Fiscal Responsibility Law (LRF), the MTFF, and the medium-term public debt strategy. The IDB has been providing technical support to update and reactivate the LRF and strengthen the MTFF, in tandem with strengthening fiscal

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[30] The figures set out herein may not add up exactly due to the approximation and rounding methods used by the IMF. These methods ensure consistency in data presentation at an overall level but may create small discrepancies when comparing totals to the sum of their parts.

[31] The output's response to fiscal consolidation is sensitive to the type of public spending chosen to implement it: when public investment vis-à-vis public consumption is penalized, a fiscal consolidation reduces GDP by 0.7% two years after the fiscal shock. Conversely, safeguarding public investment during the consolidation can even stimulate medium-term growth (Ardanaz et al., 2024).

risk analysis and developing a debt strategy (paragraph 2.10). The agreement includes publishing statements of ownership of all State enterprises on the websites of these enterprises and on a consolidated website.

1.33 **A revised pension reform.** In the first place, it was agreed to publish an independent actuarial evaluation of the pension system (by July 2025) with a view to assessing its long-term fiscal sustainability. At the same time, work will be done to design options for reinforcing the sustainability of the system, which is to result in a reform proposal by February 2026.

1.34 **Financial stability measures.** El Salvador will implement measures to strengthen financial stability, including: (i) modernizing the supervisory and regulatory frameworks through a financial stability law and improvement of risk-based supervision capacity; (ii) strengthening the banks' liquidity framework by having the BCR raise the average reserve requirements and adopt risk-based bank supervision standards (Basel III); (iii) strengthening the BCR's financial position through a recapitalization plan; and (iv) closing the regulatory and supervision gaps, including a transition to International Financial Reporting Standards (IFRS) and issuance of liquidity regulations.

1.35 **Measures to improve governance and accountability.** The agreement includes enactment of an anticorruption law, strengthening of the public procurement framework, and measures to enhance transparency regarding the beneficial owners of contracts. Weaknesses will be addressed in the anti-money laundering and combating the financing of terrorism (AML/CFT) framework, including by implementing the recommendations of the Financial Action Task Force. To complement these reforms, efforts will be made to boost the country's potential growth through public investment in infrastructure and by fostering foreign investment and improving competitiveness. Financial inclusion and adaptation to climate change will also be promoted.

1.36 **Improvements in bitcoin management.** To address the challenges associated with the adoption of bitcoin as legal tender, the country committed, under the agreement, to take steps to mitigate the relevant risks. These steps include: eliminating the public and private sectors' obligation to accept bitcoin in transactions, making private sector acceptance of bitcoin voluntary, limiting its use in the public sector, indicating that tax obligations are to be paid only in U.S. dollars, ensuring that State monetary obligations are not paid in bitcoin, eliminating the State's obligation to provide a bitcoin-U.S. dollar convertibility mechanism, and removing bitcoin's characterization as legal tender.

1.37 The transparency of government transactions in bitcoin and of the financial position of the public digital wallet Chivo will be ensured. Chivo's summary financial statements will be published along with the public addresses of the digital bitcoin wallets held by the public sector, and the segregation and protection of Chivo customers' funds will be ensured. Cryptocurrency regulations will be improved to bring them in line with best international practices, strengthening the regulation and supervision of cryptocurrency companies to address cybersecurity threats, reinforce antifraud policies, and implement rigorous supervision. The financial statements of the trust and State-owned enterprises involved in the bitcoin project will be published in quarterly fashion.

II. ELIGIBILITY CRITERIA

2.1 Special development lending (SDL)[32] is a budgetary support lending instrument aimed at helping to deal with the effects of macroeconomic crises[33] affecting a country's economic and social progress. To be eligible for SDL, a country needs to be affected by a macroeconomic crisis and have a loan agreement in place approved by the Executive Board of the IMF. In addition, the amount of this operation (US$500 million) falls within the established upper limit: 2% of the country's GDP or US$500 million, whichever is lower.[34] In addition, the SDL policy matrix must include the same conditions as those agreed upon by the country and the IMF. This SDL complies with these eligibility criteria, insofar as: (i) the country is experiencing a macroeconomic imbalance that deepened in 2023 (paragraphs 1.3, 1.4, and 1.5), evidenced by an elevated fiscal deficit, lack of access to sufficient funding, and difficulty in maintaining a prudential level of reserves; and (ii) El Salvador has a financing agreement in place, approved by the IMF on 26 February 2025 (paragraph 1.22). The IDB financing will also help[35] prevent setbacks in the policy reforms, protect financing for pro-poor programs (social spending), and protect spending on priority infrastructure. Furthermore, the policy matrix of this SDL program includes the same conditions, in terms of prior actions, as agreed upon by El Salvador and IMF and approved on 26 February 2025. The single disbursement under this SDL will take place once the IMF program has been approved and its proceeds are being disbursed. This single disbursement will be synchronized with the IMF disbursement.

2.2 **The Bank's operational and technical work in the country.** The Bank has been providing significant support to El Salvador on government finance issues (Figure 5). This support can be divided into two categories: support for policy reforms and institutional strengthening.

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[32] Established in the Proposal to Create a Special Development Lending Category (AB-3134), approved by the Board of Governors on 30 June 2017 pursuant to Resolution AG 9/17, and developed under the Special Development Lending Operational Guidelines (GN-2031-17), it is a lending instrument aimed at strengthening the Bank's role in supporting economic development in Latin America and the Caribbean by providing financial support to borrowing member countries facing a macroeconomic crisis.

[33] Defined as a situation in which the country actually or potentially lacks sufficient funding on affordable terms to satisfy its net international payment obligations, such as import payments or external debt amortization, while maintaining prudential reserve levels (AB-3134).

[34] This is the established limit for new funds per country (paragraph 4.6 of document AB-3134). In 2023, El Salvador had a nominal GDP of US$34.015 billion (BCR, 2024), 2% of which was US$680.3 million. Therefore, the absolute limit of US$500 million is applicable in this case.

[35] The fiscal consolidation also seeks to bolster support for the most vulnerable, allocating at least 1.5% of annual GDP to priority social spending. This will include strongly targeted in-kind transfers, school nutrition, and cash transfer programs. The SDL program will be complemented for its three-year duration by IDB investment operations to improve the targeting and effectiveness of social spending through reforms to legal and institutional frameworks, the creation of a reliable national social registry and expansion of the digital payments system to reach the poorest sectors of society (5785/OC-ES, approved in 2023 for US$100 million), and an evaluation of social spending (ATN/OC-20866-RG, approved in 2024 for US$440,000). In addition, priority attention will be given to protecting spending on priority infrastructure, with at least 2.5% of GDP allocated to advance social and productive development by building schools, rural roads, and other essential works. In addition to the SDL, the Bank will use strategic operations that maximize impact and sustainability, such as the Rural Roads Program (5620/OC-ES) and Improving Education Coverage and Quality: Birth, Growth, Learning (5080/OC-ES, 5080/OC-ES-1, 5080/OC-ES-2, approved in 2020 for US$100 million).

Figure 5. IDB support for fiscal policies in El Salvador

Source: Prepared by the authors.

2.3 In 2016, an investment loan operation was approved with the aim of strengthening the country's tax administration[36] and increasing tax collection. This operation, which closed in November 2024, supported significant reforms to modernize the tax and customs administration, such as by digitizing tax documents, including the introduction of electronic invoices, and bolstering the taxpayer service centers and online services. In terms of customs, it fostered the adoption of digital technologies for faster and more robust merchandise control and inspection and modernized the information management infrastructure of the Vice Ministry of Tax Revenue.[37]

2.4 In 2018, the Bank approved a programmatic series aimed at bolstering fiscal sustainability by protecting public investment and financing social programs to promote inclusive growth. This series enhanced tax management by creating a Debt Collection Office, which recovered 16.6% of the delinquent debt, while value-added tax evasion dropped to 19.1%, exceeding the target. With regard to current expenditure, as a result of mandatory use of the online portal COMPRASAL-II, the award of contracts through competitive processes reached 97.2% of total awards, making the procurement of goods and services more efficient and transparent.[38]

2.5 In 2020, the Bank approved a program to support the country in designing and implementing a set of effective and fiscally responsible measures that would enable a timely, near-term response to the main challenges in addressing the

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[36] 3852/OC-ES, approved in December 2016 in the amount of US$30 million, is closed and the Project Completion Report (PCR) is being prepared.

[37] IDB, (2024). El Salvador Boosts Tax Collection by Digitally Transforming Tax and Customs Administration.

[38] 4542/OC-ES and 4807/OC-ES, approved for US$350 million and US$200 million, respectively; closed. The results are described in the PCR for the series.

health and economic crisis caused by the COVID-19 pandemic, while in the medium term helping to achieve a post-pandemic economic and fiscal recovery. The policy measures supported by the program helped[39] the country have resources available to implement actions to deal with the health emergency, such as improving healthcare-related budget execution, which made it possible to expedite the procurement of medical supplies and deliver transfers to households (59%) and bonuses to essential workers (23%). It also benefited 84.4% of businesses in the form of tax deferments, strengthening the tax administration.[40]

2.6 At the same time, the Bank has provided significant and continuous support through technical cooperation operations,[41] which have been aimed at institutionally strengthening the Ministry of Finance and thereby contributing to sustainability of public finance. To this end, the Bank has been supporting various efforts, including: (i) improving macrofiscal management; (ii) strengthening tax policy and management; (iii) improving the quality of public expenditure; and (iv) enhancing fiscal transparency.

2.7 Between 2022 and 2024, as part of the Bank's assistance in macrofiscal sustainability and with a view to restoring a fiscal responsibility and fiscal transparency framework,[42] a strategy was developed for effective public finance management, along with a diagnostic assessment and roadmap on the current status of contingent liabilities[43] and a borrowing strategy that includes risk and cost analyses, portfolio evaluation, and stress tests.[44]

2.8 With regard to strengthening tax policy and management, after modernizing the tax and customs administration to achieve more efficient management and better collection results,[45] actions were taken to design measures aimed at making the tax system more progressive[46] and at integrating climate action into the country's fiscal policy and management.[47] To boost expenditure efficiency, the Bank is supporting actions to improve the efficiency of procurement expenditures. In implementing these technical cooperation operations, the Bank has worked and will continue to work in coordination with the Ministry of Finance on the process of

39 5046/OC-ES, approved in 2020 for US$250 million; closed. The results are described in detail in the PCR.

40 While the Republic of El Salvador made strides in completing some of the triggers for the second operation identified at the time of the program's design, the processing of the second operation was never begun. The PCR for the first operation in this series is in preparation.

41 ATN/OC-19509-ES, approved in 2022 for US$150,000, under implementation; ATN/OC-16234-ES, approved in 2017 for US$275,000, closed; ATN/OC-17732-ES, approved in 2019 for US$100,000, closed; ATN/FC-21224-ES, approved in 2024 for US$500,000, under implementation.

42 ATN/OC-19509-ES, approved in 2022 for US$150,000; under implementation.

43 Idem.

44 Idem.

45 ATN/OC-16234-ES, approved in 2017 for US$275,000; closed.

46 ATN/OC-17732-ES, approved in 2019 for US$100,000; closed. The effects of the COVID-19 pandemic on the country's public finances forced the Ministry of Finance to postpone and redefine its policy measures. This limited the implementation of technical assistance to the country in designing, implementing, and coordinating a property tax.

47 ATN/FC-21224-ES, approved in 2024 for US$500,000; under implementation.

strengthening the fiscal responsibility framework and on the fiscal consolidation and sustainability process.

2.9 **The Bank's value added.** Between 2021 and 2024, the IDB Group played a crucial role in defining El Salvador's fiscal strategy and in designing the program in coordination with the IMF, including prior actions, structural conditions, and adjustment measures (Figure 6). For example, the Bank's technical support was crucial in formulating a medium-term fiscal plan, which is one of the prior actions required under the EFF arrangement. Furthermore, the Bank provided assistance in building and simulating macrofiscal scenarios and in evaluating the feasibility of potential measures to achieve an adjustment. In addition, the Bank provided advice on modernizing the tax and customs administration and on improving the efficiency of public procurement expenditures, creating the foundation for a fiscal consolidation process aligned with the country's commitments to the IMF.

Figure 6. Linkage of IDB technical assistance on prior actions, structural conditions, and fiscal adjustment measures with the EFF

	Temática	Actividades 2021-2024	AP	CE	Ajuste
1	Ley de Responsabilidad Fiscal	• Análisis de contexto: Revisión de LRF suspendida. • Evaluación internacional. • Diseño de lineamientos: principios clave, simplificación de las reglas fiscales, especificación de la cláusula de escape, calibración y articulación. • Propuesta de una nueva LRF.		✓	
2	Marco Fiscal de Mediano Plazo (MFMP)	• Análisis del contexto macroeconómico y fiscal. • Prospectiva fiscal y riesgos: estimación de elasticidades y su inserción en la regla fiscal y análisis de sostenibilidad fiscal; plan de acciones para lograr cumplir las metas.		✓	
3	Gestión de riesgos fiscales y pasivos contingentes	• Revisión de informes de RF y de la buena práctica internacional. • Propuestas para el fortalecimiento de la gestión integral de RF. • Fortalecimiento de capacidades al MH (talleres técnicos).		✓	
4	Estrategia Fiscal	• Elaboración de las proyecciones macro fiscales. • Identificación y cuantificación de las medidas de política contempladas en el ajuste fiscal. • Fortalecimiento de capacidades al MH: aplicación del ecosistema FISLAC. • Análisis presupuestario del PGE 2025. • Elaboración de documento Plan Fiscal del SPNF 2024-2027.	✓		
5	Estrategia de Gestión de la Deuda Pública de El Salvador	• Revisión de literatura y de buenas prácticas internacionales. • descripción del estado actual del portafolio y las restricciones al mercado. • Proyecciones fiscales de mediano plazo e integración con análisis de deuda. • Elaboración de un documento de recomendación de la Estrategia de Deuda.	✓		
6	Contratación Pública	• Revisión y comentarios a la Ley de Compras Públicas. • Propuesta de rediseño institucional. • Diagnóstico del sistema de contratación públicas (en proceso). • Revisión de posibles eficiencias en gasto relacionado a contratación.		✓	✓
7	Administración Tributaria	• Diseño e implementación de factura electrónica y otros documentos electrónicos tributarios. • Modernización de aduanas para aumentar la recaudación. • Modernización de la infraestructura tecnológica.			✓

Source: Prepared by the authors based on IDB and EFF data.

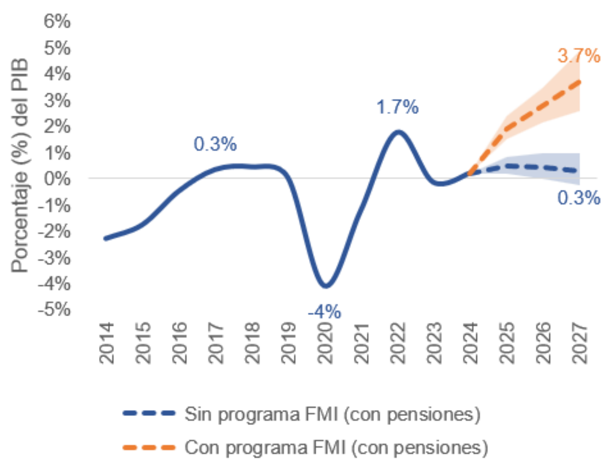
Note: AP means prior actions, CE means structural conditions, and Ajuste refers to the fiscal adjustment measures under the EFF arrangement.

2.10 In addition, the Bank played a key role in updating the MTFF, ensuring that it be aligned with transparency and sustainability principles. Similarly, the new LRF, which is aimed at strengthening the application of fiscal rules, will be made to include escape clauses and reinforce the obligation to publish a solid MTFF. In addition, the Bank has supported initiatives designed to improve fiscal risk management and public debt planning, promoting an approach based on a comprehensive analysis of risks and costs.

2.11 The Bank has facilitated the implementation of key tools to optimize collection and expenditure control, including electronic invoicing,[48] launching the blue channel,[49] and strengthening the public procurement system[50] (Figure 6). At the same time, it has provided direct assistance to the Ministry of Finance, bolstering its institutional capacity for effectively complying with its fiscal commitments under the arrangement with the IMF.[51]

2.12 In addition, FISLAC 2.0, an IDB tool deployed and used in the country with IDB training support, was implemented to simulate a counterfactual scenario[52] to show the relevance of the IMF program and its impact on fiscal sustainability in El Salvador. The results indicate that in the program's absence, the primary balance would range from 0% to 0.3% of GDP (Figure 7), consistent with an expansion of the total deficit (including pensions) to 5.7% of GDP in 2027 (Figure 8). In this scenario, the debt would remain on an upward trend, reaching 93% of GDP in 2027 (Figure 9), with a concomitant rise in interest rates on the country's debt. A scenario such as this would deepen the economy's imbalances between savings and investment, increasing the needs for external financing and expanding the current account deficit.

Figure 7. Primary balance simulation



Source: Prepared by the authors based on the FISLAC 2.0 model.

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48 IDB (2024). El Salvador Boosts Tax Collection by Digitally Transforming Tax and Customs Administration.

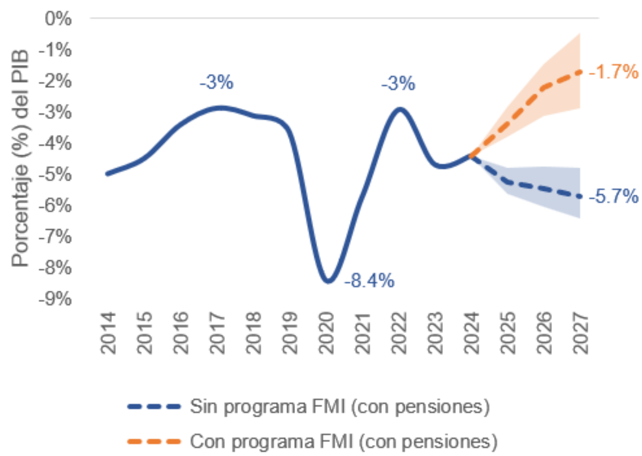
49 The blue channel is a form of customs control applied to import declarations after clearance. It provides flexibility and enables the customs administration to make better use of its resources, such as by clearing low-risk goods subject to another examination at a subsequent date.

50 A diagnostic assessment of the procurement system is currently underway using the OECD methodology.

51 3852/OC-ES, approved in 2016 for US$30 million; closed in 2024.

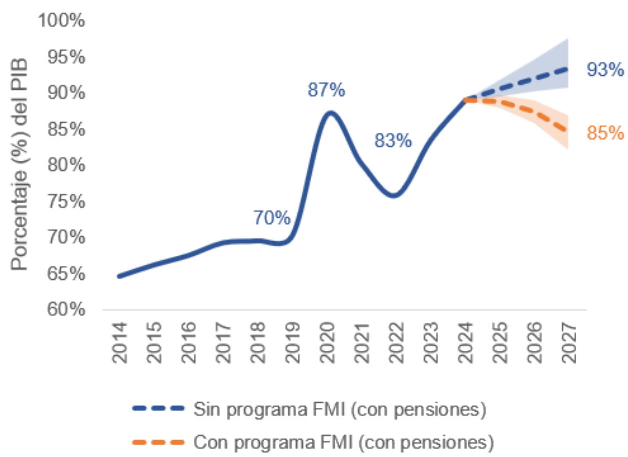
52 The counterfactual scenario assumes that the reforms of the adjustment program are not implemented and the macroeconomic environment behaves accordingly.

Figure 8. Total balance simulation



Source: Prepared by the authors based on the FISLAC 2.0 model.

Figure 9. Debt simulation



Source: Prepared by the authors based on the FISLAC 2.0 model.

2.13 The Bank is expected to continue to support the process of fiscal consolidation and sustainability in El Salvador, particularly in implementing the structural reforms agreed upon as part of the IMF program. Similarly, the Bank will continue to provide technical assistance upon request by the Ministry of Finance to strengthen the fiscal responsibility framework and enhance fiscal and budgetary transparency, with a view to advancing toward macroeconomic stability and bolstering the country's public finances.

2.14 **The Bank's experience in the region.** The Bank has vast experience using special development loans to assist countries in the region facing serious macroeconomic crises. A total of thirteen SDL operations have been approved for nine countries for an aggregate amount of about US$4.2737 billion, and this is the second operation for El Salvador.[53] The Bank's use of this instrument dates back to an approval for Barbados in 2018[54] and another for Ecuador in 2019.[55] The COVID-19 crisis gave rise to five such operations in 2020, including the one previously mentioned for El Salvador and others for the Dominican Republic,[56] Honduras,[57] Panama,[58] and Costa Rica.[59] Also in the context of the pandemic and the subsequent turbulence, additional operations were approved for Ecuador in 2021,[60] for Argentina[61] and Suriname in 2022,[62] and for Ecuador and Argentina in 2024.[63] All of these operations were conceived within the framework of programs approved by the IMF, in accordance with the Bank's policies for this instrument.

2.15 **Lessons learned.** The use of this lending instrument has yielded lessons learned that have been incorporated into the design of the present operation, including the following: (i) the SDL instrument is an effective vehicle for quickly channeling budgetary support resources in crisis or macroeconomic imbalance situations, and their fast disbursement leverages the IMF program (EFF) and adds further technical assistance toward compliance with the agreed upon measures; (ii) its value added is two-fold: it provides financial support to the country while at the same time adding a layer of technical assistance and continuous dialogue toward compliance with some of the structural measures agreed upon with the IMF; (iii) support for compliance with the conditions should be coordinated between the development partners; and (iv) SDL operations create greater value added when the Bank provides assistance throughout the prior process of approving the arrangement, since this is an opportunity to strengthen the technical dialogue, facilitate coordination, and respond effectively to the country's needs, as has been shown in the case of El Salvador.

2.16 **Coordination with other development partners.** Since SDL is an instrument that needs to be coupled with an IMF program that has been approved and is in disbursement, preparing this operation required continuous coordination with the IMF mission team for El Salvador. In addition, the Bank is actively coordinating with other development partners (Table 3), including the World Bank, the Development Bank of Latin America and the Caribbean (CAF), and the Central

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53 In 2020, the IDB approved the Emergency Program for Macroeconomic and Fiscal Sustainability (5036/OC-ES), which was structured as an SDL operation for US$250 million, with the aim of supporting the country's efforts and actions to contain the COVID-19 pandemic. However, the operation was canceled and another type of lending instrument was used instead (5046/OC-ES, approved in 2020 for US$250 million; closed).

54 4656/OC-BA, closed.

55 4771/OC-EC, closed.

56 5066/OC-DR, closed.

57 5069/BL-HO, closed.

58 5055/OC-PN, closed.

59 5264/OC-CR, closed, and 5054/OC-CR, canceled.

60 5403/OC-EC, closed.

61 5609/OC-AR, closed.

62 5500/OC-SU, closed.

63 5907/OC-AR, closed, and 5909/OC-EC, closed.

American Bank for Economic Integration (CABEI),[64] to ensure that each organization provides financing aimed at specific priorities, resulting in an efficient and complementary distribution of funds. In addition to the US$1.4 billion to be provided by the IMF over the 40 months of the program, of which US$338 million is expected to be disbursed in 2025, mechanisms will be established for joint coordination and monitoring by the multilateral/regional institutions and the country to ensure that the resources are aligned with the program's objectives and to avoid duplication. This collaboration will make it possible to address the country's macroeconomic challenges comprehensively, promoting a sustainable fiscal adjustment (paragraph 3.10).

Table 3. Multilateral financing identified as support for the IMF program that will be disbursed in 2025

Source	2025 amount (US$ millions)	Instrument type	Estimated approval date
IDB	500	SDL	March 2025
World Bank	250	Budgetary support	May 2025
CABEI	150	Recognition of investment expenses	March 2025
CAF	50	Regional contingent sector-specific credit line for external climate events, earthquakes, pollution-causing accidents, and epidemics	Approved 2024[65]
Subtotal	**950**		
IMF	338[66]	EFF	Approved February 2025
Total	**1,288**		

Source: Prepared by the authors based on EFF, World Bank, and IMF data.[67]

2.17 **Complementarity with other Bank operations.** The Bank has an active portfolio in El Salvador comprised of eighteen operations totaling US$1.7 billion.[68] Within this portfolio, four investment programs in key social sectors stand out: (i) Program for Modernization of the Statistics System of El Salvador;[69] (ii) Integrated Health Program II[70] and the recently approved Smart and Comprehensive Health Program;[71] (iii) Improving Education Coverage and Quality: Birth, Growth,

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[64] Coordination mainly takes the form of meetings by the representatives of the institutions involved to follow up on support, the approvals agenda, and portfolio programming.

[65] US$25 million pending disbursement in 2025.

[66] This amount is roughly equivalent to all disbursements planned for 2025, expressed in SDRs under the EFF, for a total of SDR 258.48 million (EFF, Table 11, page 48). The conversion was calculated on 4 March 2025.

[67] These data have been collected on the basis of the most recent available information arising from coordination with other development partners on the support package to be provided as a complement to EFF implementation.

[68] According to the data available as of 5 March 2025.

[69] 5454/OC-ES, approved in 2021 for US$44 million.

[70] 3608/OC-ES, approved in 2015 for US$170 million.

[71] 5874/OC-ES, approved in 2024 for US$235 million.

Learning;[72] and (iv) Shock-Responsive Social Protection in El Salvador.[73] These operations support investment in key sectors for human capital development and bolster the existing social protection mechanisms. Thus, this operation reinforces a line of work established between the Bank and the Republic of El Salvador in recent years.

2.18 The Bank also supports the country's efforts to improve the productive infrastructure, boost economic activity, and foster sustainable development. Through the Rural Roads Program,[74] the Bank promotes connectivity and accessibility in rural areas, improving the quality of life in rural communities by making them part of national development efforts and stimulating local economic growth. The Social Digital Connectivity Program[75] is aimed at narrowing the digital gap and promoting digital inclusion in vulnerable population groups. In addition, the Bank is fostering tourism through the Program to Support the Recovery and Expansion of the Tourism Sector in El Salvador,[76] designed to strengthen this industry sustainably, inclusively, and competitively, creating jobs and promoting local economic development, particularly in vulnerable communities.

2.19 For 2025, the Bank is preparing operations focused on economic and social development, including: (i) the Program to Strengthen Educational Paths and Climate Resilience of the Salvadoran School System, and the (ii) Program to Support the Urban Mobility System in the San Salvador Metropolitan Area.

2.20 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objective of reducing poverty and inequality through the implementation of reforms to enhance the State's fiscal management capabilities (strengthening of public finance). The program is also aligned with the operational focus area of institutional capacity, rule of law, and citizen security. It is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-4) in the area of fiscal management enhancement and is consistent with the Fiscal Management Sector Framework Document (GN-2831-13) by promoting actions to bolster fiscal sustainability in the medium term. The program is aligned with the IDB Group Country Strategy with El Salvador 2021-2024[77] (GN-3046-1) in terms of the following strategic objectives: (i) strengthen tax collection; and (ii) reduce public expenditure inefficiencies, by supporting the country's efforts to return to the path of fiscal sustainability over the medium term and improve efficiency and transparency in the use of public resources, taking account of the need to protect investment spending and the vulnerable population groups hardest hit by the crisis. All of this makes it possible to support the objectives set out in the regional development program América en el Centro.

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[72] 5080/OC-ES-1, 5080/OC-ES-2, approved in 2020 for US$50 million.

[73] 5785/OC-ES, approved in 2023 for US$100 million.

[74] 5620/OC-ES, approved in 2022 for US$100 million.

[75] 5340/OC-ES, 5341/KI-ES, approved in 2021 for US$85 million.

[76] 5590/OC-ES, approved in 2022 for US$106 million.

[77] The strategy is in effect and in its transition period.

2.21 **Paris alignment.** This operation falls outside the scope defined by the IDB Group's Paris Alignment Implementation Approach (PAIA) (GN-3142-1, paragraph 2.11).[78] Consequently, no review is required regarding its alignment with the mitigation and adaptation objectives of the Paris Agreement.

2.22 **Gender and diversity considerations.** Since this is a budgetary support operation and the Policy Matrix does not provide any specific gender and/or diversity measures, this operation does not meet the minimum requirements for being deemed aligned with gender and diversity objectives.

A. Objectives, components, and cost

2.23 **Program objective.** The program's general development objective is to bolster the macroeconomic stability of El Salvador. The specific development objectives are: (i) ensure fiscal sustainability;[79] and (ii) improve financial integrity and stability.

2.24 This SDL is part of a package coordinated with the other development partners in response to the country's technical strengthening efforts, the consensus achieved through the EFF, and the objectives of the country's economic plan, which is focused on implementing the structural reforms needed to achieve macroeconomic and fiscal sustainability.[80]

2.25 The program is aligned with the objectives of the EFF, approved by the IMF on 26 February 2025. The Policy Matrix (Annex II) provides for a single disbursement and its conditions include the prior actions required under the EFF (paragraphs 1.23 and 1.24). The budgetary support provided through the SDL will help to address the country's short-term financing needs and support macroeconomic stability.[81] The following components will be financed:

2.26 **Component 1. Fiscal sustainability.** The objective of this component is to ensure fiscal sustainability through the following prior actions: (i) legislative approval of the 2025 budget in line with the fiscal targets of the program, coupled with policy actions supporting compliance with the agreed upon budgetary objectives, and publication of a three-year fiscal plan that includes the projected cost of public pensions and interest on pension-related debt; and (ii) publication of fiscal data, including fiscal flows and data on Salvadoran Pension Institute (ISP) debt stock in the central government, the 2023 audited financial statements, restoration of the link to the COVID/FOPROMID audits, all amendments to the 2023 and 2024 General State Budgets, and the Excel version of budget tables and documents, and publication of ownership information on State enterprises.

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78 In line with the practices at other multilateral development banks, the PAIA does not apply to technical assistance or short-term financial instruments. More precisely, the PAIA does not cover technical cooperation operations, contingent credit facilities for natural disaster and public health emergencies (CCFs), or special development loans (SDLs).

79 This will help address the macroeconomic and fiscal challenges that are impeding the country's economic and social progress.

80 More information on the plan in *Secretaría de Prensa de El Salvador*.

81 The required financing amounts to US$3.829 billion, with US$747 million in public debt maturities during the first quarter. Since the IMF disbursements will be backloaded and primarily aimed at bolstering the reserves, the fiscal space for social expenditure and priority investment will be limited. To address these needs, the development partners agreed to advance (frontload) their disbursements, ensuring greater availability of resources in the short term.

2.27 **Component 2. Strengthening of financial integrity and stability.** The objective of this component is to improve financial integrity and stability, which will be achieved through the following prior actions: (i) issuance of a regulation raising the average reserve requirements to 12% by end of January 2025 and adoption of a regulation providing for a gradual increase in the liquid asset requirement to 1% by end of June 2025, 2% by year-end 2025, and 3% by end of June 2026, to be maintained in the form of high-quality international liquid assets subject to rigorous regulatory requirements; (ii) publication of Chivo's summary financial statements, including cash management policies and transfers to and from the government; publication of the public addresses of all bitcoin cold wallets held or controlled by the public sector; segregation and safeguarding of the bitcoins owned by Chivo customers; and publication of a statement listing and identifying all public addresses of hot and cold wallets as well as the respective bitcoin amounts held or controlled by the public sector, including all public sector agencies and legal entities controlled by the State (through majority voting rights and/or direct or indirect control as defined under GFSM 2014) as of 31 January 2025; (iii) enactment of amendments to the Bitcoin Law aimed at clearly defining the legal nature of bitcoin and removing bitcoin's essential characteristics as legal tender from the law, eliminating the public and private sector's obligation to accept bitcoin in their transactions, making such acceptance voluntary for the private sector, and restricting bitcoin use in the public sector, and issuance of a regulation making it clear that tax obligations are payable solely in U.S. dollars; and (iv) enactment of a new anticorruption law consistent with the high-level G-20 principles on asset disclosure by public officials, which require publication of asset disclosure statements by high-level officials, as established in Article 236 of the Constitution of El Salvador.

B. Key results indicators and program beneficiaries

2.28 **Results indicators.** The general development objective of the operation will be measured through the NFPS overall balance as a percentage of GDP, and the indicators measuring program outcomes (under the Results Matrix) are: (i) for the first specific objective, the NFPS primary balance; and (ii) for the second specific objective, the gross international reserves balance. Reaching the targets for these outcome indicators by 31 December 2025 will lay the foundation for an effective fiscal consolidation. This will be monitored under the EFF by means of quarterly reviews in 2025 and semiannual reviews over the remainder of the program.

2.29 **Beneficiaries.** The program will benefit: (i) the Republic of El Salvador, mainly in two ways: (a) through access to fast-disbursement resources; and (b) through a medium-term strategic framework for fiscal policy that helps to recover fiscal sustainability, strengthening the country's financial management and planning capabilities; (ii) the general population, through support for policies that promote macroeconomic stability. These policies include actions aimed at ensuring fiscal sustainability, protecting social expenditure priorities, fostering investment in energy infrastructure, and preserving the stability of the monetary and financial system. Their intent is to strengthen the foundation for inclusive and sustainable development, ensuring the economic and social welfare of the population; and (iii) the private sector, by promoting measures that can ensure an open and transparent economy, fostering a favorable investment environment, including foreign direct investment. In addition, the private sector will be bolstered by the medium- and long-term benefits resulting from macroeconomic stability, which will contribute to a more predictable and competitive business environment.

III. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

3.1 This program will be financed in an amount of up to US$500 million with Ordinary Capital resources under the SDL category and is part of the Bank's ordinary lending program approved under the Long-term Financial Plan.[82] Thus, it will not exceed the lending program. The operation has been prepared in coordination with the EFF arrangement approved by the IMF. Its single-tranche structure and the supplementary financing arrangements with the IMF provide a flexible and effective mechanism for supporting policy reforms and addressing short-term funding needs. In addition, the single disbursement will be made when the IMF program has been approved and its proceeds are being disbursed. This single disbursement will be synchronized with the IMF disbursement. The SDL proceeds will be transferred to the borrower in a single disbursement to a bank account indicated by the Ministry of Finance. The amount of this loan is US$500 million. In determining this amount, the following factors were taken into account:[83] (i) the magnitude of the macroeconomic adjustment plan; (ii) the resources available to the country at the IMF and the availability of IDB resources and funds from other development partners;[84] (iii) the fiscal deficits, the sustainability of the country's debt, and the risk factors; and (iv) the maximum amount that each borrower country may access per event.

3.2 The IDB financing will also help prevent setbacks in the policy reforms, protect financing for pro-poor programs (social spending), and protect spending on priority infrastructure. At the country's request, the SDL will consist of a single disbursement[85] to address financing needs that total approximately US$3.829 billion in 2025, with public debt maturities of US$747 million in the first quarter. Since the IMF disbursements are scheduled to be backloaded (paragraph 1.22) and aimed primarily at bolstering the reserves, the fiscal space available to ensure social expenditure and priority investment will be limited. Consequently, it was agreed with the other development partners that the disbursements (Table 3) would be frontloaded in 2025, thereby enabling greater availability of resources in the short term.

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[82] The Long-Term Financial Plan is a planning and programming document that proposes annual financing allocations. This SDL operation exceeds neither the Bank's regular lending program nor its capital ratio.

[83] Paragraphs 3.3 and 4.1 of document GN-2031-17.

[84] The IDB plays an essential role as a key development partner in El Salvador, as the second largest multilateral funding source for the country, after CABEI, and providing 34% of multilateral debt. The country's development partners have committed to provide more than US$2 billion in budgetary support over the next three years (2026-2028) in addition to the IMF funds. This means that other partners for development will also be making significant contributions in the years ahead, ensuring a more balanced distribution of financing among the institutions.

[85] The Republic of El Salvador has requested a single disbursement under this program, i.e. in the amount of US$500 million, due to the need for short-term financing to protect social investment and priority infrastructure in the context of the program.

B. Environmental and social risks

3.3 In accordance with the Environmental and Social Policy Framework (ESPF) (GN-2965-23), the program has been classified as a category "C" operation since it is expected to cause negligible or no adverse environmental or social impacts. Environmental and Social Performance Standards 1, 2, 9, and 10 have been triggered, and actions will be considered during the design of the project.

C. Fiduciary risks

3.4 No fiduciary risks were identified for this program. The funds will be disbursed directly to the Ministry of Finance, which will use them to cover financing needs, and the executing agency has the financial management instruments and control systems required for this purpose. The funds will only be disbursed once the conditions established in the loan contract have been fulfilled.

D. Other key issues and risks

3.5 **Economic and financial environment (high).** Failure to consider the risk of a more restrictive international environment in terms of commercial and financial flows could generate additional pressures on the country's balance of payments and macroeconomic stability, which would affect fiscal sustainability in the medium term. To mitigate this risk, technical cooperation resources are available in the sector to implement immediate support measures aimed at strengthening fiscal policies to reduce vulnerability to external shocks, such as strategies for debt management and analysis of macrofiscal risks. In addition, the IMF program includes a mitigation measure in the form of a 40% allocation of the program's funds to boost the BCR's reserves, bolstering its capacity to provide liquidity support in stress or emergency situations and thereby reducing vulnerability to external shocks.

3.6 **Economic and financial environment (high).** If there is a decline in the flow of remittances and the effects of migrants' return to the country are underestimated, the demand for social services in El Salvador will rise and the fiscal resources will become insufficient, affecting the sustainability of government finances. The mitigation measure includes providing technical assistance and bolstering the institutional capacity to improve the country's response by planning a robust fiscal framework through the FISLAC ecosystem.[86] This ecosystem includes models that enable an impact assessment of the various macroeconomic shocks that the Salvadoran economy may experience, such as shocks on remittances or on external financing conditions. This makes it possible to determine the required adjustment and guide the policy responses to the potential adverse effects of these events.

3.7 **Political and social environment (high).** Failure to ensure a favorable environment for the approval and implementation of reforms associated with public spending (employment, pensions, procurement) would make it impossible to achieve the required fiscal adjustment, leading to noncompliance (paragraph 2.16) with the macroeconomic stability measures provided under the program. To mitigate this risk, the Bank will promote a roundtable for coordination between multilaterals to support a dialogue on acceptance of the reforms. In addition, the

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86 ATN/OC-19981-RG, ATN/OC-19672-RG, and ATN/OC-19742-RG.

Bank will maintain a close dialogue with the borrower so that if needed, the support may be supplemented by other initiatives and financial instruments such as loans in priority sectors[87] and technical cooperation to assist in a gradual and effective implementation of the reforms.

3.8 **Natural environment (medium-high).** The potential occurrence of extreme climate events could give rise to expenses that erode the fiscal position of the State, affecting the country's fiscal consolidation. To mitigate this risk, the Bank has financial and nonfinancial resources available to implement immediate support measures.

3.9 **Sustainability.** Financial and technical support by the Bank and other multilateral institutions will facilitate the implementation of the reforms and the subsequent achievement of the program's objectives (paragraphs 2.16, 2.17, 2.18, and 2.19). Similar support is committed in key reform sectors, such as social assistance, education, and healthcare. In addition, the technical cooperation operations described in the section on the Bank's additionality (paragraphs 2.6, 2.7, and 2.8) and the close cooperation with other institutions will significantly help to ensure the sustainability of the structural reforms.

3.10 In addition, the sustainability of the measures up to 2028 is being bolstered through coordinated planning with the World Bank and other strategic partners, ensuring the complementarity of the instruments and a coordinated medium-term work plan. This includes the scope of the policy-based loans and the investment portfolio, preventing duplication in financial resources and ensuring that the technical agenda being deployed is consistent and efficient.[88] This strategy will consolidate progress in modernizing fiscal management, optimizing the allocation and use of resources and boosting the impact of the reforms. The implementation of structural changes agreed upon for the IMF program period will also be promoted, ensuring that the current efforts create sustainable results for the country in terms of economic stability and inclusive growth in the medium and long term.

IV. Implementation and Management Plan

A. Summary of implementation arrangements

4.1 **Borrower and executing agency.** The borrower is the Republic of El Salvador. The executing agency will be the Ministry of Finance, which will: (i) submit vouchers confirming that the commitments agreed upon by the borrower and the Bank for the loan disbursement have been fulfilled; (ii) promote measures to achieve the objectives set out in the program; and (iii) compile, maintain, and

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[87] In 2025, the Bank will be supporting an infrastructure project and critical social sector projects for the country, such as: Program to Consolidate Complete Educational Paths and their Resilience to Climate Change (ES-L1167, in preparation, for US$150 million); Program to Support Flood Control in the Metropolitan Area of San Salvador (ES-L1171, in preparation, for US$150 million); Program to Support the Urban Transit System in the Metropolitan Area of San Salvador, Phase 1 (ES-L1164, in preparation, for US$60 million), and others. This financial support will be structured in phases, guaranteeing alignment with the reform milestones and the country's absorption capacity.

[88] For example, in the case of the World Bank's Development Policy Loan (DPL) (in preparation), coordination is underway to ensure that its policy strengthening actions complement the Bank's, and vice versa. This will prevent duplication, optimize the use of resources, and maximize the impact of the efforts and financing available.

provide to the Bank the necessary information, indicators, and parameters to monitor and evaluate the outcomes of the program.

4.2 **Special contractual conditions precedent to disbursement of the loan proceeds. The loan proceeds will be disbursed in a single tranche (US$500 million), contingent on fulfillment of the conditions set out in the Policy Matrix (Annex II) and Policy Letter and all other conditions established under the loan contract.**

4.3 The Policy Matrix (Annex II) identifies the commitments acquired by the borrower and contained in the letter of intent of 11 February 2025 delivered by the Republic of El Salvador to the IMF and forming a part of the report titled "El Salvador. Request for extended arrangement under the extended fund facility." The EFF arrangement was approved by the Executive Board of the IMF on 26 February 2025.

4.4 In order for the SDL operation to be eligible for disbursement, the IMF program needs to be approved and disbursed. The proceeds of the Bank loan will be transferred to the borrower in a single disbursement (paragraph 3.1). The loan is aligned with the areas of support provided for SDLs under the respective operating guidelines (GN-2031-17).

B. Summary of arrangements for results monitoring

4.5 **Monitoring.** The borrower and the Bank will hold two types of meetings: regular bimonthly meetings during the first half of 2025 and special meetings if warranted by the circumstances. In addition, the Bank will be in regular contact with the IMF mission and will take note of any IMF decision regarding the EFF. The executing agency will compile and process all data required for program monitoring and evaluation, which will be made public in accordance with the IDB Access to Information Policy (GN-1831-28). If consulting services are contracted to verify the indicators under the Results Matrix (Annex I) and the Policy Matrix (Annex II), they will be financed with the Bank's administrative funds.

4.6 **Evaluation.** At the conclusion of the EFF, the Bank will prepare an evaluation of the agreed upon indicators and respective targets of this operation through the Office of Evaluation and Oversight (OVE) (GN-2031-14).[89] This evaluation will serve as an input for an evaluation of the effectiveness of the SDL instrument as a whole.

4.7 **Policy Letter.** The Policy Letter issued by the Republic of El Salvador, in which the country reaffirms its commitment to the objectives of this operation, is aligned with the program's Policy Matrix and Results Matrix.

89 Proposal to Create a Special Development Lending Category (AB-3134).

RESULTS MATRIX[1]

Project objective:	The specific development objectives of this operation are: (i) ensure fiscal sustainability; and (ii) improve financial integrity and stability. The achievement of these objectives will contribute to the general development objective of bolstering the macroeconomic stability of El Salvador.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: Bolster the macroeconomic stability of El Salvador							
NFPS overall balance	% GDP	-4.4	2024	2025	-3.4	Review report on the IMF arrangement	The baseline value corresponds to the IMF estimate (Table 1, page 36 of the EFF). The target value corresponds to IMF projections (Table 1, page 36 of the EFF), February 2025.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline value	Baseline year	End of program (2025)	Means of verification	Comments
Specific development objective 1: Ensure fiscal sustainability						
NFPS primary balance	% GDP	0.2	2024	1.9	Review report on the IMF arrangement	The baseline value corresponds to the IMF estimate (Table 1, page 36 of the EFF). The target value corresponds to IMF projections (Table 1, page 36 of the EFF), February 2025.
Specific development objective 2: Improve financial integrity and stability						
Gross international reserves balance	US$ billions	3.708	2024	4.110	Review report on the IMF arrangement	The baseline value corresponds to the IMF estimate (Table 1, page 36 of the EFF). The

[1] The conditions and indicators take into account the IMF program as a whole and reflect the objectives that the SDL loan intends to achieve. The conditions and indicators are directly related to Tables 13 and 14 (pages 49, 50, and 55) on the prior actions, and to the quantitative performance indicators established under the EFF arrangement.

Indicators	Unit of measure	Baseline value	Baseline year	End of program (2025)	Means of verification	Comments
						target value corresponds to the IMF indicative target (Table 14, page 56 of the EFF), February 2025.

OUTPUTS

Indicators	Unit of measure	Baseline value	Baseline year	End of program	Means of verification
Component 1: Fiscal sustainability					
1.1 The borrower will have fulfilled the following prior actions agreed upon with the IMF under the EFF arrangement: (i) Legislative approval of the 2025 budget in line with the fiscal targets of the program, coupled with policy actions supporting compliance with the agreed upon budgetary objectives, and publication of a three-year fiscal plan that includes the projected cost of public pensions and interest on pension-related debt. (ii) Publication of fiscal data, including fiscal flows and data on Salvadoran Pension Institute (ISP) debt stock in the central government, the 2023 audited financial statements, restoration of the link to the COVID/FOPROMID audits, all amendments to the 2023 and 2024 General State Budgets, and the Excel version of budget tables and documents, and publication of ownership information on State enterprises.	Report	0	2023	1	Report on EFF approval by the IMF Executive Board
Component 2: Strengthen financial integrity and stability					
2.1 The borrower will have fulfilled the following prior actions agreed upon with the IMF under the EFF arrangement: (i) Issuance of a regulation raising the average reserve requirements to 12% by end of January 2025 and adoption of a regulation providing for a gradual increase in the liquid asset requirement to 1% by end of June 2025, 2% by year-end 2025, and 3% by end of June 2026, to be maintained in the form of high-quality international liquid assets subject to rigorous regulatory requirements. (ii) Publication of Chivo's summary financial statements, including cash management policies and transfers to and from the government; publication of the public addresses of all bitcoin cold wallets held or controlled by the public sector; segregation and safeguarding of the bitcoins owned by Chivo customers; and publication of a statement listing and identifying all public addresses of hot and cold wallets as well as the respective bitcoin amounts held or controlled by the public sector, including all public sector agencies and legal entities controlled by the State (through majority voting rights and/or direct or indirect control as defined under GFSM 2014) as of 31 January 2025. (iii) Enactment of amendments to the Bitcoin Law aimed at clearly defining the legal nature of bitcoin and removing bitcoin's essential characteristics as legal tender from the law, eliminating the public and private sector's obligation to accept bitcoin in their transactions, making such acceptance voluntary for the private sector, and	Report	0	2023	1	Report on EFF approval by the IMF Executive Board

Indicators	Unit of measure	Baseline value	Baseline year	End of program	Means of verification
restricting bitcoin use in the public sector; and issuance of a regulation making it clear that tax obligations are payable solely in U.S. dollars. (iv) Enactment of a new anticorruption law consistent with the high-level G-20 principles on asset disclosure by public officials, which require publication of asset disclosure statements by high-level officials, as established in Article 236 of the Constitution of El Salvador.					

POLICY MATRIX[1]

Objective:	The specific development objectives of this operation are: (i) ensure fiscal sustainability; and (ii) improve financial integrity and stability. The achievement of these objectives will contribute to the general development objective of bolstering the macroeconomic stability of El Salvador.

Components/Policy objectives	Policy conditions (prior actions)	Fulfillment status[2]
Component 1. Fiscal sustainability		
Ensure fiscal sustainability	1.1 The borrower will have fulfilled the following prior actions agreed upon with the IMF under the EFF arrangement: (i) Legislative approval of the 2025 budget in line with the fiscal targets of the program, coupled with policy actions supporting compliance with the agreed upon budgetary objectives, and publication of a three-year fiscal plan that includes the projected cost of public pensions and interest on pension-related debt. (ii) Publication of fiscal data, including fiscal flows and data on Salvadoran Pension Institute (ISP) debt stock in the central government, the 2023 audited financial statements, restoration of the link to the COVID/FOPROMID audits, all amendments to the 2023 and 2024 General State Budgets, and the Excel version of budget tables and documents, and publication of ownership information on State enterprises.	Fulfilled (February 2025)
Component 2. Strengthening financial integrity and stability		
Improve financial integrity and stability	2.1 The borrower will have fulfilled the following prior actions agreed upon with the IMF under the EFF arrangement: (i) Issuance of a regulation raising the average reserve requirements to 12% by end of January 2025 and adoption of a regulation providing for a gradual increase in the liquid asset requirement to 1% by end of June 2025, 2% by year-end 2025, and 3% by end of June 2026, to be maintained in the form of high-quality international liquid assets subject to rigorous regulatory requirements. (ii) Publication of Chivo's summary financial statements, including cash management policies and transfers to and from the government; publication of the public addresses of all bitcoin cold wallets held or controlled by the public sector; segregation and safeguarding of the bitcoins owned by Chivo customers; and publication of a statement listing and identifying all public addresses of hot and cold wallets as well as the respective bitcoin amounts held or controlled by the public sector, including all public sector agencies and legal entities controlled by the State (through majority voting rights and/or direct or indirect control as defined under GFSM 2014) as of 31 January 2025. (iii) Enactment of amendments to the Bitcoin Law aimed at clearly defining the legal nature of bitcoin and removing bitcoin's essential characteristics as legal tender from the law, eliminating the public and private sector's obligation to accept bitcoin in their transactions, making such acceptance voluntary for the private sector, and restricting bitcoin use in the public sector; and issuance of a regulation making it clear that tax obligations are payable solely in U.S. dollars.	Fulfilled (February 2025)

[1] The conditions take into account the IMF program as a whole and reflect the objectives that the SDL operation intends to achieve. The conditions are directly related to Table 13 (pages 49 and 50) on the prior actions established under the EFF arrangement.

[2] In the EFF document (page 106), the IMF Representative for El Salvador reported that the prior actions described in Table 13 (pages 49 and 50 of the same document) had been fully met.

Components/Policy objectives	Policy conditions (prior actions)	Fulfillment status[2]
	(iv) Enactment of a new anticorruption law consistent with the high-level G-20 principles on asset disclosure by public officials, which require publication of asset disclosure statements by high-level officials, as established in Article 236 of the Constitution of El Salvador.	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/25

El Salvador. Loan ____/OC-ES to the Republic of El Salvador.
Program to Support Macroeconomic and Fiscal
Sustainability in El Salvador

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of El Salvador, as borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Program to Support Macroeconomic and Fiscal Sustainability in El Salvador. Such financing will be for the amount of up to US$500,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _______________ 2025)

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ES-L1153