FINANCIAL SECTOR ASSESSMENT – DEVELOPMENT MODULE

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FINANCE AND MARKETS GLOBAL PRACTICE
LATIN AMERICA AND THE CARIBBEAN REGION VICE PRESIDENCY

This Financial Sector Assessment (FSA) summarizes the developmental aspects of the 2016 FSAP report for the Republic of El Salvador. A World Bank mission visited San Salvador from March 6 to 16, 2016 to review the developmental aspects of the Financial Sector Assessment Program (FSAP) conducted in 2010.[1] As previously agreed with the authorities, this FSAP Development Module focused on (i) financial systems issues, including competition and efficiency; (ii) financial inclusion and non-bank financial institution issues, (iii) public sector banks, (iv) financial system infrastructure, including payments, remittances transfers, and credit information systems; (v) capital market and private pensions development issues; and (vi) insurance. The report summarizes the diagnostic findings, progress made since the last FSAP, and recommendations for further regulatory, institutional and market development actions. The executive summary, following next, lists the main highlights and conclusions of this FSAP mission.

[1] The team comprised John Pollner (Mission Chief), Rekha Reddy (Deputy Mission Chief), Maria Teresa Chimienti, Denise Dias, Tamuna Loladze, Fredesvinda Montes, Mateo Clavijo Munoz (all World Bank staff); Jose Rutman (Former Regulation General Deputy Manager, Central Bank of Argentina), and Monica Caceres (Former Deputy Superintendent, Insurance, Chile).

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ABBREVIATIONS AND ACRONYMS

ABANSA	Salvadoran Banking Association
ACH	Automatic Clearing House
AFP	Pension Fund Administrator
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ANEP	National Association of the Private Enterprise
ASAFONDOS	Salvadoran Pension Funds Administrator Association
ATM	Automated Teller Machine
Bandesal	Banco de Desarrollo de El Salvador
BCR	Central Bank of El Salvador *(Banco Central de la Reserva)*
BFA	Banco de Fomento Agropecuario
BH	Banco Hipotecario
BL	Bank Law
BMI	Banco Multisectorial de Inversiones
CAR	Capital Adequacy Ratio
CEDEVAL	Central Securities Depository
CEPA	*Comisión Ejecutiva Portuaria Autónoma*
CIP	Pension Investment Certificate *(Certificado de Inversión Previsional)*
CLP	Comprehensive Liquidity Policy
CNR	Central National Registry *(Central Nacional de Registros)*
CPI	Consumer Price Index
CPMI	Committee on Payments and Market Infrastructures
CRS	Credit Reporting System
CSD	Central Securities Depository
DVP	Delivery-versus-payment
ETF	Exchange Traded Fund
FCPL	Consumer Protection Law
FDE	Economic Development Fund
FEDECACES	Salvadoran Federation of Associations of Cooperatives and Savings and Loans
FEDECREDITO	Federation of Credit Unions and Worker's Banks
FIDEAGRO	Special Trust Fund for the Agricultural Sector
FSAP	Financial Sector Assessment Program
FSG	Salvadoran Guarantee Fund
FSV	Fondo Social de la Vivienda
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IADB	Inter-American Development Bank
IGD	Deposit Insurance Fund *(Instituto de Garantía de Depósitos)*
IMF	International Monetary Fund
INSAFOCOOP	Salvadoran Institute of Cooperative Development
IOSCO	International Organization of Securities Commissions
LAC	Latin America and the Caribbean
LIM	Monetary Integration Law
MINEC	Ministry of Economy
MSMEs	Micro, Small and Medium-Size Enterprises
MTO	Money Transfer Operator
NBCSI	Non-Bank Credit and Savings Institutions
NPB	Prudential Bank Norm *(Norma Prudencial Bancaria)*
NPL	Non-Performing Loan
NPS	National Payments System
OTC	Over-the-Counter
PPP	Public Private Partnership
PROGARA	Agriculture Guarantee Program
POS	Point-of-sale
RNPN	National Registry of Natural Persons *(Registro Nacional de Personas Naturales)*
ROA	Return on Assets
ROE	Return on Equity
ROSC	Report on Standards and Codes
RTGS	Real Time Gross Settlement
SAC	Savings and Credit Institution *(Sociedades de Ahorro y Credito)*
SC	Competition Superintendence *(Superintendencia de Competencia)*
SGR	Mutual Guarantee Scheme *(Sociedad de Garantíias ReciprocasRecíprocas)*
SIGET	Electricity and Telecommunication Superintendence *(Superintendencia de Electricidad y Telecomunicaciones)*
SMEs	Small and Medium-Size Enterprises
SMS	Short Message Service
SPM	Sistema de Pagos Masivos
SSF	Financial System Superintendency *(Superintendencia del Sistema Financiero)*
STP	Straight-through-processing
SV	Securities Superintendency *(Superintendencia de Valores)*
USSD	Unstructured Supplementary Service Data
WB	World Bank

EXECUTIVE SUMMARY

El Salvador is facing a challenging economic environment. After being hit by the global financial crisis, real GDP growth averaged just 1.9 percent between the last FSAP update in 2010 and 2015. Structural factors continue to weigh down on economic performance: low investment and low productivity, high levels of crime and violence, political uncertainty have all contributed to a steady decline in the country's potential GDP growth. Debt dynamics have worsened in a lower growth environment, although the external current account deficit has improved slightly**.**

El Salvador's financial system has been expanding slower than the regional average, although concentration has been declining and there is evidence of gains in efficiency. El Salvador's banking sector continues to be dominated by global and regional financial groups. Since the 2010 FSAP, bank assets have been declining as a share of total financial assets while pension funds have been increasing. Intermediation margins of banks are not the lowest in the Central American region but have decreased since 2011 evidencing gains in efficiency and competition in the sector. The banking system remains profitable and with adequate solvency ratios. Credit is increasingly allocated towards consumption and less towards productive activities.

Progress implementing the recommendations of the 2010 FSAP Update in developmental areas has been mixed. In 2011, authorities integrated the three financial sector supervisors into the Financial Sector Superintendency (SSF), which supervises banks, insurance companies, development banks, and capital markets entities, among others. Capital market development has been supported with the approval of the law governing investment funds in 2014 and a recent agreement with Panamanian authorities to integrate stock exchanges. Authorities have shown commitment to leveraging innovation and the well-established microfinance sector to spur financial inclusion, with the approval of a financial inclusion law in 2015 and the ongoing development of a national financial inclusion strategy. However, numerous legal/ regulatory reforms have not been approved**.** To ensure sound monitoring and oversight, BCR and SSF should coordinate and cooperate closely in several issues including macroprudential and microprudential information as well as in the formulation and interpretation of regulatory and enforcement actions.

Financial Sector Infrastructure

Since the last FSAP, the national payments system (NPS) has consolidated and expanded, but challenges remain to reduce risks and improve efficiency. Notwithstanding several legal initiatives, the payments system remains exposed to legal risks and gaps that should be addressed through a comprehensive payment system law. The real-time gross settlement (RTGS) system plays an increasingly critical role in NPS, but presents weaknesses from an operational risk management and efficiency standpoint. The use of cheques is still dominant among non-cash instruments, and should be reduced, especially high-value cheques. The enabling environment for an inclusive retail payments system is being developed, and will benefit from non-bank competition subject to there being proportionate requirements and efficient access to infrastructure. The BCR should define and communicate its oversight policy consistently with its statutory responsibilities and international standards. Cooperation mechanisms between the BCR and the SSF should be strengthened.

Credit reporting systems (CRS) in El Salvador are extremely fragmented which impedes the evaluation of the creditworthiness of individuals and companies. The SSF is well positioned to implement an oversight framework for CRS to ensure the efficiency, safety and reliability of the CRS. The Law on Credit Histories several provisions that require further consideration and secondary regulation from the BCR. The BCR should also enhance consumer protection guidelines, including clarifying credit reporting rights, credit conditions and methods of emergency update of data. Authorities should consider ways to further integrate data sources, such as the *Centro Nacional de Registros* (CNR), to support the evaluation of the credit behavior and lead efforts to educate the consumers on the benefits of good payment behavior.

Financial Inclusion and the Regulatory Perimeter

Despite improvements in some financial inclusion indicators, El Salvador still presents low levels of access to and use of a range of financial services, necessitating reforms to facilitate the use of transaction accounts and strengthen consumer protection. Further progress could be made by allowing bank and nonbank financial institutions access to and use of telecommunications infrastructure on a non-discriminatory basis. Also, the authorities should give priority to building solid legal grounds and basic infrastructure to foster electronic accounts and transactions. BCR should create an enabling and non-fragmented regulatory basis for banks and nonbanks operating through agents. In addition, BCR, SSF and the *Defensoría del Consumidor* should take steps to build a stronger financial consumer protection framework. BCR and SSF should align microfinance regulation and supervision with international best practices. Finally, a legal framework for factoring should be created to expand financing alternatives for micro, small and medium enterprises (MSME).

Proposals to extend the supervisory and regulatory perimeter to a range of Non-Bank Savings & Credit Institutions (NBSCIs) in El Salvador require careful design. There are draft laws to extend SSF's regulatory perimeter to cover NBSCIs, and include the use of federations as auxiliary supervisors, which requires proper design and control by the SSF to avoid potential conflicts of interest. Incentives should be provided for the NBSCIs that are incorporated in the regulatory perimeter to comply with applicable regulations within established deadlines. The legal framework should include the possibility for the SSF and the BCR to have access to the financial statements of the NBSCIs that are outside the regulatory perimeter. The SSF should reinforce the training and number of supervisors to be prepared for the supervision of new entities**.** The Salvadoran Institute for Cooperative Development (INSAFOCOOP) should also be strengthened to improve its ability to perform certain prudential supervision of cooperatives outside the regulatory perimeter of the SSF.

Public Sector and Development Banks

The Law of Financial System for Development Promotion (2011) introduced significant changes for development banking, including a sometimes inefficient role for Banco de Desarrollo de El Salvador (Bandesal) as first-tier bank. In lieu of its credit activities through the Economic Development Fund (FDE), Bandesal should refocus its activities to concentrate on second tier operations, both for loans and guarantees, expanding its offering of guarantees by providing credit enhancements for specific bond issuances. First-tier banking should primarily finance large transactions for infrastructure and key sectors of the economy. For other public banks, the Banco Hipotecario (BH) has been performing in recent years, and the Banco de Fomento Agropecuario (BFA) serves a specific market segment (agricultural sector) with high risks and costs.

Capital Markets

The capital markets in El Salvador have seen notable improvements, but remain relatively small, requiring more streamlined processes for issuance and more flexible investment guidelines to stimulate further growth. The rise in securitization issuances to finance the real sector is a welcome development. However, the securities issuance process is a bottleneck, necessitating the implementation of more efficient procedures by the SSF, including electronic receipt of documents, faster authorization for banking issuers, and a fast-track regime for frequent issuers; over time, changing the focus to ensuring disclosure as opposed to solvency of issuers will be key. Investors, including pension funds, face significant investment shortages, and the authorities could streamline requirements for allowing foreign securities to be purchased in the secondary market investment. Pension funds and the investment funds expected to enter the market should have greater flexibility to invest in foreign securities.

Pensions

A pension reform to make the public finances sustainable, is required to allow both the public pillar 1 and private pillar 2 systems operate in a sustainable manner. The reform proposed has interesting elements but does not go far enough in repairing sustainable public finances while going quite far in removing the pension fund industry from the financial sector. Alternatives should be considered including a long term restructuring of the CIP-A public debt in pension portfolios. To better meet pension objectives, pension funds should be allowed a higher share of foreign investments in their portfolio to diversify domestic risks and achieve higher returns. Any reform should not penalize investment returns earned by workers on their accrued portfolio, and under any reform the authorities should disclose its financial and actuarial projections after having them vetted by an independent party.

Insurance

The insurance sector is small but growing, with a proposed framework to modernize its Insurance Companies Law in draft form. The insurance sector represents 2.4 percent of GDP which is about average in the region although the average premium per capita level is low. Life insurance has been the higher growth branch of the industry. Major changes in line with international standards are being incorporated in a draft Insurance Companies Law. Some adjustments that should be considered prior to finalization, include modifying the approach toward the risk-based capital calculation, using a minimum and solvency capital requirement, inclusion of liquidity risks, examining the allowance for the start-up cost deduction, treatment of guarantee products as insurance, and inclusion of the compliance function. The SSF has begun transitioning to a risk-based supervision process which will dovetail well once the new risk-based capital law for insurance companies is approved. In addition, preparation of a law on Insurance Contract provisions has been initiated.

TABLE OF RECOMMENDATIONS		
Recommendation	**Timeframe**	**Priority**
Financial Efficiency and Infrastructure		
The BCR should develop a comprehensive payment system law that addresses risks such as settlement finality and netting.	ST	Medium
The BCR should improve RTGS operational risk management and efficiency by ensuring scalable capacity, establishing a secondary site, and reducing the use of cheques.	MT	High
Formally establish an oversight framework for financial infrastructure consistent with statutory responsibilities of BCR (payment systems) and SSF (credit reporting systems).	ST	High
The BCR should define regulation related to consent clauses, data retention periods, and data format and clarify guidelines on consumer protection to detail credit reporting rights, credit conditions and effective methods of emergency up-date of data.	ST	High
SSF should evaluate the challenges and opportunities of adding alternative data to the system and making use of existing data in public records.	MT	Medium
Financial Inclusion		
SIGET should take regulatory or other measures to address discriminatory and anti-competitive practices by mobile network operators against financial institutions.	ST	High
BCR should: a) ensure that the simplified account regulation prioritizes the use of electronic documents and information capture; b) streamline AML/CFT requirements for low-value accounts, and c) create a non-fragmented framework for the use of agents by banks and nonbanks.	ST	High
BCR should strengthen the draft reform of the transparency regulation NPB4-46 with respect to internal complaints handling, the *Carta de Comunicación*, and allow the use of electronic documents.	ST	Medium
The authorities should introduce a law on factoring that will provide legal certainty to factoring contracts, recognize invoices as legal claims, streamline the invoice transfer process and make the acceptance of the invoice transfer mandatory for buyers.	ST	Medium
Regulatory Perimeter		
The BCR and SSF should develop a consensus version of a draft law for the extension of the regulatory perimeter to cooperatives, including incentives for the prompt compliance with regulation, mechanisms to mitigate potential conflict of interest arising from auxiliary supervision, and access to financial information from unregulated financial institutions.	ST	High
The SSF should reinforce its training and staff should be prepared for the supervision of the additional NBSCIs under its responsibility.	ST	High
The capacity of INSAFOCOOP to provide prudential supervision of financial cooperatives outside the regulatory perimeter of the SSF should be strengthened.	MT	Medium
Public Sector and Development Banks		
Bandesal should refocus its strategy on second-tier operations, expand its offering of guarantees by providing credit enhancements for specific bond issuances, and engage in first-tier banking primarily for large transactions related with infrastructure and key sectors of the economy.	ST	High
Before launching programs with subsidized interest rates to be implemented by public sector banks, the Government should require the corresponding bank to calculate the cost of the subsidy and compensate the public institution accordingly with a separate subsidy grant element.	ST	High
The Government should consider enabling expanded outreach of BH and BFA through an increase in regulatory capital.	MT	Medium

TABLE OF RECOMMENDATIONS		
Capital Markets		
Recommendation	**Timeframe**	**Priority**
The SSF should increase the efficiency of the securities authorization process by speeding implementation of the electronic documents system, shortening and simplifying the issuance process for banks, developing a frequent issuers regime, and over time, transferring to a role of ensuring disclosure rather than issuer solvency.	ST	High
The authorities should simplify the requirements for the purchase and trading of foreign securities in the secondary market to increase investment opportunities for different investors.	LT	Medium
The authorities should improve the investment regime of pension funds by increasing their limit for foreign investments and alleviating their requirement for locally registered securities with two local credit ratings.	MT	High
Pensions		
To make pension obligations sustainable, the authorities should restructure/convert their CIP-A debt in pension funds, to 30-year bullet maturity instruments with a higher rate of interest.	ST	High
Any reform should (i) de-link the formula for redirecting contribution transfers to pillar 1 with the formula for transferring any asset portfolios (which should exclude investment returns earned), and (ii) workers that do not meet the 25 year contribution rule and are returned their funds, should not be penalized by not receiving their earned investment returns.	MT	High
Authorities should prioritize pension system objectives to achieve investment returns commensurate with adequate pension levels, and increase the portfolio allowance for overseas investments starting with index/ETF funds.	ST	Medium
Insurance		
The proposed update to the Insurance Companies Law *(Ley General de Seguros*), should be approved with suggested modifications related to the compliance function and solvency calculations.	ST	High

ST=Short term: Less than 18 months; MT=Medium term: 18 months-4 years

I. MACROECONOMIC AND SECTORAL DEVELOPMENTS

A. Macroeconomic Conditions

1. **El Salvador is facing a challenging economic environment.** The country has been a fully dollarized economy, with the US dollar as legal tender since January 1, 2001. This has contributed to a low and stable inflation environment, with end-period CPI inflation reaching 1.0 percent in 2015. After being hit by the global financial crisis, the economy contracted by 3.1 percent in 2009, and real GDP growth averaged just 1.9 percent between the last FSAP update in 2010 and 2014. Economic growth is estimated at about 2.5 percent in 2015. Structural factors continue to weigh down on economic performance: low investment and low productivity, high levels of crime and violence, political uncertainty have all contributed to a steady decline in the country's potential GDP growth.

II. FINANCIAL SECTOR STRUCTURE AND EFFICIENCY

A. Growth, Competition and Profitability

2. **El Salvador's financial system has been growing more slowly than the regional average.** At 41.9 percent in 2014 (WB Finstats), private sector credit to GDP is below its expected value, based on predictions given its income and indicators of its level of development. It also lags relative to regional averages for Central America and Latin America and the Caribbean. Its peers have private sector credit ranging from 55 percent (Honduras) to 86 percent of GDP (Panama), suggesting the potential for expansion of lending in the domestic financial system. Growth rates for credit to the private sector are the lowest in Central America. Deposit growth rates are also low.

3. **El Salvador's banking sector continues to be dominated by global and regional financial groups.** During the past decade the system has been characterized by a series of mergers and acquisitions and as of end-2015 the banking sector was comprised of 11 private commercial banks and two public first-tier domestic banks. El Salvador has the largest presence of foreign ownership among the Central American countries. There are three Colombian financial groups which control 54 percent of the banking sector assets and are among the top largest banks in the country. Only 8.3 percent of total banking sector assets are controlled by domestic banks.

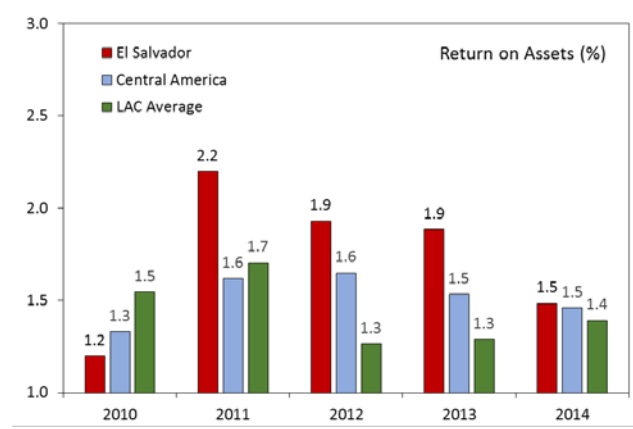
4. **The degree of concentration in the banking sector is moderate and has been declining since 2010.** The asset position of the three largest banks has been declining since 2010 and remains well below the LAC average. The five largest banks control about 76 percent of assets, loans and deposits which evidences a moderately high concentration when compared to other countries in the region such as Nicaragua (94 percent of assets), Dominican Republic (87 percent of assets) and Guatemala (82 percent of assets). The Herfindahl index[2] is the third lowest in the Central America region and has been on a declining path since 2010.

[2] The index is a measure of market concentration (and competition). As the index goes higher it represents more concentration (less competition).

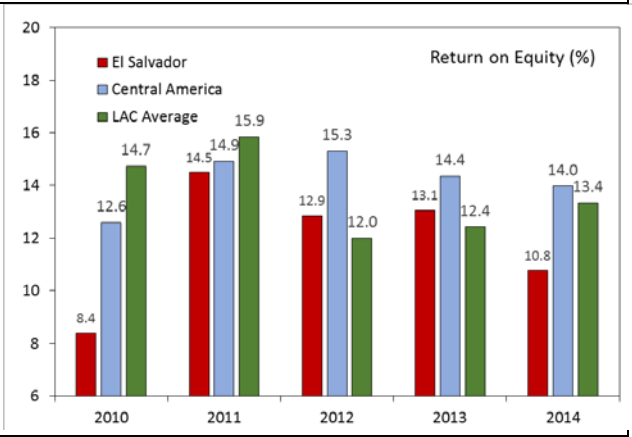
5. **Banking profitability indicators have decreased since 2011 but remain at adequate levels.** The return on assets (ROA) ratio has decreased in the past four years due to a reduction in profit margins and asset utilization but it remains slightly above the Central American and LAC averages (Figure 1). ROE has also declined for similar reasons, as well a decline in leverage. However, ROE for El Salvador is well below its regional peers – in part this is because El Salvador's banking system equity base is relatively large. This is consistent with the banking system's level of solvency. The capital to asset ratio for El Salvador in 2014 was 17 percent, higher than the LAC and Central American average which were both 15.5 percent.

Figure 1. Profitability Indicators

a) Return on Assets



b) Return on Equity



Source: FSAP analysis, Finstats

6. **Credit is being allocated more towards consumption and less towards productive activities.** Financing of productive activities has shrunk in relative terms as participation of consumer credit in the overall loan market has increased significantly in the past decade while the opposite has occurred with enterprise credit. Consumer credit increased from 8.4 percent in 2005 to 14.1 percent of GDP in 2015 while enterprise credit declined from 23.8 percent to 18.1 percent of GDP during the same period.

7. **The above trends in the financial system call for a close coordination between macro-financial stability and prudential monitoring.** This would imply an ever closer inter-institutional coordination between BCR and SSF given the several cross-cutting issues that link the stability of the financial sector to exogenous factors as well as developments in prudential and risk indicators at the individual supervised institution level. Besides these crucial points, given the respective regulatory and supervisory roles of both institutions which inevitably overlap, an ongoing program of communication, cooperation and data sharing is essential for sound oversight and monitoring of the financial system, as well as collaboration in the creation and interpretation of legislative, regulatory and enforcement initiatives.

B. Efficiency of Bank Exit

8. **While the current banking law contains legal tools for certain asset transfer bank resolution methods, a working group is in process of developing updated proposals to meet latest global standards**. The current proposals (not yet in draft law) include integrating the bank regularization, restructuring and resolution processes, triggers and timelines, and their links to the deposit guarantee system and the use of the least-cost criteria to select a resolution outcome. In addition, proposals aim to harmonize resolution regimes for banks and credit cooperatives, raise the deposit insurance premiums (currently

the lowest in the region), and include contingency funding for the deposit insurance agency. As to methods used, more detail is to be elaborated on the asset/liability transfers from a failed bank to a new "good bank," and including the use of the bridge bank tool. Also, the treatment of systemically important banks will be addressed, and a systemic risk committee comprising the four relevant authorities is to be constituted. Requirement of resolution and recovery plans are also proposed.

III. FINANCIAL SECTOR INFRASTRUCTURE

A. Payment Systems and Securities Settlement

9. **Since the last FSAP, the national payments system (NPS) has consolidated and expanded**.

(a) The real-time gross settlement (RTGS) systems owned and operated by the BCR is the backbone of the NPS and is widely subscribed by both banks and supervised non-bank financial institutions.[3] In 2015, the RTGS system settled transactions equivalent to 1.8 times the country's GDP; volumes have grown at an annual average of 17 percent over the last three years. Through the RTGS, the securities settlement system of the *Bolsa de Valores de El Salvador* conducts its money settlements in central bank money based on Model 2 Delivery versus Payment (DVP).[4] The private-sector automated clearinghouse (ACH) and the central-bank cheque clearinghouse also settle through the RTGS.

(b) ATM and POS deployment in El Salvador is below the average for the Latin America and the Caribbean, but above the average for lower-middle income countries. Although there are no consolidated statistics on POS penetration, anecdotal evidence suggests that POS terminals are concentrated in urban areas. ATM transactions are processed in the country mainly through a local switch (Serfinsa); POS transactions clearing is more fragmented.

10. **Notwithstanding these positive developments, the payments system remains exposed to legal risks that should be addressed through a comprehensive payment systems law**. For example, although the RTGS system's rules and processes are designed to provide clear and certain final settlement, settlement finality is not covered at the level of law. Securities transfers effected by the central securities depository (CEDEVAL) also lack legal coverage of settlement finality. In addition, netting is not recognized at the level of the law, thus posing a legal risk to a number of netting schemes in El Salvador.

11. **Also, the BCR should discourage the use of cheques through appropriate threshold values and charges that favor electronic means of payments, and high-value cheques should be stopped**. Although cheque volumes have decreased for two consecutive years, they still represent over half the total values settled in the RTGS. Physical exchange of interbank cheques is needed due to gaps in the legal framework. Although there is no information on the number of high-value cheques, values being settled raise concerns due to the settlement risk inherent to a deferred net system.

[3] Including associations and federations of cooperatives and *cajas de credito* that comprise unsupervised entities (e.g. FEDECREDITO, FEDECACES)

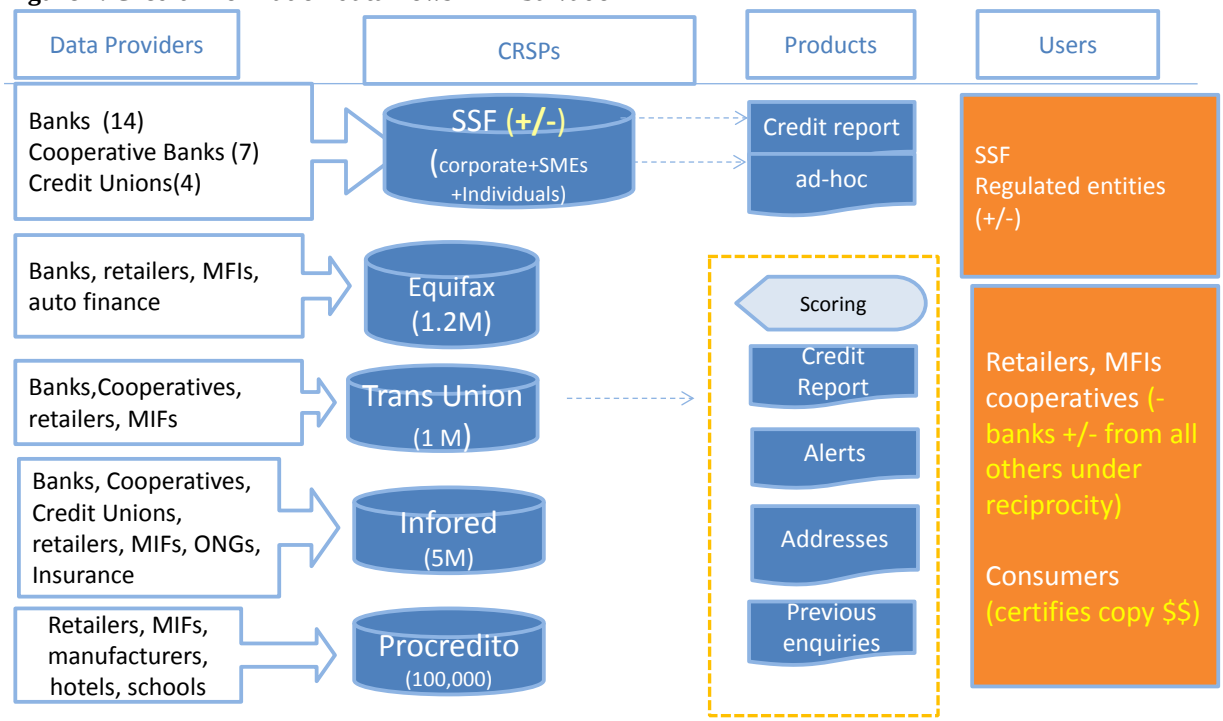
[4] DVP Model 2 refers to systems that settle securities transfer obligations on a gross basis and funds transfer obligations on a net basis.

12. **The BCR should promote the expansion of the retail payments infrastructure and ensure that this is fully and efficiently leveraged.**[5] The retail payment system as a whole will benefit from non-bank competition subject to proportionate requirements and efficient access to infrastructure.

B. Credit Reporting Systems

13. **The credit reporting system (CRS) in El Salvador is composed of a credit registry (*Central de Riesgos*) and four credit bureaus licensed by the SSF**. The Credit Registry at the SSF collects information on debts in regulated financial entities while credit bureaus Equifax, Trans Union, Infored and Procredito focus on the consumer segment and some loans to MSMEs. Two additional credit reporting systems operated by FEDECACES and FEDECREDITO include information from their respective credit cooperatives affiliates although they are not licensed by the SSF. Doing Business 2015 indicators indicate that the number of individuals in the credit bureau at end 2015 represented approximately 34 percent of the Salvadoran adult population, while 27 percent were covered in the credit registry. Well-functioning CRS contribute to financial stability and responsible lending objectives.

Figure 2. Credit information data flows in El Salvador



Source: FSAP analysis

14. **The SSF is well positioned to develop an oversight framework for CRS to ensure the efficiency, safety and reliability of the CRS**. This requires the definition of oversight policy objectives, scope of the oversight, and that supervisory functions be conducted from a risk management approach instead of a compliance approach. In addition to its current focus on the security of data and networks to protect consumer's data rights, the SSF should also consider the continuity of the business, reputational, legal, operational and business related risks when designing supervisory policies, protocols and methodologies. The supervisory framework should also define the role of Government authorities as users of credit registry and credit bureaus to effectively conduct their functions.

[5] The CPMI-World Bank Payments Aspects of Financial Inclusion report provides guidance in this regard.

15. **The Law on Credit Histories contains several provisions that require further consideration.** For example, the approach of the law to credit bureaus as information agencies does not take into consideration the critical role that credit bureaus play in the financial sector[6]. In addition the law does not prohibit certain practices which might conflict with the provision of credit information (e.g. collection practices, consultancy on provision of credit). Certain provisions such as consent clauses, data retention periods and data format are pending further regulation by the BCR. The issue of deletion of negative information in credit bureaus requires particular care.

16. **Authorities should also consider ways to further integrate data sources.** These include the Centro Nacional de Registros (CNR), and other alternative data sources to support the evaluation of the credit behavior.

IV. FINANCIAL INCLUSION AND REGULATORY PERIMETER ISSUES

A. Financial Inclusion

17. **Despite significant recent improvements, El Salvador still presents low levels of access to and use of a range of financial service**s. According to World Bank's Global Financial Inclusion ("Global Findex") database 2014, 34.6 percent of adults have an account at a financial institution. This indicator has nearly tripled since 2011, but it is still below the average in Latin America (51.4 percent) and in countries with similar income levels (42.7 percent). Access to a transaction account is particularly low among the rural and the poorest. In contrast, 4.6 percent of adults have access to mobile money, compared to 2.2 in Colombia, 3.4 in Mexico, and 1.7 in Latin America. This indicates that the potential exists for a rapid increase in access to transaction accounts – which can serve as conduit for a range of services, including shifting informal savings to the regulated sector – through the use of innovative business models and channels. Micro, small and medium enterprises (MSME) access loans from a variety of providers, including microfinance institutions, but there is room for expanding the supply of other financing instruments, such as factoring.

18. **The authorities have shown deep commitment to leveraging innovation and the well-established microfinance sector to spur responsible financial inclusion**. In line with the G20 Principles for Innovative Financial Inclusion,[7] the authorities have allowed a nonbank mobile money provider to operate since 2011 and championed the Law to Facilitate Financial Inclusion (LFI) (*Ley para Facilitar la Inclusión Financiera*), enacted in September 2015.

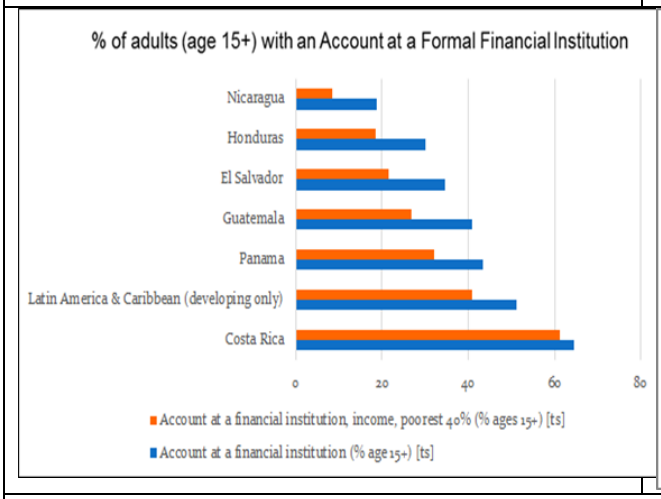
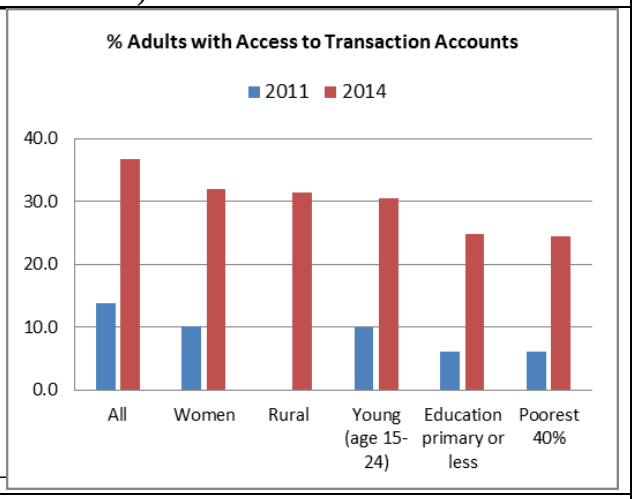
19. **Bank and nonbank financial institutions should be allowed access to and use of telecommunications infrastructure on a non-discriminatory basis**. Innovative financial services delivered through mobile phones are transforming the financial inclusion landscape across the globe. It is important to prohibit and apply sanctions on discrimination of any bank or nonbank financial service provider in accessing and using the telecommunication infrastructure. To avoid mobile network operators' (MNOs) adopting discriminatory and anti-competitive practices (e.g., lower quality services or differential pricing or denial of access to SMS and USSD channels), the telecommunications regulator, SIGET should coordinate with the competition authority, Competition Superintendence, to implement measures (including

[6] Please note that the law defines credit bureaus as Information Companies (Agencias de Informacion de Datos).

[7] http://www.gpfi.org/sites/default/files/documents/G20percent20Principlespercent20forpercent20Innovativepercent20Financialpercent20Inclusionpercent20-percent20AFIpercent20brochure.pdf.

regulation) to prevent and apply sanctions on such practices, as provided for in the Telecommunications Law.

Figure 3. Financial inclusion indicators

Regional Peers	El Salvador by Demographic Segments (age 15 and above)
	
Source: Global Findex 2014	

20. **The authorities should give priority to building solid a framework and basic infrastructure to foster digital finance**. Serving lower-income segments on a cost-effective basis depends, in great part, on the use of electronic means for information capture, documentation and recordkeeping, with respect to operations on both sides of the balance sheet.

21. **BCR should create a cogent, enabling and safe regulatory approach for banks and nonbanks operating through agents.** There is uncertainty with regard to the requirements that will be imposed on e-money agents ("*puntos de atención*") vis-à-vis the regulation on financial correspondents (NASF-03), and the risk of creating a fragmented regulatory framework.

22. **Substantial progress has been made, but opportunities remain to minimize institutional overlap in the financial consumer protection regulatory and supervisory framework.** International good practices require a specialized financial consumer protection legal, regulatory and supervisory framework.[8] While the Consumer Protection Law (FCPL) and its Regulation are based on sound principles, the overlapping mandates of the consumer protection agency – *Defensoría del Consumidor* ("*Defensoría*") and the SSF– result in conflicting directions to regulated institutions; incomplete regulation; limited attention to unregulated providers; and underdeveloped, non-specialized supervision. *Defensoría* and SSF should coordinate – e.g., through a Memorandum of Understanding – to minimize conflicting measures and ensure their roles are complementary. BCR should strengthen the draft reform of NPB4-46 with respect to minimum standards for complaints handling by institutions, the Key Facts Statement (*Carta de Comunicación*), and provide clearer room for electronic documentation and complaints. Lastly, SSF should gradually create specialized consumer protection supervision methodology and expertise.

[8] A specialized legal framework not necessarily entails a separate financial consumer protection law, but requires legal provisions clearly placing financial consumer protection exclusively under the responsibility of a financial supervisory authority (World Bank Good Practices for Financial Consumer Protection available online at http://responsiblefinance.worldbank.org/publications/financial-consumer-protection).

B. MSME Access to Finance and Factoring

23. **There is need to improve the regulatory and supervisory framework for microfinance.** A specialized framework for microcredit is needed for the prudent operations of microfinance providers. Existing regulation does not provide a differential prudential treatment of low-value loans for productive purposes and, SSF's supervisory practice requires microfinance institutions to follow standards similar to those of commercial banks (e.g., organizational structure, loan guarantees, loan documentation).

24. **In El Salvador there is no adequate legal framework in place that supports factoring as a standardized instrument for SME financing**. The lack of a factoring law prevents accounts receivables to be transferred in a legally binding process. The authorities should introduce a law on factoring that will provide legal certainty to factoring contracts. Such a law would recognize invoices as legal claims, streamline the invoice transfer process and make the acceptance of the invoice transfer mandatory for buyers (including government purchases). These elements represent minimum preconditions before a full-fledged electronic platform for factoring, similar to the ones that have been operating in Mexico and Chile, could be introduced. A type of central recording system for invoices could be a useful intermediary step to prevent multiple uses of an invoice. These preconditions would also be paramount before more sophisticated capital market instruments backed by receivables flows could be brought to market.

C. Expanding the Regulatory Perimeter

25. **There is a range of non-bank credit and savings institutions (NBSCIs), some of which are under the regulation and supervision of the SSF**. The legal framework[9] establishes that cooperatives that capture deposits from the public and/or have deposits plus contributions over $ 92.8 million will fall under the regulatory perimeter and supervision of the SSF as cooperative banks. The legal framework also incorporates savings and credit companies (*sociedades de ahorro y credito*, SAC). Ten cooperatives banks and the federation of NBCSIs, Fedecredito, have assets exceeding $ 0.9 bn and are supervised by the SSF. There remain some 500 NBCSIs with $1.9 bn estimated assets outside the scope of the SSF's regulatory perimeter.

[9] Law on Cooperative and Saving and Credit Companies (approved by February 2000)

Table 1: Non-Bank Savings and Credit Institutions (December 2015)

	# of institutions	Assets (bn $)	*Regulated by SSF*
Saving and Credit Companies	4	0.2	Yes
Cooperative Banks*	7	0.7	Yes
Saving and Loans Coops	2	0.4	Yes
"Workers' Banks" (WB)	4	0.3	Yes
Federation (Credit Union & WB) FEDECREDITO	1		Yes
Sub Total of ***Regulated***	11	0.9	
Saving and Loans Coop Federation (FEDECACES)	1		No
Credit Unions and WB (associated to Fedecredito)	51	1.1	No
Saving and Loans Coops	448	0.8	No
Sub Total estimated of ***Unregulated*** *	500	1.9	
Estimated Total of NBSCI	**511**	**2.8**	

* The information on unregulated NBFI is an estimation based on partial information available

Source: FSAP elaboration with data from SSF, Fedecredito and INSAFOCOOP

26. **There are two active federation bodies that provide different types of services to NBSCI, including a self-regulatory and supervisory framework**. Fedecrédito, which is regulated by the SSF and has 55 associated entities (credit unions and workers banks - *banco de los trabajadores*), operates as a second-tier entity, standardizes deposit products and credit, manages corporate business (debit / credit, remittances), administers electronic channels and common computer systems; provides compensation between member and provides training and advisory services, among others. In addition, it has developed a prudential regulations based on BCR´s regulation, and states that it supervises the compliance of its member institutions. Fedecaces, who is not regulated by the SSF and has 32 members (all of them cooperatives), has similar activities as Fedecrédito albeit with a narrower scope.

27. **The institution in charge of promoting cooperatives (INSAFOCOOP) does not exercise prudential supervision on cooperatives**. INSAFOCOOP has 1,078 cooperatives registered, of which 447 are financial cooperatives and, among them, only 2[10] are regulated and supervised by the SSF. INSAFOCOOP has limited staff: 17 auditors and 18 people for promotion of the sector) and their tasks are confined to registration, receiving accounting information, addressing legal issues and providing advice.

28. **There are draft laws under preparation to extend the regulatory perimeter of NBSCI, including the use of auxiliary supervision by the SSF**. It is proposed that cooperatives that have between $10 and $30 million of deposits plus contributions and/or assets will be regulated and supervised by the SSF. For this purpose, a specific legal framework, similar to that for cooperative banks, is created. The draft includes a role for auxiliary supervision of these institutions through the federations of those institutions and through specialized external auditors hired by the SSF. The auxiliary supervisory scheme based on specialized external auditors and federations requires proper design and control by the SSF to avoid potential conflicts of interest.

29. **The legal framework should consider the possibility for the SSF and the BCR to have access to the financial statements of the cooperatives that are outside the regulatory perimeter**. Currently, there is no public information of the financial statements of the non-regulated NBSCIs.

[10] Comédica and Vicentina.

30. INSAFOCOOP should be strengthened to be able to perform certain prudential supervision of cooperatives that are outside the regulatory perimeter of the SSF.

V. PUBLIC SECTOR AND DEVELOPMENT BANKS

31. **El Salvador has two public sector banks and a development bank.** These are Banco Hipotecario (BH), with an orientation of lending to SMEs, Banco de Fomento Agropecuario (BFA) focused mainly in the agricultural sector, and Banco de Desarollo de El Salvador (Bandesal) a second-tier bank (and, recently, also conducting first-tier banking).

32. **The 2011 Law of the Financial System for Development Promotion, produced significant changes in the development bank, including the ability to act as a first-tier bank**. This law created Bandesal as the continuation of the Banco Multisectorial de Inversiones (BMI).

33. **The aforementioned law created the Economic Development Fund (FDE) and the Salvadoran Guarantee Fund (FSG), assigning the administration of both to Bandesal**. Through the FDE (whose capital is currently around $60 million), Bandesal provides loans as a first-tier bank up to 5 percent of FDE´s capital (Bandesal, as a second tier-bank, has been funding FDE). On the other hand, through the FSG Bandesal provides guarantees, operating as second-tier bank, for loans with specific destinations and for amounts that cannot exceed $350,000 (it cannot guarantee loans from FDE).

34. **The operations of Bandesal's first-tier banking through the FDE has presented certain pitfalls and inefficiencies.** Bandesal is an institution with a tradition and experience in second-tier banking. When using FDE funds, Bandesal started providing first-tier loans for low-value credits, which demanded considerable resources (staff, structures, organization). However, this type of role could be played by other public banks or private entities. The fact that Bandesal has two or more times changed its business model for its first-tier banking operation, as well as the high level of NPLs in this portfolio (5percent) validate the need to review the strategy of operating as a first-tier bank, with respect to low-size transactions.

35. **Bandesal should focus its first tier operations on large size operations, and deepen its second tier operations, both for loans and guarantees**. Bandesal has a significant excess of regulatory capital, which allows it to boost lending and guarantees (the latter have the advantage of not requiring immediate liquidity). Additionally, for both types of businesses, Bandesal has a competitive advantage and there is no other institution in El Salvador performing such roles.

36. **To stimulate greater financing through capital markets for strategic sectors such as infrastructure and SMEs, Bandesal could expand its offering of credit enhancement instruments**. For large infrastructure development needs of the country (e.g., for projects over $100 mn.), Bandesal would not have the financial capacity to provide such direct financing. Here, credit enhancement instruments could be more effective, especially if the projects are considering financing through capital markets, such as partial credit guarantees for principal or coupon payments of bond investors.

37. **Bandesal could also expand its guarantee offerings for the SME sector by supporting SME lenders – institutions solely dedicated to extending credit to SMEs – to obtaining funding through capital markets**. By partially guaranteeing their bond offerings, Bandesal could help these usually first-time issuers improve their credit rating and achieve

greater success in attracting investors at favorable prices, and thus allowing them to increase their scope of lending to underserved sectors.

VI. CAPITAL MARKETS

38. **Capital markets in El Salvador continue to remain relatively small but have seen improvements in the nongovernment bond market in the last 5 years**. Nongovernment bonds outstanding more than doubled since 2011 amounting to $ 1.76 bn in 2015 or about 6.8 percent of GDP. However, almost all nongovernment debt outside of securitizations is from financial institutions. Securitization issuances have been steadily growing since the passage of the Securitization Law in 2007, reaching $ 0.75 bn or about 2.9 percent of GDP in 2015, representing 42 percent of total nongovernment bonds outstanding. Securitization issuers come from diverse sectors unlike other debt issuers, and proceeds finance infrastructure projects as well as municipalities, among others. Equity market capitalization remained steady over the last 5 years, representing about 41 percent of GDP in 2015. The government bond market is characterized by ad-hoc issuances, concentrated in the short and long-term term maturities, resulting in an incomplete yield curve.

39. **The integration with Panama is a welcome development and will help improve opportunities for Salvadorian investors and issuers.** The supervisors, stock exchanges and central securities depositaries of El Salvador and Panama signed an agreement in September 2015 to integrate their markets via a remote operators model.

40. **The securities authorization process has some key bottlenecks in attracting more issuances to the market.** The challenges include: (a) issuance requirements and (b) the review and approval process carried out by the Securities Superintendence, which has taken up to 6-8 months by anecdotal accounts. In terms of issuance requirements, among others, issuers are required to provide financial projections to demonstrate debt payment capacity over the life of a security and a detailed report about the target market for their issuance.

41. **The approval process is faced with the following challenges**:

(i) The Superintendency leans towards a merit approval approach, whereby through its review of all required documentation, it strives to ensure the issuer's credit quality and capacity to pay, as opposed to solely focusing on ensuring adequate disclosure of all pertinent information, especially of relevant risks.

(ii) The legal framework does not allow private offers and there is no regime for frequent issuers that could provide a fast track issuance process for established companies that regularly access the market.[11] The submission of all documentation happens in physical form, which also significantly slows down the review and approval process; for example, it could take up to 2 days to scan the received documentation.

42. **SSF should increase the efficiency of securities authorization by speeding up the implementation of the system for electronic documents, shortening and simplifying the issuance process for banks, and developing a frequent issuers regime**. In the longer term, it is recommended that the SSF should further simplify issuance requirements and gradually transition to the role of ensuring proper disclosure of information as opposed to the solvency of issuers. The SSF should also make an effort to clarify the roles and responsibilities of brokerage firms to conduct the due diligence of issuers they represent and duly prepare all

[11] While recurrent issuers are mentioned in the regulation for the registry of issuers and issuances, there is no difference in their requirements or the process of authorization compared to a first-time issuer.

required documentation. The SSF should also simplify the requirements for the purchase and trading of foreign securities in the secondary market, especially in light of the integration initiative with Panama and likely other countries in the near future. The authorities should improve the investment regime of pension funds, increasing their limit for foreign investments and alleviating their requirement to invest in locally registered securities that have two local credit ratings.

VII. PENSIONS

43. **El Salvador's pension system has a legacy pillar 1 public system (closed to new entrants) and a privately funded pillar 2 system administered by two pension fund companies**. The public system has been running deficits since the reform in 1998 as worker salary contributions went into individual pension saving accounts rather than to fund retiree pensions in the public system, under its pay-as-you-go basis. While pillar 1 cannot fully fund itself, its annual fiscal outlays represent only around 2.5 percent of the government budget.

44. **To help fund the public pension deficit, the government has required the pension fund companies (AFPs) to invest in non-marketable state securities (CIP-A) that pay a LIBOR linked return of 1.2 percent**. These represent 56 percent of AFP portfolios that also include other public sector debt paying at better rates. Total government securities comprise 80 percent of the portfolios. The low rate on CIPs has not allowed pension funds to obtain adequate returns (around 5 percent nominal per annum at most) which would provide workers an adequate pension income.

45. **A new proposed reform submitted for discussion in March 2016 to Parliament, aims to reverse the pension deficit by transferring the majority of workers under pillar 2 back to a public pillar 1 system, under a "mixed" pension regime.** Given the rules and thresholds for such transfers, almost 80 percent of workers currently under the private scheme (about 1.3 million) as well as some $4.7 billion of their assets (about 56 percent of all invested assets) would be transferred back to the government scheme. The accounting result would be effectively to cancel much of the government's CIP explicit debt.

Table 2: Effect of Proposed Reform on Affiliates and Assets

Criteria for Transfer to Pillar 1	No. Affiliated workers transferred to Pillar 1	Savings to be transferred to Pillar 1	Savings left in investment accounts	percent investments transferred
Salary of $504/mo. (2 minimum salaries) or less	1.3 mn.	$2.41 bn.	$0.00	100 percent
Salary above $504/mo.	0.35 mn.	$2.26 bn.	$3.8 bn.	59 percent
Total	1.6 mn.	$4.67 bn.	$3.8 bn.	81 percent

Source: Asafondos

46. **The reform has several risks to be considered, not only in terms of potential legal challenges from AFP affiliates.** Risk also exist also because the new system does not solve the pillar 1 deficit in the long run and does not assure adequate pension replacement income. The reform could also discourage private investors as it changes the rules of previously established contracts.

47. **The financial authorities, as a policy objective, should refocus their efforts in the pension arena, to ensure that the pension system meets its objective of generating an**

adequate replacement income at retirement. While pension investments can serve to fund domestic capital market financing needs as well as to meet fiscal objectives, they should primarily target assets that generate an adequate rate of return that will result in a satisfactory level of pension.

48. **A fiscal reform for pillar 1 is needed but it could be less disruptive and still achieve the same or better objectives if the government CIP-A debt were restructured instead of canceled.** Given that Pillar 1 pension expenditures are a very small share of the budget, a more effective way of dealing with the CIP-A obligations (which pay both principal and interest annually) could be to restructure them into 30-year bullet bonds held in AFP portfolios but gradually paying a higher rate of interest in line with AFP investment objectives.

49. **To make any reform credible, the authorities should present financial and actuarial projections that are vetted by an independent third part**y. This will allow transparency and a public dialogue based on expert opinion and figures that can be relied upon to make a strong case for any pension and fiscal reform.

VIII. INSURANCE

50. **The insurance market in El Salvador is small but a growing part of the financial secvices sector.** In 2015 insurance penetration was 2.4 percent of GDP, which is within the average for the region, and the premium per capita is relatively low for the region, at $ 94.21 (Table 8). From 2010-2015, insurance market premiums grew at an average annual rate of 5.5 percent while GDP grew on average during the same period at 1.9 percent per annum. This growth was driven by life insurance which expanded at 8.05 percent per annum. Group life insurance and health insurance are the most important insurance products in the market, with market shares of 31.4 percent and 30.2 percent, respectively.

51. **The main laws governing the insurance sector are the Insurance Companies Law, the Law on Supervision and Regulation of the Financial System (LSRSF) and the Commercial Code**. The Central Bank acts as the regulatory body for the insurance sector with the collaboration of the SSF, which is the supervisor. The existing Insurance Companies Law is quite antiquated and there exists a draft proposal to modernize it so that it better approximates international standards.

52. **The SSF is currently in transition towards Risk-Based Supervision.** The SSF began its transition process in 2010 and has been gradually implementing measures that will help establish a more risk based supervisory framework.

53. **It is recommended that implementation of changes to the Insurance Companies law proceed as soon as possible.** Several changes have been prepared by the BCR and SSF which would significantly improve adherence to international standards and best practices for insurance supervision, but some additional changes are also necessary. The LSS has not been updated in many years and has gaps in terms of many international standards and best practices for insurance regulation and supervision. In 2014 the World Bank recommended changes to the LSS largely based on a detailed review of the law against Insurance Core Principles established by the International Association of Insurance Supervisors (IAIS).

54. **Major changes that have been incorporated in the draft law so far significantly improve its clarity.** However, the law should be amended to strengthen prudential regulation

in the areas of compliance functions, risk based capital, liquidity risks, minimum capital, deductions from capital, and guarantee instruments.

55. **In regard to market conduct, preparation of a law on Insurance Contract provisions has been initiated.** Finally, additional progress could be made in developing the regulatory framework on risk-based supervision. Regulations will be required in a number of areas including corporate governance and integrated risk management in the insurance sector.

Table 3. Selected Economic Indicators

	2008	2009	2010	2011	2012	2013	2014	2015
							Projections	
					(Percent of GDP, unless otherwise stated)			
Real GDP (percent change)	1.3	-3.1	1.4	2.2	1.9	1.7	2.0	3.0
Consumer prices (percent change, end of period)	7.3	0.5	1.2	5.1	1.7	0.8	1.2	2.0
Credit to the private sector	43.0	42.4	40.9	39.8	40.2	42.7	44.2	44.1
Broad money	45.0	47.3	47.2	43.6	43.2	43.4	42.9	47.4
Current account balance	-7.1	-1.5	-2.7	-4.9	-5.4	-6.5	-5.5	-3.0
Trade balance	-21.8	-15.0	-16.5	-18.4	-18.7	-19.7	-19.3	-18.8
Transfers (net)	17.5	16.7	16.8	16.6	16.9	16.9	17.5	17.5
Non-financial public sector balance	-3.2	-5.7	-4.3	-3.9	-3.9	-4.1	-4.0	-4.4
Primary balance	-0.8	-3.1	-1.9	-1.7	-1.6	-1.6	-1.5	-1.7
Gross Public Debt	42.4	51.0	52.2	52.2	57.3	57.8	60.0	61.9
Gross domestic investment	15.2	13.4	13.3	14.4	14.1	15.1	14.8	14.9
Public sector	2.4	2.2	2.4	2.4	2.5	2.6	2.4	2.6
Private sector	12.8	11.2	10.9	11.9	11.6	12.5	12.4	12.3
Gross domestic saving	8.1	11.9	10.7	9.4	8.7	8.6	9.3	10.0
Public sector	-0.4	-3.1	-1.9	-2.0	-1.2	-1.2	-1.1	-1.4
Private sector	8.4	15.0	12.5	11.4	9.9	9.8	10.5	11.4

Source: IMF Article IV, January 2015

Table 4. Financial System Structure

	2010	2011	2012	2013	2014	2015
Number						
Banks	11	12	12	12	12	13
Private domestic	-	-	-	-	-	1
State-owned	2	2	2	2	2	2
Foreign-owned	9	10	10	10	10	10
Branch of foreign banks	2	1	1	1	1	1
Securities companies	20	20	21	21	22	24
Other credit institutions	8	8	8	9	10	10
Pension funds	2	2	2	2	2	2
Insurance	20	20	21	21	22	24
	(In percent of total of the financial system)					
Assets	100.0	100.0	100.0	100.0	100.0	100.0
Banks	65.7	63.7	62.8	62.3	60.8	60.6
Private domestic	-	-	-	-	-	0.5
State-owned	3.9	4.1	4.3	4.4	4.5	4.5
Foreign-owned	61.8	59.6	58.6	57.9	56.4	55.6
Branch of foreign banks	0.7	0.7	0.1	0.1	0.1	0.1
Securities companies	3.1	3.0	3.0	3.1	3.1	3.0
Other credit institutions	2.4	2.6	2.8	3.0	3.2	3.4
Pension funds	28.1	30.0	31.3	31.5	32.7	32.8
Insurance	3.1	3.0	3.0	3.1	3.1	3.2
Loans	100.0	100.0	100.0	100.0	100.0	100.0
Banks	99.8	100.0	100.0	100.0	100.0	100.0
Private domestic	-	-	-	-	-	0.7
State-owned	5.9	6.6	7.0	7.2	7.7	7.9
Foreign-owned	94.0	93.3	93.0	92.8	92.3	91.4
Branch of foreign banks	0.2	0.0	0.0	0.0	0.0	0.0
Deposits	100.0	100.0	100.0	100.0	100.0	100.0
Banks	99.1	98.8	100.0	100.0	100.0	100.0
Private domestic	-	-	-	-	-	0.6
State-owned	5.8	6.4	7.2	7.5	7.8	8.2
Foreign-owned	93.3	92.4	92.8	92.5	92.2	91.2
Branch of foreign banks	0.9	1.2	0.0	0.0	0.0	0.0
Memorandum items						
Assets						
In millions of dollars	2,034,482.7	2,073,716.0	2,207,454.0	2,360,859.0	2,473,727.3	2,646,853.4
In percent of GDP	95.0	89.6	92.7	97.0	98.3	101.0
Deposits						
In millions of dollars	951,166.7	942,105.4	951,977.5	990,822.2	980,524.2	1,034,365.7
In percent of GDP	44.4	40.7	40.0	40.7	39.0	39.5
Loans						
In millions of dollars	804,126.5	837,601.6	891,731.7	963,399.9	1,011,983.4	1,055,792.2
In percent of GDP	37.5	36.2	38.7	39.6	40.2	40.3

Source: Superintendencia del Sistema Financiero

Table 5. Financial Soundness Indicators for the financial system in El Salvador

(In percent, unless otherwise indicated)

Annual/monthly data (as per end-of-year)	2010	2011	2012	2013	2014	2015
Capital Adequacy						
Regulatory capital to risk-weighted assets	18.0	17.5	17.5	17.7	17.0	17.2
Regulatory Tier I capital to risk-weighted assets	14.5	14.7	14.6	14.4	14.0	14.2
Regulatory capital to total assets	13.9	13.9	14.2	14.3	14.0	13.9
Asset composition						
Sectoral distribution of loans to total loans						
Households	53.7	52.8	53.4	54.2	55.7	56.1
Agriculture sector	3.9	3.7	3.4	3.3	3.4	3.4
Mining sector	0.0	0.0	0.1	0.1	0.1	0.1
Electricity, water, services, oil and gas sector	1.3	1.6	1.5	1.4	1.5	1.8
Construction sector	5.1	4.6	4.0	3.7	3.3	3.0
Transportation and communications sector	2.1	1.7	1.7	1.6	1.7	1.7
Nonresidents	2.2	2.4	2.7	2.4	2.5	2.4
Geographical distribution of loans to total loans						
Domestic	97.8	97.6	97.3	97.4	97.2	97.4
Foreign	2.2	2.4	2.7	2.6	2.8	2.6
Of which:						
Central America	1.7	2.0	2.3	2.1	2.2	2.2
United States	0.3	0.3	0.3	0.3	0.3	0.2
Asset Quality						
NPL to gross total loans	3.9	3.6	2.8	2.3	2.3	2.3
NPLs net of provisions to capital	-1.4	-1.4	-1.8	-2.5	-2.3	-1.9
Earnings and profitability						
ROA	0.9	1.5	1.6	1.6	1.3	1.1
ROE	6.6	11.2	11.3	11.6	9.5	7.8
Net interest income to gross income*	67.6	69.7	70.9	73.2	75.8	74.5
Non-interest expenses to gross income	66.0	57.0	53.9	54.0	57.8	60.6
Spread between reference loan and deposit rates	479.0	352.1	236.7	218.6	198.0	178.0
Liquidity						
Liquid asset to total assets*	17.0	14.6	13.3	14.7	21.1	20.6
Liquid assets to total short-term liabilities*	23.6	20.2	18.8	21.0	30.8	31.0
Customer deposits to total (non-interbank) loans	113.6	107.7	100.0	96.7	91.2	92.5
FX denominated liabilities to total liabilities	100.0	100.0	100.0	100.0	100.0	100.0
Sensitivity to market risk						
Net open position in FX to capital*	100.0	100.0	100.0	100.0	100.0	100.0

Source: FSAP analysis based on BCR and SSF data, IMF FSI database