

INTERNATIONAL MONETARY FUND

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The International Monetary Fund has agreed to the use of Fund resources totalling the equivalent of SDR 75.3 million by the Government of El Salvador. Of the total, SDR 43 million may be drawn by El Salvador over the next twelve months under a stand-by arrangement in support of the Government's economic adjustment program, and SDR 32.3 million may be drawn immediately under the compensatory financing facility.

The drawing under the compensatory financing facility is in respect of a shortfall in El Salvador's exports estimated for the twelve months ended March 1982. The shortfalls for major commodities, including coffee and cotton, were largely related to lower volumes, though lower coffee prices also were a contributing factor. In addition to weak external demand, the shortfall in El Salvador's exports reflected declines in production, uncertainties about the agrarian reform program, and reduced availability of domestic and foreign credit.

After many years of financial stability, El Salvador's economic performance weakened in the wake of an internal conflict which has disrupted economic activity. The external environment, especially the recession in industrialized countries, and the 1979 rise in oil prices contributed to the difficulties. In 1981, real gross domestic product is estimated to have contracted by 9 1/2 per cent, unemployment rose, and the country's overall balance of payments deteriorated appreciably.

The economic adjustment program, which the stand-by arrangement supports, aims at containing the decline in activity, and at strengthening the international reserve position of the Central Reserve Bank. Over the medium term, the program seeks to restore El Salvador's balance of payments. To attain these objectives the program for 1982 will rely on a phased liberalization of exchange and trade policies; a rationalization of interest rate and pricing policies; a more balanced distribution of credit between the private and public sectors; and a cautious demand management policy.

El Salvador's quota in the Fund is SDR 64.5 million and its outstanding financial obligations to the Fund, resulting from past operations and transactions, currently total the equivalent of SDR 37.6 million.