A FISCAL PACT FOR EL SALVADOR

In El Salvador there is an urgent need for a Fiscal Pact. It is great news that the government, the political opposition parties and civil society have entered into dialogue to achieve this pact, which might solve the current and delicate fiscal situation of the public treasury; so that in the future it provides an adequate and sustainable management of public finances.

Due to the difficult fiscal situation that El Salvador is facing, with high public debt, low economic growth and an unfavorable perspective if the present conditions continue, the government and political opposition parties are currently negotiating a fiscal pact aimed at finding a solution to the fiscal problem that for several years has afflicted the country and has now reached a level of significant difficulty to the extent that recently, one of the major risk rating agencies downgraded the country alleging among other reasons, lack of understanding between forces in the country, high level of public debt and low economic growth.

In the current negotiations, the government requests the Legislative Assembly to approve US $ 1,200 million to issue bonds in the international market, in order to pay the internal debt of Treasury bills adding up to US$900 million and the rest for other needs. Also, they are requesting a pension reform to adopt a "mixed" pension system and the increase of the tax burden. Meanwhile, to vote in favor of this new debt, the opposition parties require from the government the issuance of a Fiscal Responsibility Act that would set certain bounds on public spending and indebtedness, the adoption of a series of austerity measures which aim to decrease the level of government spending, to continue with a privatized pensions management system and to not increase the tax burden.

The International Monetary Fund, to which El Salvador is a member, has been monitoring the fiscal behavior of the country and in its latest report published on July 1st, 2016, states that: *"El Salvador continues to have a significantly lower growth than neighboring countries within a context of low investment, high levels of emigration, low competitiveness and political impasse. Growth in GDP averaged 2% over the period 2000-14, below the regional average rating of Central America, which is 4½%."*

In fact, for many years El Salvador has had a low economic growth and an increased public spending. This situation has attempted to be reverted by imposing new taxes, increasing existing taxes and acquiring a new public debt. That is why in the last seven years there have been at least 5 tax reforms that have increased existing taxes or created new ones. Also, there has been a rise in public, domestic and foreign debt, which has reached amounts never seen before. In terms of tax income, public revenues have increased by approximately US$ 1.3 billion from the 2009 collection and the 2016 collection, growing at an average rate of 7% per year, while the economy has grown at an average of 2% per year.

It is expected that the negotiations between the government and the opposition have positive results in the near future and agreements are reached that allow solving the current fiscal crisis and establishing rules of fiscal discipline to guarantee stability and sustainability in the administration of the public finances; all of the above, accompanied by measures that promote economic growth.

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