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EBS/83/84

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April 25, 1983

To: Members of the Executive Board

From: The Secretary

Subject: El Salvador - Consultation Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report on the consultation under the stand-by arrangement for El Salvador. A draft decision appears on pages 22 and 23. This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. R. Anthony Elson, ext. 73811.

Att: (1)

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INTERNATIONAL MONETARY FUND

EL SALVADOR

Consultation Under Stand-By Arrangement

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations and Legal Departments)

Approved by Eduardo Wiesner and Manuel Guitian

April 22, 1983

I. Introduction

On July 16, 1982 the Executive Board approved a one-year stand-by arrangement for El Salvador in an amount equivalent to SDR 43 million (EBS/82/106, Supplement 1, July 20, 1982).

In the letter to the Managing Director dated June 7, 1982 requesting the stand-by arrangement, the Minister of Finance and the President of the Central Reserve Bank of El Salvador stated that they would reach understandings with the Fund not later than December 31, 1982 on (1) the limits on the net domestic assets of the Central Reserve Bank, (2) the limits on the net credit of the banking system to the nonfinancial public sector, and (3) the targets for the overall balance of payments and for the reduction of payments arrears, for the remaining period of the arrangement. In the attached letter, dated April 27, 1983, and the accompanying policy memorandum, the authorities describe their policies for 1983, and set forth the limits and targets just cited. While the understandings regarding the ceilings and targets for the remaining period of the arrangement were reached in December 1982, the letter of intent and policy memorandum could not be transmitted earlier because of delays in the submission to the Legislative Assembly of the tax measures agreed upon with the staff.

El Salvador has made three purchases thus far under the present stand-by arrangement totaling SDR 27.5 million, and is entitled to make two additional purchases during the remaining period of the arrangement, each amounting to SDR 7.75 million, subject to observance of the performance criteria described in this report (Table 1).

This report provides a review of performance in 1982 under the stand-by arrangement (Section II) and discusses the economic and financial program of El Salvador for 1983 which is described in the attached letter and accompanying memorandum (Section III). The discussion of policies to be implemented in 1983 is followed by a staff appraisal

Table 1. El Salvador: Projection of the IMF Position--January-June 1983

	Outstanding 6/30/82	Operations 1982 July-Sept.	Operations 1982 Oct.-Dec.	Outstanding 12/31/82	Operations 1983 Jan.-May	Operations 1983 Apr.-June	Outstanding 6/30/83
	(In millions of SDRs)						
Purchases	37.6	51.4	8.4	97.4	7.7	7.7	113.0
Credit tranches	5.4	19.1	8.4	32.9	7.7	7.7	48.4
Compensatory financing	32.3	32.3	--	64.5	--	--	64.6
Repurchases		--	--		--	--	
Net purchases		51.4	8.4		7.7	7.7	
Memorandum item							
Total holdings (end of period)	102.1	153.5	161.9	161.9	169.6	177.3	177.3
Excluding compensatory facility	69.8	88.9	97.3	97.3	105.0	112.7	112.7
	(In per cent of quota)						
Total holdings (end of period)	158.3	238.0	251.0	251.0	263.0	275.0	275.0
Excluding compensatory facility	108.3	138.0	151.0	151.0	163.0	175.0	175.0

Source: International Monetary Fund.

(Section IV) and three appendices describing the main assumptions of the program for 1983, the evolution of the effective exchange rate, and the exchange system of El Salvador as of December 31, 1982.1/

II. Recent Economic Developments and Performance Under the Stand-by Arrangement in 1982

1. Background and summary

During the three-year period through 1981, the economic and financial position of El Salvador deteriorated sharply. An erosion of private sector confidence, arising from political instability and armed conflict prevailing not only in the country but also in the region, compounded by the emerging world economic recession and the deteriorating terms of trade, led to a sharp decline in economic activity and a cumulative drop in real GDP of nearly 20 per cent. The authorities' attempt to maintain economic activity in this setting by means of expansionary demand policies, together with capital flight caused by the prevailing uncertainties, led to large external imbalances which were reflected in a cumulative overall balance of payments deficit of around US$560 million for the three-year period 1979-81.

The authorities framed an economic program for 1982 which was designed to contain the decline in aggregate production and to begin to replenish the international reserve position of the Central Reserve Bank. The main objectives of the program were to be achieved by means of restrained demand management policies, some adjustment of the exchange rate through the formalization of a parallel exchange market, and an increase in domestic interest rates. Consistent with the objectives of the program, targets were set for the overall balance of payments (inclusive of external payments arrears), and limits were set for the net domestic assets of the Central Reserve Bank and for the net credit of the banking system to the nonfinancial public sector through the end of 1982.

El Salvador's performance to date under the stand-by arrangement has been generally satisfactory despite a continuation of weak underlying economic conditions in the country. Contrary to program projections, real GDP and foreign trade flows declined in 1982 for the third straight year because of further disruptive effects of armed conflict, the continued weakness of private sector confidence, severe weather problems, and unfavorable international economic conditions. At the same time, domestic inflationary pressures were lower than anticipated, mainly because of a lower rate of imported inflation than estimated in

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1/ A staff team consisting of Messrs. Elson (Head), Hernandez, Umana (all WHD), and Ms. Archer (Secretary-WHD) visited San Salvador during the period November 22-December 15, 1982 to hold the discussions which provided the basis for this paper. The mission was assisted by Mr. Albertelli, the Fund's Resident Advisor in El Salvador.

in the program. As of the end of 1982, El Salvador had met with all but one of the applicable quantitative performance criteria set for the first half of the stand-by period (Table 2). The intention to reduce the stock of external payments arrears by US$21 million by the end of December 1982 was not met, as the Central Reserve Bank had to repay more short-term foreign liabilities than anticipated under the program because of the unexpected nonrenewal of short-term loans. Notwithstanding the failure to observe the arrears target, the overall balance of payments target (including arrears as a foreign reserve liability) for the end of 1982 was achieved, as the reduction in short-term foreign liabilities of the Central Reserve Bank more than compensated for the deviation with respect to the arrears target.

Table 2. El Salvador: Performance Under Stand-By Arrangement in 1982 and Program Ceilings in 1983

	December 31, 1982		Program 1983	
	Program 1/	Actual	April	July
(In millions of colones)				
Net domestic assets of the Central Reserve Bank	1,550	1,351	1,325	1,175
Net credit of the banking system to the nonfinancial public sector	1,825	1,727 2/	1,950 3/	2,025 3/
(In millions of U.S. dollars)				
Balance of payments target	-335	-283	-275	-235
Net international reserves of the Central Reserve Bank	-290	-222	-230	-200
External payments arrears	-45	-61	-45	-35

Source: Central Reserve Bank of El Salvador.

1/ As described in EBS/82/106, Sup. 1.
2/ Includes use of deposits amounting to ₡ 62 million arising from the placement of dollar-denominated bonds to refinance external payments arrears.
3/ These limits are not strictly comparable with those set for 1982, as they exclude certain adjustments included in the definition of net banking system credit to the public sector during the first half of the arrangement.

2. Output, price and wage developments

El Salvador's generally satisfactory performance under the stand-by arrangement in 1982 is noteworthy in view of the fact that the pace of economic activity was significantly weaker than contemplated in the program; real GDP declined by 5 per cent instead of remaining unchanged as projected (Table 3). All sectors of the economy contributed to the decline in real GDP in 1982, which was almost 25 per cent below the previous peak of 1978. The three main economic sectors (agriculture, commerce, and manufacturing) registered the largest declines in output. Agricultural output fell by 7 per cent as severe rains in August 1982 resulted in substantial damage to the basic grain crops, and continuing internal conflict and low international prices contributed to a decline in the production of the main export crops. Output in the commercial and industrial sectors declined by 6 per cent, as these sectors continued to be plagued by domestic unrest. In particular, the performance of the industrial sector, which consists mainly of agro-industrial and light manufacturing enterprises, was adversely affected by the closing of many firms, while those that continued to operate suffered from a lack of foreign exchange for the purchase of essential raw materials, equipment, and spare parts.

Table 3. El Salvador: National Accounts and Price Indicators

(Annual percentage change)

	1980	1981	Prog. 1982	Est. 1982	Proj. 1983
Nominal GDP at market prices	3.8	-1.8	16.1	4.2	11.2
Real GDP	-9.0	-9.5	--	-5.4	--
Agriculture	-4.9	-10.1	2.6	-7.4	3.3
Manufacturing	-16.0	-15.8	--	-5.9	-1.9
Commerce	-11.3	-13.9	-0.5	-5.7	-2.5
Construction	-34.6	-1.3	--	-5.1	2.0
Transportation	-7.2	-11.8	-0.6	-6.5	--
Other	2.9	2.4	-2.6	-2.5	--
GDP deflator	14.0	8.5	16.1	10.1	11.2
Consumer Prices					
End of period	18.6	11.6	...	13.4	...
Average	17.4	14.7	15.0	11.7	10.0
Wholesale prices					
End of period	17.1	12.6	...	6.8	...
Average	18.8	14.8	...	7.0	8.5

Sources: Central Reserve Bank of El Salvador; and Fund staff estimates.

The authorities were relatively successful in maintaining a prudent wage policy during 1982. In February 1982, wage increases of up to 10 per cent were allowed in both the private and public sectors, depending upon the financial condition of each individual enterprise. This was the first adjustment permitted since the establishment of a wage freeze on January 1, 1981. Because of the lack of current wage statistics, it is difficult to ascertain the extent to which wages were adjusted in 1982; it is noteworthy, however, that minimum wages for workers harvesting the main export crops were set by the Ministry of Labor in October 1982 at the same levels as for the 1981 harvest, suggesting that wage increases in general were quite limited in 1982.

The decline in the growth of aggregate demand, the Government's price and wage policies, together with a deceleration in the rate of inflation registered by El Salvador's main trading partners, resulted in a domestic rate of price increase lower than had been projected for 1982. The consumer price index is estimated to have increased by 12 per cent on an average annual basis, and the GDP deflator by 10 per cent, compared with projected increases of 15 per cent and 16 per cent, respectively, under the program.

3. Fiscal developments

A key element of the fiscal program was a tight control over public spending to contain the overall deficit of the nonfinancial public sector in 1982 below its level of 8 per cent of GDP in 1981. Such a policy was intended to make possible a reduction in domestic bank financing of the public sector of nearly 1 per cent of GDP (Table 4). According to preliminary estimates, the overall public sector deficit was confined to slighty over 7 per cent of GDP in 1982, and net domestic financing was somewhat smaller than estimated in the program.

The performance of the Central Government did not improve in 1982. The overall deficit was equivalent to nearly 7 per cent of GDP--or about the same as in 1981--instead of declining by 1 per cent of GDP as programed (Table 5). While central government revenues were broadly in line with the program, total expenditure exceeded the level that had been estimated. Taxes on domestic transactions and foreign trade were lower than had been expected, but this shortfall was offset by an increase in other tax receipts, associated with the transfer of profits from the nationalized banking sector and the proceeds from a special surcharge on gasoline sales. Total expenditures as a proportion of GDP remained at practically the same level as in 1981 (19-1/2 per cent), as an increase in consumption expenditures more than offset a lower level of capital transfers to the rest of the public sector. The larger than programed deficit of the Central Government was financed by a larger recourse to external borrowing (including the use of proceeds arising from the placement of dollar-denominated bonds for refinancing external

Table 4. El Salvador: Public Sector Operations

	1980	1981	Prog. 1/ 1982	Est. 1982	Proj. 1983
	(In millions of colones)				
Revenue	1,279	1,399	1,408	1,500	1,797
Current	1,198	1,284	1,356	1,374	1,622
Surplus of enterprises	72	101	26	117	120
Capital	9	14	26	9	55
Expenditure	1,911	2,098	2,139	2,160	2,406
Current	1,220	1,398	1,541	1,501	1,658
Capital	687	697	598	656	719
Net lending	4	3	—	3	29
Current account	50	-13	-159	-10	84
Overall deficit	-632	-699	-731	-660	-609
External financing (net)	180	320	375	362	350
Disbursements	(206)	(352)	(430)	(413) 2/	(412)
Amortization (-)	(-26)	(-32)	(-55)	(-49)	(-62)
Internal financing (net)	452	379	356	298	259
Central Reserve Bank	(478)	(417)	(400)	(394)	(350)
Banks	(11)	(18)	(--)	(-19)	(--)
Other	(-37)	(-56)	(-46)	(-77)	(-91)
	(As per cent of GDP)				
Revenue	14.3	15.9	14.2	16.4	17.6
Expenditure	21.4	23.9	21.6	23.6	23.6
Current account	0.6	-0.1	-1.6	-0.1	0.8
Overall deficit	7.1	8.0	7.4	7.2	6.0
External financing (net)	2.0	3.6	3.8	3.9	3.5
Internal financing (net)	5.1	4.4	3.6	3.3	2.5
Of which: banking system	(5.5)	(5.0)	(4.0)	(4.1)	(3.4)

Sources: Central Reserve Bank of El Salvador; and Fund staff estimates.

1/ As presented in Table 14 of SM/82/67.
2/ Includes placement of ¢ 62 million in dollar-denominated bonds to refinance external payments arrears.

Table 5. El Salvador: Central Government Operations

	1980	1981	Prog.1/ 1982	Est. 1982	Proj. 1983
	(In millions of colones)				
Revenue and grants	1,021	1,096	1,146	1,146	1,430
Current	1,020	1,090	1,131	1,145	1,180
Capital revenue and grants	1	6	15	1	55
Tax reform	—	—	—	—	195
Expenditure 2/	1,539	1,722	1,734	1,766	1,984
Current	1,077	1,233	1,276	1,315	1,410
Capital	457	447	457	448	526
Net lending	4	41	—	3	48
Current account	-57	-143	-145	-170	-35
Overall deficit	-518	-626	-587	-620	-554
External financing (net)3/	135	193	277	306	275
Disbursements	(144)	(204)	(309)	(327)4/	(300)
Amortization	(-9)	(-11)	(-32)	(-21)	(-25)
Internal financing (net)	383	433	310	314	279
Central Reserve Bank	(397)	(430)	(350)	(421)	(320)
Banks	(2)	(51)	(--)	(6)	(--)
Other	(-16)	(-51)	(-40)	(-113)	(-41)
	(As a per cent of GDP)				
Revenue	11.4	12.5	11.6	12.5	14.0
Of which: tax reform	(--)	(--)	(--)	(--)	(1.9)
Expenditure	17.2	19.6	17.5	19.3	19.5
Current account	-0.6	-1.6	-1.5	-1.9	-0.3
Overall deficit	5.8	7.1	5.9	6.8	5.4
External financing (net)	1.5	2.2	2.8	3.3	2.7
Internal financing (net)	4.3	4.9	3.1	3.4	2.7
Of which: banking system	(4.5)	(5.5)	(3.5)	(4.7)	(3.1)

Sources: Ministry of Finance; Central Reserve Bank of El Salvador; and Fund staff estimates.

1/ As presented in Table 7 of SM/82/67.
2/ Excludes transactions related to the nationalization of banks in 1980 (₡ 71.6 million), 1981 (₡ 80.8 million), and 1982 (₡ 150 million), and to the capitalization of INCAFE (₡ 160 million), INSAFI (₡ 150 million), and BFA (₡ 75 million) in 1981, and of the nationalized banks in 1982 (₡ 36 million). These transactions, related to the financial and agrarian reforms, were financed with long-term nonnegotiable bonds
3/ Excludes prestamos por delegacion.
4/ Includes placement of ₡ 62 million in dollar-denominated bonds to refinance payments arrears.

payments arrears)1/ and a larger net use of Central Bank credit than projected in the program.

As regards the rest of the public sector, partial and preliminary evidence suggests that the main state enterprises and the large decentralized entities, such as the Social Security Institute, were able to improve their current account surplus moderately over the level of previous years. On the revenue side, efforts were made last year to strengthen operating surpluses by collecting overdue accounts, whereas current expenditures were tightly controlled. All in all, an overall surplus of the rest of the general government in 1982 nearly offset an overall deficit of the enterprise sector which was financed in the main with net disbursements from long-term external credits.

4. Trends in the financial system

The main thrust of the authorities' monetary program for 1982 was to limit the rate of expansion of the Central Reserve Bank's net domestic assets to 12 per cent (one half the growth rate in 1981) in order to keep the loss of net international reserves to about US$45 million (Table 6). This objective in respect of credit was to be achieved by reducing central bank financing of the public sector deficit. In addition, an increase in the flow of long-term foreign resources to the Central Reserve Bank was to make possible an expansion in net central bank credit to the rest of the economy, which would reverse the decline recorded in 1981. The implementation of the credit policy of the program was to be assisted by an upward adjustment of domestic interest rates on both loans and deposits of the banking system.

As it turned out, the net domestic assets of the Central Reserve Bank actually declined by 2 per cent, which resulted in an increase in net official international reserves, rather than the loss contemplated in the program. Although net credit expansion of the Central Reserve Bank to the public sector was close to the program projection, the Bank's credit expansion to the rest of the economy fell substantially short of the amount estimated in the program. Weak private sector demand, as well as a larger than contemplated use of foreign long-term financing by the Central Reserve Bank, contributed to the contraction in the net domestic assets of the Central Reserve Bank last year.

In early 1982, the authorities simplified the system of interest rate ceilings and increased the prevailing ceilings by about 2-1/2 percentage points. The legal maximum rate for 180-day deposits, which serves as a reference for other interest rates, was raised from 10 per cent to 12-1/2 per cent. These measures were expected to stimulate the

1/ These bonds were issued to local importers whose payments were in arrears, subject to the condition that such bonds would be accepted in lieu of immediate payment by their foreign suppliers. During the last quarter of 1982, bonds amounting to US$24.8 million were placed with a term of five years and yielding 12 per cent.

Table 6. El Salvador: Banking System Accounts

	December		December		
	1980	1981	Prog. 1/ 1982	Est. 1982	Proj. 1983
I. Central Reserve Bank					
(In millions of colones)					
Net international reserves	-333	-601	-714	-556	-531
Net domestic assets	1,120	1,375	1,543	1,353	1,378
Central Government (net)	416	1,156	1,506	1,577	1,897
Rest of public sector (net)	258	320	370	293	323
Banks	166	89	148	79	138
Credit	(606)	(586)	(706)	(638)	(787)
Deposits (-)	(-440)	(-497)	(-558)	(-559)	(-649)
Private sector 2/	1,116	909	954	753	747
Long-term foreign liabilities	-560	-697	-746	-814	-906
Trust funds	—	-103	-328	-353	-578
Other	-276	-299	-361	-182	-243
Currency issue	787	774	829	797	847
II. Banking System					
Net international reserves	-291	-480	-590	-508	-481
Net domestic assets	3,714	4,309	5,113	5,212	5,850
Central Government (net)	419	1,210	1,560	1,673	1,993
Rest of public sector (net)	139	168	218	134	164
Private sector 2/3/	3,328	3,299	3,733	3,561	3,914
Other	-172	-368	-398	-156	-221
Long-term foreign liabilities	560	705	750	821	911
Trust funds	—	103	328	353	578
Liabilities to private sector 3/	2,863	3,021	3,445	3,530	3,880
(Percentage change)					
Net domestic assets of the banking system 4/	29.7	20.7	26.6	29.9	18.1
Credit to public sector	(15.5)	(28.6)	(13.2)	(14.2)	(9.9)
Credit to private sector	(13.8)	(-1.0)	(14.4)	(8.7)	(10.0)
Liabilities to private sector	2.5	5.5	14.0	16.8	9.9
(As a per cent of GDP)					
Liabilities to private sector	32.0	34.4	34.8	38.5	38.1

Sources: Central Reserve Bank of El Salvador; and Fund staff estimates.

1/ As presented in Tables 15 and 17 of SM/82/69; data for the banking system as shown in this table differ from those reported earlier because of adjustments related to a revision and reclassification of some of the accounts in previous years.
2/ Includes business and individuals; INCAFE and INAZUCAR; and nonmonetary financial institutions.
3/ Includes *fideicomisos*.
4/ As per cent of the stock of liabilities at the beginning of the period.

growth of loanable resources in the banking system, improve the allocation of financial resources, and facilitate a more balanced distribution of credit between the private and public sectors.

During 1982, banking system liabilities to the private sector increased by 17 per cent, a somewhat higher pace than contemplated in the program, and nearly three times the rate registered in 1981. As a proportion of GDP, private sector financial holdings rose from 34-1/2 per cent in 1981 to 38-1/2 per cent in 1982. The faster than expected growth in private sector claims on the banking system may be attributed in part to the authorities' interest rate policy, but certain other factors also contributed to this result. A significant portion of the stock of private financial savings at the end of 1982 represented the counterpart of external payments arrears, which as pointed out earlier, were not reduced as programed. Also, a substitution of financial assets by the business sector for raw material inventories which could not be imported for lack of foreign exchange may have taken place during 1982.

The faster growth in liabilities to the private sector made it possible for the banking system to increase credit at a somewhat faster than programed rate, or 30 per cent compared with 27 per cent. The authorities, however, were able to balance better the distribution of credit between the private and the public sector. While the banking system's credit expansion to the public sector in 1982 was reduced by one half (increasing by 14 per cent, approximately as programed), the increase in credit to the private sector, although less than contemplated in the program, represented a sharp recovery from the contraction of 1 per cent registered in 1981. The decline in economic activity as reflected in the drop of real GDP, together with the increase in domestic lending rates and the continuing scarcity of foreign exchange, would appear to have been the main factors leading to the slower than projected increase in the banking system's credit to the private sector in 1982.

5. The external sector

a. Developments in the exchange system

A key element in the adjustment program for 1982 was the formalization of a parallel exchange market. As a result of actions taken in the period December 1981-January 1982, a parallel market emerged in which the value of the colon initially fluctuated around ₡ 3.50 per U.S. dollar, compared with ₡ 2.50 per U.S. dollar in the official market. On the receipts side, proceeds from nontraditional exports 1/ (representing about 10 per cent of total export value), and invisibles of a personal nature (family remittances, etc.) were shifted from the official to the parallel market; on the payments side, payments for nonessential imports

1/ Exports of all goods, except coffee, cotton, sugar, and shrimp, outside Central America (including Panama).

previously placed on a prohibited list or subject to prior deposit requirements (representing about one fourth of merchandise imports) and payments for most invisibles were shifted to the parallel market.

At first, transactions in the parallel market were restricted exclusively to holders of U.S. dollar-denominated accounts who could transact freely among themselves. However, as of August 1982, the commercial banks also were permitted to buy and sell foreign exchange in the parallel market. During the period August-October 1982, the value of the colon in the parallel market depreciated from around ₡ 3.70 per U.S. dollar (selling) to ₡ 4.10 per U.S. dollar (selling). During this same period, net purchases and sales of foreign exchange by banks tended to even out on a week-to-week basis.1/

With the aim of reducing the possibility of speculative exchange transactions, the Monetary Board introduced, at the end of October 1982, a further institutional modification of the parallel market by limiting all transactions, as of November 10, 1982, exclusively to the commercial banks.2/ At the same time, holders of foreign exchange accounts were allowed only the option of either converting their balances into local currency or using such balances in payments abroad in connection with their exports. Transactions among holders of foreign exchange accounts were prohibited.

In October 1982 the Monetary Board also introduced a further shift of exchange receipts from the official to the parallel market, encompassing nontraditional exports to Panama (previously classified as regional trade to be surrendered in the official market), tourism, personal services, and transactions of foreign diplomats. At the same time, they raised the existing limits on sales of foreign exchange for study and medical care abroad, and reduced those for tourism, family remittances, insurance premiums and other personal services. However, foreign exchange is permitted to be sold in excess of the limits to meet bona fide requirements in the case of tourism and family remittances. These changes in the exchange system were deemed consistent with the decision adopted at the conclusion of the 1981 Article IV consultation (SM/82/67, Supplement 1, 7/20/82) and, therefore, were not regarded as subject to further Executive Board action. However, on further review, it has been concluded that the limits for insurance premiums and other personal services do constitute an exchange restriction requiring Fund approval.

During the period November-December 1982, the value of the colon in the parallel market appreciated from ₡ 4.10 (selling) to around ₡ 3.80 (selling). In marked contrast with the period prior to November, these two months were a period of significant net purchases of foreign exchange in the parallel market by the banks.

1/ Data on exchange rate quotations and net purchases and sales in the parallel market are presented in Table 9 (Appendix III).

2/ This and other changes were reported to the Executive Board in EBD/82/319 (December 28, 1982).

b. Balance of payments

The financial program for 1982 had as its main objective that of limiting the overall balance of payments deficit to US$24 million (including a reduction in payment arrears of US$21 million). Subject to the rollover or refinancing of short-term external debt, the achievement of this target would have permitted a modest accumulation of liquid foreign assets by the Central Reserve Bank during the year. In addition, the balance of payments position was expected to improve as a result of an increase in net foreign concessionary lending; such credits were projected to reach US$354 million in 1982, or the equivalent of 9 per cent of GDP.

The authorities were successful in achieving their overall balance of payments objective for 1982, as the net international reserves of the Central Reserve Bank registered an increase of US$19 million that more than offset the shortfall in respect of the external arrears target, and resulted in an overall surplus of US$24 million (Table 7). However, as mentioned earlier, the Central Reserve Bank was able to reduce payments arrears by only US$5 million, as it had to repay US$44 million of short-term foreign loans wheareas the program envisaged repayments of only US$14 million. Also, the gross liquid foreign reserves of the Central Reserve Bank amounted to about US$10 million at the end of 1982, which was the target in the program.

The overall balance of payments surplus that was achieved reflected a much better than anticipated current account outcome which more than compensated for a shortfall in the capital account. The current account deficit was limited to the equivalent of 7-1/2 per cent of GDP, compared with a target of around 9 per cent in the program, as a decline in imports more than offset a shortfall in exports. The decline in real GDP, the shortfall in foreign exchange earnings, and the shifting of imports to the parallel market were the main factors contributing to a 6 per cent drop in the U.S. value of imports, leaving import levels in 1982 at the same level as in 1977. The shortfall in exports was principally due to a decline of 12 per cent in the U.S. value of coffee exports, as the constraint on export volume related to the quota allocations under the International Coffee Agreement more than offset a 7 per cent increase in coffee prices. Also, exports to the Central American Common Market and to the rest of the world were less than projected, reflecting the weakness of external demand, as well as the decline in domestic production.

A shortfall in capital inflows with respect to the program of US$51 million also can be traced to the continuing weakness of the domestic economy and the uncertainties of the political situation. Net foreign concessionary lending to the public sector (both nonfinancial and financial) amounted to US$291 million, or about US$64 million below

Table 7. El Salvador: Balance of Payments

	1980	1981	Prog.1/ 1982	Est. 1982	Proj. 1983
(In millions of U.S. dollars)					
Goods, services, and private transfers	-15	-274	-369	-270	-275
Trade balance	100	-192	-258	-192	-200
Exports, f.o.b.	(1,072)	(794)	(786)	(738)	(760)
Imports, c.i.f.	(-972)	(-986)	(-1,043)	(-930)	(-960)
Services (net)	-132	-128	-129	-129	-134
Private transfers	17	45	18	51	59
Capital account	-317	136	345	294	330
Official transfers	32	15	22	109 2/	100 2/
Private sector 3/	-452	-69	-32	-60	-30
Official sector	79	128	151	145	185
Central Government	(51)	(77)	(114)	(122)4/	(155) 4/
Rest of public sector 5/	(28)	(51)	(37)	(23)	(30)
Financial sector 5/	24	62	204	100	75
Central Reserve Bank	(65)	(80)	(110)	(48)	(37)
Other	(-41)	(-18)	(94)	(52)	(38)
SDRs	7	6	--	--	--
Overall balance	-325	-132	-24	24	55
Arrears (decrease -)	41	25	-21	-5	-45
Net international reserves (increase -)	284	107	45	-19	-10
(As a per cent of GDP)					
Current account	-0.4	-7.8	-9.3	-7.4	-6.7
Trade balance	2.8	-5.5	-6.5	-5.3	-4.9
Services and private transfers (net)	-3.2	-2.3	-2.8	-2.1	-1.8
Capital account	-8.9	3.9	8.7	8.0	8.1
Overall balance	-9.1	-3.7	-0.6	0.7	1.3

Sources: Central Reserve Bank of El Salvador; and Fund staff estimates.

1/ As presented in Table 18 of SM/82/67.

2/ Includes U.S. AID transfers to Central Reserve Bank of US$100 million in 1982 and US$90 million in 1983.

3/ Includes net errors and omissions.

4/ Includes placement of dollar-denominated bonds to refinance external payments arrears, amounting to US$24.8 million in 1982 and US$45 million in 1983.

5/ Includes *prestamos por delegacion*.

the programed amount,1/ reflecting a slowdown in the execution of the public investment program which was financed by long-term credits from international financial institutions. The shortfall in net official inflows was compensated to some extent by a drawdown of the net international reserves of the nationalized commercial banks in an amount of US$29 million.

III. The Program for 1983

1. Summary

The Government's economic program for 1983, which is described in the memorandum on economic policy accompanying the attached letter from the Salvadoran authorities, calls for a continuation of the policies set in motion early in 1982. Essentially, what is being sought is (a) a further reduction in the overall deficit of the nonfinancial public sector financed with domestic bank resources; (b) a continued deceleration in the rate of domestic bank credit expansion, consistent with the achievement of a small surplus in the overall balance of payments (including payments arrears); (c) a flexible policy in respect of domestic interest rates, geared toward maintaining levels which are positive in real terms; and (d) a further enlargement of the scope of the parallel exchange market, with the aim being an eventual reunification of the exchange rate system.

These policies are believed to be consistent with an expansion in aggregate demand in current prices of around 10 per cent in 1983 compared with 3 per cent in 1982. Although exports are projected to recover only marginally from the decline registered during the previous three years, domestic expenditure is expected to rise by more than exports on the strength of an increase in public investment and private consumption. Virtually no growth in real gross domestic production is anticipated as a recovery in agriculture and construction would compensate for declines in manufacturing and services. The rate of domestic inflation is expected to remain at about the same level as last year, i.e., around 11 per cent.

To monitor financial performance under the stand-by arrangement in 1983, the following performance criteria have been quantified for the period through July: (1) a set of targets for the overall balance of payments (paragraph 4 and Table 1 of the policy memorandum); (2) a set of limits on the outstanding stock of external payments arrears (paragraph 4 and Table 2 of the policy memorandum); (3) a set of ceilings on the net credit of the banking system to the nonfinancial public sector (paragraph 6 and Table 3 of the policy memorandum); and (4) a

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1/ For the purpose of comparison with the program figures, capital movements include official transfers, as U.S. AID assistance to the Central Reserve Bank (US$100 million) was provided in the form of a grant rather than as a loan.

set of ceilings on the net domestic assets of the Central Reserve Bank (paragraph 7 and Table 4 of the policy memorandum). The stand-by arrangement also includes as a performance criterion the intention not to introduce or intensify any multiple currency practices or any restriction on payments or transfers for current international transactions, or any restriction on imports for balance of payments reasons.

2. Fiscal policy

The Government's fiscal policy is designed to achieve in 1983 a further reduction in the overall deficit of the nonfinancial public sector in relation to GDP, especially as regards the component financed with domestic bank resources. Accordingly, an overall deficit equivalent to 6 per cent of GDP is projected for 1983, compared with one of around 7 per cent of GDP in 1982 (Table 8). A similar reduction is targeted for the domestic financing of the deficit. The fiscal adjustment planned for 1983 is to result almost entirely from an increase in central government revenues arising from new tax measures. These measures include a doubling in the sales tax rate to 4 per cent, an increase in consumption duties and adjustments in a number of other indirect taxes. On an annual basis, these measures, which are to be approved in April 1983, are estimated to yield about ¢ 200 million, or 2 per cent of GDP.

After a very modest rise in public spending in 1982, expenditures of the public sector are projected to grow in line with nominal GDP in 1983, mainly on account of a sharp jump in interest payments on domestic public debt and an increase in public investment outlays. The first factor just mentioned is explained by the large increase last year in the bonded debt of the Government associated with the agrarian reform and nationalization of the banks. The increase in public investment outlays in 1983 after a decline in 1982 is explained by a rise in expenditures related to projects financed with bilateral aid resources and in transfers to public financial institutions to finance programs related to the agrarian reform.

In contrast with the trend of previous years, over one half of the financing for the overall public sector deficit is to come from external sources in 1983. All of this financing is concessional in character and represents net disbursements of credits established with multilateral lending institutions or bilateral donors.1/ Consistent with the planned use of external credits and the targeted reduction in the overall deficit, net domestic bank financing of the public sector in 1983 is to be held to ¢ 350 million, compared with ¢ 375 million in 1982. In line with this objective, quarterly ceilings on such financing, which take into account seasonal factors, have been set for the period through July 1983.

1/ In the attached memorandum, the authorities have indicated that after January 1, 1983 the proceeds of any dollar-denominated bonds issued to refinance payments arrears will not be used to finance budgetary operations.

Table 8. El Salvador: Selected Economic and Financial Indicators

	1980	1981	1982 SBA	1982 Prel. Est.	Proj. 1/ 1983
(Annual per cent changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	-9.0	-9.5	--	-5.4	--
GDP deflator	14.0	8.5	16.1	10.1	11.2
Consumer prices (annual average)	17.4	14.7	15.0	12.0	11.0
External sector (on the basis of U.S. dollars)					
Exports, f.o.b.	-5.1	-25.9	-1.0	-7.1	3.0
Imports, c.i.f.	-5.1	1.4	5.8	-5.7	3.2
Non-oil imports, c.i.f.	-9.9	3.2	5.4	-8.1	3.9
Export volume	-6.0	-24.6	-9.4	-13.2	-0.6
Import volume	-17.8	-8.3	1.5	-5.3	0.5
Terms of trade (deterioration -)	-14.0	-10.9	3.6	7.3	1.9
Nominal effective exchange rate (depreciation -) 2/	0.3	6.8	...	...	...
Real effective exchange rate (depreciation -) 2/	4.3	9.2	...	...	...
Government budget					
Revenue and grants	-14.5	7.3	4.6	4.6	24.8
Total expenditure	19.1	11.9	0.7	2.6	12.3
Money and credit					
Domestic credit 3/	29.7	20.7	26.6	29.9	18.1
Public sector	(15.5)	(28.6)	(13.2)	(14.2)	(9.9)
Private sector	(13.8)	(-1.0)	(14.4)	(8.7)	(10.0)
Money and quasi-money (M2)	4.7	5.9	14.6	19.1	9.9
Velocity (GDP relative to M2)	3.6	3.3	3.3	2.9	3.0
Interest rate (annual rate, time deposits up to 180 days)	10.0	10.0	12.5	12.5 4/	...
(In per cent of GDP)					
Overall public sector deficit	7.1	8.0	7.4	7.2	6.0
Central government savings	-0.6	-1.6	-1.5	-1.9	-0.3
Central government budget deficit	5.8	7.1	5.9	6.8	5.4
Domestic financing	(4.3)	(4.9)	(3.1)	(3.3)	(2.7)
Foreign financing	(1.5)	(2.2)	(2.8)	(3.5)	(2.7)
Gross domestic investment	10.0	12.3	13.1	12.1	12.0
Gross domestic savings	10.9	4.9	4.6	4.1	4.6
Current account deficit	0.4	7.8	9.3	7.4	6.7
External debt 5/					
Inclusive of use of Fund credit	19.7	28.3	32.2	34.1	37.6
Debt service 6/	3.1	3.9	5.3	5.5	6.4
Interest payments 6/	1.4	2.5	2.6	2.8	3.3
(In millions of U.S. dollars)					
Overall balance of payments	-325.4	-131.6	-24.0	24.0	55.0
Gross official reserves (months of imports)	1.1	0.9	1.0	1.5	1.5
Payments arrears 7/	41.0	65.5	44.5	60.9	15.9

Sources: Central Reserve Bank of El Salvador; and Fund staff estimates.

1/ Refers to program under existing arrangement.
2/ Using the official exchange rate.
3/ Changes as a proportion of liabilities to the private sector at beginning of the period.
4/ December 1982.
5/ Medium- and long-term debt: of the Government; government-guaranteed; and of the Central Reserve Bank.
6/ In per cent of exports of goods and services.
7/ Outstanding at end of the year.

3. Monetary policy

The Government's monetary policy for 1983 is designed to promote a balanced expansion of credit to the public and private sectors, within the constraint set by the overall balance of payments objective and the likely accrual of loanable resources to the banking system. Banking system liabilities are projected to grow by around 10 per cent in 1983 (or at somewhat less than the growth of nominal GDP), as some of the exceptional factors which affected the growth in private claims on the banking system in 1982 are not expected to repeat themselves in 1983 (see Table 6). The monetary projection takes into account a significant reduction in payments arrears and the placement of dollar-denominated bonds by the Central Government.

The authorities have reconfirmed in the attached memorandum on economic policy their commitment to maintain a flexible policy on domestic interest rates. In view of the lower than expected rate of inflation during 1982 and the decline in foreign interest rates, the authorities believe that the present level of domestic interest rates is satisfactory. Given the outlook for inflation in 1983 (around 11 per cent), all lending rates in the Salvadoran financial system are positive in real terms, as are the prevailing rates for time deposits and certificates of deposit.

As in the 1982 program, the loanable resources of the banking system will be supplemented by inflows of long-term resources in the form of grants from U.S. AID; during 1983 some US$90 million is expected to be disbursed on this account, compared with US$100 million in 1982. The domestic and foreign resources that are projected to accrue to the banking system are expected to permit an expansion in credit to the public and private sectors of about 10 per cent in 1983. The programed increase in bank credit to the public and private sectors implies a deceleration in the expansion of the net domestic assets of the banking system from a rate of 21 per cent in the year ending December 1982 to 12 per cent in the year ending December 1983.

As in the program ended last December, the net domestic assets of the Central Reserve Bank subject to ceiling are defined as the difference between its currency issue and its net international reserves. The ceilings on the net domestic assets of the Central Reserve Bank referred to in paragraph 7 and Table 4 of the attached memorandum of economic policy are consistent with the estimated growth in banking system loanable resources as well as with the bank financing of the public sector deficit, the projected credit expansion to the private sector, and the target for net official international reserves. These ceilings which extend through the end of July 1983 take into account the seasonality of credit demands.

4. External sector policies

The external objective of the Government's financial program is to achieve an overall balance of payments surplus of around US$55 million in 1983, compared with one of US$24 million in 1982; the aim is to reduce outstanding payments arrears by US$45 million in 1983 and to improve the net international reserves of the Central Reserve Bank by US$10 million (see Table 7). The target is consistent with the maintenance of working balances of gross foreign reserves at roughly the same level as achieved by the end of 1982 and of repaying the short-term foreign obligations of the Central Reserve Bank that come due.

The deficit in the current account of the balance of payments in 1983 is expected to remain at the level of 1982, which would imply a modest decline of nearly 1 percentage point in relation to GDP. After a decline during the last three years, the value of exports is projected to recover somewhat in 1983 on the strength of increased sugar exports and a rise in exports to other Central American countries.1/ The value of coffee exports subject to ICO quotas is expected to decline somewhat in 1983 as a small increase in volume will be offset by a moderate decline in the price in U.S. dollar terms. For the first time in several years, however, the Salvadoran authorities are endeavoring to find new markets outside the ICO agreement and it appears that sales in an amount of up to US$50 million might be feasible. Cotton exports, which are still vulnerable to attacks of sabotage, are expected to decline further in 1983. The small increase in exports for 1983 is expected to be matched by a rise in imports, associated with higher public investment outlays and an increase in imports of industrial inputs.

The current account deficit in prospect for 1983 is expected to be more than covered by long-term capital inflows, mainly of a concessional nature. Net official inflows of long-term loans and grants from multilateral lending institutions and bilateral donors are estimated at around US$310 million in 1983, or somewhat higher than the amount in 1982. The increase shown for official sector inflows includes the expected placement abroad of some US$45 million in dollar-denominated bonds for the purpose of refinancing external payments arrears of the Central Reserve Bank.

To facilitate the achievement of the overall balance of payments objective for 1983 and to allow for a more efficient use of scarce foreign exchange, the Government intends to continue the policy of shifting transactions, for both exports and imports, from the official to the parallel exchange market. Specifically, in February 1983 the Government transferred to the parallel exchange market imports of goods and services in an amount estimated at US$35 million, as well as export receipts estimated at US$20-30 million.

1/ During 1982 El Salvador formalized a new bilateral trade agreement with Honduras, thereby reopening commercial relations between these two countries after a hiatus of 13 years.

In view of the Salvadoran authorities' policy to refrain from foreign commercial borrowing to finance public sector operations, the profile of the external medium- and long-term public debt has remained very favorable and the cost of its service relatively low. Debt service payments represented about 1.4 per cent of GDP and 5.5 per cent of exports of goods and services in 1982. The programed aid flows in 1983 are highly concessionary and are not expected to increase in a meaningful way the debt service burden in the next few years. However, the monetary authorities continue to feel uncomfortable with the large amount of outstanding liabilities of the Central Reserve Bank with a maturity of less than a year, which amounted to US$336 million at the end of 1982. The Government's aim of achieving an overall balance of payments surplus in 1983 is a means of strengthening the external position of the Central Reserve Bank. In addition, the authorities are actively seeking ways to convert the short-term foreign reserve liabilities of the Central Reserve Bank into medium- and long-term ones. During 1983 it is expected that short-term lines of credit with foreign commercial banks amounting to US$90 million will be converted into medium-term credits.1/

IV. Staff Appraisal and Proposed Decision

During 1982 the Salvadoran economy continued to suffer from the adverse effects of internal armed conflict and the weak international economy. Real GDP declined in 1982 for the fourth consecutive year, and exports fell for the third year in a row. Despite these difficulties, the Salvadoran authorities have maintained financial discipline and have performed quite satisfactorily under the stand-by program for 1982. As of the end of last year, El Salvador was in observance of all the quantitative limits and targets of the program, with the exception of the one governing external payments arrears; however, the balance of payments target, which includes arrears, was met. Larger than expected repayments of short-term foreign reserve liabilities appear to have affected the ability of the Central Reserve Bank to reduce these arrears in the amount contemplated in the program. In October 1982, the Salvadoran authorities shifted from the official to the parallel market the foreign exchange receipts from nontraditional exports to Panama, tourism, personal services, and transactions of foreign diplomats. They also raised the existing limits on the sale of foreign exchange for study and medical care abroad, and reduced those for tourism, family remittances, insurance premiums, and other personal services. However, the sale of exchange over and above the limits is permitted to meet bona fide requirements in the case of tourism and family remittances. In the case of foreign exchange payments through the parallel market for insurance premiums and other personal services, the staff would

1/ For purposes of monitoring performance under the stand-by arrangement, such credits will continue to be treated as short-term foreign liabilities of the Central Reserve Bank.

recommend Executive Board approval of the restrictions involved in the new limits because they are temporary and appear to be sufficiently ample to accommodate normal requests.

In 1983 the Salvadoran authorities intend to pursue basically the same economic strategy set in motion last year. This approach calls for a further containment in aggregate demand through monetary and fiscal restraint, as well as prudence in foreign borrowing, and a further adjustment in the effective exchange rate through a shift of transactions from the official to the parallel exchange market. On the fiscal side, the program calls for a significant revenue adjustment to facilitate a reduction in the overall deficit of the public sector of about 1 per cent of GDP. Given the circumstances of El Salvador, slippages may occur during the year; hence the staff would urge the authorities to monitor closely the pace of government expenditures to keep them within the programed levels. Similarly, it will be important that the authorities proceed only with those public investment projects for which foreign financing on appropriate terms has been assured.

In the monetary area, the aim of the program is to reduce further the overall rate of bank credit expansion while maintaining approximate balance in the distribution of credit between the private and public sectors. In seeking these objectives, the staff would emphasize the important role of interest rate policy, and it therefore welcomes the intention of the authorities to maintain interest rate levels which are positive in real terms. Although most interest rates in the system are now higher than the prevailing rate of inflation and those in foreign financial markets, some rates for savings deposits are still negative in real terms. The staff would encourage the authorities to undertake further adjustments in this area.

The attainment of the program's external objectives will of course require full compliance with the planned monetary and fiscal policies, but continued flexibility in exchange rate management will be critical both in the short run and over the medium term. The staff welcomes the authorities' decision to shift transactions from the official to the parallel exchange markets, but believes that there is further room for progress and that the process should be accelerated in the remainder of the program period, not only to alleviate demand pressures in the official market and permit the attainment of the targets for reducing external payments arrears, but also to provide for a timely reunification of the exchange markets and allow for an orderly elimination of exchange restrictions.

The staff considers that the economic policies of the Government of El Salvador are adequate to achieve the economic objectives set through July 1983. Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. El Salvador has consulted the Fund in accordance with paragraph 16 of the letter of June 7, 1982 annexed to the stand-by arrangement for El Salvador (EBS/82/106, Supplement 1, July 20, 1982) in order to reach understandings with the Fund regarding policies and measures that the Government of El Salvador will pursue during the remainder of the stand-by arrangement.

2. The letter of April 27, 1983 from the Minister of Finance of El Salvador and the President of the Central Reserve Bank, together with the attached memorandum of policy, shall be annexed to the stand-by arrangement for El Salvador, and the letter of June 7, 1982 shall be read as supplemented and modified by the letter of April 27, 1983. Accordingly, the targets for the overall balance of payments referred to in paragraph 7 and Table 1 of the letter of June 7, 1982 shall be those referred to in paragraph 4 and Table 1 of the memorandum attached to the letter of April 27, 1983, and the limits on external payments arrears referred to in paragraph 7 of the letter of June 7, 1982 shall be those referred to in paragraph 4 and Table 2 of the memorandum attached to the letter of April 27, 1983. Also, the limits on the net domestic assets of the Central Reserve Bank referred to in paragraph 12 and Table 3 of the letter of June 7, 1982 and the

limits on the net credit of the banking system to the nonfinancial public sector referred to in paragraph 13 and Table 4 of the letter of June 7, 1982 shall be those referred to in paragraph 7 and Table 4 and paragraph 6 and Table 3, respectively, of the memorandum attached to the letter of April 27, 1983.

3. El Salvador may make purchases under the stand-by arrangement notwithstanding the restriction on the making of payments for insurance premiums and other personal services.

4. The Fund approves the exchange restriction described in paragraph 3 above until the completion of the next Article IV consultation with El Salvador or the end of July 1983, whichever is earlier.

El Salvador: Main Targets, Assumptions, and Elements of the Financial Program

I. Main Targets

1. A reduction in the overall deficit of the nonfinancial public sector to the equivalent of 6 per cent of GDP in 1983, compared with over 7 per cent in 1982 and 8 per cent in 1981.

2. An increase in public sector savings equivalent to 1 per cent of GDP during 1983, and a corresponding decrease in the domestic financing of the overall deficit.

3. A small overall balance of payments surplus in 1983, including external payments arrears as reserve liabilities of the Central Reserve Bank.

4. A reduction in external payments arrears to a level no higher than US$35 million by the end of the program period (July 1983).

II. Major Assumptions

1. Real GDP is projected to remain unchanged during 1983, and nominal GDP is projected to increase by 11 per cent to ₡ 10,190 million.

2. Export and import prices are estimated to increase by about 3 per cent, export volume to decrease by 1/2 per cent, and import volume to increase by 1/2 per cent during 1983.

3. Net official capital inflows are expected to amount to US$310 million in 1983, including the disbursement of US$90 million in special bilateral assistance from the United States.

III. Main Elements of the Program

1. Fiscal policy

The fiscal adjustment planned for 1983 will result mostly from an increase in central government revenues arising from new tax measures including a doubling in the sales tax rate to 4 per cent, an increase in consumption duties, and adjustments to a number of other indirect taxes. On an annual basis these measures are estimated to yield ₡ 218 million, or 2 per cent of GDP. On the expenditure side, current outlays growth of the Central Government will be limited to an annual rate of about 7 per cent, and those of the overall public sector to 10-1/2 per cent. Public sector total expenditures will be maintained at about 23-1/2 per cent of GDP.

2. Monetary policy

The monetary program adopted for 1983 is based on a growth rate of 10 per cent in banking system liabilities to the private sector, a growth rate of 26 per cent in medium- and long-term foreign liabilities, and a small increase in net international reserves. Net credit of the banking system to the nonfinancial public sector is to be limited to ₡ 350 million in 1983, or about 3-1/2 per cent of GDP, which would allow for a credit expansion to the private sector roughly in line with the growth in nominal GDP. These programed increases in bank credit to the public and private sectors imply a deceleration in the expansion of the net domestic assets of the banking system from a rate of 21 per cent in the year ending December 1982 to 12 per cent in the year ending December 1983.

The monetary authorities have reconfirmed their commitment to maintain a flexible interest policy in order to keep lending and term deposit rates positive in real terms.

3. External sector policy

The balance of payments target is to achieve an overall surplus of about US$50 million in calendar year 1983, including the reduction of US$45 million in external payments arrears.

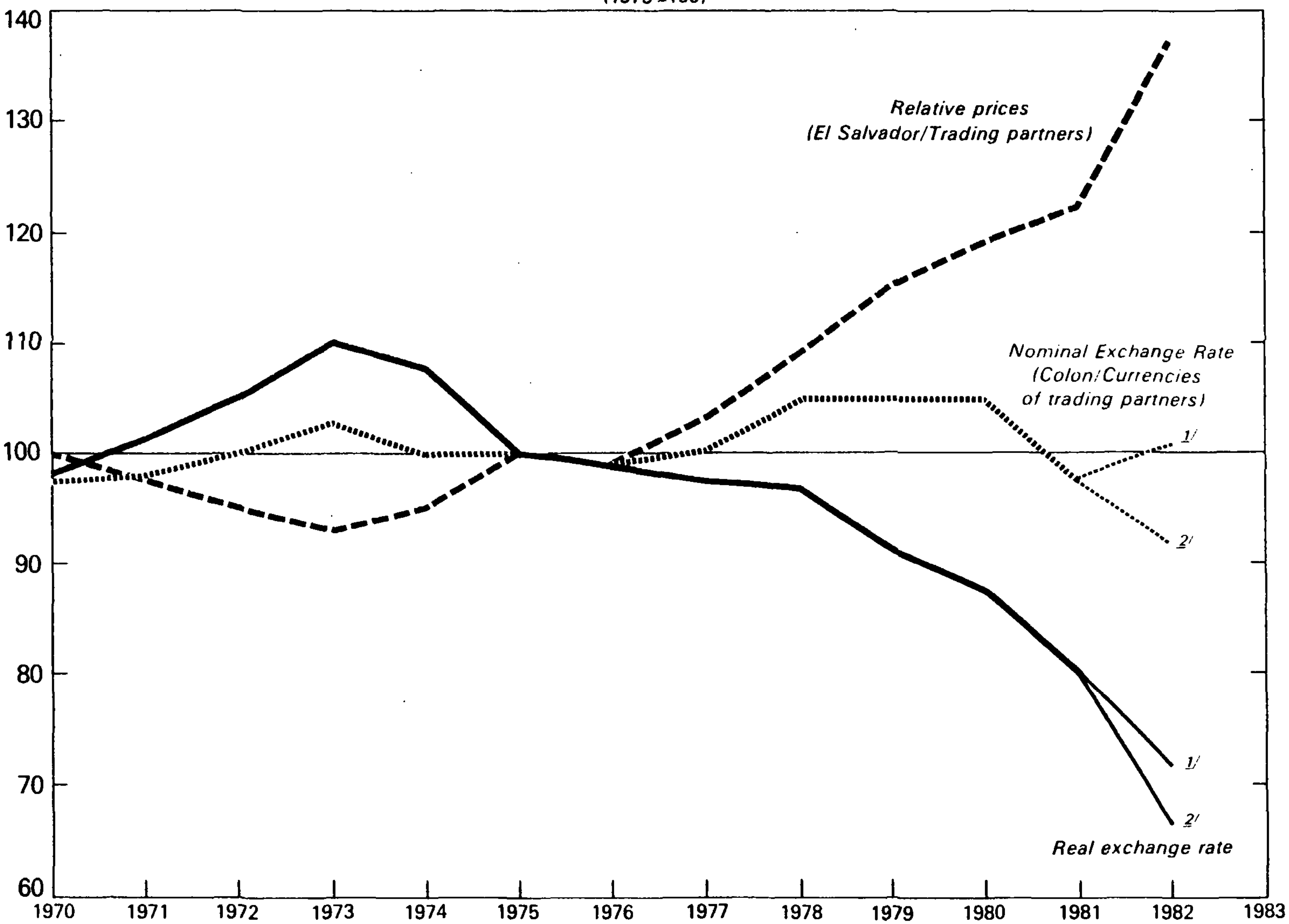
The policy of shifting transactions from the official to the parallel exchange market will be continued. Transfers to the parallel exchange market were enacted in October 1982 covering receipts of nontraditional exports to Panama and other transactions of tourism, personal services, and foreign diplomats; also, in February 1983 further transfers were made covering imports of goods and services in an amount estimated at US$35 million and export receipts estimated at US$20-30 million.

CHART 1

EL SALVADOR

EFFECTIVE EXCHANGE RATE, 1970-82

(1975 =100)



Source: IMF, *International Finacial Statistics.*

[1] Using a weighted average between the official exchange rate and the parallel market exchange rate during 1982.

[2] Using only the official rate throughout the period 1970 82

El Salvador--Exchange System
(As of December 31, 1982)

1. Exchange control arrangement

El Salvador maintains a dual exchange market system comprising an official market, in which the Salvadoran colon is pegged to the U.S. dollar, the intervention currency, at ₡ 2.50 per U.S. dollar, and a parallel market in which the value of the colon fluctuates according to market forces. As of the end of December 1982, the selling rate in the parallel market was around ₡ 3.80 per U.S. dollar (Table 9). Only the commercial banks are permitted to buy or sell foreign exchange in the parallel market. Exporters of nontraditional products to outside the Central American region, recipients of family remittances, and embassies and offices of international organizations and their employees may deposit foreign exchange receipts in their own foreign currency accounts, but the balance of these accounts can only be used to pay for their own imports of goods and services or converted into local currency by the commercial banks at the exchange rate in the parallel market.

Subject to directives issued by the Monetary Board, exchange control authority is exercised by the Central Reserve Bank through its Exchange Control Department. Authority to approve most payments through the parallel market is delegated to the commercial banks.

2. Payments for imports, invisibles, and transfers

a. Imports

Only imports which are considered priority items may be paid for through the official market (these include energy supplies, basic foods, medicines, inputs and raw materials for agricultural and industrial sectors, and spare parts). In the case of nontraditional exporters 1/ who export more than 25 per cent of their total production outside the Central American region, payments for their essential imports of goods and services which are unrelated to their exports outside the Central American region may be settled in the official market. Imports related to their exports outside the Central American region must be settled either through purchases of foreign exchange from commercial banks in the parallel market or financed from the foreign currency accounts maintained in the commercial banks.

Imports of nonessential commodities representing about one fifth of total import value in 1981 can be settled only in the parallel market 2/ either through the purchase of foreign exchange from commercial banks or through the use of the importers' own foreign currency accounts (Table 10).

1/ Nontraditional exports are defined as all those except coffee, sugar, cotton, and shrimp which are sold outside Central America (excluding Panama).

2/ Some imports of a luxury nature are prohibited and payments for these cannot be settled in either market.

Table 9. El Salvador: Buying and Selling Rates for Foreign Exchange by Commercial Banks in the Parallel Market

Week	Exchange Rates: Buying Rate 1/	Exchange Rates: Selling Rate 1/	Exchange Rates: Mid-Rate	Net Purchase During Week (Net Sales -)
	(In colones per U.S. dollar)			(In thousands of U.S. dollars)
1982				
Aug. 16-22	3.55	3.69	3.62	123
Aug. 23-27	3.57	3.71	3.64	-616
Aug. 30-Sept. 3	3.72	3.81	3.76	336
Sept. 6-10	3.75	3.83	3.79	-204
Sept. 13-17	3.87	3.85	3.86	559
Sept. 20-24	3.96	3.95	3.95	601
Sept. 27-Oct. 1	3.90	4.04	3.97	-780
Oct. 4-8	3.94	4.00	3.97	-193
Oct. 11-15	3.95	4.04	3.99	107
Oct. 18-22	3.97	4.03	4.00	179
Oct. 25-29	4.08	4.11	4.09	-78
Nov. 1-5	3.96	4.19	4.07	-5
Nov. 8-12	4.02	4.10	4.06	-139
Nov. 15-19	3.81	3.93	3.87	256
Nov. 22-26	3.81	3.89	3.85	510
Nov. 29-Dec. 3	3.80	3.91	3.86	382
Dec. 6-10	3.80	3.90	3.85	-224
Dec. 13-17	3.77	3.82	3.80	31
Dec. 20-24	3.76	3.84	3.80	140
Dec. 27-31	3.59	3.77	3.68	-399
1983				
Jan. 3-7	3.75	3.84	3.79	185
Jan. 10-14	3.77	3.63	3.70	-253
Jan. 17-21	3.76	3.77	3.77	618
Jan. 24-28	3.75	3.83	3.79	241

Source: Central Reserve Bank of El Salvador.

1/ Weighted average rates for all banks reporting.

Table 10. El Salvador: Approximate Value of Current Account Transactions 1/ in the Exchange Markets in 1982

	In Millions of U.S. Dollars	In Per Cent of Total
Current Receipts		
Exports, f.o.b.	794.1	100.0
Parallel market	39.8	5.0
Nontraditional exports to outside Central America and Panama	(35.0)	(4.4)
Nontraditional exports to Panama	(4.8)	(0.6)
Official market	754.3	95.0
Receipts from invisibles and transfers	273.0	100.0
Parallel market	69.8	25.6
Family remittances	(52.0)	(19.0)
Tourism receipts	(0.6)	(0.2)
Official transfers	(17.2)	(6.3)
Official market	203.2	74.4
Current receipts	1,067.1	100.0
Parallel market	109.6	10.3
Nontraditional exports	(39.8)	(3.7)
Services	(0.6)	(0.1)
Transfers	(69.2)	(6.5)
Official market	957.4	89.7
Current Payments		
Imports, c.i.f.	985.8	100.0
Parallel market	191.2	19.4
Nonessential imports	(191.2)	(19.4)
Official market	794.6	80.6
Invisible payments and transfers	340.3	100.0
Parallel market	132.0	38.8
Travel abroad	(106.0)	(31.1)
Other invisibles	(26.0)	(7.7)
Official market	208.3	61.2
Current payments	1,326.1	100.0
Parallel market	323.3	25.7
Nonessential imports	(191.2)	(14.4)
Invisibles	(130.0)	(9.8)
Transfers	(2.0)	(1.5)
Official market	1,002.9	74.3

Source: Central Reserve Bank of El Salvador.

1/ Based on 1981 data.

b. Invisibles and transfers

Payments for invisibles and unrequited transfers are prohibited in the official market, except for certain student and medical expenditures abroad, travel expenses of official missions, interest on registered loans, and dividends on registered capital investments. Students registered in the Central Reserve Bank prior to November 30, 1981 for university, postgraduate, or technical training abroad, including individuals studying abroad with a guarantee from the Guarantee Fund for Student Loans (EDUCREDITO) or financed by the Economic Development Fund, may purchase foreign exchange in the official market up to US$300 per month per person for living expenses, and up to a maximum of US$5,000 per year per person for educational expenses; for students with scholarships partially financed by international organizations, the limits on the purchase of foreign exchange in the official market just mentioned are reduced to the amounts specified in the scholarship. Foreign exchange can also be purchased in the official market to cover medical and hospital expenses abroad up to US$3,000 per person, subject to a 100 per cent prior deposit and substantiation through medical certification, bills, receipts, and other pertinent documents; this deposit requirement is waived in cases where foreign exchange is requested to pay for services already rendered, subject to appropriate verification.

Payments for invisible transactions can be made in the parallel market either through purchase of foreign exchange from the commercial banks or through the use of an individual's own foreign currency accounts opened with authorized banks. Payments for invisible transactions of a personal nature in the parallel market are subject to the following limits: (i) if done through the use of foreign currency accounts, the limit is up to a maximum of US$2,000 per month per person, or US$24,000 per year per person, for all or some of the following transactions:1/ foreign travel, family assistance, study abroad, medical care, insurance premiums, and any other invisible payment of a personal nature; and (ii) if payments are made through purchases of foreign exchange from the commercial banks, the following limits apply: (a) travel outside Central America: US$2,000 per trip per adult and US$1,000 per trip per child up to a maximum of two trips per year per person; (b) travel to the rest of Central America: US$500 per person per trip up to a maximum of US$3,000 per year; (c) family assistance, insurance premiums, and other service payments of a personal nature: up to a maximum of US$2,000 per person per year for each of the three categories; requests for foreign exchange from the banks for foreign travel and family assistance beyond the stated limits can be approved by the Central Reserve Bank in bona fide cases. There are no limits on other invisible payments in the parallel market (e.g., study abroad, medical care, interest payments, royalties, dividends).

1/ The limit does not apply separately to each of the payments. However, the limit can be applied to one or more categories of payments if there are no payments for other categories.

Other unrequited transfers may be settled in the parallel market through the purchase of foreign exchange from commercial banks.

3. Proceeds from exports, invisibles, and transfers

a. Exports

The proceeds of traditional exports (coffee, cotton, sugar, and shrimp) and all exports to the Central American region must be received through a commercial bank in El Salvador and the foreign exchange must be surrendered in the official market within 90 days. Proceeds of non-traditional exports outside the Central American region may either be sold to commercial banks at the prevailing parallel market rate or be deposited in foreign currency accounts. The balances of these deposits may be used either to pay for the deposit holder's imports of goods and certain invisibles authorized in the parallel market or may be sold to commercial banks at the prevailing parallel market rate.

b. Invisibles and transfers

All foreign exchange receipts from invisibles and transfers must be surrendered in the official market, except the proceeds from tourism, service fees of assembly industries for re-export, family remittances, fees and commissions from services, and foreign exchange receipts of embassies, consulates, and offices of international institutions and their employees, which may be sold to the commercial banks at the parallel market rate. Exchange receipts from family remittances and of embassies and similar institutions and their employees may also be retained in the beneficiaries' own foreign currency accounts.

Transfers of foreign exchange among various foreign currency accounts, either of the same or different holders, are prohibited. The balances of these accounts may only be used for payments of an account holder's own imports and invisibles or be sold to commercial banks.

4. Capital

All foreign exchange receipts resulting from capital transactions must be surrendered in the official market in order to qualify for debt servicing, transfers of dividends, and repatriation through the official market.

Amortization payments may be settled through the purchase of foreign exchange from the commercial banks at the prevailing parallel market rate.

5. Changes in the exchange and trade system since the establishment of a parallel exchange market in early 1982

a. June 16, 1982

Exports of crawfish (*langostinos*) were added to the list of nontraditional exports for purposes of the parallel market; a certain percentage of the proceeds, to be determined by the Central Reserve Bank as a function of the value of imports of petroleum and other essential imports used by exporters of crawfish, has to be sold in the official market but the rest may be retained in the exporter's foreign currency account for use in the parallel market.

b. August 9, 1982

Commercial banks were authorized to purchase or sell foreign exchange in the parallel market. All their transactions in the parallel market have to be recorded separately from those in the official market and have to be reported regularly to the Central Reserve Bank.

Commercial banks were authorized to buy foreign exchange in the parallel market from the following sources: (1) nontraditional exports; (2) family remittances; (3) commissions and fees from personal services; (4) withdrawals from individuals' foreign currency accounts; and (5) purchases of foreign exchange from other commercial banks.

Commercial banks were authorized to sell foreign exchange acquired from the parallel market for the following purposes: (1) increases in the balances of individuals' authorized foreign currency accounts; (2) sales of foreign exchange to other commercial banks; (3) payments of nonessential imports; (4) payments of invisibles of a personal nature up to a single maximum limit of US$2,000 per month per person, to cover all of the following categories: (a) foreign travel, (b) family remittances, (c) study abroad, (d) medical care, (e) personal insurance premiums, and (f) any other payment of a personal nature (the single limit can be applied to one or more categories); (5) payment of other invisibles and unilateral transfers, including nonpersonal insurance, shipping, interest, dividends, and royalties; and (6) amortization payments and certain foreign investments.

c. November 10, 1982

(i) Exchange control arrangement

Authorization to purchase or sell foreign exchange in the parallel market was limited exclusively to commercial banks. Foreign currency accounts can only be opened by exporters of nontraditional products, beneficiaries of family remittances, and embassies and offices of international institutions and their employees, and can only be fed with the foreign exchange proceeds from their own activities. Transfers of foreign exchange among existing or new foreign currency accounts, either of the same or different holders, are prohibited. The balances of these accounts may only be used for payment of the account holder's own imports and invisibles or be sold to commercial banks.

(ii) Payment for imports, invisibles, and transfers

In the case of nontraditional exporters who export more than 25 per cent of their total production outside the Central American region and whose exports are less than their imports of goods and services, it was stipulated that the payment of imports unrelated to their nontraditional exports may be settled in the official market, whereas the rest of their payments for imports of goods and services could be settled either through the use of their foreign currency accounts or through purchases of foreign exchange from the commercial banks in the parallel market. (Previously, such exporters were forced in effect to sell the proceeds of their nontraditional exports to the official market in order to qualify for purchasing foreign exchange in the official market for payment of imports of essential goods and services.)

All payments for imports in the parallel market can only be settled through purchases of foreign exchange from the commercial banks or through the use of the importers' own foreign currency accounts. An account holder is no longer permitted to sell foreign exchange directly to other importers or other individuals.

The single limit on the sale of foreign exchange by the commercial banks for payments of invisibles of a personal nature was changed to the following set of limits: (1) travel outside Central America: US$2,000 per trip per adult and US$1,000 per trip per child, up to a maximum of two trips per year per person; (2) travel to the rest of Central America: US$500 per trip per person, up to a maximum of US$3,000 per year per person; and (3) family remittances, insurance premiums, and any other personal services: up to a maximum of US$2,000 per person per year for each of the three categories; the previous implicit limit on payments for study abroad and medical care was eliminated.1/

(iii) Proceeds from exports, invisibles, and transfers

Proceeds of nontraditional exports to Panama can be sold in the parallel market. (Previously Panama was considered part of the Central American region and proceeds from exports to that country had to be surrendered in the official market.)

1/ In the case of travel abroad and family assistance, the Monetary Board ruled that bona fide requests for amounts in excess of the limits would be granted.

Any nontraditional exporter whose exports outside the Central American region exceed 25 per cent of his total production must either sell the proceeds of such exports to the commercial banks or keep them in his foreign currency account. (Previously these proceeds had to be sold in the official market.)

Proceeds from tourism and service fees in the assembly industries for re-exports, and foreign exchange receipts of embassies and similar institutions and their employees may be sold in the parallel market to the commercial banks. (Previously these proceeds had to be sold in the official market.)

San Salvador, El Salvador
April 27, 1983

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosiere:

1. In our letter of June 7, 1982 requesting a one-year stand-by arrangement for SDR 43 million, we indicated our intention to reach understandings with the International Monetary Fund no later than December 31, 1982 on the policies to be applied during the remaining period of the arrangement, including (1) the limits on the net domestic assets of the Central Reserve Bank, (2) the limits on the net credit of the banking system to the nonfinancial public sector, and (3) the targets for the overall balance of payments and for the reduction of payments arrears, for the remainder of the stand-by program period; and to review experience in the area of exchange and interest rate policies. Accordingly, we wish to annex to that letter the enclosed Memorandum of the Government of El Salvador on Certain Aspects of its Economic and Financial Policies for 1983 which summarizes key developments in El Salvador's economic and financial situation during 1982, outlines the policies which El Salvador will pursue during the remainder of the stand-by arrangement against the background of its overall economic strategy for the coming year, and sets forth the limits and targets to be applied during the period through July 1983.

2. In addition, the Government reconfirms the commitments expressed in paragraphs 9 and 16 of the letter of June 7, 1982 with respect to exchange and trade restrictions and consultation with the Fund.

3. We also wish at this time to express our intention to request a new financial arrangement to come into effect when the existing one expires.

Sincerely yours,

Alberto Benitez Bonilla President Central Reserve Bank	Dr. Alvaro Magana President of the Republic and Minister of Finance

Attachment: Memorandum of the Government of El Salvador on Certain Aspects of its Economic and Financial Policies for 1983.

Memorandum of the Government of El Salvador on Certain Aspects of its Economic and Financial Policies for 1983

1. After two years of substantial balance of payments deficits which were caused by a combination of adverse internal and external factors, the Government of El Salvador set out to achieve during 1982 a major improvement in the country's external position as a result of restrained aggregate demand management and the adoption of more flexible exchange rate and interest rate policies. The external objectives of the Government's economic program have been achieved during 1982 despite the fact that the international and regional environment has not improved, and despite the fact that the domestic economy has remained depressed owing to the continuation of armed conflict and lack of confidence, and severe weather problems. The decline of real GDP experienced during the last three years has not been halted as expected; aggregate production, in fact, has declined by about 5 per cent because of weak external demand, heavy rains which affected a wide variety of domestic and export crops, and internal disruption to commercial, construction, and manufacturing activities. Unfortunate as these developments are, they have brought about a substantially lower current payments deficit than programed as imports have fallen by more than exports. Net capital inflows, largely of a concessional nature, have been more than sufficient to cover the current account deficit with the result that the overall balance of payments is estimated to register a small surplus in 1982, compared with a small deficit targeted under the program. The improvement in the net foreign asset position of the Central Reserve Bank during 1982 reflects a substantially larger repayment of its short-term foreign liabilities than anticipated earlier in the year, which has made it more difficult to reduce the outstanding balance of payments arrears in line with program projections. However, a substantial portion of these arrears have been refinanced through the placement abroad of medium-term government bonds denominated in U.S. dollars.

2. The domestic counterpart of the better than expected result in the balance of payments has been a lower rate of domestic credit expansion and a smaller overall public sector deficit than called for under the program. During 1982 the Central Reserve Bank has been well within the agreed limits for its net domestic assets partly as a result of lower than projected demand for credit on the part of the public and private sectors and partly as a result of a larger than projected inflows of foreign and domestic resources to support gross credit expansion. The rate of net credit expansion from the banking system to the Central Government has been somewhat larger than in the program because of a higher than projected level of expenditures, but this deviation has been more than offset by lower net financing requirements of the rest of the public sector. As a result, the overall deficit of the nonfinancial public sector is estimated to decline from the equivalent of 8 per cent of GDP in 1981 to around 7 per cent of GDP in 1982, compared with a target of around 7-1/2 per cent of GDP in the program.

3. During 1983, the Salvadoran authorities intend to pursue basically the same economic strategy which was set in motion early in 1982. This strategy calls for further restraint in aggregate demand geared to a progressive reduction in the overall public sector deficit, financed with domestic resources, and continued flexibility in interest rate and exchange rate policies to promote efficient resource allocation and balance of payments adjustment. Given the continuing uncertainties affecting domestic economic activity, the authorities believe that the most prudent strategy on the supply side is to pursue an economic program which aims at minimizing the decline in real activity by channeling scarce foreign exchange resources to the purchase of essential raw materials and replacement parts for the maintenance of existing industrial plant and equipment, and by promoting the development of small agro-industrial projects with an export potential which depend mainly on domestic inputs. In the area of public investment, the policy of the Government is to implement only those projects of economic infrastructure which can be funded by foreign concessional inflows from bilateral donors and multilateral lending agencies.

4. In view of the still weak external position of the Central Reserve Bank, the authorities do not intend to deviate from the balance of payments strategy geared to a gradual increase in the Central Reserve Bank's gross foreign reserves and a decline in both its foreign obligations (excluding liabilities to the International Monetary Fund) and the outstanding balance of payments arrears. Accordingly, the monetary program of the Government of El Salvador will be designed to achieve an overall surplus of about US$50 million during 1983. In order to monitor performance for the period through July 1983 with respect to this objective, the monetary authorities have established the targets set out in the attached Table 1. Consistent with these targets, the authorities have set limits for the outstanding stock of payments arrears which are given in Table 2. Insofar as these arrears are refinanced through the placement of dollar-denominated bonds of the Government of El Salvador, the proceeds of such bonds will be blocked in a special account at the Central Reserve Bank.

5. In order to promote the balance of payments objectives outlined above, the Government of El Salvador will increase further the scope of the parallel exchange market, and will ensure that the exchange rate in that market reflects the underlying forces of supply and demand for foreign exchange. During 1982 the operation of that market was improved by allowing the commercial banks as of August 1982 to participate in it, buying and selling foreign exchange. Furthermore, in November 1982, permission was granted for the proceeds of tourism, a number of other invisibles, and nontraditional exports to Panama to be sold in the parallel market. At the same time, the Government restricted purchases and sales of foreign exchange in the parallel market exclusively to the banking system, in order to reduce the possibility of speculative exchange transactions. Late in February 1983, the Government transferred imports of goods and services to the parallel market in an amount equivalent to about US$35 million. During the remaining period of the program, the authorities intend to shift further payments of imports from

the official to the parallel exchange market as needed to obviate the need to intensify restrictions and to avoid the possibility of incurring new arrears in the official market. The Government of El Salvador considers the establishment of a dual exchange market as a temporary arrangement and intends to re-establish a unified exchange rate system as soon as economic conditions permit. To this end, the authorities also intend to enlarge the size of the parallel market through the shift to that market of export and/or other transactions that now generate foreign exchange receipts for the Central Bank at the official exchange rate.

6. Aggregate demand policy will be consistent with the production and balance of payments objectives for 1983. In the fiscal area, the Government believes that the objective should be to reduce further the size in relation to GDP of the overall public sector deficit financed with domestic resources. Accordingly, the authorities have targeted an overall domestic deficit of the nonfinancial public sector equivalent to around 2-1/2 per cent of GDP in 1983 compared with an estimated 3-1/2 per cent in 1982. To achieve this result, the authorities have introduced new revenue measures expected to yield on an annual basis some ₡ 200 million, or 2 per cent of GDP, which, together with tight expenditure control, are intended to produce a significant increase in central government savings. The new tax measures involve a doubling in the sales tax rate to 4 per cent and an increase in selective consumption duties on goods and services, as well as other increases in selective excise duties and taxes on domestic transactions. As regards the rest of the public sector, budgets of each of the decentralized agencies and public enterprises have been approved which are consistent with a significant reduction in transfers from the Central Government. All in all, the combined overall balance of the rest of the public sector entities is expected to be in approximate equilibrium in 1983, as the surpluses in the operations of some will almost entirely offset the deficit in the operations of others. The authorities are prepared to increase public utility rates and/or impose additional expenditure cuts in order to ensure that this fiscal objective is achieved. In line with the targets for the public finances outlined above, the expansion in net credit of the banking system to the nonfinancial public sector will be limited to ₡ 350 million in 1983, compared with a target of ₡ 400 million in the 1982 program. Consistent with this objective, ceilings have been set on the outstanding net credit of the banking system to the nonfinancial public sector for the period through July 1983 which are described in the attached Table 3.

7. In view of the balance of payments, production and fiscal objectives outlined above, the authorities have framed a credit program for the Central Reserve Bank for 1983 which calls for an expansion in its net domestic assets of ₡ 25 million, compared with an increase of around ₡ 170 million in the 1982 program. Consistent with this annual program, ceilings on the net domestic assets of the Central Reserve Bank, which take into account seasonal factors, have been set for the period through July 1983 as presented in the attached Table 4. Given the outlook for

financial savings, the prevailing reserve requirements and the limits on bank credit expansion to the public sector, the authorities believe that the credit program of the Central Reserve Bank is consistent with a balanced distribution of overall banking system credit between the public and private sectors during 1983, as was the case in 1982. The authorities are prepared to adjust the instruments of monetary control in the light of unforeseen developments in order to achieve the credit and balance of payments objectives of the monetary program.

8. In order to promote the objectives of the Government's monetary program, the authorities intend to maintain a flexible interest rate policy which is guided by, among other things, trends in domestic prices and movements in interest rates abroad. Effective February 1, 1982 the authorities simplified the structure of domestic interest rates and increased the maximum lending and deposit rates by about 2-1/2 percentage points. The ceiling on interest rates for 180-day deposits, which serves as a reference rate for other rates in the system, is now 12-1/2 per cent, whereas the maximum bank rate on loans financed with local resources is 20 per cent. In view of the outlook for inflation in 1983 (an increase of about 11 per cent) and the movements in foreign interest rates, the authorities believe that no further adjustment to interest rate ceilings is necessary at the present time. However, the authorities will continue to review the interest rate structure on a periodic basis in the light of domestic and international financial conditions with a view to making further adjustments as these conditions require.

9. The Government has been making periodic reviews of its wage and price controls in the light of expected price developments. As a result of the last review in mid-1982, the freeze on the prices of basic commodities and services was extended through March 1983, whereas the guidelines on maximum wage increases (10 per cent) were continued through the same period. Minimum wages have not been increased in 1983, nor have the wage scales for government workers been adjusted during 1982 or in the 1983 budget. Before the end of March 1983, the authorities will undertake a comprehensive review of its wage and price control policy to determine what adjustments, if any, would be appropriate, particularly in the light of import cost trends. These controls will also be reviewed from the point of view of their impact on production, and the effects of price support schemes on the financial position of the state agencies in charge of their administration will be examined.

San Salvador, El Salvador
March 15, 1983

Table 1. El Salvador: Balance of Payments Targets

(Outstanding balances in millions of U.S. dollars)

Dates	Targets
January 1, 1983-January 31, 1983	-285
February 1, 1983-April 30, 1983	-275
May 1, 1983-June 30, 1983	-255
July 1, 1983-July 15, 1983	-235

Table 2. El Salvador: Limits on Outstanding Balance of External Payments Arrears

(Outstanding balances in millions of U.S. dollars)

Period	Limit
January 1, 1983-February 28, 1983	60
March 1, 1983-May 31, 1983	45
June 1, 1983-July 15, 1983	35

Table 3. El Salvador: Ceilings on the Banking System's Net Outstanding Credit to the Nonfinancial Public Sector 1/

(Outstanding balances in millions of colones)

Period	Ceilings
January 1, 1983-January 31, 1983	1,825
February 1, 1983-April 30, 1983	1,950
May 1, 1983-July 15, 1983	2,025

1/ These ceilings will be adjusted upward for any increase in concessionary assistance from the United States over a stock of ₡ 452 million through the end of April 1983, and of ₡ 503 million in the period May 1-July 15, 1983 contemplated in the program.

Table 4. El Salvador: Ceilings on the Net Domestic Assets of the Central Reserve Bank

(Outstanding balances in millions of colones)

Period	Ceilings
January 1, 1983-January 31, 1983	1,350
February 1, 1983-April 30, 1983	1,325
May 1, 1983-June 30, 1983	1,245
July 1, 1983-July 15, 1983	1,175