

I. COUNTRY REFORM PROGRESS

El Salvador has advanced several important public financial management reforms over the past year. A new Fiscal Sustainability Law has been enacted, introducing fiscal rules that strengthen the medium- and long-term fiscal policy framework. In parallel, the medium-term fiscal framework (MTFF) has been published, restoring a key instrument for fiscal planning and transparency after a prolonged interruption.

Progress has also been made in fiscal reporting and oversight of the public sector. Several financial statements of state-owned enterprises have been published, improving transparency and accountability, although coverage gaps remain, particularly for subsidiaries. Addressing these gaps remains an important next step to achieve a more comprehensive view of public sector finances.

Public investment management (PIM) has emerged as a critical reform area, particularly in light of plans to scale up public investment to around 4 percent of GDP. Recent progress has focused on strengthening project prioritization and selection processes, helping ensure that increased capital spending translates into higher-quality and more efficient investment outcomes. Improving PIM is therefore central to safeguarding fiscal sustainability and maximizing the growth and service delivery impact of higher investment levels.

On the reform agenda, efforts are underway to unblock the prolonged paralysis in the modernization of the government's digital ecosystem, which has constrained progress in reforms such as program-based budgeting and broader integration of fiscal processes.

Additionally, the IMF's Fiscal Affairs Department (FAD) is supporting treasury and cash management reforms, with particular attention to arrears management, liquidity forecasting, and short-term cash management practices. The authorities continue to make gradual progress toward adoption of International Public Sector Accounting Standards (IPSAS). A stocktaking exercise with the IMF's Regional Technical Assistance Center for Central America, Panama and the Dominican Republic (CAPTAC-DR) is planned to assess the current status of IPSAS implementation and define next steps.

II. PROJECT DELIVERY HIGHLIGHTS

Spending Module II – Managing Public Finance

Key Progress in FY26: The project began in September 2025 and activities started immediately. Support to public investment management, particularly project prioritization, has been especially productive. Two short-term expert missions were conducted: the first reviewed progress since the 2019 PIMA, and the second helped secure authorities' buy-in for strengthened project selection methodologies. This work resulted in agreement on prioritization parameters to be incorporated into the new public investment management system being developed with support from the European Union (EU).

While no dedicated resources were allocated to the MTFF, close desk-based collaboration with the authorities, IMF's Institute for Capacity Development and the Western Hemisphere Department (WHD) supported the republication of the framework in December 2025, after a suspension since 2019. Close

coordination with the EU and the Germany Agency for International Cooperation (GIZ) has been effective, particularly on (PIM) and fiscal transparency.

Next Steps: Looking ahead, the Fiscal Transparency Evaluation is confirmed for FY2027, and the Digital Modularization mission is expected later in 2027 following leadership changes and staff availability. PIM progress has been strong, and additional short-term expert support could be beneficial, although this may be difficult to accommodate within the current CAPTAC-DR workplan that is focused on treasury and accounting reforms.

III. LOGICAL FRAMEWORK

Country – El Salvador		
Objective – Build Sustainable Fiscal Institutions - SFI		Rating - 2
Outcome	Rating	Narrative
Strengthened capacity to plan, implement and sustain digitalization	2 Partially Achieved	Activities related to the project have begun, additional follow-up is required for completion.
Objective – Improve Fiscal Transparency and Reporting - FTR		Rating - 2
Outcome	Rating	Narrative
Comprehensive, timely, and high quality fiscal reports	2 Partially Achieved	The project was approved in September 2025. The Fiscal Transparency Evaluation is expected to take place during the second half of 2026.
Objective – Strengthen Macroeconomic Frameworks - SMF		Rating - 3
Outcome	Rating	Narrative
Strengthened medium-term fiscal frameworks	3 Largely Achieved	While there has not been a formal activity under the project, FAD has kept close engagement with the authorities and WHD team regarding the publication of the new Fiscal Sustainability Law (published in June 2025) and the new MTFF (published again in December 2025 after a suspension since 2019).
Strengthened identification, monitoring, and management of fiscal risks	2 Partially Achieved	FAD engaged with the authorities as they prepared the MTFF, which had not been produced since the pandemic. The MTFF was finally published in December 2025, which included a basic fiscal risks statement. This publication is the baseline for improvement.
Objective – Strengthen Budget Management - SBM		Rating - 2
Outcome	Rating	Narrative

Strengthened annual budget process for more efficient and effective use of resources	2 Partially Achieved	Support for PIM, particularly project prioritization, has been especially productive. Two short-term expert missions were conducted: the first reviewed progress since the 2019 PIMA, and the second helped secure authorities' buy-in for strengthened project selection methodologies. This work resulted in agreement on prioritization parameters to be incorporated into the new PIM system being developed with support from the EU.
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IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
Political Support		
The finalization of the current SAFI II (the integrated financial management system) project has already been in the works for a decade. Political support is required to carry the project forward to conclusion. There is a reform exhaustion in some departments of the ministry related to this topic.	Very High	The mission will provide a thorough technical analysis and convey the relevance to the new authorities. The mission will need to work with the different departments of the ministry to ensure that each department's needs and views are considered and reflected in the analysis. An enterprise architecture to avoid siloed development of EU-supported PIM system is urgent.
The project will need to navigate across the developments and negotiations of the IMF's Extended Credit Facility.	High	The development partners of the country will need to coordinate to help finance the finalization of the project. There is currently limited capacity.
Resource Adequacy		
The development of the software requires investment.	Medium	Maintaining a clear communication of technical assistance support will be relevant to ensure that CD is not impacted by the complications in the program. A good and fluid communication with WHD has facilitated mitigating this risk.

V. PROJECT MANAGER: CONTACT INFORMATION

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