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November 26, 1985

To: Members of the Executive Board

From: The Secretary

Subject: El Salvador - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with El Salvador which will be brought to the agenda for discussion on a date to be announced.

Mr. Umana (ext. 8503) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

EL SALVADOR

Staff Report for the 1985 Article IV Consultation

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by Eduardo Wiesner and Manuel Guitián

November 25, 1985

Contents | Page

I. Introduction 1

II. Background 1
1. Developments through 1984 1
2. Developments in 1985 7
3. Relations with the World Bank Group 9

III. Summary of Policy Discussions 9
1. Credit and monetary policies 9
2. Fiscal policy 10
3. Price and wage policies 12
4. External sector policies 13
5. Medium-term outlook 15

IV. Staff Appraisal 17

Text Tables

1. Selected Economic Indicators 2
2. Summary Operations of the Public Sector 4
3. Summary Accounts of the Banking System 5
4. Summary Balance of Payments 6
5. Medium-Term External Projections 16

Chart

1. Indices of Effective Exchange Rates 10a

Appendices

I. Fund Relations with El Salvador 20
II. Basic Data 22
III. Statistical Issues 24
IV. El Salvador's Relations with the World Bank 26

I. Introduction

The 1985 Article IV consultation discussions with El Salvador were held in San Salvador during the period September 3-24, 1985. The Salvadoran representatives included the Ministers of Planning, Finance, Agriculture, Economy, Foreign Trade, and Labor; the President and Vice-Presidents of the Central Reserve Bank; and other senior officials of public sector entities. The staff representatives were Messrs. Umana (Head), de Rosa, Lee, Terrier (all WHD), Weerasinghe (ETR), and Ms. Rowles (Secretary-WHD). Mr. Castellanos, Advisor to the Executive Director for El Salvador, participated in some of the discussions.

The last Article IV consultation discussions with El Salvador were held in July-August 1984 and the staff papers (SM/84/246 and SM/84/247) were considered by the Executive Board on December 5, 1984 (EBM/84/174). El Salvador has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. A summary of El Salvador's relations with the Fund is contained in Appendix I.

II. Background

Following a sharp economic deterioration marked by declining output and large balance of payments deficits in 1979-81, El Salvador made some progress toward economic stabilization in 1982-83 under a one-year stand-by arrangement from the Fund. However, starting in 1984 financial performance weakened and pressures on the balance of payments re-emerged; also, in 1985 the rate of inflation accelerated sharply.

1. Developments through 1984

Over the period 1979-81, El Salvador's output dropped by a cumulative 18 percent, reflecting the negative impact of a prolonged armed conflict, the shrinkage of economic activity in the Central American Common Market, and the world recession. Unemployment rose and real wages fell, and the rate of inflation in El Salvador remained well above that of its trading partners. During those years the overall deficit of the nonfinancial public sector increased sharply because of a rapid growth in public spending that was related mainly to the containment of guerrilla activity, and it was financed largely by domestic bank credit. Concurrently, worsening political and economic conditions in El Salvador led to an erosion of confidence and sizable capital outflows. As a result, the overall balance of payments registered a cumulative deficit of around US$600 million in 1979-81, including the accumulation of about US$90 million in external payments arrears.

In July 1982 the authorities adopted a stabilization program that was supported by the stand-by arrangement mentioned earlier. 1/ The

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1/ El Salvador was in compliance with all the performance criteria and purchased the full amount available under the stand-by arrangement.

program's objectives were to replenish the foreign reserve position of the Central Reserve Bank and to create the conditions for an economic recovery through fiscal and monetary restraint, an upward adjustment of interest rates, and increased flexibility in exchange rate policy. Mainly as a result of cutbacks in nondefense expenditures, the overall deficit (before foreign grants) of the public sector declined from about 11 percent of GDP in 1981 to 8 percent in 1983, and at the same time public sector recourse to domestic bank financing was reduced considerably. Tighter demand management policies, together with large inflows of concessional aid from the U.S. Government, led to virtual equilibrium in the overall balance of payments in 1982 and to a surplus of US$90 million in 1983, including a reduction in external payments arrears. After four years of decline, real GDP grew by around 1 percent in 1983 and some progress was made in reducing inflation (Table 1).

Table 1. El Salvador: Selected Economic Indicators

(Annual percentage change)

	1981	1982	1983	1984	Est. 1985
Real GDP	-8.3	-5.6	0.8	1.5	1.6
Consumer prices (average)	14.8	11.7	13.1	11.7	22.5
Real effective exchange rate (end of year; depreciation -)	12.5	1.9	9.6	3.1	...

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

To introduce some flexibility in exchange rate policy, a parallel exchange market was created in early 1982. 1/ In 1982-83 the exchange rate in the parallel market, which is set by the banks, remained virtually unchanged at around ₡ 4 per US$1 (compared with the official exchange rate of ₡ 2.5 per US$1), and did not differ substantially from the exchange rate in the black market. About 15 percent of exchange transactions was transferred to the parallel market in 1982-83 with the

1/ There is also a black market which handles transactions not authorized in the other two markets because of restrictions and administrative rationing, and whose main source of foreign exchange is private remittances.

result that the weighted average value of the colon in the two markets with respect to the U.S. dollar depreciated by 8 1/2 percent; however, in real effective terms the colon appreciated by about 12 percent.

In 1984 economic recovery continued, albeit at a modest pace. Real GDP grew by 1 1/2 percent, reflecting in part some strengthening of private sector confidence following the first Presidential election in several years. However, credit policy became expansionary and exerted increased pressures on the balance of payments.

The overall deficit (before foreign grants) of the public sector was reduced further by 1 1/2 percent of GDP to 6 1/2 percent of GDP in 1984, on the strength of an increase in central government revenue and a sharp contraction in capital expenditures of the public enterprises (Table 2). General government expenditure rose significantly in 1984, however, because of an increase in government wages of 21 percent and higher interest payments by the Agrarian Reform Institute (ISTA) on agrarian reform bonds. Central government revenues rose by 1 percentage point in relation to GDP in 1984 because of the full-year effect of a doubling of the sales (stamp) tax introduced in mid-1983, higher revenues from foreign trade taxes, and increased transfers from the State Electricity Company (CEL). Nevertheless, the public sector increased its net recourse to domestic bank credit in 1984 as access to foreign borrowing was reduced in line with a decline in capital outlays.

As a result of the higher domestic borrowing requirement of the public sector and a faster pace of credit expansion to the private sector, total bank credit expansion (in relation to liabilities to the private sector at the beginning of the year) accelerated from 4 1/3 percent in 1983 to 14 2/3 percent in 1984 (Table 3). The growth of private sector financial claims on the banking system also rose rapidly, but this increase was mainly in the form of currency and demand deposits, reflecting in part an increase in external payments arrears. The rate of growth of time and savings deposits fell in 1984, owing to a reduction of the interest rate ceiling on savings deposits and the re-establishment of an interest rate ceiling on time deposits of one year and over.

Despite the continued large inflow of official transfers, the overall balance of payments shifted from a surplus of US$90 million in 1983 to a deficit of about US$50 million in 1984 (including the accumulation of some US$40 million in payments arrears), as imports surged and net official capital inflows fell (Table 4). After declining in the previous two years, the current account deficit (excluding official transfers equivalent to about 4 1/2 percent of GDP) widened to 7 percent of GDP. Imports grew by 9 1/2 percent as a result of the recovery in domestic economic activity and the replenishment of private sector inventories, while exports dropped marginally because of a continued weakening in cotton and sugar exports. Net capital inflow fell from 3 1/2 percent of GDP in 1983 to 1 percent in 1984 because of lower disbursements of official loans and higher amortization payments.

Table 2. El Salvador: Summary Operations of the Public Sector

(As percent of GDP)

	1981	1982	1983	1984	Est. 1985
Revenue	16.2	16.5	16.4	16.7	16.5
Current (general government)	15.0	14.7	14.8	15.3	15.5
Operating surplus of public enterprises	1.1	1.7	1.5	1.3	0.9
Capital	0.1	0.1	0.1	0.1	0.1
Expenditure 1/	27.0	26.2	24.5	23.1	22.3
Current	17.4	18.6	17.0	17.8	17.7
Capital	9.6	7.6	7.5	5.3	4.6
Overall deficit, before foreign grants	-10.8	-9.7	-8.1	-6.4	-5.8
Foreign grants	0.6	2.8	3.4	3.4	2.0
Overall deficit	-10.2	-6.9	-4.7	-3.0	-3.8
External financing	5.1	4.2	4.1	1.9	1.3
Internal financing	5.1	2.7	0.6	1.1	2.5
Banking system	5.3	1.6	0.3	1.0	2.8
Other 2/	-0.2	1.1	0.3	0.1	-0.3
Memorandum item					
Overall deficit (before foreign grants) of Central Government 3/	-9.2	-8.6	-7.1	-6.2	-5.8

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

1/ On a commitment basis.
2/ Includes financing by domestic arrears.
3/ Budgetary and extrabudgetary operations.

Table 3. El Salvador: Summary Accounts of the Banking System

	1981	1982	1983	1984	Est. 1985
	(Annual percentage change) 1/				
Net international reserves	-8.1	0.4	14.1	2.4	3.7
Net domestic assets	23.2	16.9	4.3	14.7	24.5
Nonfinancial public sector	27.2	4.7	0.8	3.0	9.2
Central Government	26.2	5.9	-0.5	3.6	9.0
Rest of public sector	1.0	-1.2	1.3	-0.6	0.2
Private sector 2/	-3.1	5.7	4.9	9.8	17.9
Other	-0.9	6.5	-1.4	1.9	-2.6
Other foreign liabilities 3/	5.8	5.0	9.5	0.1	7.9
Liabilities to private sector 4/	9.3	12.3	8.9	17.0	20.3
	(In percent)				
Memorandum items					
Money/GDP	15.8	16.4	14.1	14.8	15.0
Quasi-money/GDP	14.6	18.2	19.1	19.1	18.6
Interest rate (annual rate, time deposits of 180 days)	10.0	12.5	12.5	12.5	12.5

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

1/ In relation to liabilities to private sector at the beginning of the year.
2/ Includes credit to nonbank intermediaries and INCAFE/INAZUCAR.
3/ Medium- and long-term foreign liabilities, allocation of SDRs, valuation adjustments, and government trust funds.
4/ Includes liabilities to nonbank intermediaries.

Table 4. El Salvador: Summary Balance of Payments

	1981	1982	1983	1984	Est. 1985
(In millions of U.S. dollars)					
Current account, excluding official grants	-233	-201	-203	-283	-359
Trade account	-187	-157	-156	-251	-340
Exports, f.o.b.	798	700	735	726	713
Imports, c.i.f.	-985	-857	-891	-977	-1,053
Interest payments	-60	-84	-95	-104	-109
Other services, net	-52	-54	-58	-58	-55
Private transfers	66	94	106	130	145
Official grants 1/	15	113	166	190	302
Capital account	56	85	127	40	57
Official capital	174	120	149	89	83
Financial sector	11	92	25	-36	17
Other, including errors and omissions	-129	-127	-47	-13	-43
Overall balance (deficit -)	-162	-3	90	-53	--
External arrears (decrease -)	36	-5	-33	42	...
Refinancing of arrears through bonds	--	25	13	1	...
Rescheduling of central bank short-term debt	3	16	94	39	...
Net official reserves (increase -)	123	-33	-164	-29	...
Net use of Fund credit (decrease -)	38	66	9	-13	-25
Other net official reserves (increase -)	85	-99	-173	-16	...
(Annual percentage change)					
Value of exports	-25.8	-12.3	5.1	-1.3	-1.8
Value of imports	2.3	-13.0	4.1	9.6	7.7
Volume of exports	-19.3	-15.5	4.5	-7.6	-4.2
Volume of imports	-6.6	-22.3	-1.2	4.3	4.0
(As percent of GDP)					
Trade deficit	-5.4	-4.6	-4.2	-6.2	-7.9
Current account deficit (excluding official grants)	-6.7	-5.9	-5.5	-7.0	-8.4
Official grants 1/	0.4	3.4	4.5	4.7	7.0
Capital account	1.6	2.5	3.4	1.0	1.4
Overall balance (deficit -)	-4.7	--	2.4	-1.3	--
Memorandum item					
Gross official reserves (in months of imports)	1.0	1.6	2.2	2.0	2.1

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

1/ Mainly from the United States.

2. Developments in 1985

According to preliminary data, the recovery of economic activity which began in 1983 continued at a modest rate in 1985, with real GDP growing by around 1 1/2 percent and virtually all sectors showing positive growth. As a result of the reduction of guerrilla activity, private investment has shown some gains.

However, the rate of increase of domestic prices (as measured by the consumer price index) moved up to 24 percent during the 12-month period ended July 1985, compared with 10 percent at the end of 1984. The main factor responsible for such increases has been the pursuit of expansionary financial policies in the face of price adjustments associated with the depreciation of the colon resulting from a large shift of transactions from the official to the parallel market. By the end of 1985, the annual rate of price increases could move up higher, in the absence of corrective measures.

The overall deficit (before foreign grants) of the nonfinancial public sector is estimated to decline further to just under 6 percent of GDP in 1985 because of a further decline in capital expenditures. Nonetheless, domestic bank financing of the public sector is expected to rise to 2 1/2 percent of GDP (from about 1 percent in 1984), as budgetary support from U.S. AID and net foreign borrowing are expected to fall. The budgetary support component of U.S. foreign assistance is being reduced to 2 percent of GDP in 1985 (from 3 1/3 percent in 1984), as a larger portion of the local currency counterpart of such assistance is being assigned to the Central Reserve Bank to support credit operations with the private sector.

Total public sector revenue is estimated to have remained virtually unchanged at 16 1/2 percent of GDP in 1985, as a decline in the operating surplus of the public enterprises is expected to offset the increase in central government revenue. Government revenue is projected to rise because of the payment of back taxes by the Coffee Marketing Institute (INCAFE) and the introduction of two tax measures in September 1985 involving a change in the basis for the assessment of certain import duties from the official exchange rate to the parallel rate and an increase in the sales (stamp) tax rate on intermediate goods from 4 to 5 percent. Total expenditure of the public sector is expected to fall by about 1 percentage point in relation to GDP in 1985 because of a further contraction in capital outlays, which would more than offset the full-year effect of the wage increase granted in mid-1984 and higher defense expenditures.

Because of a rise in the public sector borrowing requirement and, more importantly, an increase in the rate of credit expansion to the private sector, total bank credit is estimated to rise by more than 24 percent in 1985, compared with less than 15 percent in 1984. Private resources accruing to the banking system are expected to increase by about 20 percent but, as in 1984, a large part of the increase would be in the form of currency and demand deposits, reflecting higher working balances needed because of the faster rise of prices and a further increase in external payment arrears. Such arrears (covering imports, debt service, and certain invisible payments of the private sector in the official exchange market) increased by US$20 million during the first half of 1985 and stood at about US$120 million at the end of June 1985.

The current account deficit of the balance of payments (excluding official transfers) is estimated to widen to 8 1/2 percent of GDP in 1985 (from 7 percent in 1984), reflecting a further decline in exports and the continued rapid growth in imports. In addition, the net outflow of private capital is expected to increase. Nonetheless, the overall balance of payments is estimated to be in approximate equilibrium in 1985 because of a substantial increase in grant assistance from the U.S. Government, to the equivalent of 7 percent of GDP.

Following a period of gradual and limited transfer of transactions to the parallel exchange market after its establishment in early 1982, large shifts were made in December 1984 and June 1985. As a result, the share of parallel market transactions increased to about 60 percent of total current transactions, including about 50 percent of exports (other than coffee and sugar), 85 percent of receipts from invisibles, and 60 percent of payments for imports (mostly consumer and intermediate goods) and invisibles. Official transfers and the bulk of capital transactions remain in the official market. In June 1985, the authorities also eliminated various implicit exchange rates resulting from mixing arrangements for the surrender of export proceeds and the exchange restriction arising from an advance deposit requirement on certain import payments and requests for official foreign exchange for medical treatment abroad. At the same time, the approval of certain invisible payments (including foreign travel) was shifted from the commercial banks to the Central Reserve Bank.

As a result of the recent transfers of transactions to the parallel market, the weighted average value of the colon in the official and parallel exchange markets depreciated by 19 percent with respect to the U.S. dollar during the 12-month period ended June 1985. 1/ However, over the same period the colón appreciated in real effective terms by about 13 percent because of El Salvador's higher rate of inflation vis-a-vis that of its trading partners and the large effective depreciation of the quetzal in Guatemala (an important trading partner of El Salvador).

From mid-1980 to mid-1985 the colón appreciated in real effective terms by a cumulative 50 percent, reflecting mainly El Salvador's higher

1/ Although the parallel rate moved from ₡ 4 per US$1 in late 1984 to ₡ 4.85 per US$1 in mid-September 1985, it increasingly diverged from the black market rate which rose from ₡ 4.10 per US$1 in December 1984 to around ₡ 8.00 per US$1 in mid-September 1985.

rate of inflation than that of its trading partners and the appreciation of the U.S. dollar to which the official rate is pegged (Chart 1).

3. Relations with the World Bank Group

Since becoming a member of the World Bank, El Salvador has received 23 loans and credits, with the last loan approved in June 1979. As of August 31, 1985, the cumulative total loan commitments to El Salvador amounted to about US$242 million, of which US$75 million had been repaid and only US$23 million remained to be disbursed (Appendix IV). Net disbursements increased to US$6.8 million in fiscal year 1985, but are expected to decline in future years on the basis of the existing loan pipeline. El Salvador has no arrears with the Bank. The power sector has been the most important recipient of Bank credit (40 percent), followed by education (22 percent), telecommunications (17 percent), transport (12 percent), and urban development (9 percent).

Recently, El Salvador has sought to re-establish a closer relationship with the World Bank and to increase its access to credits from the Bank. To that end, a Bank mission visited San Salvador in June-July 1985 to assess El Salvador's creditworthiness and its report is currently under review.

III. Summary of Policy Discussions

The 1985 Article IV consultation discussions were conducted against the background of the Chairman's Summing Up at the conclusion of the 1984 consultation, which drew attention to slippages in financial performance and pointed to the immediate need for corrective action in credit, fiscal, and exchange rate policies. The discussion of economic policies focused on the measures that would be required to reduce inflationary pressures, to sustain the economic recovery, and to adjust the external current account to a level that could be sustained without reliance on exchange restrictions. Particular emphasis was placed on the need for a tighter credit policy (including an increase in domestic interest rates), a strong tax effort, and the reunification of the exchange system to improve export competitiveness and the efficiency of resource allocation.

1. Credit and monetary policies

The authorities recognized that the pursuit of an expansionary credit policy had been a major factor behind the rise in the rate of price increases. The authorities reported that they had adopted certain measures since mid-1985 to restrain bank credit expansion and were considering others to be implemented on a gradual basis. In June 1985 the Central Reserve Bank instructed commercial banks and nonbank intermediaries to suspend new credit for the financing of nonessential imports and, in late August, the penalties on banks for noncompliance with the legal reserve requirements were increased sharply.

In the area of legal reserve requirements, three alternatives for possible further action were under consideration: (1) a gradual increase in the legal reserve ratio from 20 percent to 30 percent for all deposit liabilities; (2) an increase in the reserve requirement on demand deposits alone in order to discourage the banks from favoring such deposits in relation to other deposit liabilities; and (3) the establishment of marginal reserve requirements. The authorities were also considering issuing Central Reserve Bank stabilization bonds to absorb excess liquidity of the private sector, but they were concerned that the payment of interest on these instruments would weaken the Central Reserve Bank's financial position. The possibility of introducing a local currency deposit requirement (without an exchange rate guarantee) for all foreign exchange applications--in order to absorb excess liquidity and to improve the monitoring of payments arrears--also was under consideration. At the time of the consultation discussions, the authorities indicated that the measure they were likely to adopt first would be some increase in the legal reserve requirement, but they were less certain about the other measures just described.

The authorities said that they intended to reduce the growth in the Central Reserve Bank's credit to the public sector and financial intermediaries, but again they were of the view that such reduction would have to be gradual. They also stated that they would continue in 1986 the policy of lodging on a long-term basis with the Central Reserve Bank an increasing proportion of the local currency counterpart of foreign grant assistance to support credit expansion to the private sector.

On the issue of interest rates, the authorities said they were reviewing their stance in the light of the recent rise in domestic inflation and interest rate developments abroad. The interest rate ceiling for bank deposits of one year and over has been set at 13 percent since early 1984, but this has to be compared with an inflation rate of about 24 percent during the 12-month period ended July 1985. The authorities ruled out the possibility of raising interest rates immediately to levels that would be positive in real terms for fear of discouraging private investment, but indicated that some upward adjustment would be appropriate.

The staff emphasized that a much more restrictive credit stance than the authorities were considering would have to be adopted, if the problem of rapidly rising prices was to be dealt with effectively. The staff also said that interest rate ceilings needed to be raised substantially to facilitate a more efficient allocation of credit, to promote the growth of time and savings deposits, and to dampen the incentives for private capital outflows.

2. Fiscal policy

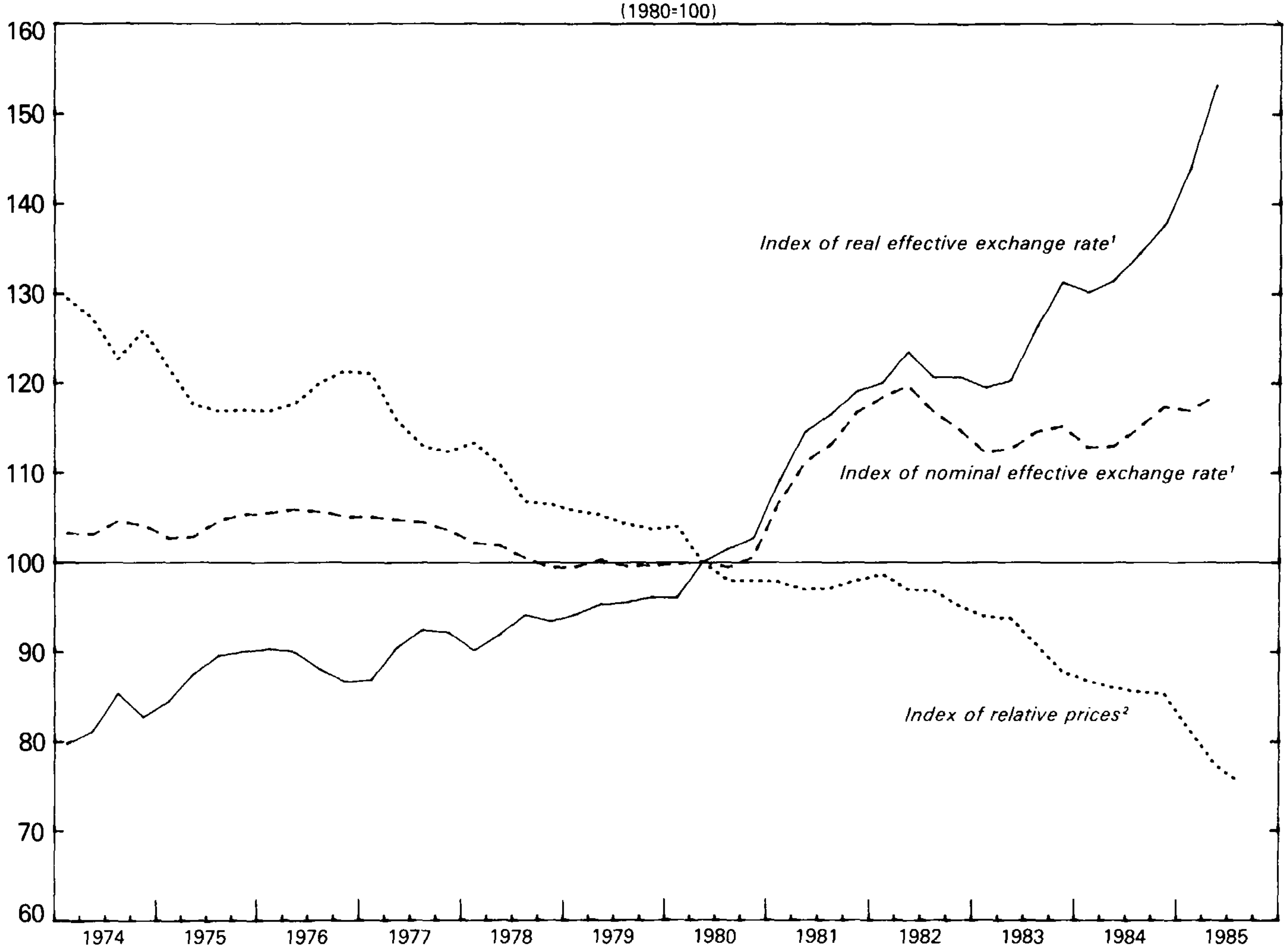
The authorities said that the main achievement of their fiscal effort over the period 1982-84 had been to restrain nondefense-related expenditures, thus making possible a reduction in the share of total

CHART 1

EL SALVADOR

INDICES OF EFFECTIVE EXCHANGE RATES, (END OF QUARTER)

(1980=100)



Sources: IMF, *International Financial Statistics;* and Fund staff estimates.

[1] Currencies of trading partners/Colon; a rise(fall) in the index reflects an appreciation(depreciation) of the Colon. The index is based on trade weights for 1980 representing 90 percent of trade with partner countries. Beginning August 1982, a weighted average of the official and parallel exchange rate of the colon was used.

[2] *Trading partners/El Salvador, relative prices were measured by consumer price indices.*

public expenditure to GDP. In this connection, they expressed their determination not to grant any wage increase this year, notwithstanding the rise in inflation. They also noted that the expected increase of capital expenditures in 1985 would consist mainly of repairs of public infrastructure which had been damaged by guerrilla activity. In contrast, they felt that a steady rise in defense expenditures was unavoidable in the light of the circumstances of El Salvador.

With regard to the 1986 budget, the authorities explained that their submission to the National Assembly 1/ would include a 6 percent increase in nondefense related outlays and a 20 percent rise in defense expenditure (which had come to represent around one third of total expenditure). Thus, total budgeted expenditure would rise by about 10 percent, which would imply a significant decline in real terms. The proposed 1986 budget, however, has no provision for wage increases, although the authorities admitted that it would be difficult to maintain wages and salaries at current levels for another year, given the sharp acceleration of inflation. The authorities also acknowledged that the proposed budget did not include any allocation for transfers to the Agrarian Reform Institute (ISTA), even though ISTA was scheduled to make substantial interest and amortization payments on government-guaranteed bonds issued to former landowners.

The authorities noted that the proposed 1986 budget did not contemplate new tax measures, but they expected that revenue growth would be buoyant because of the full-year effect of the tax measures introduced in September 1985. Nevertheless, in view of the likelihood of supplementary budgetary appropriations and the uncertainty about the size of budgetary support grants from U.S. AID, the authorities indicated that they had prepared a contingency tax package, involving increases in selective consumption taxes, which could yield about ₡ 120 million (or 0.7 percent of GDP) on an annual basis. They also were considering the adoption of a temporary "war" tax, possibly in the form of an income tax surcharge, to help finance defense expenditures.

The authorities expected the overall financial position of the rest of the public sector to continue to be in approximate balance in 1986. This outcome would involve the maintenance of strict restraint over capital expenditures, particularly since they saw little room for significant adjustments in public enterprises' tariffs (except in the case of the electricity company). In the particular case of ISTA, the authorities indicated that the large increase in its debt service obligations (related to agrarian reform bonds) would have to be financed to a substantial extent by internal administrative improvements and measures to improve the financial position of the various cooperatives established under the Agrarian Reform program.

1/ The 1986 budget, which was submitted to the National Assembly after the departure of the mission, is to be approved by the end of 1985. While the Assembly may change individual items of the proposed budget, it cannot increase total expenditure.

In the staff's view, the overall fiscal deficit in 1986--including provisions for wage increases and current transfers excluded from the budget--was likely to remain similar to, if not larger than, the deficit in 1985 in the absence of additional fiscal measures. The staff stressed the importance of reducing the overall deficit by about 2 percent of GDP to help ensure an adequate flow of domestic credit to the private sector, while reducing the deficit in the current account of the balance of payments and containing inflationary pressures. Moreover, if the decline in public investment was to be reversed to allow for the replacement of damaged or worn out plant and equipment, the public sector would need to generate a current account surplus of around 1 percent of GDP in 1986 (compared with a deficit of around 1 percent of GDP in 1985) and to limit its overall deficit to an amount that could be financed by available net foreign resources. Since the overall position of the rest of the public sector is expected to remain in virtual balance in 1986, the fiscal improvement would have to be carried out at the central government level, and to consist mainly of new tax measures (including a broader application of the parallel exchange rate in the assessment of duties on imports paid at that rate), given the limited scope for further reductions in nondefense expenditures.

3. Price and wage policies

During the period 1981-84 a price freeze was in effect for several basic commodities and services, including rice, beans, corn, sorghum, medicines, medical services, educational services, and rent. In 1985, however, the authorities indicated that they had liberalized price controls by allowing increases to reflect higher taxes and rising import costs resulting from the large shift of transactions to the parallel exchange market. Prices of basic commodities and services continued to be subject to controls, but reasonable profit margins were being permitted. In general, the authorities believed that price controls were needed, especially in an inflationary environment, to protect the welfare of low-income and unemployed workers, although they recognized that such controls were not easy to enforce. In an effort to help moderate the price increases of basic foodcrops, the authorities reported that they intended to expand their intervention in the marketing of basic grains through the State Marketing Agency (IRA) and the Agricultural Development Bank.

The authorities considered that their wage policy had been prudent over the last five years. The 21 percent increase in public and private sector wages in mid-1984 was the first increase since 1981 when a freeze was imposed for most wages and salaries (including minimum wages); the only exception to this rule was a provision which allowed public and private enterprises (starting in 1982) to increase wages by up to 10 percent a year if such increases could be absorbed without raising prices. The authorities estimated that, despite the wage increase in mid-1984, real wages fell over the period 1981-84 by some 20 percent in the public sector, and by some 13 percent in the private sector. They recognized that in 1986 it would be very difficult to prevent wage increases in the public and private sectors, but it was their intention to limit any increase in private sector (minimum) and public sector wages to substantially less than the rise in the cost of living.

4. External sector policies

The authorities recognized that the exchange system had become unduly complex and was resulting in inefficiencies and distortions in resource allocation. Thus, they had recently enlarged significantly the scope of the parallel exchange market and eliminated the various implicit exchange rates arising from mixing arrangements for the surrender of export proceeds.

The authorities emphasized, however, that they needed time to analyze the advantages and shortcomings of various alternative possibilities for further simplifying the exchange system. They observed that four options were under consideration: (1) the transfer of additional transactions equivalent to about 15-20 percent of imports (fertilizers, pesticides, and certain capital goods) from the official to the parallel market; (2) the establishment of a third exchange market where the rate would be closer to the black market rate (which rose from ₡ 6.5 per US$1 in August 1985 to around ₡ 8 per US$1 in mid-September); (3) the floating of the existing parallel rate in line with the black market rate; or (4) the reunification of the exchange system at an appropriate rate. The authorities acknowledged that the last three options, in varying degrees, would be preferable from the point of view of balance of payments management and resource allocation, but they were concerned about the effects on prices of such exchange rate adjustments and the resulting pressures for wage increases.

The staff argued that the exchange system should be reunified at a realistic rate that would compensate for the large real effective appreciation of the colón since 1980 and that also would allow for the elimination of exchange restrictions. In the staff's view, delays in exchange rate adjustments would not protect the interests of consumers and producers in the long run and would exacerbate the distortions in resource allocation. The need for complementary restrictive financial and income policies also was underscored, if repercussions of further currency depreciation on prices were to be contained. If exchange rate reunification was not to be judged feasible for political reasons, it was suggested that, as a transitional arrangement, the differential between the official and the parallel rates should be reduced by depreciating the official rate while allowing the parallel rate to reflect market forces.

Notwithstanding the authorities' interest in effecting further exchange rate adjustments, they were pessimistic about export prospects in the years immediately ahead. They believed that the scope for increasing traditional exports was very limited because of depressed world market prices and low quotas set by various international commodity agreements. They further noted the difficulties that exporters of nontraditional goods had encountered in penetrating markets outside Central America despite the incentives provided by operating at the parallel exchange rate. They also reported that a new export promotion bill was expected to be approved soon by the National Assembly; its objectives would be to centralize export promotion activities in the Ministry of Foreign Trade and to require a higher domestic value added content for exports to qualify for the existing fiscal incentives. However, they were of the view that some time would be required before nontraditional exports to markets outside Central America (currently only 10 percent of total exports) could be promoted in large commercial quantities.

The authorities also were not optimistic about the export-promotion effects of a new external tariff that was to be introduced before the end of 1985 in the context of the reform of the customs tariffs of the Central American Common Market. They noted that, while a number of nominal tariff rates would be reduced considerably, the rate of effective tariff protection for most products would not be lowered significantly at the outset. The authorities felt that some reduction in effective protection was necessary, but that it would have to be both gradual and selective in nature in order to prevent disruptions to certain domestic industries.

The authorities stated their intention to avoid new foreign commercial borrowing over the medium term in order to improve further El Salvador's external debt profile. After virtually doubling to 46 percent of GDP in 1983 from its level in 1980, El Salvador's outstanding external public debt (including short-term debt of public financial intermediaries equivalent to about 3 1/2 percent of GDP) fell to 44 percent of GDP in 1984 and is estimated to decline to 43 1/2 percent in 1985 (about US$1.9 billion at the end of 1985). About four fifths of the external public debt is owed to governments and international development institutions and carries relatively favorable terms. However, the authorities expressed concern that in recent years very few major loans were contracted from multilateral development institutions and indicated their intention to seek a renewal of such financing in the coming years. Because of the sluggishness of export growth and the maturing of previously renegotiated commercial foreign obligations, debt service obligations have risen from 14 1/2 percent of exports of goods and services in 1981 to an estimated 32 percent in 1985. Nonetheless, the authorities reaffirmed their determination to remain current on the servicing of external public debt obligations.

External payments arrears were reduced in 1982 and 1983 to a large extent by the issue of U.S. dollar-denominated medium-term bonds of the Central Government at market-related interest rates. However, such arrears started to rise again in 1984 and amounted to around US$120 million at the end of June 1985. These arrears are expected to remain virtually unchanged in the second half of 1985. The authorities indicated that they would reduce existing external arrears by at least US$20 million in 1986 through a new issue of ten-year U.S. dollar-denominated bonds of the Central Reserve Bank, or by a larger amount if a substantial increase in foreign grants were to become available in 1986.

In addition to external payments arrears on imports, debt service, and certain invisible payments of the private sector in the official exchange market, El Salvador's exchange system involves the following multiple currency practice and exchange restrictions which are subject to Fund approval under Article VIII: (1) a multiple currency practice arising from the operation of a dual exchange market system, comprising: (i) an official market in which the colón is pegged at ₡ 2.5 per U.S. dollar; and (ii) a parallel market in which the value of the colón in principle fluctuates according to market forces, but which in practice is set by the banks; and (2) exchange restrictions arising from limits of US$2,000 per person a year on payments for certain invisible transactions of a personal nature effected through purchases of foreign exchange from the banking system at the parallel rate.

5. Medium-term outlook

Given the uncertainties surrounding the economic and political prospects of El Salvador, it is difficult to quantify a medium-term scenario. Nonetheless, for illustrative purposes, the staff prepared a base case (pessimistic) scenario for El Salvador on the assumption of a continuation of armed conflict and the prevailing stance of economic policies. The authorities acknowledged that a more optimistic scenario would necessarily imply the termination of the armed conflict and substantial policy adjustments, as well as structural economic changes, and that its quantification at this time would be subject to very large margins of error.

The medium-term projections for 1986-90 assume no significant improvement in domestic and direct foreign investment. Nevertheless, output is projected to increase by about 2 percent a year (slightly less than the rate of population growth), stemming largely from moderate increases in the volume of both traditional and nontraditional exports to markets outside Central America, as well as moderate growth in the domestic service sectors. In 1986 the value of exports (in U.S. dollar terms) is projected to rise by only 2 percent, but during 1987-90 the value of exports is expected to grow by about 9 percent a year (with export volume increasing some 2 percent a year and unit export prices rising in line with WEO projections). In 1986 imports (in U.S. dollar terms) are expected to grow by 5 1/2 percent, but in the following four years the value of imports is projected to increase by 8 1/2 percent a year and import volume by 1-2 percent a year. El Salvador's external terms of trade are assumed to remain essentially unchanged over the period.

The medium-term projections indicate that El Salvador's balance of payments would remain under pressure through 1990, even on the likely assumption that U.S. AID grants would continue at some US$320 million a year (Table 5). The current account deficit (excluding official grants)

Table 5. El Salvador: Medium-Term External Projections

	Est. 1985	Projected 1986	1987	1988	1989	1990
	(In millions of U.S. dollars)					
Balance of payments						
Current account (excluding official grants)	-359	-393	-419	-452	-489	-530
Exports, f.o.b.	713	727	791	862	939	1,023
Imports, c.i.f.	-1,053	-1,111	-1,207	-1,310	-1,423	-1,545
Other, net	-19	-9	-3	-4	-5	-8
Official grants (mainly U.S.)	302	320	320	320	320	320
Capital account	57	14	62	92	125	143
Official	83	61	80	110	130	155
Financial	17	-17	2	-18	-5	-12
Other, net	-43	-30	-20	—	--	—
Financing gap	—	125 1/	108	90	74	67
Overall balance (deficit -)	—	66	71	50	30	—
External arrears/refinancing	25	-20	-40	-40	-20	--
Net use of Fund credit	-25	-46	-31	-4	--	--
Other net official reserves	--	--	--	-6	-10	--
External debt						
Outstanding debt 2/	1,685	1,729	1,919	2,101	2,300	2,510
Total debt service 3/	292	306	293	284	298	331
Principal	183	196	179	159	161	179
Interest 4/	109	110	114	125	137	152
Of which: IMF	31	51	33	4	—	—
Principal	25	46	31	4	--	--
Charges	6	5	2	—	--	--
	(As percent of GDP)					
Current account deficit (excluding official grants)	-8.4	-8.6	-8.5	-8.6	-8.4	-8.3
Official grants	7.0	7.0	6.5	6.1	5.5	5.0
Capital account	1.4	0.3	1.3	1.7	2.1	2.2
Financing gap	—	2.7	2.2	1.7	1.3	1.1
Overall balance (deficit -)	—	1.4	1.5	0.9	0.5	—
Outstanding debt 2/	39.2	37.9	38.8	39.8	39.5	39.4
	(As percent of exports of goods and services)					
Total debt service 3/	32.2	32.8	29.0	26.0	25.2	25.8
Interest 4/	12.0	11.8	11.3	11.4	11.6	11.8

Sources: Central Reserve Bank; and Fund staff estimates.

1/ Likely to be covered by additional official grants.
2/ External public debt of more than one year, outstanding at the end of the period.
3/ Includes debt service on new borrowing related to the financing gap.
4/ Includes interest on short-term debt.

would remain at about 8 1/2 percent of GDP throughout the period. On the assumption that net official foreign financing for project development would recover gradually to the level of 1983 after falling sharply in 1984-85 and that El Salvador would generate an overall payments surplus to cover the elimination of arrears, repurchase obligations to the Fund, and some replenishment of gross official reserves, a large financing gap would remain during the period.

The debt service ratio (including interest payments on short-term public debt and new borrowing needed to close the financing gap) would fall progressively from its current level of 32 percent of exports of goods and services to some 26 percent by 1990, on the assumption that foreign commercial borrowing is minimized and average effective interest rates remain basically unchanged. The medium- and long-term external debt of the public sector would remain virtually constant at just under 40 percent of GDP during the remainder of the decade.

IV. Staff Appraisal

During 1979-81 El Salvador experienced a drop in output and large balance of payments deficits. The country's economic situation was affected adversely by armed conflict, the disruption of the Central American Common Market, world recession, and its imbalances were exacerbated by lax financial policies. Despite the continuation of guerrilla activity, El Salvador made some progress toward economic stabilization in 1982-83 under a one-year program supported by a stand-by arrangement from the Fund. A modest economic recovery began in 1983, but there has been a reversal of the stabilization effort of previous years as a result of a strong expansion in bank credit.

In the course of 1985, El Salvador has experienced a strong rise in the rate of price increases. While this development stems in part from price adjustments associated with the shift of transactions from the official to the parallel exchange market, it also reflects the credit policy pursued. Although the recent enlargement of the parallel exchange market is a welcome development, more restrained demand management policies could have served to limit price increases. Instead, bank credit, particularly to the private sector, has expanded rapidly.

The authorities have recognized the need to follow a more restrictive credit policy and are considering a number of corrective measures, including an increase in legal reserve requirements and in interest rate ceilings. However, they have yet to decide on the timing of these measures and, in any event, they have indicated that they would introduce restraining measures in a gradual manner. The staff would urge the authorities to move quickly to a much more restrictive credit policy. Central bank advances and rediscounts need to be slowed down substantially and the legal reserve requirements on demand deposits should be raised. At the same time, interest rates should be allowed to rise to facilitate a more efficient allocation of credit, to stimulate the growth of financial savings, and to dampen private capital outflows.

Notwithstanding the continuation of armed conflict, the authorities have made some progress in reducing fiscal imbalances in recent years, mainly through restraint in nondefense expenditures and an improvement in the tax effort. Despite a large increase in defense expenditures, the Government's budget proposal for 1986 envisages an increase in total expenditure of about 10 percent in nominal terms and a sharp contraction in real terms. The 1986 budget proposal, however, does not include any provision for wage adjustments and the authorities, therefore, will need to exercise caution in this area in order to avoid a reversal of the fiscal effort.

Although fiscal performance has improved in recent years, the overall fiscal deficit continues to be too high. Financing of such deficit involves an increase in domestic bank credit, and has been responsible in part for the overly rapid growth of total bank credit. The staff is of the view that the overall deficit of the public sector should be limited to the amount that can be financed from available net foreign financing, in order to dampen pressures on domestic prices and the balance of payments and to assure an adequate flow of domestic credit to the private sector.

The staff believes that public sector savings needs to be strengthened in 1986 and in the years ahead to support a recovery in the public investment effort, including repairs or replacement of damaged infrastructure. Given the limited room for further reduction in nondefense current expenditures, it seems that taxation needs to be raised significantly above its current level of some 12 percent of GDP. Immediate implementation of the Government's contingency tax package, the imposition of an income tax surcharge to help finance defense expenditures, and the elimination of exemptions in the assessment of import duties at the parallel exchange rate would be steps in the right direction. Adjustments in public enterprise rates and prices also are needed to improve the financial position of these enterprises and to reduce their reliance on government transfers, while permitting them to strengthen their investment effort.

The staff welcomes the recent enlargement of the parallel exchange market as a further step toward exchange rate reunification. To restore a price structure that promotes efficiency in resource allocation and stimulates export competitiveness, the staff urges the authorities to reunify the exchange system at a rate that would compensate for the large real effective appreciation of the colon since 1980 and that would make possible the elimination of exchange restrictions (including external payments arrears). Looking beyond reunification, a flexible exchange rate policy would need to be followed, taking into account internal cost/price trends and exchange rate developments in the rest of the Central American region. In the event that exchange rate reunification cannot be undertaken immediately, the staff would urge the authorities to reduce the differential between the official and parallel rates by depreciating the currency in the official market while allowing the parallel rate to reflect market forces. Such actions should be accompanied by adequately restrained financial and wage policies to ensure that cost/price relationships are changed in ways that would produce balance of payments adjustment.

In the absence of a firm commitment on a timetable for the elimination of El Salvador's existing multiple currency practice and exchange restrictions, no approval of these restrictions by the Executive Board is proposed at the present time.

It is recommended that the next Article IV consultation with El Salvador take place on the regular 12-month cycle.

El Salvador - Fund Relations
(As of October 31, 1985)

(Amounts in millions of SDRs, unless otherwise indicated)

I. Membership Status

(a) Date of membership: March 14, 1946
(b) Status: Article VIII

A. Financial Relations

II. General Department			Millions of SDRs	Percent of Quota
(a) Quota:			89.0	100.0
(b) Total Fund holdings of colones:			171.0	192.1
(c) Fund credit:	Total		82.0	92.1
	Of which:	Credit tranche	(41.7)	(46.8)
		CFF	(40.3)	(45.3)
(d) Reserve tranche position:			--	--
(e) Current operation budget:			--	--
(f) Lending to the Fund:			--	--

III. Stand-by Arrangement and Special Facilities

(a) Current stand-by arrangement: None

(b) Previous stand-by arrangement:
(i) Duration: July 16, 1982 to July 15, 1983
(ii) Amount: SDR 43 million
(iii) Utilization: SDR 43 million
(iv) Undrawn balance: --

(c) Special facilities:

Compensatory financing: SDR 32.25 million, approved by the Executive Board on July 15, 1982 and purchased on July 21, 1982; and SDR 32.25 million, approved by the Executive Board on July 27, 1981 and purchased on July 30, 1981.

IV. SDR Department	Millions of SDRs	Percent of Quota
(a) Net cumulative allocation:	25.0	100.0
(b) Holdings:	2.1	8.4
(c) Current designation plan:	--	--

V. Administered Accounts

(a) Trust Fund loans:	
(i) Disbursed (second period)	19.7
(ii) Outstanding	19.7

(b) SFF Subsidy Account: Not applicable.

VI. Overdue Obligations to the Fund: None.

B. Nonfinancial Relations

VII. Exchange Rate Arrangement: El Salvador has a dual exchange market system, comprising an official market in which the colon is pegged at ¢ 2.50 per U.S. dollar and a parallel market in which the colon fluctuates at around ¢ 4.83 per U.S. dollar (end-September). Since June 17, 1985, a majority of external transactions has been channeled through the parallel market. El Salvador's multiple currency practice and other exchange restrictions have not been approved by the Fund.

VIII. Last Article IV Consultation: July-August 1984, completed by the Executive Board on December 5, 1984 (EBM/84/174). This consultation was conducted after a 14-month cycle.

IX. Technical Assistance: None.

X. Resident Representative/Advisor: None.

EL SALVADOR--BASIC DATA

Area and population	
Area	20,987 sq. kilometers
Population (mid-1985)	5.1 million
Annual rate of population increase (1980-85)	2.4 percent
Unemployment rate	30 percent
GDP (1984)	SDR 3,947 million
	US$4,046 million
	¢ 11,410 million
GDP per capita (1984)	SDR 774

	1982	1983	1984	Est. 1985
Origin of GDP at current prices		(percent)		
Agriculture	23	21	21	19
Manufacturing	15	16	16	16
Construction	3	3	3	3
Transportation and communications	4	4	4	4
Government	12	11	11	10
Commerce	24	25	26	28
Other services	19	20	19	20
Ratios to GDP				
Exports of goods and nonfactor services	25.3	24.2	22.1	20.7
Imports of goods and nonfactor services	30.5	29.0	25.8	28.8
Current account of the balance of payments	-2.6	-1.0	-2.3	-1.3
Central government revenues and grants	15.2	15.9	16.9	15.8
Central government expenditures	21.0	19.7	19.8	19.6
Central government savings	-4.3	-2.2	-1.9	-1.3
Central government overall surplus or deficit (-)	-5.8	-3.8	-2.9	-3.8
External public debt (end of year) 1/	34.0	39.4	38.3	39.2
Gross national savings	7.9	8.6	6.5	5.1
Gross domestic investment	13.7	13.9	13.4	13.3
Liabilities to private sector (end of year)	38.8	37.5	38.8	38.3
Annual changes in selected indicators				
Real GDP	-5.6	0.8	1.5	1.6
GDP at current prices	3.7	12.6	13.1	22.0
Domestic expenditures (at current prices)	2.9	12.1	15.1	23.6
Investment	-3.9	14.5	8.7	21.2
Consumption	3.9	11.7	16.0	23.9
GDP deflator	9.9	11.7	11.4	20.1
Consumer prices (annual averages)	11.7	13.1	11.7	22.5
Central government revenues and grants	18.4	17.8	20.1	14.2
Central government expenditures	-0.3	5.2	13.7	20.9
Liabilities to private sector 2/	12.3	8.9	17.0	20.4
Money	7.3	-3.2	18.7	23.4
Quasi-money	16.3	17.7	16.0	18.5
Net domestic assets of the banking system 2/	16.9	4.3	14.7	24.5
Credit to public sector	4.7	0.8	3.0	9.2
Credit to private sector 3/	5.7	4.9	9.8	17.9
Merchandise exports (in U.S. dollars)	-12.3	5.1	-1.3	-1.8
Merchandise imports (in U.S. dollars)	-13.0	4.1	9.6	7.7

	1982	1983	1984	Est. 1985
Central government finances		(millions of colones)		
Revenues and grants	1,364	1,606	1,929	2,203
Expenditures	1,888	1,986	2,258	2,730
Current account surplus or deficit (-)	-384	-222	-217	-186
Overall surplus or deficit (-)	-524	-380	-329	-527
External financing (net)	233	280	194	197
Internal financing (net)	291	100	135	330
Balance of payments		(millions of U.S. dollars)		
Merchandise exports (f.o.b.)	700	735	726	713
Merchandise imports (c.i.f.)	-857	-892	-977	-1,053
Investment income (net)	-119	-131	-144	-158
Other services and transfers (net)	188	251	302	441
Balance on current and transfer accounts	-88	-37	-93	-57
Official capital (net)	120	149	89	83
Financial system capital (net)	92	25	-36	17
Private capital (net) and errors and omissions	-127	-47	-13	-43
Overall balance (deficit -)	-3	90	-53	--
Change in net official international reserves (increase -) 4/	-17	-70	10	...
Net change in arrears (reduction -) 5/	20	-20	43	...

	Dec.31 1983	June 30 1984	Dec.31 1984	June 30 1985
International reserve position		(millions of SDRs)		
Central Reserve Bank (gross)	154.9	134.2	170.0	187.1
Central Reserve Bank (net)	-55.6	-61.5	-30.0	14.0
Rest of banking system (net)	37.1	48.8	40.5	67.0

1/ Medium and long term.

2/ In relation to the stock of liabilities to the private sector (including liabilities to nonmonetary financial institutions) at the beginning of the period. Excludes contra-entry of SDR allocations.

3/ Including credit to nonmonetary financial institutions, INCAFE and INAZUCAR.

4/ For balance of payments purposes, excludes the effect of conversion of short-term liabilities to medium term (US$16.7 million in 1982, US$94 million in 1983, and US$38.8 million in 1984).

5/ Net of refinancing through government dollar bonds (US$24.9 million in 1982, US$ 12.8 million in 1983 and US$1.4 million in 1984).

El Salvador - Statistical Issues

1. Outstanding Statistical Issues

a. Prices.

The base year for the wholesale price index has recently been changed to 1978 and the new data are being introduced in the September 1985 issue of IFS.

b. Government Finance

The 1984 GFS Yearbook will includes data for the budgetary central government through 1984. However, due to inconsistencies in the reported debt data, the Yearbook will not include data on financing by type of debt holder or by type of debt instrument. There is a need to expand the coverage of data in the statistical and derivation tables by including data for all extrabudgetary units and social security funds. Partial data for local governments have been reported only for 1978.

c. Monetary Accounts

The Central Reserve Bank has initiated the collection of data needed to introduce an IFS section on nonmonetary financial institutions.

d. External Trade

The authorities recognize the need to improve the currentness and quality of the existing trade indices, which are based on outdated weights (base 1965=100).

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for El Salvador in the November 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Reserve Bank of El Salvador, which during the past year have been provided on an irregular basis, especially with regard to monetary data.

Status of IFS Data

		Latest Data in November 1985 IFS
Real Sector	- National Accounts	1984
	- Prices	June 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	June 1985
	- Financing	June 1985
	- Debt	June 1985
Monetary Accounts	- Central Bank	October 1984 1/
	- Deposit Money Banks	October 1984 1/
	- Other Financial Institutions	n.a.
External Sector	- Merchandise Trade: Values	April 1984
	- Prices	1983
	- Balance of Payments	1983
	- International Reserves	September 1985
	- Exchange Rates	September 1985

1/ Data through August 1985 have just been received and will be published in the next issue of IFS.

El Salvador: Relations with the World Bank Group

1. Financial Relations:

(In millions of U.S. dollars)

I. IBRD/IDA/IFC Operations (as of August 31, 1985)1/

	Disbursed	Undisbursed
1. IBRD/IDA loans		
Education	31.6	21.0
Power	96.9	--
Urban development	21.1	0.1
Transport	28.5	--
Telecommunications	39.1	2.3
Total	217.2	23.4
Of which: repaid	74.9	--
outstanding	142.3	--
2. IFC investments	0.8	--

II. IBRD/IDA Loan Disbursements 2/

	1981	1982	1983	1984	1985
Net disbursements	11.3	7.6	5.9	0.3	6.8
Gross disbursements	15.5	11.6	10.8	6.8	13.0
Amortization	4.2	4.0	4.9	6.5	6.2

Source: IBRD.

1/ Net of cancellations.
2/ Disbursement and amortization data are by fiscal year (July 1-June 30).

2. Recent IBRD technical assistance:

None.

3. Recent economic and sector missions:

An IBRD mission visited San Salvador in June-July 1985 to assess El Salvador's creditworthiness.