EBD/82/319

December 28, 1982

To: Members of the Executive Board

From: The Acting Secretary

Subject: El Salvador - Exchange System

The attached paper on recent changes in the exchange system of El Salvador is circulated for the information of the Executive Directors.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

El Salvador--Exchange System

Prepared by the Western Hemisphere Department and the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by Eduardo Wiesner and Manuel Guitian

December 27, 1982

In a communication dated November 13, 1982 (translation attached), the Monetary Board of El Salvador informed the Fund of changes in the exchange system which were decided upon on October 28, 1982. These changes, which became effective on November 10, 1982, concern the operation of the commercial banks and the Mortgage Bank in the parallel market and of the special foreign currency deposit accounts and the limits on sales of foreign exchange for purposes of certain invisible payments. In a subsequent communication dated November 23, 1982 (translation attached), the Monetary Board informed the Fund of an amendment adopted to permit in bona fide cases additional sales of foreign exchange for certain invisible payments in excess of the limits.

The main changes are as follows:

(1) Proceeds from exports of specified nontraditional products to countries outside Central America must be sold to the commercial banks and the Mortgage Bank for use in the parallel market or deposited in special foreign currency deposit accounts with authorized banks exclusively in the name of the exporters concerned. Exporters of nontraditional products are required to use funds in their special foreign currency accounts or to purchase foreign exchange in the parallel market to effect payments for their own imports of goods and services.

(2) With the authorization of the Central Reserve Bank, industrial enterprises which export more than 25 per cent of their products to countries outside Central America must sell the receipts thereof to commercial banks and the Mortgage Bank in the parallel market. For at most a year from the date of the authorization, the Central Bank will make foreign exchange available at the official exchange rate to cover the excess of the cost of imported inputs of goods and services over the value of exports to countries outside Central America. If the value of such exports exceeds the cost of imported inputs, the enterprise in question shall be subject to the treatment prescribed in the previous paragraph, i.e., its import payments will be settled through the use of foreign currency deposit accounts or with foreign exchange purchased from the commercial banks and the Mortgage Bank in the parallel market.

(3) Individuals and juridical persons providing customs services to foreign persons and not covered by the provision of Article 39 of the Law on Export Promotion must sell the foreign exchange they receive to the commercial banks and the Mortgage Bank in the parallel market.

(4) Incomes from personal transfers, incomes received by representatives of foreign companies and by resident individuals and juridical persons and receipts from tourism must be sold to the commercial banks and the Mortgage Bank in the parallel market. Personal transfers only may be deposited in the special foreign currency deposit accounts in the name of the beneficiaries.

(5) Embassies, consulates, and offices of international organizations in El Salvador and their employees are allowed to sell foreign exchange they receive to the commercial banks and the Mortgage Bank in the parallel market or deposit it in the special foreign currency deposit accounts which they may open in their names for purposes of meeting their foreign exchange requirements.

(6) Special foreign currency deposit accounts which were active at the time this resolution went into effect or which were opened thereafter will be subject to the following provisions: (a) transfers of funds between the special foreign currency accounts are prohibited and the balances deposited in those accounts will be used in accordance with a resolution adopted by the Monetary Board on December 12, 1981, that is: (i) for conversion into colones through sales to the commercial banks and the Mortgage Bank at the exchange rate prevailing in the parallel market; (ii) for payment of imports of goods and services; (iii) for monthly withdrawals of up to US$2,000 to cover expenses for foreign travel, family maintenance, education, medical treatment, personal insurance premiums, and other personal needs; (b) holders of special foreign currency deposit accounts, including exporters of nontraditional exports to countries outside Central America, can use funds in the accounts only for payments of specified imports of goods or for sales to the commercial banks and the Mortgage Bank in the parallel market; (c) accounts may be opened in U.S. dollars or in any other foreign currency approved in advance by the Central Reserve Bank, but transactions through these accounts may be effected only in the currency in which the account is opened; (d) accounts may be opened in the form of demand or time deposits and are subject to a reserve requirement of 10 per cent; (e) the commercial banks and the Mortgage Bank may invest the funds in special foreign currency accounts, provided the maturity of investments using demand deposit funds does not exceed 30 days and the maturity of investments using time deposit funds is the same as the maturity of the time deposits; and (f) the commercial banks and the Mortgage Bank must pay interest on time deposits at rates up to 2 per cent below LIBOR.

(7) The commercial banks and the Mortgage Bank are permitted to sell foreign exchange in the parallel market for payment of specified imports; sales of foreign exchange for other purposes are subject to the following limits: (a) up to US$2,000 per person, over 12 years of age, per trip to countries outside Central America (one half of the amount for children under the age of 12), with a limit of two trips per year; (b) up to a limit of

US$500 per trip to countries in Central America, with an annual limit of US$3,000; and (c) up to US$2,000 per year for personal expenses, such as family maintenance and insurance premiums. Additional amounts for foreign travel and family remittances are permitted to be sold to meet bona fide requirements, and there is no limit on the amount sold for expenses for medical treatment and study abroad.

These changes in the exchange system are consistent with the decision adopted at the conclusion of the 1981 Article IV consultation (SM/82/67, Supplement 1, 7/20/82) and, therefore, are not subject to further Executive Board action. A staff report reviewing performance under the existing stand-by arrangement is being prepared, and it will discuss in detail the changes in the exchange system summarized in this paper.

Attachment

SAN SALVADOR, EL SALVADOR, C.A.
NOVEMBER 11, 1982

INTERFUND
WASHINGTON, DC

This is to inform you that on October 28, 1982 the Monetary Board approved the following:

"The Monetary Board:

Whereas:

1. It is necessary to harmonize the exchange regulations applying to special foreign currency deposit accounts and permission for the commercial and the Mortgage Bank to buy and sell foreign currency at a special window.

2. It is appropriate that the foreign currency earnings from nontraditional exports to countries outside the Central American area, family transfers, commissions and other personal payments, and money spent by tourists in the country be used for the purposes specified in this resolution in view of the country's present critical foreign exchange situation.

3. Use of the special foreign currency deposit accounts should be confined to individuals or juridical persons who directly receive the payments and grants from abroad referred to in the above clause.

4. It is appropriate to attract and channel funds from the parallel market through the commercial banks and the Mortgage Bank in order to prevent speculation on the exchange rate and to reduce capital flights.

5. It is advisable that the measures adopted by the Monetary Board on this date be set forth in a single corpus in order to facilitate their application.

Acting under the legal powers vested in it, the Monetary Board resolves that:

1. Foreign exchange from exports of nontraditional products to countries outside the Central American area, as specified in Attachment No. 1, must be sold to the commercial banks and the Mortgage Bank for use on the parallel market, or deposited in special foreign currency deposit accounts with authorized banks exclusively in favor of the exporters themselves. Exporters of nontraditional products shall pay the total value of the imported goods and services they use from their own special foreign currency deposit accounts, or buy the required foreign exchange on the parallel market from the commercial banks and the Mortgage Bank.

2. Industrial enterprises previously authorized by the Central Reserve Bank at their request, and which export more than 25 per cent of their products to countries outside Central America, must sell the receipts from such exports to

commercial banks and the Mortgage Bank on the parallel market, or deposit them in the exporters' own foreign currency deposit accounts. For no more than a year from the date an enterprise receives such authorization, the Central Reserve Bank shall assign it the official foreign exchange required for importing the goods and services required in the production process, minus the cost of foreign goods and services used in exports to countries outside Central America. If the value of exports outside Central America exceeds that of imports of goods and services used in overall production, the enterprise shall not enjoy this special treatment and shall be subject to the arrangements provided for in the preceding clause.

3. Individuals and juridical persons whose enterprises provide customs service to foreign persons and who are not covered by the provisions of Article 39 of the Law on Export Promotion must sell the foreign exchange they receive for such services to the commercial banks and the Mortgage Bank on the parallel market.

4. Income from personal transfers, those received by representatives of foreign companies for their services, and other income for personal and business services, as well as foreign exchange generated by international tourism must also be sold to the commercial banks and the Mortgage Bank on the parallel market. Personal transfers only may be deposited in special foreign currency deposit accounts in the name of the beneficiaries themselves.

5. Embassies, consulates and offices of international organizations, accredited and established in the country, and their employees, must sell the foreign exchange they receive to the commercial banks and the Mortgage Bank on the parallel market or deposit it in special foreign currency deposit accounts which they may open on their own behalf in authorized banks to meet their foreign exchange requirements.

6. Special foreign currency deposit accounts which are active when this resolution enters into force and those which are opened after that date shall be subject to the following provisions:

a. The balances of existing special foreign currency deposit accounts, with the exception of those in the name of exporters of nontraditional products to countries outside Central America, shall continue to be used in accordance with the resolution adopted by the Monetary Board at its meeting No. JM-22/81 on December 12, 1981. Consequently, the funds in these accounts may be used for the following purposes: (i) conversion into colones through sales to the commercial banks and the Mortgage Bank at the rate of exchange obtaining for parallel market operations, (ii) payment of the depositor's foreign obligations for imports of goods and services, with the exception of payments for the purposes referred to in the following section, and (iii) monthly withdrawals of up to US$2,000.00 from the deposit account in order to meet all or some of the following foreign expenditures: travel expenses, family assistance, student aid, health costs, personal insurance premiums, and any other personal expense. Transfers of funds from one foreign currency account to another by the same depositor and transfers of funds from one foreign currency account to another by different individuals shall no longer be allowed.

b. Upon entry into force of this resolution, individuals and juridical persons who open special foreign currency deposit accounts and existing accounts of exporters of nontraditional products to countries outside Central America may use these funds solely to pay for imports of goods as specified in Attachment No. 2 or sell them to the commercial banks or the Mortgage Bank on the parallel market;

c. New accounts may be opened in U.S. dollars or in any other foreign currency approved in advance by the Board of the Central Bank. Operations may be effected through these accounts using exclusively the currency in which they were opened.

d. Such new accounts may be either demand or time accounts for 30 days or more, in accordance with the provisions in force for the same type of account in domestic currency, except with regard to reserves and interest rates as provided for below.

e. Demand and time deposits shall be subject to a compulsory 10 per cent reserve, which shall be deposited with the Central Bank, or, with permission from the Board of the Central Bank, be kept in the depositor's bank.

f. The above-mentioned deposits may be invested by the banks in external financial institutions, subject to the following conditions: (i) the maturity for demand deposit investments may not exceed 30 days and, (ii) in other cases, investments must coincide with the due dates established when the funds were accepted.

g. The commercial banks and the Mortgage Bank must pay interest in foreign currency on time deposits. The interest rate for this type of deposit shall be up to 2 per cent lower than the LIBOR quoted by any of the major New York banks, and the Foreign Department of the Central Bank shall announce the rate each week on this basis.

7. The commercial banks and the Mortgage Bank must sell the proceeds from foreign exchange purchased on the parallel market for payment of the imports specified in Attachment No. 2.

8. The commercial banks and the Mortgage Bank shall also sell foreign exchange from the parallel market up to the following limits:

a. For travel to countries outside the Central American area, US$2,000 per person over 12 years of age and US$1,000 for children 12 years of age and younger, per trip, with a maximum of two trips per year. A maximum of the equivalent of US$500.00 per trip shall be allowed for travel expenses to other countries in the Central American area with an annual limit of US$3,000.00.

b. Up to US$2,000.00 per year for family assistance, personal insurance premiums and payments for any other personal service received, for each individual expenditure. The commercial banks and the Mortgage Bank shall require the relevant supporting documents which they shall forward to the Exchange Control Department.

c. For students' health care expenses there shall be no limit. However, the persons concerned must establish the purpose of the expenditure in the manner referred to in the previous clause.

9. The provisions adopted by the Monetary Board at its meetings Nos. JM-20/81, item JM-III/20/81, JM-22/81, item JM-I/22/81, JM-2/82, item JM-I/2/82, on November 27, December 12, 1981 and January 22, 1982, respectively, are revoked, and the Central Bank shall be empowered to issue the instructions it considers relevant for implementing the measures adopted under this resolution.

10. This resolution shall enter into effect on November 10, 1982."

Attachments Nos. 1 and 2 referred to in the text of this resolution are basically those adopted at meeting No. JM-2/82 of January 26, 1982. A copy of these Attachments will be sent by air mail.

ALBERTO BENITEZ BONILLA
SECRETARY, MONETARY BOARD OF EL SALVADOR
11/13/82

Received in Cable Room: November 15, 1982.

ATTACHMENT

Monetary Board Meeting (JM-21/82)--November 23, 1982

Considering that it is in order to put flexibility in the authorization of payments for foreign travel and family remittances, the Monetary Board, in exercise of its legal powers, decided to add the following to number (8) of its resolution taken on October 28, 1982 (Board Meeting No. JM-19/82, JM-III/19/82): The Central Bank is empowered to authorize in justified cases payments for foreign travel and family remittances over stated limits.

Received by IMF mission: November 23, 1982