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El Salvador: Recent Economic Developments

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INTERNATIONAL MONETARY FUND

EL SALVADOR

Recent Economic Developments

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El Salvador: Basic Data

Social and demographic indicators

Area	21,040 sq. km.
Population density	275 per sq. km.
Population (1997)	5.9 million
Rate of population growth (1997)	2.1 percent
Life expectancy at birth (years; 1994)	67.7
Male	64.1
Female	71.4
Infant mortality rate (aged under 1; 1994)	38 per thousand
Population per physician (1990-95)	1165
Population per hospital bed (1990-95)	625
Population with access to safe water (1996)	62 percent
Child malnutrition (1990)	50 percent
Primary school enrollment rate (1995)	79 percent
Adult literacy rate (1995)	79 percent
Unemployment rate (1997)	7.8 percent
Poverty (in percent of households; 1995)	47.5
Absolute	18.2
Relative	29.3

GDP (1997)	**US$11,441 million**
	C 100,112 million
GDP per capita (1997)	US$1,936

	1993	1994	1995	1996	Prel. 1997
Origin of GDP at current prices			(percent)		
Agriculture	14	14	14	13	13
Manufacturing	22	22	21	21	20
Construction	4	5	4	4	4
Utilities	1	1	1	2	2
Commerce and services	28	28	28	28	28
Government	6	6	6	7	6
Transport, storage, and communications	8	7	7	7	8
Finance	3	3	3	3	3
Other	14	14	15	15	15
Ratios to GDP					
Exports of goods and nonfactor services	15.3	14.5	16.5	15.9	17.5
Imports of goods and nonfactor services	28.2	27.3	32.8	28.4	28.3
External current account (excluding official transfers)	-4.4	-3.7	-4.8	-2.2	-1.1
Central government revenues and grants	13.3	13.5	13.7	12.5	12.2
Central government expenditure	14.6	14.2	14.3	15.5	13.4
Central government savings (before grants)	-0.2	0.3	1.8	0.0	0.7
Central government overall balance (before grants)	-3.4	-2.1	-1.4	-2.2	-1.4
External public debt (end of year)	27.4	25.5	23.7	24.4	24.4
Gross national savings	14.3	16.1	15.5	14.0	15.1
Gross domestic investment	15.4	19.7	20.3	16.2	16.2
Liabilities to private sector (end of year)	37.8	39.3	38.5	40.0	42.3
Annual percentage changes of selected indicators					
Real GDP	7.4	6.0	6.3	2.1	3.8
GDP at current prices	21.4	17.2	17.6	9.4	10.0
Domestic expenditure (at current prices)	19.5	17.3	18.9	6.0	8.2
Investment	22.0	18.2	21.2	-12.7	10.0
Consumption	19.0	17.7	18.4	9.9	7.8
Domestic expenditure (at constant prices)	5.9	6.2	7.5	-1.1	2.1
GDP deflator	12.8	10.5	10.6	7.2	6.0
Consumer prices (annual average)	18.5	10.6	10.1	9.8	4.6
Central government revenue and grants	24.3	18.9	20.1	-0.4	7.1
Central government expenditure	9.0	14.2	18.2	18.5	-5.1

	1993	1994	1995	1996	Prel. 1997
			(percent)		
Liabilities to private sector 1/	32.6	18.3	12.7	17.3	12.3
Money 1/	3.5	2.4	1.0	3.6	-0.4
Quasi-money 1/	28.5	14.3	9.5	9.9	9.0
Domestic credit 1/	17.4	17.5	16.5	14.4	8.0
Of which:					
Credit to nonfinancial public sector 1/	1.0	-4.0	-2.2	0.7	-0.4
Credit to private sector 1/	19.4	16.3	23.3	13.1	15.5
Merchandise exports (f.o.b. in U. S. dollars) 2/	22.5	11.9	22.4	2.0	29.4
Merchandise imports (f.o.b. in U. S. dollars) 2/	13.3	17.0	26.7	-6.4	10.4
Real effective exchange rate (depreciation -)					
Average	12.6	5.8	4.2	8.1	5.0
Year-end	11.7	1.7	7.7	5.0	4.0
Central government finances			(million of colones)		
Revenue and grants	8,007	9,524	11,437	11,390	12,202
Expenditure (including net lending)	8,808	10,060	11,892	14,090	13,366
Current savings (before grants)	-95	228	1,491	10	718
Overall balance (before grants)	-2,025	-1,519	-1,134	-2,004	-1,362
Foreign grants	1,224	983	679	162	199
External financing (net)	1,006	1,253	998	1,965	1,769
Internal financing (net)	-205	-717	-543	-123	-605
Balance of payments			(millions of U.S. dollars)		
Current account balance	-304	-302	-454	-229	-124
Merchandise trade 3/	-1,113	-1,324	-1,675	-1,432	-1,342
Exports (f.o.b.) 3/	1,032	1,250	1,651	1,790	2,359
Imports (f.o.b.)	-2,145	-2,575	-3,326	-3,222	-3,701
Services (net)	-13	22	26	10	-3
Nonfactor	104	121	122	131	116
Factor	-117	-99	-96	-121	-119
Private transfers (net)	823	1,001	1,195	1,193	1,221
Official transfers (net)	220	284	194	62	50
Capital account	238	161	406	332	436
Public (net)	94	39	164	293	247
Nonfinancial	141	156	126	241	219
Financial	-47	-117	39	52	28
Other 4/	144	122	242	39	189
Overall balance (deficit -)	156	143	147	165	362
Change in international reserves (increase -)	-170	-143	-147	-165	-362
International reserve position			December 31		
Central reserve bank (gross)	675	788	935	1,100	1,462
Central reserve bank (net)	645	788	935	1,100	1,462
Rest of the banking system (net)	3	-73	-252	-210	-289

IMF data (as of December 31, 1997)
Article VIII status
Intervention currency and rate   U.S. dollar at C 8.75 per US$
Quota   SDR 125.6 million
Fund holdings of local currency   SDR 125.6 million
Special Drawing Rights Department
Cummulative SDR allocation   SDR 24.99 million
Net acquisition or utilization (-) of SDRs   0
Holdings of SDRs   SDR 24.99 million

1/ In relation to the stock of financial system liabilities to the private sector at the beginning of the period.
2/ Excluding maquila.
3/ Includes net maquila.
4/ Includes commercial banks and errors and omissions.

I. BACKGROUND

1. After the civil war broke out in 1979, a 12-year period of dramatic disarray resulted from the combination of the destruction of the country's infrastructure at a cost estimated at over US$1.5 billion; the diversion of resources to military uses; and macroeconomic mismanagement, including the nationalization of the financial and export-marketing systems, in the context of an adverse external environment reflected in a decline in the terms of trade and a contraction in the regional market. The public finances deteriorated as a result of a weakening in tax administration, infrequent adjustments in public tariffs, and higher defense expenditure. The external current account deficit (before grants) reached 5 percent of GDP in 1988 from less than 1 percent at the beginning of the 1980s, while domestic investment and savings declined to 13 percent and 8 percent of GDP, respectively. Real GDP fell by 1 percent a year on average in the 1980s and real per capita income dropped by over 20 percent with almost one-half of the population falling below the poverty level.

2. In April 1990, the government and the Farabundo Martí National Liberation Front (FMLN) agreed on a framework for the resolution of the conflict and in January 1992 the Peace Accords of Chapultepec were signed. The accords called for, inter alia, the demobilization of the rebel forces and their reintegration into the social and political mainstream of the country, the resettlement of displaced persons, a sharp reduction of the armed forces, the substitution of the former military police by a new national civil police, the strengthening of the country's democratic institutions, and the rebuilding of the social and physical infrastructure. The challenge of attending to the unsatisfied demands of the participants in the conflict, and the fulfillment of basic needs for large segments of the population for whom social indicators deteriorated sharply during the war, required a commitment to appropriate macroeconomic policies to ensure economic growth and stability, without which the pacification effort would not have been sustainable. The administrations of Presidents Cristiani and Calderón Sol have pursued macroeconomic policies which have facilitated high rates of economic growth and a reduction of inflation, while embarking on a process of accelerated structural reforms and poverty reduction.

3. By end-1996, most of the commitments under the peace agreements had been complied with, and the expenditure associated with the required institutional reform incorporated into the budget. At the same time, the government implemented comprehensive structural reforms comprising (a) a simplification of the tax structure to a system based on a few broad-based taxes; (b) the restructuring and reprivatization of the financial system, including the liberalization of interest rates, elimination of credit controls and the revision of the legal framework encompassing new laws for the central bank, banks and financial institutions, and a new charter for the superintendency of financial institutions; (c) the acceleration of trade reform including the simplification and sharp reduction of tariff levels and the elimination of nontariff barriers; (d) poverty alleviation programs and the development of a social safety net based on the development of community projects supported by the Social Investment Fund (FIS), and more effective social expenditure with emphasis on community school programs (EDUCO) to expand coverage and quality of pre-primary and primary education in the

poorest areas through community participation; and (e) significant advances in the modernization of the public sector.

4. The process of accelerated reform has facilitated the gradual reincorporation of El Salvador into the world economy, allowing it to benefit from increasing access to inter-national capital markets and markets for its exports. This process, added to improved conditions for coffee exports and a sustained inflow of workers' remittances equivalent to more than 10 percent of GDP, has permitted a steady increase in net international reserves to support a monetary regime based on a de facto fixed exchange rate that has facilitated the convergence of domestic inflation to that of the trading partners.

5. Initial concerns about the sustainability of the ambitious peace process and structural reforms to attain social and financial stability have been followed by questions on how to face the challenges coming from the reinsertion of the country into the global economy, including the economy's ability to generate and sustain improvements in external competitiveness, the capability of the domestic financial sector to facilitate timely and efficient intermediation, and the impact of capital inflows. In summary, the government's policies since 1990 have aimed at implementing structural reforms to increase external competitiveness while attaining financial stability in the context of a fixed exchange rate. An additional challenge has been to ensure that the achievement of peace provides the conditions required to extend the benefits from structural reforms to the majority of the population in terms of growth and opportunities of social ascension.

6. The paper assesses the prospects of the Salvadoran economy in facing the new challenges coming from its reinsertion into the global economy. Section II reviews recent economic developments, focusing on the factors behind the sustainability of macroeconomic stability. Section III describes the evolution of trade competitiveness and evaluates the divergence from equilibrium of the real effective exchange rate; it concludes that the exchange rate behavior in the last decade appears to have followed roughly the path predicted by a long-term equilibrium exchange rate model consistent with a current account deficit of about 2 per-cent of GDP. The large inflows of workers' remittances have contributed to a continuous appreciation of the colón since 1990, and the efforts to sterilize foreign exchange gains have resulted in increased domestic interest rates. Section IV analyzes the factors explaining the behavior of remittances, concluding that prospects for continued growth of these flows at the rates observed over 1990–95 appears to be weak, because of an anticipated slowdown in emigration and the negative impact resulting from the settlement and assimilation of earlier immigrants in the home country. Finally, Section V looks at the role played by structural factors in determining the long-run path of growth, including competitiveness and education, and at the contribution of stability and improved expectations to the adjustment of real GDP to the long-run path. The model predicts an average annual growth rate of 5 percent for 1996–2002, increasing to the long-run path of 6 percent by the end of the decade, with most of the growth explained by investment and an increase in the availability of capital per unit of labor force. An improvement in total factor productivity equivalent to 0.6 percent a year would result from education more than offsetting the impact of the accumulated exchange rate appreciation.

II. RECENT ECONOMIC DEVELOPMENTS

A. Consolidation of Post-War Recovery and Consumption Boom, 1990–1995

7.   From the end of the internal civil strife in 1990 and through 1994, economic growth in El Salvador averaged more than 6 percent a year, fostered by the implementation of adjustment and structural policies which were supported by consecutive stand-by arrangements from the Fund. Inflation was halved to single digit levels, public savings increased and the overall fiscal deficit was reduced sharply, while the external current account (including official transfers) moved to near balance. Private sector investment and savings continued to rise reflecting confidence in the government's commitment to stability and the speed in the implementation of structural reforms.

8.   The strong performance of exports since 1993, together with steady sizable inflows of remittances and official transfers and the historical preference for a fixed exchange rate regime, led the central bank to pursue an exchange rate policy of limiting the variation of the colón with respect to the U.S. dollar to minimize exchange rate risk perception in an effort to foster stability. As domestic inflation continued to exceed that of the trading partners, the colón appreciated further in real effective terms over 1992–94.

9.   The pace of economic activity accelerated further during the first half of 1995 led by an upsurge in private demand for consumer durables, vehicles and real estate that had been repressed during the war. Lower costs of imports, in the context of trade liberalization and the appreciation of the colón also contributed to pent up demand. In addition, the expected increase in the VAT rate (from 10 to 13 percent effected in July 1995), led to an anticipation of consumption in the first half of 1995. The increase in private demand was supported by expanded access to credit from the banking system (including credit cards) in line with the financial liberalization, repatriation of capital and increased access to international capital markets. Financial institutions borrowed abroad the equivalent of 2 percent of GDP to supplement domestic funds because at the same time the rate of growth of broad money decelerated sharply.

10.   These developments resulted in a decline in private savings of almost 2 percentage points of GDP in 1995, and the external current account deteriorated to close to 3 percent of GDP (almost 5 percent excluding official transfers) in spite of a large increase in coffee exports as imports grew by close to 30 percent. At the same time, inflation rose to double digits by year-end reflecting also an adjustment in tariffs on public services, and the impact of bad weather on food prices, and the colón continued to appreciate in real effective terms notwithstanding a depreciation of the U.S. dollar.

11.   The government continued its efforts to stem inflationary pressures and curb private demand, and the public finances strengthened further in 1995. Public savings increased to over 3 percent of GDP while the overall deficit of the public sector declined to less than 1 percent of GDP, reflecting a sharp rise in the tax ratio from measures to strengthen tax administration

as well as the increase in the VAT rate.[1] In addition to the fiscal measures, the central bank tightened monetary policy in the second half of 1995 by raising rates on stabilization bonds by 200–300 basis points to sterilize liquidity and strengthen the international reserve position.

B. Consolidation of Stability and Slowdown of Economic Activity, 1996–1997

12. The tightening of financial policies in the second half of 1995 together with the income effects of a sharp terms of trade loss in 1996, at a time when the private sector was reaching limits in its capacity to borrow, was instrumental in curbing domestic demand growth. Real GDP growth slowed to 2 percent in 1996 reflecting the burst of the consumption bubble and of the end of the construction boom (because of excess supply of high income residential units), and the effect on external competitiveness of adverse external shocks (depreciation of the Mexican peso and appreciation of the U.S. dollar and a general slowdown in activity in El Salvador's trading partners in Central America). At the same time, although decelerating inflation remained high in 1996 reflecting in part the increase in the international prices of cereals and oil. As a result, the colón continued to appreciate in real effective terms, contributing to the erosion in external competitiveness.

13. Private sector investment contracted sharply in 1996, notwithstanding measures taken by the government to improve the environment for private investment, including by increasing government outlays in infrastructure; allowing payment in installments of the VAT for imports of capital goods; eliminating the capital gains tax for assets sold after three years of possession; allowing for accelerated depreciation; and cancellation of debt by 70 percent to the beneficiaries of the agrarian reform and farmers affected by the civil war.

14. Tax revenues were affected by the slowdown in domestic demand and the lower import duties resulting from the liberalization of trade in 1996. Furthermore, large severance payments under a retirement program (12,000 positions); a revision of wage scales in the health and education sectors; increase in the size of the police force to increase security; and larger public investment outlays to compensate for the retraction of private investment contributed to weaken the public finances. As a result, public savings fell from 3.2 percent of GDP in 1995 to 1.8 percent in 1996, with the overall public sector deficit widening to 2.6 percent of GDP.

15. The central bank continued to pursue a prudent monetary policy in 1996. The expansion of credit to the private sector from the financial system slowed to half the rate of increase in 1995, while the rate of growth of private financial savings picked up significantly. As a result, financial institutions repaid short-term external lines of credit and domestic

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[1]Modifications to the Law of "Fiscal Crime" to allow for the application of penalties to tax evaders. Also, the budget authority was centralized in the Ministry of Finance and a new law of financial administration of the government was put in place.

interest rates declined between 280 and 490 basis points despite net placements of central bank stabilization bonds of more than 1 percent of GDP.

16.   The external current account and net international reserves strengthened significantly in 1996, mainly reflecting the sharp slowdown in economic activity and the tighter stance of monetary policy. The external current account deficit in terms of GDP narrowed to less than half that in 1995 despite a stagnation of exports, as the decline in domestic demand resulted in a contraction in imports in 1996. In addition to a decline in coffee prices, the lack of dynamism of exports reflected a slowdown in receipts from nontraditional and maquila exports resulting mainly from increased competition from Mexico following the depreciation of the peso in December 1994, while the colón continued to appreciate in real effective terms.

17.   Led by the industrial, construction and commerce sectors and continued strong growth in the financial sector, the pace of economic activity picked up in the latter part of 1996, strengthening further in 1997 when real GDP grew by 3.8 percent reflecting also a strong rebound in exports. At the same time, inflation dropped to below 2 percent by end-1997 helped by a prudent monetary policy, reversal of international prices of oil and cereals, and the appreciation of the U.S. dollar.

18.   The pick up in the pace of economic activity and efforts to strengthen tax admin-istration failed to impact tax collections accordingly in 1997, in part because of earned income-tax credits on unrealized profits for the 1996 fiscal year. Additionally, an increase in transfers to the private sector under the peace agreements, severance payments to the workers of the telephone company to be privatized in 1998, larger capital outlays by the electricity company, and lower revenues by the Salvadoran Social Security Institute (explained in part by an increase in private sector arrears), more than offset the government's efforts to cut expen-diture and postpone some outlays to 1998. As a result, public savings declined further in 1997 to half the 1995 level, while the overall deficit of the nonfinancial public sector was reduced by about half a percentage point of GDP to 2 percent.

19.   The recovery in economic activity and exports in 1997 led to an acceleration of credit to the private sector, reflecting also some restructuring of loans. The financial system was affected by the spillover effect from the collapse in July of a small financial institution FINSEPRO (1.5 percent of total deposits in the financial system) and INSEPRO, an illegal, parallel institution of about double its size. The government covered fully small depositors at FINSEPRO, and other depositors and FINSEPRO and INSEPRO for a half to three-fourths of their claims through a fund that issued bonds backed by assets from these institutions and guaranteed by the central bank. Also, to protect small financial institutions from the con-sequences of a flight-to-quality reaction by depositors, the central bank established a special line of credit and intervened intensively in the repos market.

20.   The central bank maintained a tight stance of monetary policy in 1997 in response to the pressures on the fiscal front, and in view of the uncertainties generated by the FINSEPRO/INSEPRO incident, while aiming also at sterilizing part of the higher export

proceeds. To achieve the necessary placement of stabilization bonds, the central bank contained the reduction in the interest rates on these bonds to less than 100 basis points through mid-December 1997, significantly less than the deceleration of inflation, and lowered them by an additional 50 to 100 basis points thereafter.[2]

21. Imports recovered in 1997, reflecting in part a replenishment of inventories. However, the external position continued to strengthen in 1997 on account of the resumption of two-digit growth of nontraditional exports, including outside the Central American Common Market (CACM), a large increase in coffee prices, and a strengthening of maquila exports. The behavior of nontraditional exports reflected a recovery in activity in the CACM countries, identification of new market niches, the wearing out of the adverse impact in 1996 of the sharp depreciation of the Mexican peso (which also contributed to the stronger performance of maquila exports), and the use of the external market as an outlet for products for which demand in the domestic market still remained depressed.

22. The sharp deceleration in the rate of inflation to below that of trading partners contributed to slow down the appreciation of the colón in real effective terms in 1997, bringing the cumulative appreciation since January 1993 to 30 percent (Statistical Appendix Table 40). The government expects that the sale of the electricity distribution companies and the privatization of ANTEL, as well as the starting of operations of the private pension funds and efforts of developing production clusters with a view of broadening the export base result in improvements in productivity that contribute to offset in part the adverse impact of the accumulated appreciation of the colón, improving external competitiveness.

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[2]To manage liquidity, the central bank conducts daily auctions of CAMs of several maturities up to one year, with amounts to be auctioned for the week announced the preceding week. It also establishes maximum interest rates and preference factors (to make it possible to compare bids for different maturities) and leaves it up to the market to choose the amounts that it is prepared to invest at each maturity. However, it reserves the right to reject bids or to void the auction when the resulting rate exceeds the anticipated rate, and to place amounts well in excess of the placement offered.

III. TRADE COMPETITIVENESS[3]

A. Introduction

23.   The fixed exchange rate policy pursued by El Salvador since the beginning of the 1990s has been accompanied by a sharp deterioration in trade competitiveness measured in terms of the real effective exchange rate. This section reviews El Salvador's trade perform- ance over 1970–96 in order to assess the factors behind the real effective exchange rate appreciation, and to ascertain whether the movements in the exchange rate have been consistent with a long-run equilibrium rate.

24.   The main conclusions are that: (a) the trade performance measured in relation to the other developing countries in the Western Hemisphere has not fully recovered after the deterioration caused by the civil war in the 1980s; (b) the trade deficits that arose in the 1990s were financed to a large extent by private remittances and other net transfers; (c) tests for cointegration suggest that the appreciation of El Salvador's real exchange rate is broadly consistent with the long-run equilibrium exchange rate; and (d) in recent years, the large appreciation of the real exchange rate together with a slowdown in the growth rate of remittances had caused an (short-term) overvaluation of 10–15 percent at end-1996.

B. Trade Flows 1970–96

25.   In the 1970s, El Salvador experienced a relatively stable macroeconomic environment with high rates of growth of real GDP and an expansion in trade flows with industrial countries as well as countries participating in the Central American Common Market (CACM). After the civil war broke out in 1979, the economic situation deteriorated drastically. A recovery was not initiated until 1990, when the peace negotiations began and resulted in the signing of the peace accords in 1992. In the years that followed the peace agreements, the reconstruction of infrastructure together with important structural reforms—including privatization, reduction of import duties and elimination of nontariff barriers—led to a pickup in economic activity which was accompanied by an expansion in trade. This expansion in trade is analyzed relative to the trade levels before the civil war and the trade flows of other countries in the region. The trade performance during 1970–96 is shown in Table 1 and Figure 1.

Exports

26.   During most of the 1970s, exports of goods and nonfactor services grew between 20 to 40 percent a year with the large fluctuations in the rates mainly reflecting changes in coffee volumes and/or prices. The impact of the civil war and a worldwide slowdown in economic activity contributed to a major deterioration in export performance after 1979,

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[3]Prepared by Jan Mikkelsen.

Table 1. El Salvador: Exports and Imports of Goods

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
															(In millions of US dollars)												
Exports to:																											
World	236	246	302	359	463	546	721	924	845	1,132	1,070	797	699	741	718	679	735	591	672	498	586	588	598	737	821	1,005	1,024
Industrial countries	147	144	171	227	280	403	493	726	551	820	710	557	501	509	507	552	619	451	535	315	379	353	278	363	412	509	..
Developing countries	75	86	97	120	154	127	201	237	255	286	308	229	188	217	182	119	106	138	135	182	205	231	299	366	415	476	..
Western Hemisphere	75	84	96	118	153	122	200	225	244	278	306	222	181	190	179	116	103	137	133	182	203	228	299	357	415	476	..
CACM countries	74	81	94	113	147	113	176	216	234	264	297	205	167	168	157	95	89	119	125	161	175	197	258	310	341	420	..
Imports from:																											
World	214	248	278	371	564	605	718	945	1,032	1,040	971	981	857	892	977	961	912	994	1,152	1,161	1,277	1,407	1,699	1,953	2,252	2,853	2,671
Industrial countries	138	159	174	236	350	378	438	569	626	570	348	460	467	454	490	501	526	564	749	705	784	810	989	1,173	1,338	1,526	..
Developing countries	74	88	102	133	204	222	272	368	400	457	611	437	386	434	476	447	333	387	348	406	447	530	673	731	826	1,200	..
Western Hemisphere	73	87	101	132	203	216	264	359	386	448	608	432	374	422	464	431	322	369	312	389	424	506	632	663	810	1,057	..
CACM countries	61	64	75	92	117	137	171	211	240	257	330	305	253	234	255	217	162	181	178	202	208	230	305	327	399	490	..
															(In billions of US dollars)												
Memorandum items:																											
World exports	283	315	375	523	767	791	916	1,044	1,203	1,526	1,867	1,833	1,702	1,676	1,781	1,803	1,974	2,342	2,684	2,964	3,384	3,485	3,752	3,719	4,196	4,959	5,130
Developing countries exports	54	59	70	106	211	200	275	316	333	457	608	592	524	527	557	534	498	608	700	836	937	984	1,102	1,159	1,354	1,641	1,726
Western Hemisphere exports	16	16	19	27	44	42	48	56	58	78	101	106	93	99	107	99	80	91	105	116	131	128	152	162	189	227	253
CACM countries exports	1	1	1	2	2	2	3	4	4	5	4	4	4	4	4	3	3	4	4	4	4	4	5	6	7	10	..
World import	297	332	389	536	786	816	931	1,071	1,246	1,568	1,927	1,907	1,797	1,734	1,844	1,886	2,053	2,410	2,762	3,074	3,495	3,599	3,865	3,763	4,293	5,114	5,340
Developing countries imports	56	63	71	98	163	190	243	291	344	410	538	588	558	516	518	508	503	581	695	836	927	1,007	1,163	1,247	1,421	1,749	1,856
Western Hemisphere imports	18	20	22	29	52	55	55	60	65	87	115	121	102	72	76	73	72	83	93	100	113	132	173	192	223	257	285
CACM countries imports	1	1	1	1	3	3	3	4	5	5	6	6	5	4	4	5	4	6	6	6	7	7	9	10	11	14	..

Sources: Central Reserve Bank; and Direction of Trade, IMF Statistics.

Figure 1. El Salvador: Exports (Imports) of Goods and Nonfactor Services

In percent of export (imports) of goods and nonfactor services from (to)
the developing countries in the Western Hemisphere
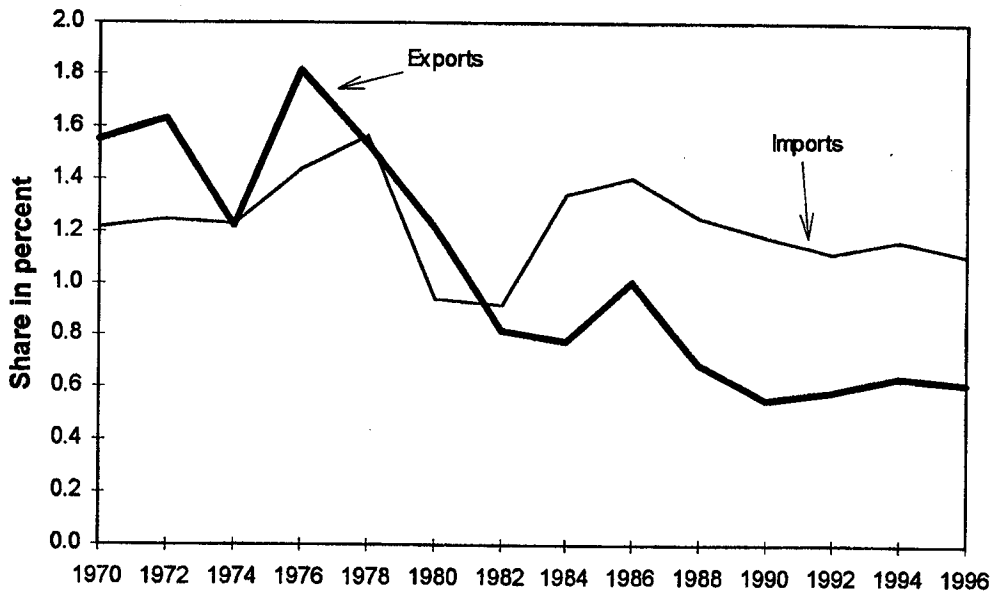
In percent of exports (imports) of goods and nonfactor services
from (to) the CACM countries
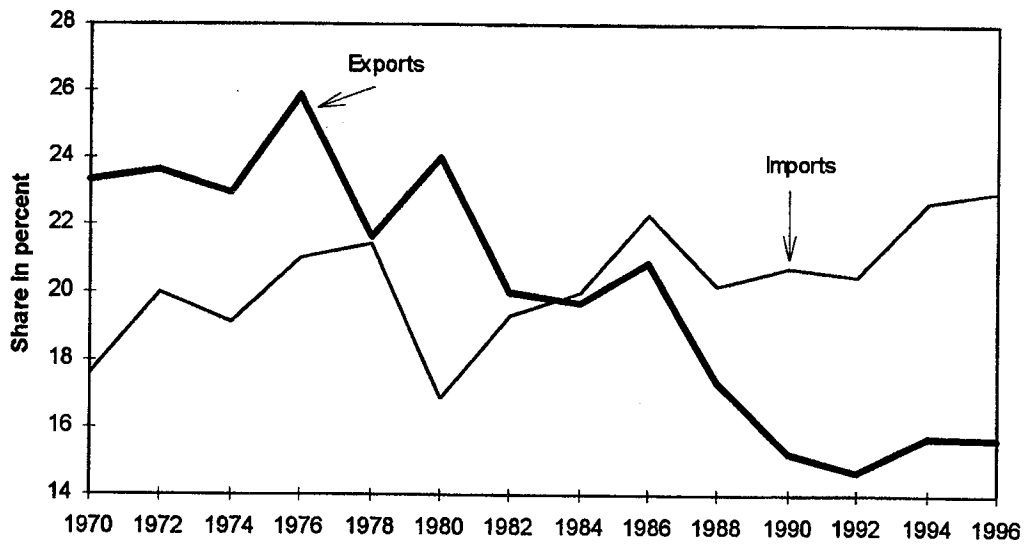
which remained weak through 1989 when the value of exports of goods and nonfactor services was 45 percent below the level attained just before the war. As a result, El Salvador's share of total exports from the developing countries in the Western Hemisphere declined from around 1.5 percent in the 1970s to 0.9 percent in the early 1980s, and to 0.6 percent by the end of the 1980s. Also, compared with total exports from the CACM countries (El Salvador, Costa Rica, Guatemala, Honduras and Nicaragua), El Salvador's share fell from about 24 percent in the 1970s to 15 percent by the end of the 1980s. After the peace process started in 1990, the export performance recovered somewhat, but despite an average annual growth rate of 11 percent during the first half of the 1990s, resulting mainly from a strong pickup in exports of nontraditional goods and maquila, El Salvador's share in the exports from the developing countries in the Western Hemisphere and that from the CACM countries remained at 0.6 percent and 15 percent, respectively.

Imports

27.   With the increase in oil prices as a contributing factor, El Salvador's imports of goods and nonfactor services grew at a fast pace during most of the 1970s, averaging 22 percent a year over 1970–78. With the sharp decrease of economic activity and the reduction in export earnings in the early 1980s, imports dropped significantly, and as a result El Salvador's share of total imports to the developing countries in the Western Hemisphere fell from close to 1.5 percent in the 1970s to 0.9 percent in 1980–82, while the share of imports to the CACM countries declined from 20 percent to 17.9 percent over that period. The recovery of imports began a few years earlier than for exports and, together with the start of the debt crisis, which had much less of an impact for El Salvador than for many other countries in the Western Hemisphere, contributed to an increase in El Salvador's share of total imports to the developing countries in the Western Hemisphere to around 1.5 percent in 1983–85, while the share of imports to the CACM countries rose to about 21 percent.

28.   In all, the trade account for goods and nonfactor services deteriorated sharply during the 1980s from around balance in the 1970s to a deficit of about 13 percent of GDP at the end of the 1980s, and further to 15 percent of GDP in the first half of the 1990s.

C. Reasons Behind the Deterioration of the Trade Position

29.   Two explanations for the weakening of the trade account over the 1970–96 period were explored: (a) a deterioration of competitiveness stemming from a de facto fixed exchange rate pursued during most of the period; and (b) the effect on the equilibrium exchange rate and competitiveness of a large inflow of workers' remittances from Salvadorans that emigrated because of the civil war. Although both a fixed exchange rate and remittances affect the trade position through an appreciation of the exchange rate and a deterioration in competitiveness, their nature is very different. When a fixed exchange rate policy causes an overvaluation of the rate, it is a policy decision that interferes with the market forces that creates the problem, while a larger inflow of remittances deteriorates competitiveness through a market reaction that brings the trade account in line with the supply and demand of foreign

exchange. Therefore, the exchange rate would be overvalued in the first case but would reflect a market equilibrium in the second case.

30.   The importance of remittances in El Salvador is illustrated in Figure 2 where the external current account has been separated into two components: the value of total net imports of goods and services and total net transfers. The remittances and other net transfers increased from almost nil in the 1970s to 12 to 15 percent of GDP in the 1990s. The external current account fluctuated around a balanced position in the 1970s and 1980s, but since the end of the 1980s remittances have been lagging behind the increase in net imports of goods and services, resulting in a external current account deficit of 2 to 3 percent of GDP a year.

Indicators of trade competitiveness

31.   One of the most commonly used indicators of trade competitiveness is the real effective exchange rate, defined as the ratio between the price level in the home country and a trade weighted price level for its trading partners measured in a common currency. The real effective exchange rate based on consumer price indices for 1970–96 is shown in Figure 3. Over this period the real effective exchange rate appreciated by about 130 percent with most of the appreciation occurring in the first half of the 1980s and of the 1990s. In both periods, the appreciation occurred in the context of stable nominal effective exchange rates and increasing relative prices. Following 15 years of being fixed at 2.5 colones per U.S. dollar, the exchange rate was devalued to 5 colones per U.S. dollar in 1986, about the same level as the parallel market rate at that time. Rapid domestic price increases in 1986–89 caused the parallel market premium to rise substantially over this period, and in order to ease the pressure on the colón, a more market related exchange rate was established for certain (interbank) foreign exchange transactions. By end-1989 the exchange rate was unified for all transactions at 6.5 colones per U.S. dollar. In 1990, the exchange rate was devalued further to 8 colones per U.S. dollar and all remaining restrictions on exchange and trade transactions were lifted. Since January 1993, the exchange rate has been de facto pegged to the U.S. dollar at 8.75 colones, with the central bank buying or selling as required to maintain the parity.

32.   The real effective exchange rate calculated using consumer prices is not an appropriate measure of trade competitiveness when changes in relative prices are explained by product-ivity differentials between the home country and the trading partners. One way to correct for this bias is to compute the real effective exchange rate using unit labor costs (ULC) instead of consumer prices. For six major trading partners (United States, Japan, Germany, France, United Kingdom, and Mexico) estimates of ULCs in the manufacturing (export) sector have been used to compute a real effective exchange rate for El Salvador for 1986–96 (see Figure 3). The main conclusion is that the real appreciation in the 1990s is about 40 percent, the same as indicated by the real exchange rate based on the CPIs indicating that there were no significant improvements in productivity over this period. This conclusion is supported by the findings discussed below in Section V.

Figure 2. El Salvador: Components of the Current Account
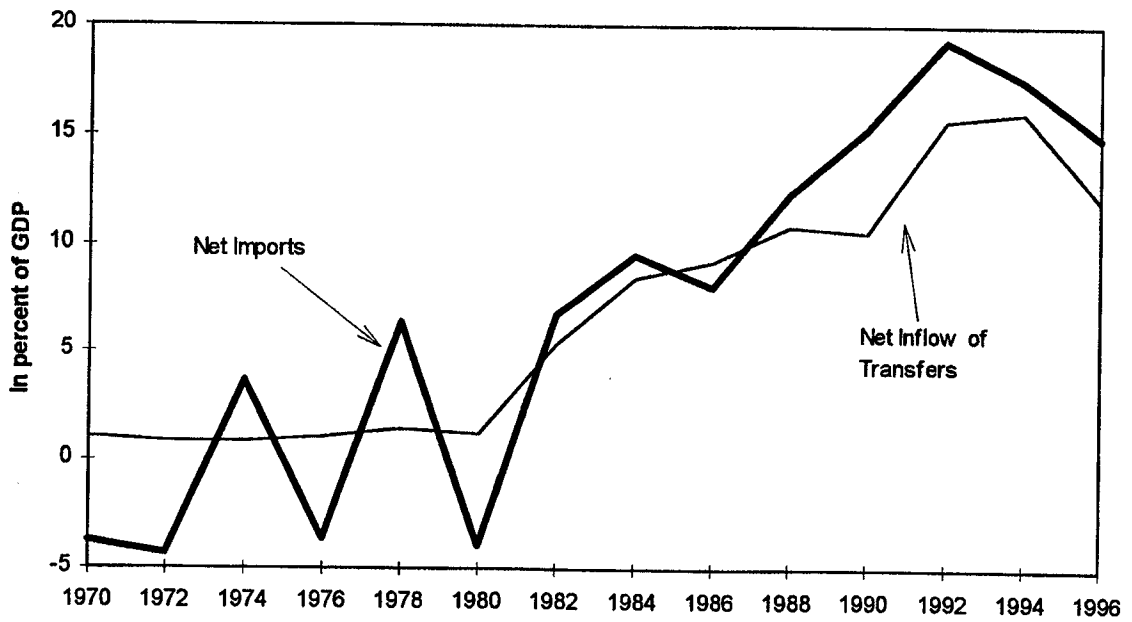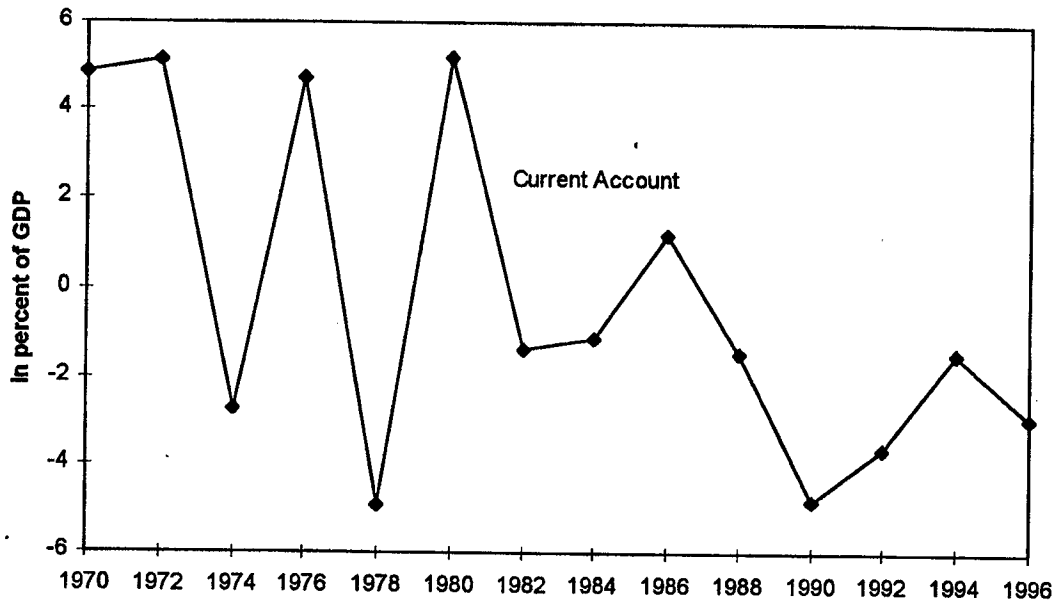
Figure 3. El Salvador: Effective Exchange Rates

Based on CPIs

Annual averages, 1970-1996
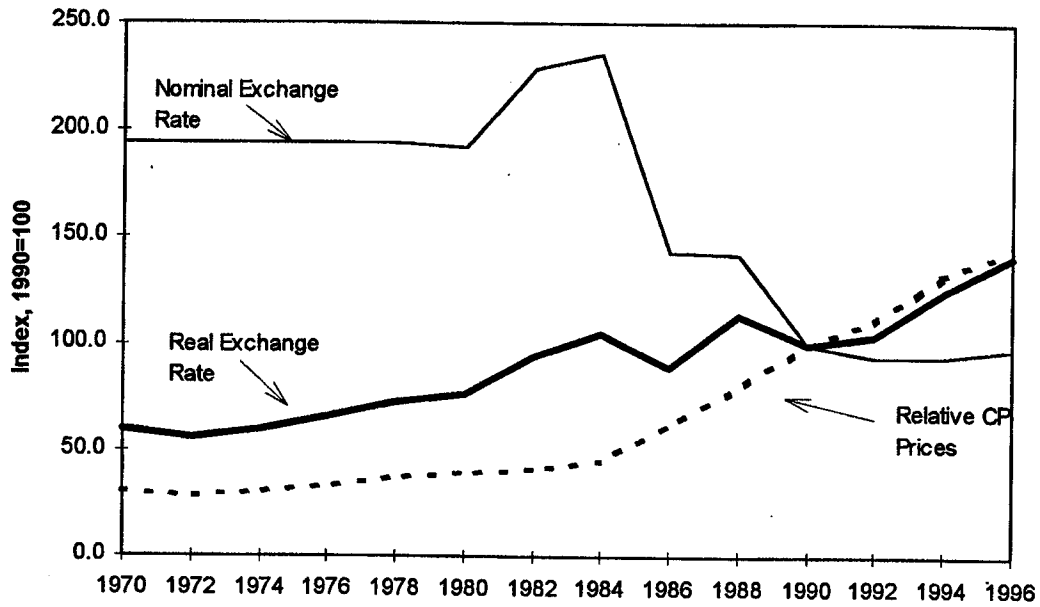
Based on CPIs and ULCs

Annual averages, 1986-1996
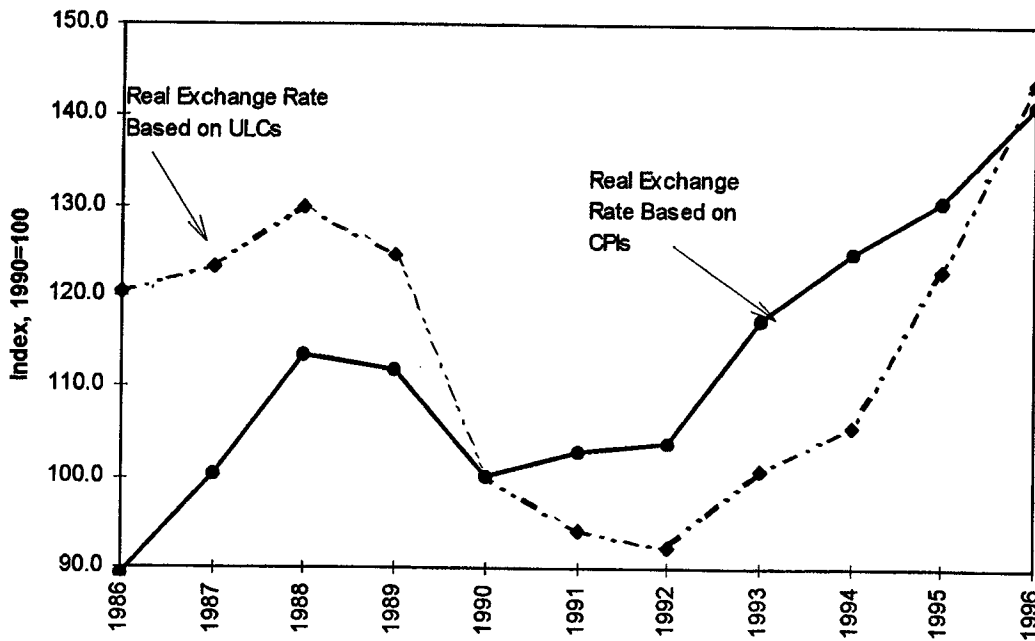
Estimation of the long-run equilibrium exchange rate

33.   To differentiate the changes in the real effective exchange rate resulting from the peg to the U.S. dollar from those caused by the inflow of remittances, the long-run equilibrium exchange rate is estimated below. If a stable equilibrium exists, observed differences between the actual exchange rate and the equilibrium rate reflect rigidities in the adjustment process to equilibrium, and a pegged exchange rate could be an important factor for such lack of adjust-ment, particularly in periods when the adjustment process is unusually long. In the following, the long-run equilibrium exchange rate is defined as the rate which results in a balanced external current account. This definition of long-run equilibrium is not necessarily the same as the theoretical equilibrium obtained from intertemporal optimization. In fact, for developing countries the long-run equilibrium often implies a deficit in the external current account because the cost of increasing domestic savings is high compared to the cost of financing part of domestic investment with external savings. However, in order not to make an a priori judgement on the size of the external current account deficit which is sustainable for El Salvador in the long run, the estimations were based on the assumption of an external current account in balance so as to measure only the effect of remittances and other transfers on the long-run equilibrium exchange rate. The current account is defined as

$$CAB = X - M + R \qquad (1)$$

where X is the value of exports of goods and services, M is the value of imports of goods and services, and R is remittances and other net inflow of transfers. It is assumed that CAB=0 in the long run, and by defining net imports in terms of gross imports as $m=\ln((M-X)/M)$ and remittances in terms of gross imports as $r = \ln(R/M)$, (1) can be expressed as:

$$m - r = 0 \qquad r>0 \qquad (2)$$

Net imports are assumed to be determined by the following long-run relationship defined in logs:

$$m = a_0 + a_1(e+p-p^*) + a_2 y - \epsilon \qquad a_1>0 \qquad (3)$$

where e is the nominal effective exchange rate (an increase indicates appreciation); p^* is the trade weighted average of foreign price levels; p is the domestic price level; y is the ratio between real domestic disposable income and an index approximating the real GDP of the world; and ϵ is a stationary residual. An appreciation of the real effective exchange rate, $(e+p-p^*)$, is expected to be associated with an increase of net imports $(a_1>0)$, and an increase in y could either increase or decrease net imports in the long run. An increase in income is expected to be associated with higher net imports in the short-run, but the external position could improve in the long run if long-run growth originates primarily in the export sector. By inserting (3) in (2), the long-run equilibrium nominal effective exchange rate can be defined as:

$$\overset{+ \qquad +/- \qquad +/-}{e = -(p\text{-}p^*) + (1/a_1)r - (a_2/a_1)y - (a_0/a_1) + \epsilon} \qquad (4)$$

This equation can be viewed as an extension of the purchasing power parity (PPP) hypothesis where changes in the nominal exchange rate match changes in the relative price between the home and the foreign economy in the long run. According to (Figure 4), in addition to changes in relative prices, the nominal exchange rate in the long run would tend to move in the same direction as the remittances term, r, and either positively or negatively with the ratio between home and foreign income.

34.   To test whether this relationship can be accepted as representing long-run equilibrium, a test of cointegration between the variables in (4) is carried out in Table 2. The test of cointegration is a test of the existence of a cointegrating vector (i.e., the coefficients in (4)) that reduce the residual ϵ to a stationary process. In the first column of Table 1, the traditional PPP equation is tested for the period 1970–96, and it is confirmed that the PPP exchange rate cannot be accepted as a valid equilibrium since cointegration is rejected, and furthermore the estimated coefficient of the relative price term is far from the expected value of minus one. In the second column, the same relation was tested for the period 1979–96, i.e., excluding most of the period when the exchange rate was fixed at 2.5 colones per U.S. dollar, and again the PPP exchange rate equilibrium is clearly rejected.

35.   In columns 3 and 4, cointegration between all variables in (4) is tested during 1970–96 and 1979–96, respectively. In both samples cointegration is accepted; however, the estimates for the period 1979–96 appear to fit the data better as cointegration is more clearly accepted and the relative price coefficient is closer to the expected minus one.[4] The estimates show that remittances are associated with an appreciating nominal effective exchange rate, and that higher domestic real income relative to world GDP tends to appreciate the exchange rate as well. According to Figure 4, which shows the actual and projected long-term nominal effective exchange rates as well as the difference between the two rates, the stepwise devaluation policy during the 1980s kept the exchange rate in line with the equilibrium rate. Also, following the 1989 devaluation El Salvador appears to have come out of the war period with an exchange rate close to equilibrium, but the expansion of real GDP and continued growth in remittances caused some undervaluation immediately after the war. Since 1993, however, persistent higher inflation rates than in the trading partners and a lower growth rate of remittances have resulted in a depreciation of the equilibrium nominal effective exchange rate, and by end-1996 El Salvador's exchange rate is estimated to have been overvalued by about 15 percent.

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[4]A coefficient somewhat different from minus one may stem from the existence of trends in the measurement error or in the relative prices between traded and nontraded goods and services. See MacDonald (1995); and Patel (1990).

Table 2. El Salvador: Estimates of Equilibrium Exchange Rates

Variable	Cointegrating relation for the nominal exchange rate			
	(1)	(2)	(3)	(4)
$(p-p^*)$	-0.58 (0.07)	-0.68 (0.11)	-1.16 (0.39)	-1.09 (0.03)
r	-	-	0.57 (0.12)	0.42 (0.03)
y	-	-	2.26 (0.65)	0.98 (0.15)
Constant	-4.71	-4.72	-7.15	-5.98
Johansen test for cointegration: 1/				
Test statistic	6.6	8.4	52.8	68.4
Critical value (5 pct.)	15.4	15.4	47.2	47.2
Critical value (1 pct.)	20.0	20.0	54.5	54.5
Sample period	1970–96	1979–96	1970–96	1979–96

Sources: The Central Reserve Bank; *International Financial Statistics*, IMF; and Fund staff estimates.

1/ Testing for the existence of at least one cointegrating relationship between the variables involved. See Johansen (1991). All the variables have been found to be integrated of order one, which must be true for the cointegration test to be valid.

Figure 4. El Salvador: Actual and Long-Term Nominal Exchange Rates
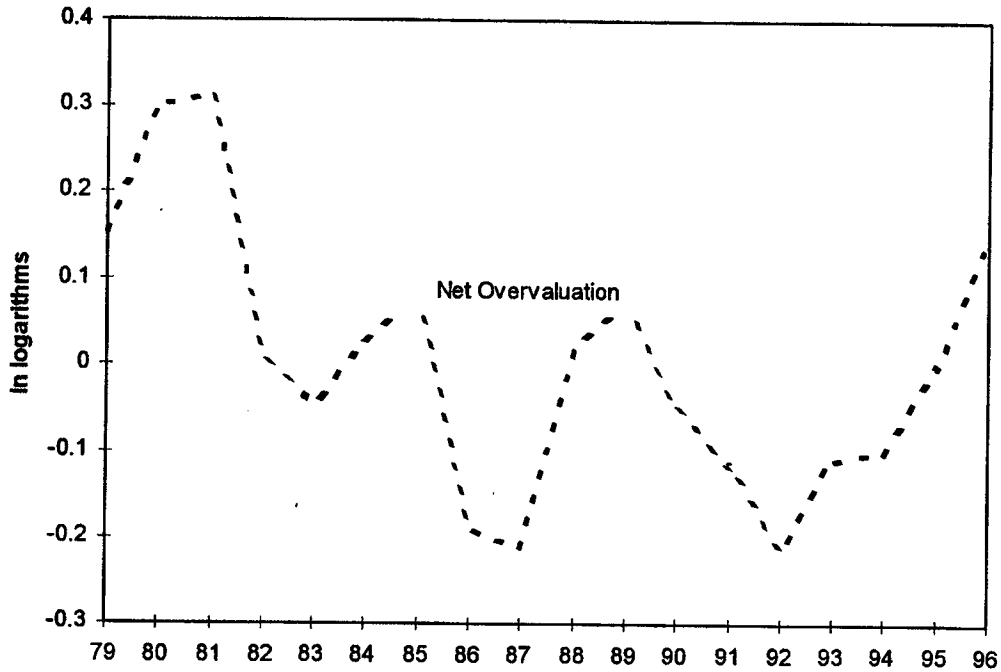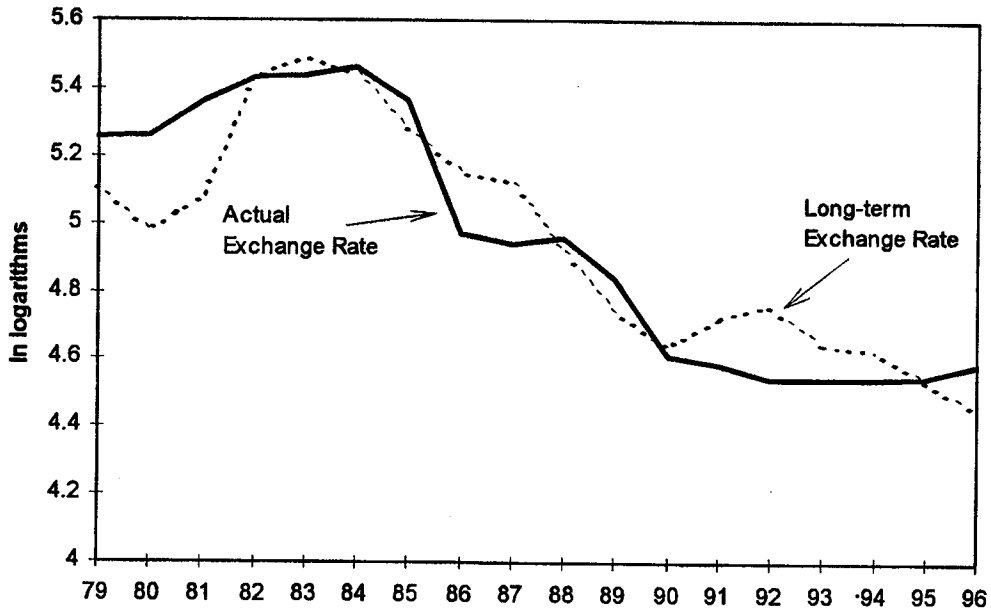
36.   However, this overvaluation of the exchange rate assumes an external current account in equilibrium in the long run as noted above. Net inflows of capital of 2 to 3 percent of GDP a year appear to be sustainable in the case of El Salvador, mainly reflecting project financing from multilateral institutions. These reflect financing to support the reconstruction activities as well as for social and physical infrastructure. If the long-run sustainable current account deficit is assumed to be 2 percent of GDP from 1990 onwards, the equilibrium nominal exchange rate would have been more appreciated, and the overvaluation at end-1996 would consequently be lower than 15 percent.[5] The new equilibrium exchange rate can be approximated by adjusting the remittances term, r, in (5) by an amount equal to 2 percent of GDP.[6] The adjustment implies that r on average increases by 0.13 for 1990–96, and by applying the estimated coefficient for r (Table 2, column (4)), the effect on the long-run equilibrium nominal effective exchange rate is an increase of 5 percent. As a result, the estimated exchange rate overvaluation at end-1996 would be 10 percent.

37.   The long-run equilibrium exchange rate depends on the stability of remittances. Since it is most likely that remittances would fall gradually to a much lower level over the next decade, some pressure for depreciation is likely to develop over that period (see Section IV below). According to the estimates presented above, a 10 percent decrease in remittances would depreciate the equilibrium nominal exchange rate by about 4 percent.

38.   The conclusions drawn from the analysis above hinge on information for a relatively short period of time which includes several important structural changes that are not explicitly taken into account, such as the civil war, changes in the exchange rate regime and in trade restrictions, and the liberalization efforts in the 1990s. However, it could be argued also that because the tests carried out above are statistically significant despite these structural changes, the results are stronger than if the tests were significant under normal circumstances.

D.   Conclusions

39.   In summary, by introducing private remittances into the traditional PPP relationship, the exchange rate behavior in the last decade appears to have followed roughly the path predicted by a long-term equilibrium external rate consistent with a external current account deficit of about 2 percent of GDP. However, the short-term deviations from equilibrium have been relatively large from time to time—deviations of 10–20 percent have not been

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[5]A current account deficit of 2 to 3 percent of GDP would be consistent with a sustainable growth path, i.e., a stable long-run debt-GDP ratio. For example, if the stock of external debt converges to 35 percent of GDP and real GDP growth is 5.5 percent in the long run, the external current account long-run equilibrium would be a deficit of 2 percent of GDP.

[6]The adjusted r variable equals $\ln[(R + 0.02*GDP)/M)]$. This implies that the inflow of capital used to finance the deficit has a similar effect on the long-run equilibrium exchange rate as the inflow of remittances.

unusual—and the adjustment to equilibrium seems to be relatively long (3–5 years). One reason for this is the fixed exchange rate policy that has been pursued during most of the period covered. In particular, since the de facto peg to the U.S. dollar in 1993 the equilibrium nominal effective exchange rate has depreciated every year while at the same time, the actual nominal effective exchange rate has remained basically unchanged.

References

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IV. Workers' Remittances: Trends and Prospects[7]

A. Introduction

40.   Workers' remittances have been an important source of foreign exchange for El Salvador since 1990, having contributed to raise the standard of living of an important section of the population. After a sharp increase in workers' remittances in relation to GDP during 1990–95, the upward trend has slowed down and it is not expected to recover because of an anticipated slowdown in emigration and the negative impact resulting from the settlement and assimilation of earlier emigrants in the host country. In this context, it is important to identify the factors that explain the behavior of remittances in order to assess the prospects for these flows in the future. This is particularly relevant in the context of the impact of remittances on the long-run real equilibrium exchange rate.[8] This section develops a model of workers' remittances for El Salvador over the period 1976–96.

B. Determinants of Workers' Remittances

41.   The literature does not offer a comprehensive and systematic theory to explain the behavior of remittances. However, two main frameworks have been developed in the context of empirical research to model remittances.[9] One approach makes migration and remittance decisions endogenous to the family. Therefore, in this approach the decision process is sequential, determining first the overall level of savings of the migrant and then the migrant's propensity to remit to the home country. This approach uses socio-demographic and income variables such as the composition of the family at home and abroad, the migrant income in the host country, family income in the country of origin, and the length of stay abroad.

42.   The second approach seeks to explain workers' remittances as a transfer of migrant savings from the host to the home country. Therefore, remittances would be the result of a portfolio allocation decision by the migrant worker, which will depend on incentives offered by the home country relative to the host country such as relative interest rates, relative prices, expectations and uncertainty.

43.   The empirical evidence corroborates that demographic and income are significant determinants of workers' remittances, but is less conclusive regarding the sensitivity of remittances to relative rates of return in the home and host country.

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[7]Prepared by Florencia Frantischek.

[8]For an analysis of this effect see Section III.

[9]For a review of the literature on international workers' remittances see: Elbadwi and Rocha (1992).

C. Workers' Remittances to El Salvador in 1976–96

44.   Emigration from El Salvador, mainly to the United States and mostly illegal, increased gradually in the 1970s and quickly intensified in the 1980s, pushed by a forced displacement of rural population and deteriorating economic conditions resulting from the civil war. According to demographic indicators of the Ministry of Planning (MIPLAN), in the 1970s about 250 thousand citizens left El Salvador compared with about 550 thousand in the 1980s and less than 100 thousand between 1990–96. However, it is only in the 1990s that recorded remittances reached high levels, increasing from US$26 million in 1976 to about a US$1 billion in 1996. They averaged US$780 million a year (10 percent of GDP or 60 percent of exports of goods and nonfactor services) over 1990–96, compared with US$125 million a year (3 percent of GDP or 13 percent of exports of goods and nonfactor services) in the 1980s (Table 1).

45.   One possible factor behind the sizable increase in remittances during 1990–96,[10] is the effect that the legalization of a large number of undocumented Salvadorans living in the United States had on securing job protection and in reestablishing links with the home country. Two important reforms to the immigration laws of the United States[11] allowed for estimated temporary or permanent regularization of the status of 340,000 Salvadorans in the United States and the ensuing job protection to those migrants. With the new acquired legal status, formerly undocumented Salvadorans were able to visit the home country and find investment opportunities in a country that had also ended the civil strife.[12]

Model specification and results

46.   The model:

$$\overset{+\quad\;-\quad\;+\;\;+}{re = f\,(\ SW,\ rear,\ t,\ dum)} \tag{1}$$

where:

re	=	real value of remittances inflows to El Salvador
SW	=	number of Salvadoran workers abroad
rear	=	real earnings in the host country
t	=	proxy for the length of the stay
dum	=	dummy for 1991–96 to capture the effect of the legalization of undocumented Salvadorans in the United States and the political stabilization of El Salvador after the peace agreements.
z	=	Error-correction term

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[10]The increase is less abrupt when the official series on remittances for the period 1979–90 is adjusted as described in the Note at the end of the section.

[11]The Immigration Reform and Control Act (IRCA) of November 1986 and the Immigration Act of 1990 (IMMACT90).

[12]For a field study on the effect of the legalization process of undocumented immigrants from Guatemala see Hagan and Baker (1993).

Table 1. El Salvador: Workers' Remittances, 1976–96

Year	Remittances in millions of U.S. dollars — Nominal 1/ Official data	Nominal 1/ Adjusted series	Real 2/ Official data	Real 2/ Adjusted series	Remittances (official data) as a percent of — Exports of goods	Exports of goods and services	Imports of goods	Imports of goods and services	GDP	Remittances (adjusted series) as a percent of — Exports of goods	Exports of goods and services	Imports of goods	Imports of goods and services	GDP
1976	28	28	63	63	3.7	2.9	3.7	3.3	1.0	3.7	2.9	3.7	3.3	1.0
1977	34	34	72	72	3.5	2.7	3.6	3.1	1.0	3.5	2.7	3.6	3.1	1.0
1978	45	45	91	91	5.7	4.4	4.4	3.8	1.3	5.7	4.4	4.4	3.8	1.3
1979	49	57	88	102	4.3	3.4	4.7	4.0	1.2	5.0	3.9	5.5	4.6	1.4
1980	60	71	94	112	5.5	4.3	6.2	5.2	1.5	6.6	5.1	7.3	6.2	1.8
1981	75	91	107	131	9.4	7.2	7.6	6.5	2.0	11.4	8.8	9.2	7.9	2.4
1982	87	117	118	158	12.5	9.6	10.2	8.4	2.3	16.7	12.9	13.6	11.2	3.1
1983	97	147	127	194	12.8	9.9	10.9	9.2	2.8	19.5	15.0	16.5	13.9	4.2
1984	121	185	153	233	16.7	12.9	12.4	10.5	3.3	25.5	19.7	18.9	16.0	5.0
1985	102	219	124	265	15.0	10.8	10.6	7.7	2.5	32.2	23.1	22.7	16.5	5.4
1986	135	248	160	296	16.5	13.2	15.2	10.9	3.2	30.4	24.5	28.1	20.1	6.0
1987	169	279	194	321	28.6	18.4	17.0	12.5	3.8	47.2	30.4	28.1	20.6	6.3
1988	194	305	215	337	31.9	21.5	19.3	14.3	4.2	50.1	33.7	30.3	22.4	6.5
1989	204	327	215	345	40.9	25.4	17.7	13.6	4.1	65.8	40.8	28.4	21.9	6.6
1990	322	350	322	350	55.5	35.7	25.5	20.0	5.9	60.3	38.8	27.7	21.8	6.5
1991	518	518	497	497	88.1	54.8	36.8	29.3	9.8	88.1	54.8	36.8	29.3	9.8
1992	686	686	638	638	114.7	68.2	40.4	33.4	11.5	114.7	68.2	40.4	33.4	11.5
1993	822	822	743	743	110.8	69.8	42.7	35.7	11.8	110.8	69.8	42.7	35.7	11.8
1994	964	964	850	850	117.5	71.4	42.8	36.4	12.0	117.5	71.4	42.8	36.4	12.0
1995	1,063	1,063	911	911	105.8	66.5	37.2	32.4	11.2	105.8	66.5	37.2	32.4	11.2
1996	1,068	1,068	890	890	104.2	62.9	40.0	34.2	10.3	104.2	62.9	40.0	34.2	10.3

Sources: Central Reserve Bank; and Fund staff estimates.

1/ For an explanation on the estimates of these time series see Note I.
2/ The nominal data were deflated using the U.S. CPI (1990=100).

The coefficients for SW, rear, and dum were expected to be positive, while the coefficient for t (proxy of length of the stay) was expected to be negative as the aging of the migrant's population tends to weaken the ties with the home country.

The econometric estimation was based in the following two equations: the first was an unrestricted equation and the second equation was reformulated as an error-correction model.

$$D \ln re_t = \alpha_0 + \alpha \ln re_{-1} + \alpha_1 \ln SW_{-1} + \alpha_2 \ln rear_{-1} + \alpha_3 D \ln SW + \alpha_4 D\ln rear + \alpha_5 t + \alpha_6 dum \quad (2)$$

$$D \ln re_t = \alpha_0 + \alpha_1 D \ln SW + \alpha_2 D\ln rear + \alpha_3 t + \alpha_4 dum + \alpha_5 z \quad (3)$$

Where, ln and D ln are the logarithm and the differences of logarithms for a particular variable.

47.   These equations were estimated by least ordinary squares using annual data for the 1976–96 period.[13] The results are shown in Table 2, the t statistics are shown between parentheses under each coefficient.

48.   In general, the specified equations shown in Table 2 provided good results. The coefficients of all the variables had the expected signs and were statistically significant, with higher long-term elasticities as expected. Both coefficients of variables representing demographic factors, the stock of workers, and the proxy for length of the stay were statistically significant. The estimated coefficient for stock of work was positive and for the length of the stay negative as expected. However, with a more significant impact of a change in the stock of workers than length of the stay on a change in workers remittances. The economic variable, real income in the host country also had the expected sign, with the value of the short run of real income in the host country similar to the values obtained by other studies on remittances. For example Swamy (1981) reported income elasticities in the range of 1.4–1.3. Finally, the dummy variable had a positive and significant impact on remittances for the period specified.

[13]Statistical tests were run to rule out the possibility of spurious regressions of the model. Even though the logarithm of the stock of workers was found to be stationary using the augmented Dickey-Fuller (ADF) test, a spurious correlation was considered unlikely as the ADF test may not capture the presence of a unit root when the sample period extends beyond the period of sustained growth of migration. The logs of remittances and real earnings were found to be nonstationary using the same ADF test. In addition, the Johansen cointegration test accepted two cointegrating equations for the logs of remittances, real earnings and the stock of workers.

Table 2. Parameters Estimates for the Workers' Remittances Model

	Unrestricted equation	Error-correction model
Constant	-14.118 (-2.553)	-14.118 (-14.719)
ln rem $_{-1}$	-0.121 (-2.222)	
ln SW $_{-1}$	0.567 (10.790)	
ln rear $_{-1}$	0.917 (1.932)	
Dln SW	0.710 (1.634)	0.710 (2.750)
Dln rear	1.557 (4.402)	1.557 (5.658)
t	-0.057 (-5.028)	-0.057 (-13.996)
dum	0.418 (14.083)	0.418 (18.472)
Error-correction term		-0.121 (-14.805)
R square	0.965	0.965
F statistic	47.542	77.652
Durbin Watson	2.83	2.83

D. Conclusions

49.   The findings in this section corroborate the results obtained in other studies on remittances, in which the demographic variables have a significant impact on the behavior of workers'remittances. In particular, the positive and significant effect of the stock of migrant labor and the declining propensity to remit associated to the duration of the migration. The estimates presented also support the hypothesis that economic activity in the host country has an important effect on the level of remittances, and that changes in the U.S. immigration laws might had a significant impact on remittances over 1990–96.

50.   The results suggest also that prospects for a continued growth of these flows at the rates observed over 1990–95 are low. It is more plausible to expect that the level of remittances will stabilize in nominal terms and fall in real terms because the growth of the stock of migrant workers is bound by the deceleration of migration from El Salvador in the early 1990s, and by the effect that more restrictive U.S. immigration policies will have on future migration flows. Also, the legalization of the status of migrant Salvadorans in the United States is a once-for-all effect on the level of remittances, which will tend to weaken after these migrants become permanent residents of the United States. With a stagnant stock of workers, the effect of a declining propensity to remit as the duration of migration increases will tend to be the dominant factor.

Note I. Data Sources on Workers' Remittances

Official data

1.   Official data on workers' remittances are prepared by the central reserve bank (BCR). The sources and methods of calculation have changed over the last three decades. In general, the objective has been to quantify money transfers and consequently, the series does not include remittances in kind (in the form of consumer durables and other goods).

2.   In the 1970s, the source of information was the foreign exchange records of commercial banks. However, this source lost reliability in the late 1970s due to exchange controls and episodes of multiple exchange rates, with transactions shifting to the parallel market.

3.   Consequently, the BCR changed the quantification method in the 1980s because it could no longer rely on the foreign exchange records of commercial banks. For the period 1980–86, the BCR used the 1979 number as a benchmark multiplying it by the average rate of growth of workers' remittances in 1977–79. After 1987, the BCR developed a new methodology based on migration and economic factors that were applied to the 1979 benchmark, and revised the series back to 1980. To estimate the growth rates for migration, the BCR used informed guesses on the stock of Salvadorans living in the United States (based on estimates of the U.S. Immigration and Naturalization Service for 1979 and the U.S. embassy in El Salvador for 1985 and 1987) and assumed decreasing rates of emigration according to the intensity of the internal conflict, which resulted in higher emigration rates for the early 1980's. In addition, the BCR assumed that three economic variables had a direct effect on remittances: the level of interest rates on saving accounts, the change in the parallel market exchange rate, and the rate of inflation. The effect of the first two variables was assumed to be positive and negative for the latter variable. To estimate the effect of these economic variables on the growth of remittances, the three rates were added up and the combined rate used to adjust the emigration rate estimated previously to arrive to a net increase in remittances.

4.   Starting in 1991, the BCR resumed the use of information on foreign exchange transactions as reported by commercial banks and nonbank financial institutions. Additionally, it began to use information on workers' remittances reported by the exchange houses, which were authorized to start operations in April 1990.

Estimations of workers' remittances for the 1979–90 period

5.   Remittances started to grow slowly in the mid-1970s and much more rapidly in the 1980s (see Table 1). However, based on more comprehensive migration data and the evolution in the flows after 1990—when a more reliable source of information was available—the official data on workers' remittances for 1979–90 appear to be underestimated. For this reason, the series for that period has been adjusted using the following data and assumptions:

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(a) net emigration information from the official migration statistics; (b) the stock of migrants for 1979 was assumed to be the cumulative yearly flow starting from 1950, which takes care of a possible underestimation of the official migration data; (c) the distribution by age given by the statistics on migration was used to estimate the workers among the migrant population, corrected by the migrant population of previous years that were projected to become inactive or active on account of age; and (d) using the value of remittances for 1978 and the stock of migrant workers estimated for 1978 as explained in (b) above, an average remittance by migrant worker was estimated for 1978. To calculate the new series of workers' remittances, the average remittance per migrant worker estimated for 1978 (adjusted for the variation of the GDP deflator of the United States) was multiplied by the stock of migrant workers estimated for a given year. The new series gives a higher level of remittances for the period 1980–90.

Data sources

The data sources used for the estimated model are the following:

Remittances (re): for the real value of remittances, the source was the BCR data for the period 1976–78 and 1992–96. For the period 1979–90, remittances were recalculated as described above. These flows were deflated by the U.S. CPI (1990=100).

Migrants' income in the host country (rear): measured as a weighted average of the weekly earnings of the construction and service sectors in the United States deflated by the U.S. CPI.

Stock of workers abroad (SW): estimated on the base of emigration data published by MIPLAN.

Length of stay (t): a proxy consisting of a simple linear trend was used.

Dummy variable (dum): a dummy variable with a value of one for the period 1991–96, and zero elsewhere.

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V. SOURCES OF GROWTH[14]

A. Introduction

51.   The section evaluates the contribution to growth from structural factors and macroeconomic policies on the basis of an error-correction model for a standard Cobb-Douglas production function for 1970–1995. An area of particular interest is to determine if the acceleration of growth observed in the 1990s was related to the structural reforms undertaken after the advent of peace. The civil war that lasted from 1978 to 1990 represents half of the sample period that constitutes the scope of the econometric analysis. The period preceding the war was one of structural disarray, with segments of the civil society organized in quasi-military movements since the beginning of the 1970s. After the advent of peace, a process of economic reform took place at the same time that the government pursued prudent financial policies based on fiscal discipline while broadening democratic participation as agreed under the peace agreements.

52.   For analytical purposes, the analysis differentiates the chaos period (1970–1991) from the reform period (1992–1995). The main findings are: (a) an annual long-run growth rate of 2.1 percent for the chaos period and 5.0 percent for the reform period; (b) for the chaos period, an upward deviation from the long-run trend equivalent to around 9 percent of long-run GDP up to 1981, followed by a downward deviation equivalent to about 16 percent of long-run GDP during the intensification of the civil war; (c) for the reform period, an upward deviation from the long-run trend of 2 percent of long-run GDP as the economy moved quickly towards stability, and an acceleration of growth based on a massive return of resources to productive use and rebound effects until 1992 as the economy returned to its long-run trend after the war; (d) evidence of a decline in total factor productivity as defined for the Cobb-Douglas production function at an average rate of annual 0.6 percent during the chaos period, that was not reversed in the first half of the 1990s; (e) a significant positive impact of education improvements and a negative one of losses of competitiveness on total factor productivity; and (f) a significant positive impact of positive expectations reflected in changes in the fraction of people willing to undertake superior education, and a negative impact on growth of adverse macroeconomic factors, reflected in the average rate of inflation.

53.   In terms of growth patterns, a peculiar characteristic of El Salvador is the sustained decline in the ratio of capital per worker and consequent decline in the ratio of GDP per worker even after per capita GDP started to recover after the war. It appears that the divergence between the evolution of average productivity of labor and per capita GDP during the 1990s is mainly explained by the massive reincorporation of labor to productive activities, although there is evidence of an important role of formalization of formerly underground employment creating distortions in the measurement of labor in the reform period.

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[14]Prepared by R. Armando Morales.

54.   For the medium term, there is ample room for a positive impact on growth of sustained structural reforms and the consolidation of macroeconomic stability, mainly through increases in the ratio of capital per worker and improvements in total factor productivity equivalent to 0.6 percentage points of growth per year. This would allow the economy to gradually converge to its long-run growth path, with long-run growth rates increasing at about 6 percent per year. Reversal of policies to try to accelerate this process would be regrettable at a time when productivity gains could start a virtuous trend for the first time in 25 years.

55.   The underlying econometric model is presented in part B, while growth patterns in the evolution of labor, capital and output over the sample period are discussed in part C. Part D outlines the econometric results, and part E analyzes a decomposition of the sources of growth and projections for the medium term.

B. Analytical Framework

56.   The basic framework for the model is a standard Cobb-Douglas production function with constant returns to scale (standardized by labor units), converted to a logarithmic expression for tractability:

$$Y = A \ K^{\alpha} \ L^{(1-\alpha)} \tag{1}$$
$$y = \frac{Y}{L} \qquad k = \frac{K}{L}$$

$$Log \ y = Log \ A + \alpha \ Log \ k \tag{2}$$

$$Where \ \ 0 < \alpha < 1$$

Where Y is output, K the capital stock, L the labor stock, A technology (total factor productivity), and α the long-run contribution of capital to output.

57.   An error-correction model on the basis of this equation permits to incorporate information about long-run equilibrium forces and at the same time to allow the data to play a strong role in the specification of the dynamic structure. An additional assumption of weak exogeneity of the explanatory stationary variables, allows to summarize the model in a single equation instead of a system, which permits enough degrees of freedom in spite of sample size limitations. This error-correction model identifies long-run equilibrium relationships among economic variables, which if not exactly satisfied will set in motion forces affecting the variable being explained while stationary variables may affect the magnitude of the deviations.

58.   In the case of the production function, it was deemed convenient to test the highest possible number of variables explaining total factor productivity (which was facilitated by the lack of significance for lags of more than one year), in such a way as to determine simultaneously the pure technological parameters of a Cobb-Douglas function together with the structural variables affecting the way factors of production are combined. The magnitude of the deviations from this long-run trend would depend on short-term factors, and it would be expected to decline as the economy reaches more stability.

59.   Consistent with this approach, A is allowed to change over time as a function of nonstationary variables z (determinants of total factor productivity), while GDP converges to its long-run path (given by equation 2) at a speed of adjustment reflected in the coefficient δ ($0 < \delta < 1$) (equation 4, below).

$$Log\ A = f(z) \tag{3}$$

$$dLog\ y = \zeta\ dLog\ k - \delta\ (Log\ y[-1] - \alpha\ Log\ k[-1] - f(z[-1])) + f'(z) + g(w) \tag{4}$$

Short-run growth will also be affected by fluctuations of z and k (with a short-run contribution given by ζ) and other exogenous stationary variables w (macroeconomic conditioning factors). Rival hypothesis about the values for α and ζ can be tested, to evaluate the weight of market frictions and decisions at the firm level (i.e., if in the short-run the contribution of capital is higher than in the long run as a result of more rigidities for shutting down a plant compared to firing workers, for example).

60.   To the extent that not all variables affecting total factor productivity can be identified, the inclusion of a trend variable will be tested to account for absent variables. Also, although all long-run variables may share the same structural break with GDP during the war, a level dummy for the period of major deviations from the long-run trend will be tested after trying to incorporate most of the impact of the war in the measurement of capital, if it appears evident that the deviations are a result of a remaining impact of the war.

C. Growth Patterns, Evolution of GDP, and the Use of Inputs

61.   To analyze the evolution of output in the long run, it is useful to take as a reference the stylized facts typifying growth as listed by Kaldor,[15] among them: (a) per capita output grows over time, and its growth rate does not tend to diminish; (b) physical capital per worker grows over time; (c) the ratio of physical capital to output is nearly constant; and (d) the shares of labor and physical capital in national income are nearly constant.

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[15]See Kaldor (1963).

62.   In the case of El Salvador, the identification of growth patterns implies to overcome difficulties in: (a) identifying capital destruction and distraction to nonproductive uses during the war period; (b) interpreting labor statistics in the face of migration of about 40 percent of the working population between 1975 and 1990; (c) inferring long-run trends based on information available only since 1970; and (d) analyzing overlapping structural patterns brought about by a rapid process of economic reform after the advent of peace.

63.   Labor is measured by the number of private contributors to the Social Security Health System, assuming a constant share of about 20 percent in the total labor force.[16] The capital stock was calculated from data on gross capital formation in the national accounts (excluding changes in stocks).[17] Some statistical issues result from the heterogeneity of the indexes that were used: First, labor measures actual employment and the capital stock measures availability.[18] Second, coverage is different as the capital stock incorporates public and private investment while labor estimates correspond only to private sector employment. The former issue was not addressed, as it was considered that the costs in terms of the risk of information loss exceeded the potential benefits of correcting the data, specially with information for half of the sample period affected by a war. The latter was not considered a major problem, as public investment is expected to play a major role conditioning private economic decisions.

64.   The main results of the analysis of the evolution of GDP and the use of inputs are:

•   The upward trend in per capita GDP observed in the seventies is interrupted during the war and resumed during the reform period. Nonetheless, GDP per worker has

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[16]Alternative labor statistics in El Salvador are based on unreliable surveys that have not been regularly conducted, specially during the war, and which focus basically on the urban population.

[17]As Young (1994) noted for East Asian economies "changes in stocks series . . . are either (i) outright gross fabrications used to conceal large discrepancies between the production and expenditure accounts; and/or (ii) based upon the flimsiest of data." The calculation of the capital stock was based on the traditional perpetual inventory method for a standard 5 percent depreciation rate, with an additional discount factor accounting for the intensity of the war proportional to the net migration rate for 1975–1991, period of abnormal migration rates, assuming 4 percent of average net growth of the stock of capital for 1970–1991.

[18]The intensity of the war must be reflected on both capital destruction and capital distraction from productive uses. The latter may have resulted in (a) final allocations to war-related purposes (i.e., tanks and war planes); (b) nonproductive investment (i.e., higher walls in residential construction); or (c) temporary spare capital (i.e., machinery that cannot operate because of lack of energy). An effect of the latter type would not be captured by the use of availability of capital as the operational variable.

consistently declined, even after 1990.[19] The divergence of trends between these variables in the 1970s and the 1990s is explained by increases in the participation rate (as measured by the share of labor force in total population at working age), which shifted from 24 percent in 1970 to 30 percent in 1980 mainly reflecting the incorporation of a greater number of women into the labor force; subsequently it remained in the range of 20–25 percent for the remainder of the 1980s (war period); and climbed again to about 35 percent by 1995, as a substantial segment of the population was reincorporated to productive uses between 1990 and 1995—employment expanded at 11 percent a year in the period (Figure 1). The decline of the average labor productivity in the reform period should not be surprising considering the massive incorporation of unskilled labor force. The conclusion with respect to labor is then similar to Young's study for the East-Asian economies:[20] labor productivity growth underperforms per capita GDP growth because of massive transfers of labor into productive activities.[21]

- The reduction in average GDP per unit of labor appears related to the reduction in capital per worker, i.e., capital has not increased over-time as much as employed labor. Even in recent years, while the economy went through a process of recapitalization, capital per worker remains low.

- The capital-output ratio fluctuates around 1.4 in the 1970s and 1.6 in the 1990s[22] (see Figure 1). Large fluctuations in the 1980s result from GDP falling at rates that reached 10 percent per year. The derived evolution of the capital stock mimics that of gross capital formation and reflects the impact of the war.

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[19]The discrepancy is more severe relative to per capita income, which includes the remittances of the labor force that migrated. Real per capita income increased by more than 30 percent between 1990 and 1995, while real per capita GDP increased by around 21 percent.

[20]See Young (1994). In constructing an index of quality of labor, Elías (1990) finds that average real wages decline in periods of massive incorporation of women to the labor force. In the case of El Salvador, after all, a significant share of population being reincorporated to productive activities had spent their youth fighting!

[21]During 1992–1995, information available on unit labor costs for a sample of nontraditional exporters (in all likelihood, the sector showing higher productivity gains) shows weighted productivity gains of only 3 percent, with one-third of the sample experiencing reductions in average productivity.

[22]De Gregorio (1992) finds a ratio of between 1.12 and 1.35 for a sample of Latin American countries in the period 1950–1985.

Figure 1. El Salvador: Evolution of Output, Capital, and Labor
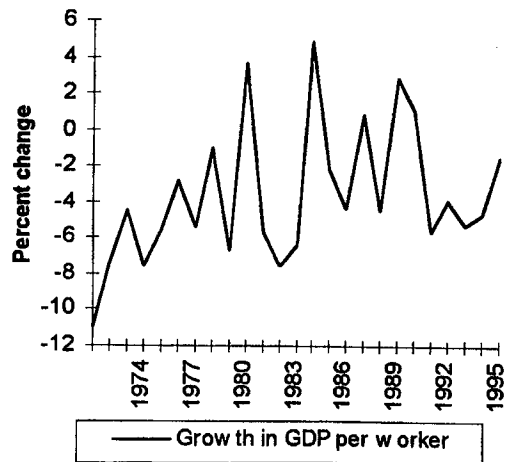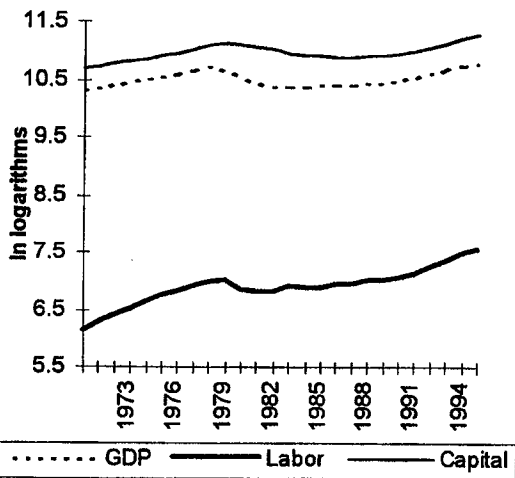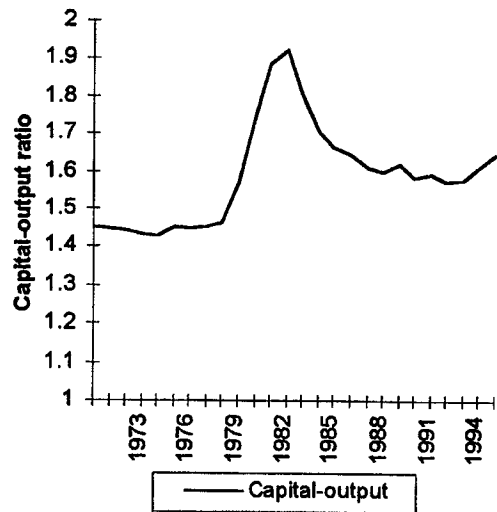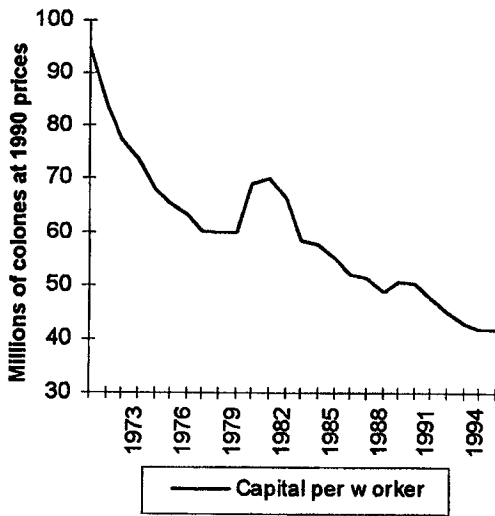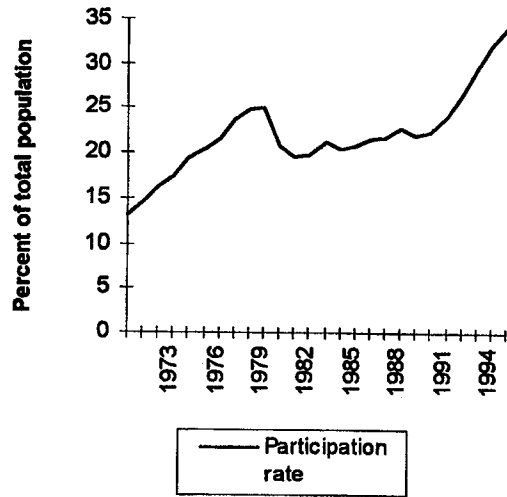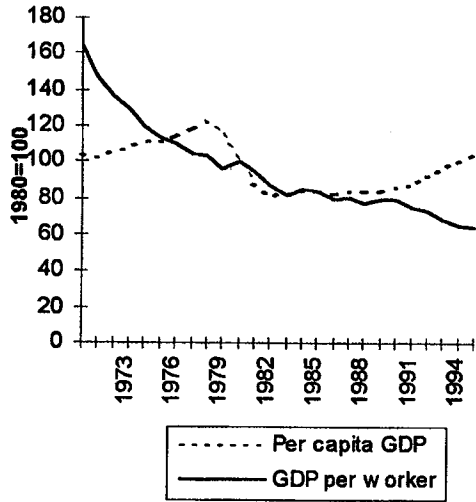
- It appears evident that capital, labor and GDP show the same structural break due to the war.[23] For this reason, an econometric analysis is preferred to determine if it is possible to find nearly constant contributions of labor and physical capital to the determination of output, in spite of the sizable impact of the war on per capita output and the ratio of capital per worker that precluded long-term growth to follow the patterns stated by Kaldor. Lack of market prices for most of the period makes the analysis of input shares on national income accounts less relevant.

D. Determinants of Growth

65.   Following Hendry et al. (1984), an error-correction model is constructed starting from an unrestricted equation that is reformulated to incorporate an error-correction once the relevant variables are identified. The error-correction model allows to differentiate explicitly factors affecting short-term deviations from factors affecting total factor productivity (which is a limitation of growth-accounting procedures). As regards policy implications, this technique serves the purpose of identifying the most relevant determinants of growth in the long run, thereby helping in the design of relevant structural policies to raise sustainable growth. Furthermore, it helps to explain short-run fluctuations from the long-run path of output to the extent that they are related to financial policies. For a case like El Salvador, it serves also as a test to evaluate the quality of the data, to the extent that excessive divergence of results from expectations may indicate severe problems of data construction, which would be a major drawback for a case with a distortion such as a twelve-year war. The expected results based on available information for testing were the following:

- Positive impacts on total factor productivity of education (with enrollment in high school and superior education as a measure of completion of basic education), integration of Central American markets and terms-of-trade improvements; and a negative impact of the deterioration of competitiveness as measured by the real effective exchange rate. An impact of remittances of an uncertain sign was to be evaluated, resulting from offsetting repercussions of availability of resources vs. Dutch disease effects.

- A positive impact of improved expectations as measured by the increase in enrollment in superior education; and a negative impact of macroeconomic instability on growth, with inflation as the main proxy for the quality of macroeconomics (as shown in cross-section studies),[24] and of variables closely associated with war-related patterns, such as the migration rate and life expectancy.

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[23]Multicollinearity between capital and labor is avoided by standardizing GDP and the capital stock per units of labor (see equation 2).

[24]In Fischer's words, "the negative relationship between growth and inflation is prima facie evidence that the quality of macroeconomics affects growth" (See Fischer, 1991).

- Short-term deviations from the long-run path more severe during the war, not the least because of measurement problems resulting from uneven impacts of the war. These deviations are expected to diminish as the economy reaches more stability.

- As physical capital and human capital are expected to be correlated,[25] and given that human capital is not included in the specification of the production function, the output elasticity of capital is expected to be close to a joint share of between two thirds and three quarters.[26]

66.   The list of variables as well as a brief explanation about their properties is provided in Table 1. An illustration of the evolution of the variables is provided in Figure 2. The unrestricted equations in Table 2 (the t values appear in parentheses) show the results for the variables that were significant. From equation 1, the main findings are the following:

- The speed of adjustment to the long-run growth path is about annual 26 percent of the deviations (i.e., it takes some 11 years to reach long-run growth after a given shock).

- The long-run output elasticity of capital is 0.76 and the short-run 0.86. The null hypothesis that both coefficients have the same value cannot be rejected.

- The relative impact of education and the real effective exchange rate show the expected sign (positive and negative respectively) on the long-run trend of output.

- Central American trade shows an apparent negative impact on growth contrary to expectations.

- Periods of higher enrollment in superior education and periods of lower inflation, are periods more favorable to higher rates of growth.

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[25]Measurement of human capital and labor in general is made difficult by data problems. In an unpublished paper by Harberger (1993) standard labor units are used based on the reports to the Social Security corrected by per capita GDP, which would result in inaccurate estimates when the evolution of productivity and per capita GDP diverge significantly (as it is likely, as explained in part C). Nehru and Dhareshwar (1994) use labor estimates based on population growth, that show constant growth even in the period of highest migration and intensity of the war. Harberger obtains positive and significant total factor productivity growth for 1969–1991 and Nehru and Dhareshwar obtain negative total factor productivity growth for 1960–1990.

[26]See Mankiw, Romer and Weil (1990); and Barro and Sala-i-Martin (1995).

Table 1. Augmented Dickey-Fuller Test of Unit Roots of Variables in the Model

Critical values: 5%=-3.004 1%=3.767; constant included

t-adf

Lags	LGDPpw	DLGDPpw	LKpw	DLKpw	super	DLsuper 1/	LCat1rea	LREER 2/	Lcompe	Avginf
0	-1.5003	-4.9781	-0.6961	-3.484	-1.6966	-2.9134	-0.9016	-1.2477	-0.9072	-3.0491
1	-1.5496	-3.3835	-0.9133	-2.9925	-1.7234	-2.904	-1.3717	-1.2127	-1.3667	-3.2214
2	-1.6085	-2.6327	-0.8412	-3.0213	-1.6233	-2.4254	-1.5523	-1.1873	-1.2887	-2.6628

Beta

Lags	LGDPpw	DLGDPpw	LKpw	DLKpw	super	DLsuper	LCat1rea	LREER	Lcompe	Avginf
0	0.9358	-0.1087	0.9513	0.2409	0.8816	0.4078	0.9139	0.9305	0.876	0.4053
1	0.9324	-0.1239	0.9359	0.1692	0.8876	0.2917	0.8744	0.9308	0.8144	0.3076
2	0.9252	-0.0267	0.9389	0.0301	0.8909	0.2713	0.8492	0.9338	0.8096	0.3798

For:

LGDPpw, DLGDPpw:	Log and percent change of GDP per worker, respectively.
LKpw, DLKpw:	Log and percent change of capital stock per worker, respectively.
LREER:	Log of real effective exchange rate.
LCat1rea:	Log of Central American trade at constant US dollars.
Lcompe:	Competitiveness index [Log (REER*Cat1rea)]
Super, DLsuper:	Share and percent change of the population between 15 and 24 years of age enrolled in high school and superior education.
Avginf:	Average annual inflation.

1/ All Log variables were found to be nonstationary, as well as super, and all differentials (including average inflation) were found to be stationary with the exception of DLsuper, but its beta coefficients indicate that it is in all likelihood stationary as well.

2/ As the Fund does not make the calculation for years prior to 1980, the series was completed based on the main four partners for 1970-1979: USA, Germany, Japan and Guatemala, whose trade volume with El Salvador is equivalent to 60 percent of Salvadoran trade.

Table 2. El Salvador: Econometric Results: Variables Explaining Percent Change (GDP/Labor)

| | Unrestricted equations | | | |
	1	2	3	Error-correction model
CONSTANT	1.3025	1.3025	1.33776	1.3379
	(2.328)	(2.328)	(2.3785)	(9.5818)
Log(GDP/labor)[-1]	-0.26037	-0.2604	-0.2521	
	(-2.348)	(-2.348)	(-2.583)	
Log (K/labor) [-1]	0.198851	0.19885	0.1237	
	(2.943)	(2.943)	(2.374)	
Super [-1]	0.008455	0.00846	0.01074	
	(2.645)	(2.645)	(2.909)	
Percent change (SUPER)	0.138351	0.13835	0.13296	0.13295
	(2.428)	(2.428)	(2.563)	(4.3597)
Log (CAtrade) [-1]	-0.07799	0.08758		
	(-3.985)	(1.697)		
Log (REER) [-1]	-0.16557			
	(-2.898)			
Log (COMPE)[-1]		-0.1656	-0.0859	
		(-2.898)	(-5.683)	
TREND			-0.0067	
			(-3.1512)	
DUMMY			-0.0424	
			(-2.7724)	
Percent change (K/labor)	0.862491	0.86249	0.75796	0.75796
	(6.482)	(6.482)	(6.375)	(11.3724)
Avg. inflation [-1]	-0.00275	-0.0028	-0.0021	-0.00284
	(-3.269)	(-3.269)	(-3.399)	(-4.4821)
Error-correction term [-1]				-0.25209
				(-9.8393)
Short-term output elasticity of capital	0.862491	0.86249	0.75796	0.75796
Long-term output elasticity of capital	0.763713	0.76371	0.49074	0.490741
R square	0.86	0.86	0.924	0.9242
F statistic	12.288	12.288	20.317	60.9499
Durbin-Watson	1.95	1.95	2.752	2.752

Figure 2. El Salvador: Variables Explanatory of Growth

Volume of Central American trade

Real effective exchange rate (REER)

Competitiveness index

Population enrolled in school

Enrollment between 15 and 24 years of age

Increase in enrollment in high school and superior education

Relative to corresponding population

Average inflation
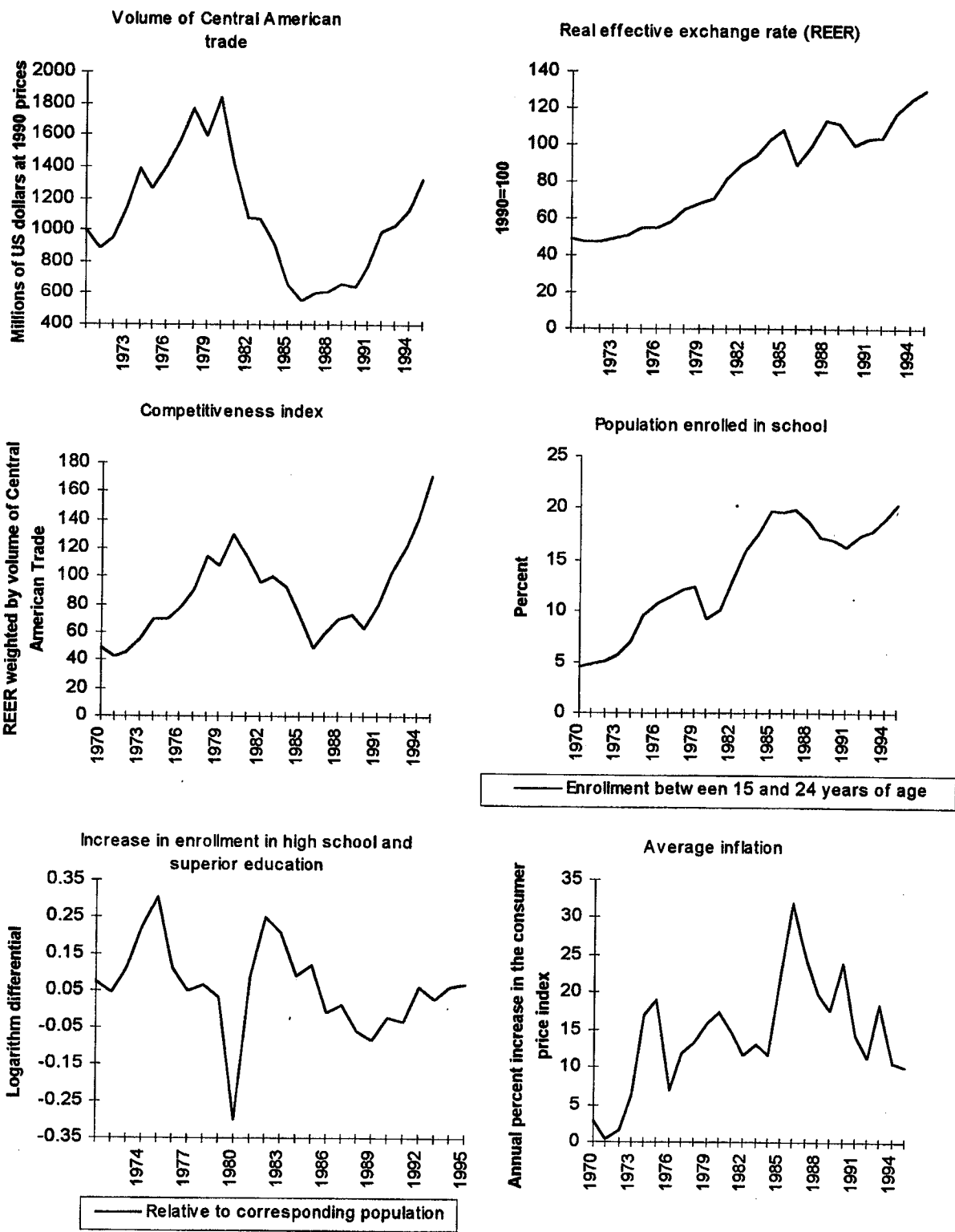
67. The negative impact of regional integration, may result from either stronger trade-deviation than trade-creation effects or a combined impact on competitiveness in conjunction with the real effective exchange rate. This latter hypothesis is tested by creating an index that weighs the real effective exchange rate using the volume of Central American trade (the main market for nontraditional exports), substituting the real effective exchange rate by this index, and running a new regression. The new unrestricted equation (number 2 in Table 2), shows a positive impact of integration on growth (90 percent confidence) while the competitiveness index keeps the same coefficient of the real effective exchange rate in equation 1 and all other variables in the equation keep the same coefficients and significance.

68. An appreciation of the exchange rate does not necessarily imply a deviation from long-run equilibrium (see Section III), although in the case of El Salvador the prolonged recurrence to a fixed exchange rate may have caused a bias toward appreciating the exchange rate, which may make current account adjustments more costly in terms of output.[27] In addition, structural factors may have disfavored the relative price of tradeable goods against nontradeable goods, with an impact on growth. Moreover, the equilibrium exchange rate may have moved toward a more appreciated value by exogenous factors affecting growth (for example Dutch disease caused by remittances in the 1990s).

69. In general, the coefficients for the determinants of growth may also reflect collinearity with variables excluded from the final equation, and even if these variables were identified it would be difficult to incorporate them without seriously affecting the degrees of freedom of the estimation, given the small sample size.[28] To some extent this has been done deliberately by accepting a coefficient for physical capital that in all likelihood embodies the elasticities for human capital, and by using changes in enrollment in secondary education as a measurement of expectations about the future.

70. In an attempt to minimize the impact of additional unforeseen collinearities, in spite of the overall good performance of the test-statistics, a trend variable as well as a dummy variable were included for the period in which the deviations from the long-run trend based on equation 2 were more severe (not surprisingly, for 1984–1987, the core period of the civil war). As a result, equation 3 is obtained, for which the independent impact of Central

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[27]Milesi-Ferreti and Razin (1997) find that higher cumulative appreciation of the real effective exchange rate prior to a current account reversal may cause a higher cost in terms of output growth after the reversal.

[28]This is specially true for a growth model, as in the words of Lucas (1986) "economic growth, being a summary measure of all of the activities of an entire society, necessarily depends, in some way, on everything that goes on in a society."

American trade becomes much less significant,[29] the coefficient for competitiveness declines substantially and the impact of education appears to be stronger. The coefficient for the quality of macroeconomics reflected in average inflation declines slightly, while a linear restriction imposing the same coefficient for short-run and long-run elasticities of capital is now rejected, with a higher value for the short-run elasticity of capital as expected (0.49 for the long run vs. 0.76 for the short run. De Gregorio finds values within this range for a sample of Latin American countries).

71.   The impacts captured by the trend and the dummy variables are negative, significant and relatively modest, which implies that even though there may be variables absent from the equation, their contribution to the explanation of growth is not as high as the variables that were already included. Nevertheless, the inclusion of the trend and dummy variables have a non trivial role in improving the specification of the final equation.

72.   Based on the unrestricted equation number 3, the final error-correction model is formulated. The result in terms of the Cobb-Douglas production function are the following:

$$Y = A \ K^{0.4907} \ L^{0.5093} \tag{5}$$

$$Log \ y \ = \ Log \ A \ + \ 0.4907 \ Log \ k$$

$$Log \ A \ = \ 5.3072 - 0.3407 \ Log \ compe + 0.0426 \ super \tag{6}$$
$$-0.1681 \ dummy \ (1983 - 87) - 0.0267 \ trend$$

$$dLog \ y = 0.758 \ dLog \ k \ - \ 0.25209 \ (Log \ y[-1] \ - \ 0.4907 \ Log \ k[-1] \ - \ Log \ A[-1]) \tag{7}$$
$$+ \ 0.13295 \ dLog \ super \ - \ 0.002084 \ Avg \ inflation$$

73.   The first two equations express the production function as such. The third equation shows the different identifiable variables that help explain the evolution of total factor productivity (long run equation), and the fourth equation shows the short-run dynamics.

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[29]Cointegration is accepted for the long-run relationship using the Johansen-Joselius procedure, including the volume of Central American trade.

74. The variables that did not show any evident impact on growth in this exercise were terms of trade and remittances. Consistent with results by Sala-i-Martin (1994),[30] neither the terms of trade nor coffee prices relative to different subsets of import prices proved to be significant. Likewise, remittances were not found to have a direct impact on growth. Other variables related to macroeconomics, namely the public sector deficit and the interest rate, proved to have some significance, but much weaker than inflation. Moreover, their inclusion resulted in simultaneity problems.

75. Attempts to introduce the war explicitly into the model in addition to the discount factor to determine the capital stock, using as proxies the migration rate and life expectancy, were fruitless. Explanations for this are: (a) the main explanatory variables share a structural break conditioned by the war; (b) relations may be nonlinear (as for some forms of capital distraction, explained in part C); and (c) the proxies for the war are not only affected by the war itself: surprisingly life expectancy declined long before the civil war started. The migration rate appears to be a better proxy for the war in general.

76. Figures 3 to 5 show the fitness of the final equation, a comparison between actual evolution of output and its estimated long-run path, and the evolution of total factor productivity (with an alternative view smoothed using the Hodrick-Prescott filter). The patterns are in general as expected. Stability of parameters is acceptable (Figures 6 and 7).

E. Sources of Growth in the Period 1990–1995 and Medium-Term Prospects

Growth dynamics

77. The model predicts quite closely the rates of growth observed in the chaos period (average 1.0 percent annually forecasted vs. 1.0 percent observed) and the reform period (average 6.4 percent vs. 6.8 percent observed) (Table 3). As Figure 3 shows, the economy was below their potential during the last part of the chaos period, which allowed an extra impulse to growth coming from the correction term in the nineties (rebound effects from the war), that was basically exhausted in 1993.[31] As a result, the model predicts that for 1996 and 1997 the pace of growth may have decelerated, which actually occurred.[32]

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[30]The terms of trade was the weakest explanatory variable from a sample of 59 variables tested by Sala-i-Martin in 30,856 cross-section regressions.

[31] The pattern of the error-correction term must not be confused with the evolution of the rates of growth: if the long-run fundamentals improve continuously, even a negative correction may imply high rates of growth.

[32]Real GDP growth in 1996 and 1997 is estimated to have averaged 3 percent per year.

Figure 3. El Salvador: Actual vs. Fitted Growth of GDP per Worker
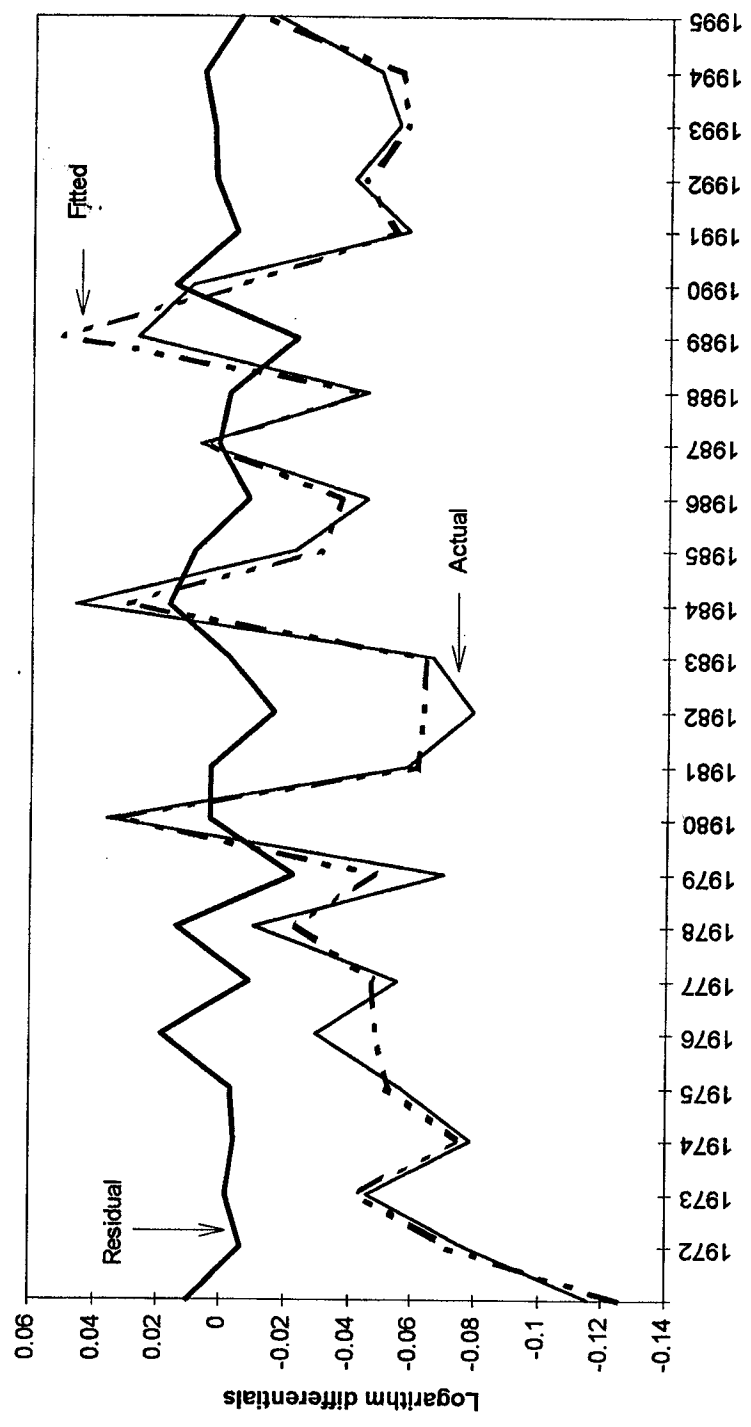
Figure 4. El Salvador: Actual vs. Long-run GDP
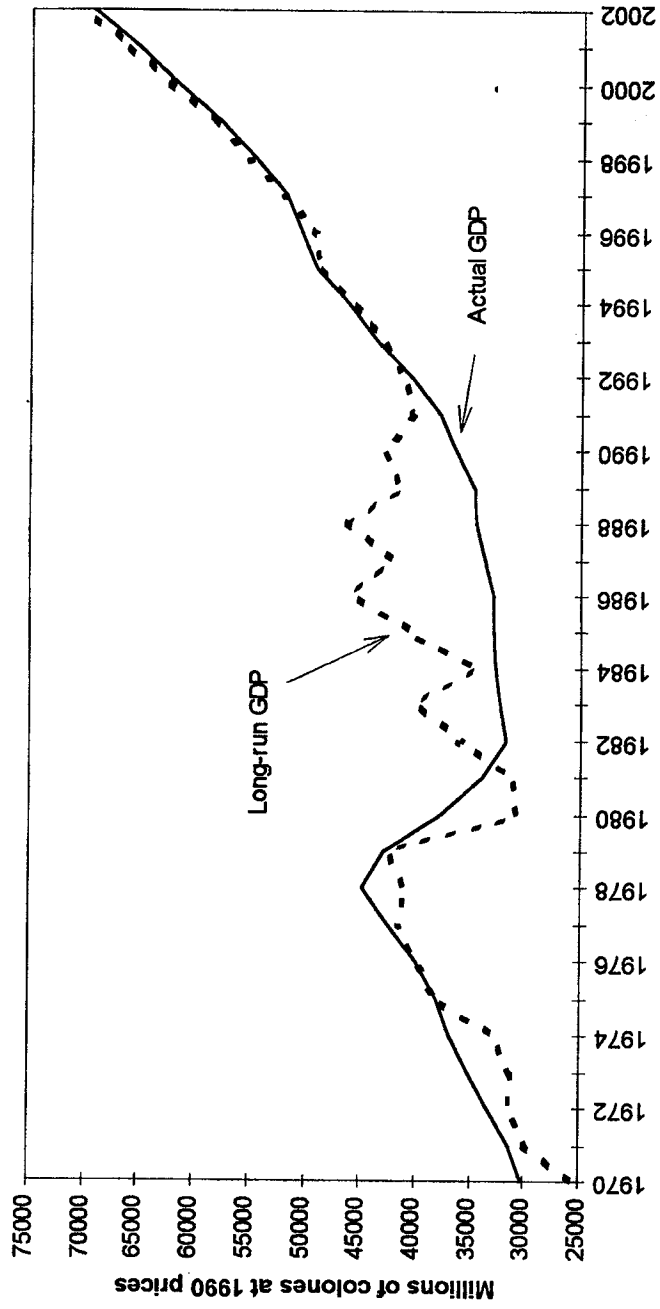
Figure 5. El Salvador: Computed
Total Factor Productivity Growth
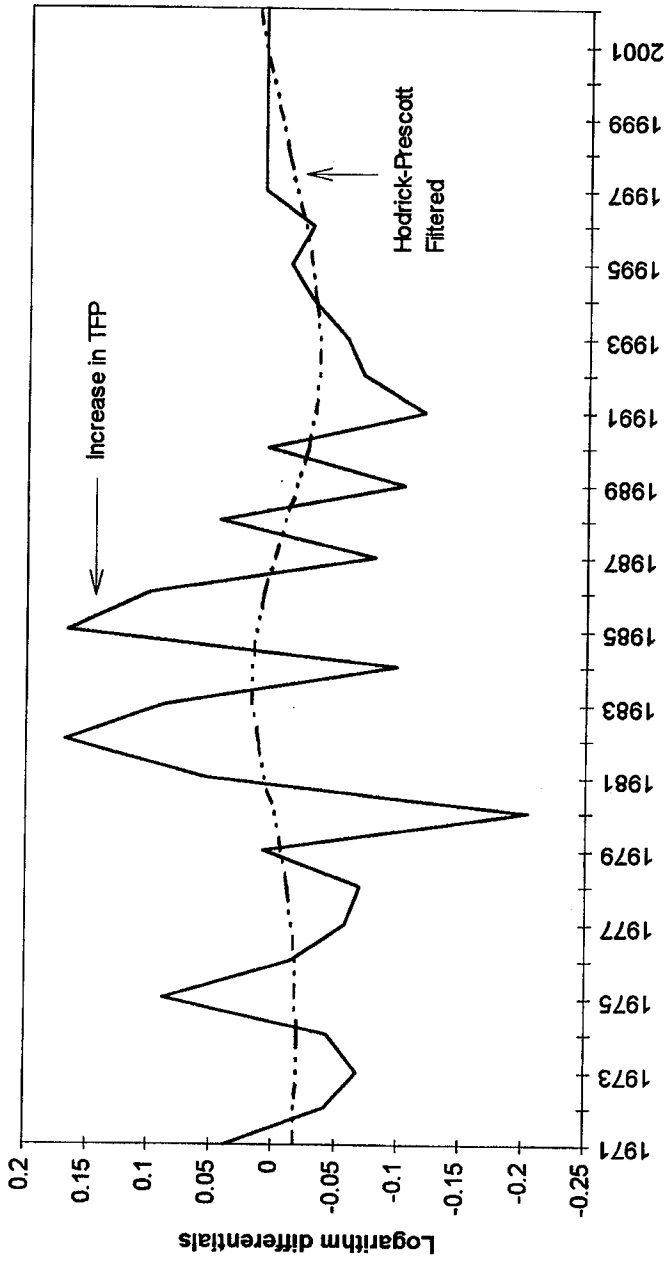
Figure 6. Recursive estimates (error-correction model)

Constant ---- ± 2 S.E.

Error-correction term ---- ± 2 S.E.

Enrollment superior educati ---- ± 2 S.E.

Increase in capital per worker ---- ± 2 S.E.

Average inflation ---- ± 2 S.E.
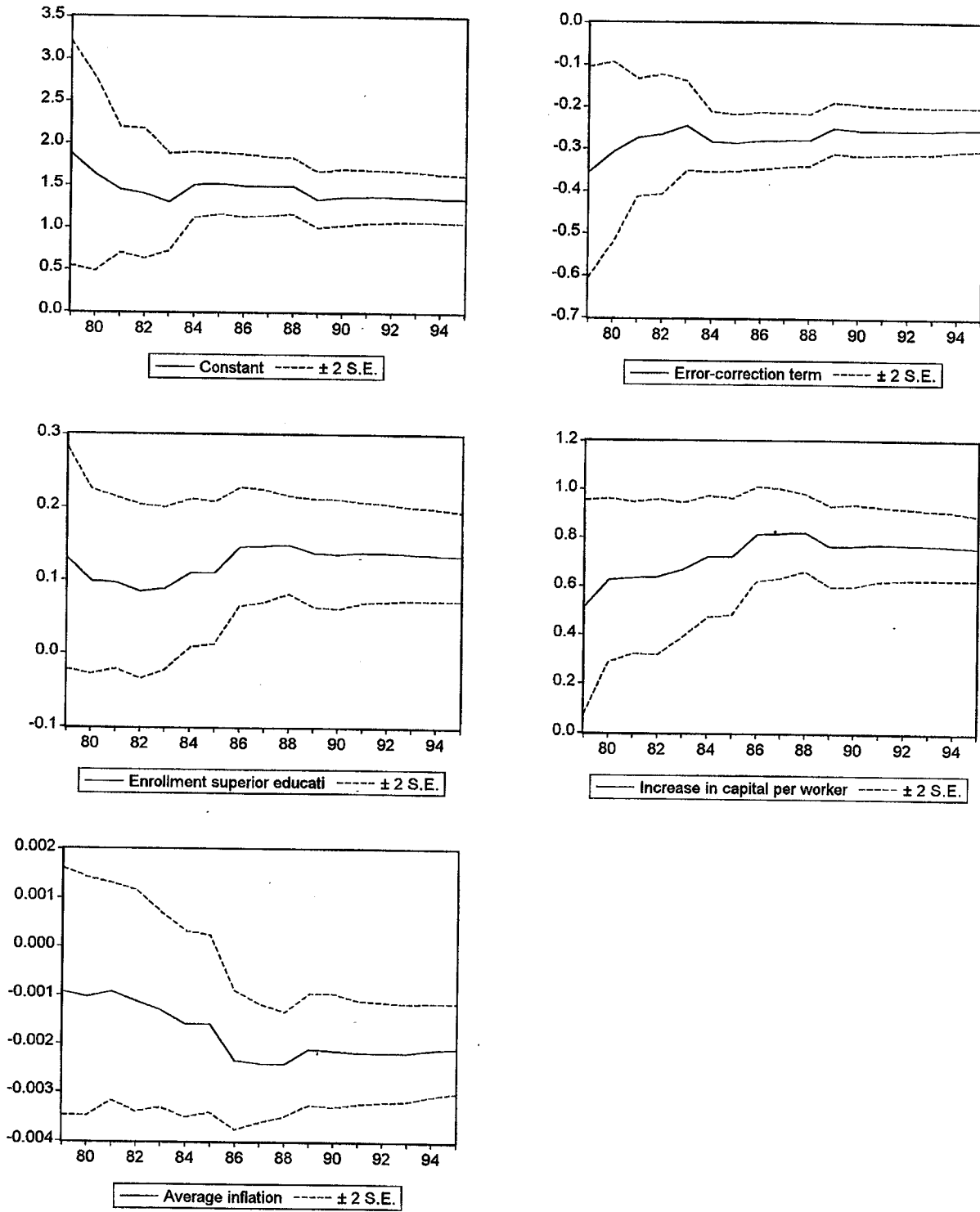
Figure 7. Recursive residuals (error-correction model)
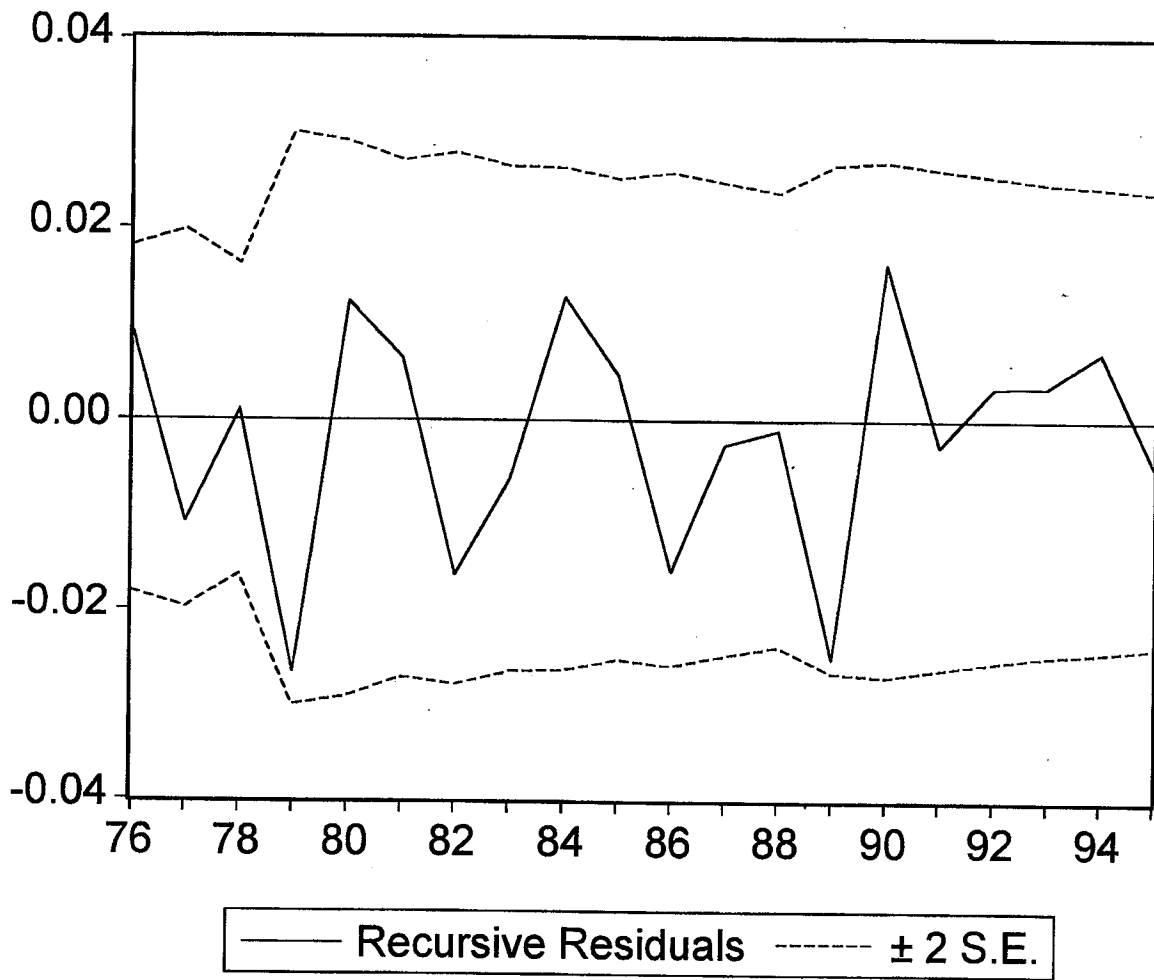
Table 3. El Salvador: Sources of growth

Percentage of Annual Growth Explained

Short-term explanatory variables	1971-1991	1992	1993	1994	1995	1992-1995	1996-2002
Increase of capital	102.7	67.7	80.1	117.4	95.6	88.3	104.2
Of which							
Increase of capital per worker	-228.4	-55.4	-59.9	-38.7	6.6	-37.3	63.8
Increase of labor	105.8	39.3	44.7	49.8	28.4	40.1	12.9
Macroeconomics	-276.9	-43.0	-34.4	-74.3	-33.7	-44.7	-21.9
Expectations (enrollment in superior education)	74.7	12.3	5.7	15.9	14.1	11.7	3.4
Correction	93.7	23.8	4.0	-8.9	-4.4	4.6	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Forecasted annual growth rate	1.0	7.0	6.8	5.2	6.5	6.4	4.9
Actual annual growth rate	1.1	7.5	7.4	6.1	6.3	6.8	

Points of Annual Long-Run
Growth Explained

Long-term determinants of growth	1971-1991	1992-1995	1996-2002
Capital	0.8	3.6	3.2
Labor	1.9	4.9	1.5
Total factor productivity	-0.6	-3.5	0.6
Of which			
Competitiveness	-0.3	-3.5	-0.7
Education	1.2	3.4	1.3
Other combined effects	-1.5	-3.4	-0.1
Long-run growth (average)	2.1	5.0	5.3
Assumptions			
Annual growth in labor force	4.9	11.1	2.7
Annual growth in capital stock	1.5	7.7	7.0
Enrollment in high school and superior education (average)	13.0	18.7	21.5
Annual real exchange rate appreciation	3.6	5.9	1.1
Average inflation	14.8	12.5	4.1

78.   Macroeconomic conditions play a significant role affecting growth adversely in the chaos period. Consequently, growth is lower than what the contribution of inputs would explain. A period of negative correction of the rate of growth (1971–1982) is followed by positive corrections but huge downward deviations from the long-run trend (1983–1993). In the reform period, a declining adverse impact of macroeconomics reflected on a reduction of the average inflation rate, contributed to a convergence towards the long-run growth path.

Long-run growth path

79.   The estimated annual long-run growth rate of GDP goes from 2.1 percent in the chaos period to 5.0 percent in the reform period. The chaos period shows a negative evolution of total factor productivity, with education offsetting partially the adverse impact of competitiveness. In the reform period, the contribution of total factor productivity to growth is even more negative, reflecting measurement problems and frictions in the reaccommodation of resources to productive use with respect to the impact of structural reforms.[33]

80.   The ratio of capital per worker does not increase until 1995, reflecting the massive reincorporation of labor to productive use analyzed in part C. In both the chaos and the reform periods, capital has a lower impact on growth than labor.

Projections

81.   On the basis of: (a) a moderation of the rate of incorporation of new labor force in 1996–2000 convergent to an annual 3 percent a year through 2002; (b) an increase in the rate of capital accumulation of 7.5 percent per annum; (c) further improvements in education; (d) a reduction of the inflation rate to less than 3 percent for 1997–2002; and (e) no further loss of competitiveness;[34] the model predicts an average annual growth rate of 5 percent for 1996–2002, with most of the growth explained by investment and an increase in the availability of capital per unit of labor force. An improvement in total factor productivity equivalent to 0.6 percent of GDP per year would result from education more than offsetting the impact of the accumulated exchange rate appreciation. This positive impact could be higher considering factors that were absent in the explanation of long-run growth in the last

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[33]Attempts to solve measurement problems for labor failed, including assuming constant GDP per worker for the reform period and using a Hodrick-Prescott filter to smooth the labor series.

[34]If part of the explanation why Central American integration magnifies the negative impact of exchange rate appreciation is that it was based more on trade deviation than on trade creation respect to the rest of the world, it can be safely assumed that this will not occur in the future, as renewed efforts to reduce common external tariffs are taking place in recent times.

25 years.[35] More important, the long-run rate of growth would increase to around 6 percent toward the end of the decade, rate to which the economy would converge gradually based on the above-mentioned assumptions. Continuous improvement of macroeconomic conditions would minimize deviations from this upward path.

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[35]If other unidentified factors implicitly constant in the model show a dynamic behavior, the increase in total factor productivity would be higher.

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Table 1. El Salvador: National Income Accounts

(In millions of colones)

	1993	1994	1995	1996	Prel. 1997
I. At Current Prices					
GDP at market prices	**60,381**	**70,749**	**83,191**	**91,048**	**100,112**
Exports of goods and nonfactor services	11,822	14,104	17,849	19,212	23,938
Imports of goods and nonfactor services	20,588	24,915	31,457	30,606	34,633
Gross domestic expenditure 1/	**69,147**	**81,560**	**96,799**	**102,443**	**110,807**
Consumption	57,922	67,533	79,911	87,693	94,589
Private	52,726	61,591	72,757	79,020	85,100
Public	5,196	5,942	7,154	8,673	9,489
Gross fixed investment	11,225	14,027	16,888	14,750	16,218
Private 2/	8,785	11,382	13,891	11,005	12,747
Public	2,440	2,645	2,997	3,745	3,471
II. At 1990 prices					
GDP at market prices	**43,638**	**46,278**	**49,187**	**50,247**	**52,232**
Exports of goods and nonfactor services	9,225	9,787	11,261	12,299	14,740
Imports of goods and nonfactor services	17,043	19,476	23,652	22,116	24,062
Gross domestic expenditure 1/	**51,456**	**55,532**	**60,443**	**60,063**	**61,553**
Consumption	43,072	46,337	50,310	51,416	52,544
Private	39,272	42,422	46,086	46,331	47,273
Public	3,800	3,915	4,224	5,085	5,271
Gross fixed investment	8,384	9,195	10,133	8,647	9,009
Private 2/	6,740	7,566	8,419	6,452	7,081
Public	1,644	1,629	1,714	2,195	1,928

Sources: Central Reserve Bank; and Fund staff estimates.

1/ Public expenditure and exports of nonfactor services are reclassified by the central bank from the fiscal accounts and the balance of payments respectively to be incorporated into the national accounts, except for public investment for 1995-1997 at current prices.

2/ Includes changes in inventories.

Table 2. El Salvador: Components of Aggregate Demand

(Annual percentage change)

	1993	1994	1995	1996	Prel. 1997
I. At Current Prices					
GDP at market prices	**21.1**	**17.2**	**17.6**	**9.4**	**10.0**
Exports of goods and nonfactor services	47.4	19.3	26.6	7.6	24.6
Imports of goods and nonfactor services	27.4	21.0	26.3	-2.7	13.2
Gross domestic expenditure 1/	**19.2**	**18.0**	**18.7**	**5.8**	**8.2**
Consumption	18.8	16.6	18.3	9.7	7.9
Private	19.6	16.8	18.1	8.6	7.7
Public	11.3	14.4	20.4	21.2	9.4
Gross fixed investment	21.6	25.0	20.4	-12.7	10.0
Private 2/	21.4	29.6	22.0	-20.8	15.8
Public	22.0	8.4	13.3	25.0	-7.3
II. At 1990 prices					
GDP at market prices	**7.4**	**6.0**	**6.3**	**2.2**	**4.0**
Exports of goods and nonfactor services	28.5	6.1	15.1	9.2	19.8
Imports of goods and nonfactor services	20.9	14.3	21.4	-6.5	8.8
Gross domestic expenditure 1/	**8.2**	**7.9**	**8.8**	**-0.6**	**2.5**
Consumption	7.8	7.6	8.6	2.2	2.2
Private	8.5	8.0	8.6	0.5	2.0
Public	1.0	3.0	7.9	20.4	3.7
Gross fixed investment	10.3	9.7	10.2	-14.7	4.2
Private 2/	10.4	12.3	11.3	-23.4	9.7
Public	9.7	-0.9	5.2	28.1	-12.2

Source: Statistical Appendix Table 1.

1/ Public expenditure and exports of nonfactor services are reclassified by the central bank from the fiscal accounts and the balance of payments respectively to be incorporated into the national accounts, except for public investment for 1995-1997 at current prices.

2/ Includes changes in inventories.

Table 3. El Salvador: Financing of Investment

	1993	1994	1995	1996	Prel. 1997
(In millions of colones)					
Gross domestic investment	**11,225**	**14,027**	**16,888**	**14,750**	**16,218**
Private sector 1/	8,785	11,382	13,891	11,005	12,747
Public sector	2,440	2,645	2,997	3,745	3,471
Financing of investment	**11,225**	**14,027**	**16,888**	**14,750**	**16,218**
Gross national savings	8,583	11,385	12,889	12,738	15,133
Private sector	8,113	9,978	10,207	11,082	13,512
Public sector	470	1,407	2,682	1,656	1,621
Foreign savings 2/	2,642	2,642	3,999	2,012	1,085
(In percent of GDP)					
Gross domestic investment	**18.6**	**19.8**	**20.3**	**16.2**	**16.2**
Private sector 1/	14.5	16.1	16.7	12.1	12.7
Public sector	4.0	3.7	3.6	4.1	3.5
Financing of investment	**18.6**	**19.8**	**20.3**	**16.2**	**16.2**
Gross national savings	14.2	16.1	15.5	14.0	15.1
Private sector	13.4	14.1	12.3	12.2	13.5
Public sector	0.8	2.0	3.2	1.8	1.6
Foreign savings 2/	4.4	3.7	4.8	2.2	1.1

Sources: Central Bank; and Fund staff estimates.

1/ Includes changes in inventories.
2/ Current account balance excluding official transfers.

Table 4. El Salvador: Gross Domestic Product by Sector

	1993	1994	1995	1996	Prel. 1997
(In millions of colones)					
GDP at market prices	**60,381**	**70,749**	**83,191**	**91,048**	**100,112**
Primary production	**8,678**	**10,218'**	**11,891**	**12,152**	**13,679**
Agriculture	8,431	9,917	11,550	11,746	13,233
Mining	247	301	341	406	446
Secondary production	**16,794**	**19,500**	**22,244**	**24,008**	**26,262**
Manufacturing	13,548	15,502	17,515	18,762	20,512
Construction	2,642	3,275	3,692	3,877	4,213
Utilities	604	723	1,037	1369	1,537
Services	**34,909**	**41,031**	**49,056**	**54,888**	**60,171**
Commerce	11,304	13,596	16,665	18,758	20,640
Government services	3,780	4,420	5,184	5,982	6,453
Transport, storage and communications	4,539	5,099	6,053	6,823	7,548
Finance	1,512	2,009	2,564	3,026	3,479
Housing	5,450	6,038	6,521	6,938	7,769
Other	8,324	9,869	12,069	13,361	14,282
(In millions of colones at 1990 prices)					
GDP at market prices	**43,638**	**46,278**	**49,187**	**50,247**	**52,232**
Primary production	**6,726**	**6,589**	**6,876**	**7,030**	**7,155**
Agriculture	6,550	6,394	6,670	6,814	6,928
Mining	176	195	206	216	227
Secondary production	**10,863**	**11,721**	**12,515**	**12,722**	**13,441**
Manufacturing	9,079	9,749	10,427	10,579	11,174
Construction	1,542	1,719	1,822	1,867	1,979
Utilities	242	253	266	276	288
Services	**26,049**	**27,968**	**29,796**	**30,495**	**31,636**
Commerce	8,409	9,129	10,021	10,249	10,705
Government services	2,624	2,693	2,787	2,819	2,850
Transport, storage and communications	3,272	3,467	3,644	3,698	3,861
Finance	1,032	1,240	1,438	1,551	1,702
Housing	4,292	4,369	4,448	4,528	4,609
Other	6,420	7,070	7,458	7,650	7,909

Source: Central Reserve Bank.

Table 5. El Salvador: Value Added in the Agricultural Sector

(In millions of colones at 1990 prices)

	1993	1994	1995	1996	Prel. 1997
Total	**6,549**	**6,388**	**6,725**	**6,815**	**6,927**
Agriculture	**4,467**	**4,188**	**4,437**	**4,361**	**4,420**
Export crops	2,024	1,864	1,834	1,858	1,949
Coffee	1,670	1,549	1,546	1,552	1,569
Cotton	49	26	-	-	-
Sugarcane	305	289	288	306	380
Basic grains	1,504	1,279	1,430	1,357	1,296
Other	939	1,045	1,173	1,146	1,175
Cattle raising	**895**	**922**	**954**	**1,109**	**1,148**
Forestry	**385**	**382**	**389**	**381**	**· 385**
Fishing	**193**	**222**	**226**	**239**	**231**
Poultry	**609**	**674**	**719**	**725**	**743**

Source: Central Reserve Bank.

Table 6. El Salvador: Main Agricultural Products

(Area in thousands of manzanas; production in thousands
of quintals; yield in quintals per manzana) 1/

	1993	1994	1995	1996	Prel. 1997
Coffee					
Area	234	234	234	234	234
Yield	14	13	13	13	13
Volume of production	3,349	3,106	3,100	3,056	3,089
Cotton					
Area	6	2	0	0	0
Yield	13	17	0	0	0
Volume of production	79	41	0	0	0
Sugar cane 2/					
Area	72	69	70	76	93
Yield	57	57	56	54	55
Volume of production	4,147	3,929	3,915	4,133	5,124
Corn					
Area	440	449	467	399	437
Yield	31	23	26	34	26
Volume of production	13,716	10,405	12,000	13,468	11,182
Beans					
Area	106	107	114	97	119
Yield	13	13	13	13	12
Volume of production	1,367	1,344	1,425	1,287	1,465
Rice					
Area	23	21	24	15	21
Yield	72	66	62	79	68
Volume of production	1,619	1,405	1,489	1,202	1,436
Sorghum					
Area	190	174	180	171	178
Yield	23	23	23	23	24
Volume of production	4,410	3,957	4,140	3,957	4,341

Source: Central Reserve Bank.

1/ One manzana equals 0.699 hectares and one quintal equals 101.2 lbs.

2/ Volume data in thousands of short tons; one short ton equals 2,000 lbs.; yield in short tons per manzana. Each ton of cane yields on average just over 190 lbs. of sugar.

Table 7. El Salvador: Value Added in the Manufacturing Sector

(In millions of colones at 1990 prices)

	1993	1994	1995	1996	Prel. 1997
Total	**9,079**	**9,749**	**10,417**	**10,579**	**11,174**
Food products	2,490	2,611	2,750	2,833	3,031
Beverages	847	910	924	927	915
Tobacco	248	259	264	247	184
Textiles	639	644	704	682	727
Clothing and footwear	216	226	235	233	246
Wood products	133	154	169	156	162
Paper products	241	260	264	258	278
Printing	408	442	470	513	551
Leather products	435	470	505	488	510
Rubber products	226	231	249	231	250
Chemicals	722	857	944	. 912	875
Petroleum products	642	619	542	544	578
Nonmetallic mineral products	454	481	491	486	512
Metallic products	391	398	423	452	480
Machinery	277	317	375	418	466
Transport equipment	289	332	384	384	415
In-bond industry	421	536	724	813	995

Source: Central Reserve Bank.

Table 8. El Salvador: Electricity Indicators

I. Generation by Source

	Hydro		Geothermal		Fuel		Total	
	GWH	Percent	GWH	Percent	GWH	Percent	GWH	Percent
1993	1,512.0	55.6	350.5	12.9	855.8	31.5	2,718.3	100.0
1994	1,441.9	46.9	373.1	12.1	1,260.2	41.0	3,075.2	100.0
1995	1,464.9	44.8	410.1	12.5	1,395.7	42.7	3,270.7	100.0
1996	1,876.7	56.2	399.8	12.0	1,064.1	31.9	3,340.6	100.0
Prel. 1997	1,424.1	40.1	453.5	12.8	1,670.7	47.1	3,548.3	100.0

II. Consumption by Sector

	Residential		Commercial		Industrial		Government and municipalities 1/		Other 2/		Total	
	GWH	Percent	GWH	Percent	GWH	Percent	GWH	Percent	GWH	Percent	GWH	Percent
1993	839.3	34.5	383.2	15.8	730.5	30.1	413.1	17.0	64.6	2.7	2,430.7	100.0
1994	912.3	34.3	430.7	16.2	774.0	29.1	470.9	17.7	72.5	2.7	2,660.4	100.0
1995	1,004.9	34.7	495.1	17.1	830.0	28.6	502.8	17.3	66.9	2.3	2,899.7	100.0
1996	1,057.0	35.5	505.4	17.0	842.1	28.3	520.6	17.5	51.9	1.7	2,977.0	100.0
Prel. 1997	1,151.9	37.6	556.24	18.1	897.4	29.3	409.4	13.4	50.0	1.6	3,064.9	100.0

Sources: Lempa River Hydroelectric Commission (CEL); Ministry of Economy; and Central Reserve Bank estimates.

1/ Includes public lighting
2/ Reflects the use of electricity by generating plants.

Table 9. El Salvador: Consumer Price Indices

	1993	1994	1995	1996	1997
(December 1992 = 100)					
I. Period Averages					
General	107.0	118.3	130.2	142.9	149.3
Foodstuffs	111.5	130.2	137.5	155.1	162.5
Housing	102.9	111.8	131.7	142.9	151.2
Clothing	103.1	112.2	117.4	121.0	121.5
Health	103.6	113.3	127.8	136.4	142.0
Education	105.2	117.7	135.9	155.1	173.5
Private transport	104.3	107.4	114.7	122.0	124.9
Public transport and communications	99.4	99.9	109.3	124.6	130.5
Recreation	108.9	113.4	118.1	123.6	126.0
Personal hygiene	103.0	110.1	119.9	131.1	132.9
Legal expenses	105.7	114.4	132.9	146.9	153.7
II. End of Period					
General	112.1	122.1	135.9	146.0	148.8
Foodstuffs	121.2	134.3	142.1	158.9	159.5
Housing	104.2	114.9	140.5	147.3	154.2
Clothing	105.2	114.2	119.7	121.5	121.5
Health	107.7	117.8	134.9	138.4	142.6
Education	106.9	119.7	138.9	158.7	174.5
Private transport	106.1	107.9	117.9	125.1	123.4
Public transport and communications	99.8	100.3	121.1	129.6	130.5
Recreation	111.2	114.4	123.5	123.6	125.7
Personal hygiene	105.4	110.5	128.2	130.7	132.7
Legal expenses	107.1	118.6	140.4	149.2	154.4
(Annual percentage changes)					
I. Period Averages					
General	18.5	10.6	10.1	9.8	4.5
Foodstuffs	25.7	16.8	5.6	12.8	4.8
Housing	6.7	8.6	17.8	8.5	5.8
Clothing	10.5	8.8	4.6	3.1	0.4
Health	...	9.4	12.8	6.7	4.1
Education	...	11.9	15.5	14.1	11.9
Private transport	...	3.0	6.8	6.4	2.4
Public transport and communications	...	0.5	9.4	14.0	4.7
Recreation	...	4.1	4.1	4.7	1.9
Personal hygiene	...	6.9	8.9	9.3	1.4
Legal expenses	...	8.2	16.2	10.5	4.6
II. End of Period					
General	12.1	8.9	11.3	7.4	1.9
Foodstuffs	21.2	10.8	5.8	11.8	0.4
Housing	4.2	10.3	22.3	4.8	4.7
Clothing	5.2	8.6	4.8	1.5	0.0
Health	7.7	9.4	14.5	2.6	3.0
Education	6.9	12.0	16.0	14.3	10.0
Private transport	6.1	1.7	9.3	6.1	-1.4
Public transport and communications	-0.2	0.5	20.7	7.0	0.7
Recreation	11.2	2.9	8.0	0.1	1.7
Personal hygiene	5.4	4.8	16.0	2.0	1.5
Legal expenses	7.1	10.7	18.4	6.3	3.5

Source: Central Reserve Bank

Table 10. El Salvador: Nominal Wages by Sector

	1993	1994	1995	1996	Prel. 1997 1/
(Monthly averages in colones at current prices)					
Private Sector 2/ 3/	**1,642.3**	**1,846.9**	**2,078.9**	**2,300.1**	**2,447.1**
Agriculture	1,508.0	1,732.2	1,957.4	2,150.3	2,297.2
Mining and quarrying	1,773.4	1,463.4	1,576.7	1,734.9	2,052.2
Manufacturing	1,649.5	1,823.0	2,004.7	2,194.3	2,302.8
Utilities	2,441.6	3,095.3	3,937.0	4,650.1	5,304.5
Construction	1,304.7	1,549.7	1,736.6	1,933.8	1,886.5
Commerce and hotels	1,618.6	1,851.0	2,071.3	2,260.3	2,395.5
Transport	1,997.6	2,293.8	2,533.3	2,721.3	3,069.4
Banking	1,935.8	2,227.4	2,472.4	2,741.9	2,912.1
General services	1,515.3	1,788.7	1,998.2	2,234.4	2,528.0
Public sector 4/	**1,663.0**	**2,180.0**	**2,474.3**	**2,837.0**	...
(Percentage change)					
Private Sector 2/ 3/	**15.8**	**12.5**	**12.6**	**10.6**	**6.8**
Agriculture	14.9	14.9	13.0	9.9	6.9
Mining and quarrying	83.9	-17.5	7.7	10.0	15.7
Manufacturing	12.6	10.5	10.0	9.5	5.2
Utilities	23.8	26.8	27.2	18.1	15.0
Construction	16.1	18.8	12.1	11.4	-2.2
Commerce and hotels	16.8	14.4	11.9	9.1	6.1
Transport	17.8	14.8	10.4	7.4	13.7
Banking	19.2	15.1	11.0	10.9	6.6
General services	21.6	18.0	11.7	11.8	14.2
Public sector 4/	**11.3**	**31.1**	**13.5**	**14.7**	...

Sources: Salvadoran Social Security Institute (ISSS); Ministry of Finance; and Fund staff estimates.

1/ January-October for private sector wages.
2/ Includes nonfinancial public enterprises.
3/ As recorded by the Salvadoran Social Security Institute (ISSS).
4/ Average for the consolidated central government.

Table 11. El Salvador: Real Wages by Sector

	1993	1994	1995	1996	Prel. 1997 1/
(Monthly averages in colones at 1990 prices)					
Private sector 2/ 3/	**1,088.2**	**1,106.9**	**1,132.1**	**1,141.2**	**1,160.4**
Agriculture	999.2	1,038.1	1,065.8	1,066.8	1,086.0
Mining and quarrying	1,175.1	877.1	858.6	860.8	948.8
Manufacturing	1,093.0	1,092.6	1,091.7	1,088.7	1,090.3
Utilities	1,617.8	1,855.1	2,143.9	2,307.2	2,526.1
Construction	864.5	928.8	945.7	959.5	893.4
Commerce and hotels	1,072.5	1,109.3	1,127.9	1,121.4	1,133.5
Transport	1,323.6	1,374.7	1,379.5	1,350.1	1,461.5
Banking	1,282.7	1,334.9	1,346.3	1,360.4	1,381.7
General services	1,004.1	1,072.0	1,088.1	1,108.6	1,206.0
Public sector 4/	**1,154.9**	**1,344.9**	**1,386.9**	**1,448.9**	...
(Percentage change)					
Private sector 2/ 3/	**-2.3**	**1.7**	**2.3**	**0.8**	**1.6**
Agriculture	-3.0	3.9	2.7	0.1	1.7
Mining and quarrying	55.2	-25.4	-2.1	0.3	10.1
Manufacturing	-5.0	0.0	-0.1	-0.3	0.1
Utilities	4.4	14.7	15.6	7.6	9.4
Construction	-2.0	7.4	1.8	1.5	-7.0
Commerce and hotels	-1.4	3.4	1.7	-0.6	1.0
Transport	-0.6	3.9	0.3	-2.1	8.2
Banking	0.6	4.1	0.9	1.0	1.5
General services	2.6	6.8	1.5	1.9	8.7
Public sector 4/	**-4.6**	**16.5**	**3.1**	**4.5**	...

Sources: Salvadoran Social Security Institute (ISSS); Ministry of Finance; and Fund staff estimates.

1/ January-October for private sector wages.
2/ Includes nonfinancial public enterprises.
3/ As recorded by the Salvadoran Social Security Institute (ISSS).
4/ Average for the consolidated central government.

Table 12. El Salvador: Nominal Minimum Daily Wages 1/

(End of period)

	1993	1994	1995	1996	1997
Agricultural workers					
16 years and older	16.0	18.0	19.8	19.8	19.8
Partially disabled or under 16	15.0	17.0	18.8	18.8	18.8
Harvesting workers (seasonal)					
Coffee	19.5	21.5	23.6	23.6	23.6
Sugarcane	16.2	18.2	20.0	20.0	20.0
Cotton	14.4	16.4	18.0	18.0	18.0
Agricultural industries (seasonal)					
Coffee processing plants	24.0	26.0	28.6	28.6	28.6
Sugar mills	17.0	19.0	20.9	20.9	20.9
Ginning mills	17.0	19.0	20.9	20.9	20.9
Manufacturing, construction, and services					
Municipality of San Salvador	31.0	35.0	38.5	38.5	38.5
Other municipalities	30.0	34.0	37.5	37.5	37.5
Commerce					
Municipality of San Salvador	31.0	35.0	38.5	38.5	38.5
Other municipalities	30.0	34.0	37.5	37.5	37.5

Sources: Ministry of Labor, and Salvadoran Social Security Institute.

1/ In colones per 8-hour day.

Table 13. El Salvador: Population and Employment

	1993	1994	1995	1996	Prel. 1997
(In thousands)					
Population 1/	**5,431.3**	**5,550.3**	**5,668.6**	**5,787.1**	**5,908.5**
Economically active population	**2,001.5**	**2,113.3**	**2,136.4**	**2,227.4**	...
Urban area	1,051.2	1,258.9	1,261.3	1,313.6	...
Rural area	950.3	854.4	875.1	913.8	...
Employment	**1,802.6**	**1,951.0**	**1,973.1**	**2,056.5**	...
Agriculture and mining	594.9	547.6	533.6	580.5	...
Manufacturing	331.2	382.7	380.7	370.6	...
Utilities	9.4	8.0	7.4	8.1	...
Construction	90.6	112.2	129.9	131.9	...
Commerce and hotels	329.5	383.9	399.3	398.9	...
Transport	65.5	77.4	81.7	91.3	...
Banking	23.1	26.4	26.2	27.1	...
General services	358.4	412.8	414.3	448.1	...
(In percent)					
Participation rate	36.3	37.5	39.1	...	...
Unemployment rate	9.9	7.7	7.7	7.7	7.8
Employment	100.0	100.0	100.0	100.0	...
Agriculture and mining	33.0	28.1	27.0	28.2	...
Manufacturing	18.4	19.6	19.3	18.0	...
Utilities	0.5	0.4	0.4	0.4	...
Construction	5.0	5.8	6.6	6.4	...
Commerce and hotels	18.3	19.7	20.2	19.4	...
Transport	3.6	4.0	4.1	4.4	...
Banking	1.3	1.4	1.3	1.3	...
General services	19.9	21.2	21.0	21.8	...

Sources: Ministry of Planning; and Fund staff estimates.

1/ Estimates based on 1992 census.

Table 14. El Salvador: Consolidated Operations of the Nonfinancial Public Sector

(In millions of colones)

	1993	1994	1995	1996	Prel. 1997
Revenues and grants	**9,798**	**12,234**	**14,535**	**15,553**	**15,180**
Current revenue	8,492	11,024	13,834	15,373	14,912
Tax revenue	6,247	7,705	10,011	10,196	10,795
Nontax revenue	1,470	2,062	2,605	3,377	2,834
Operating surplus of public enterprises	775	1,257	1,217	1,800	1,284
Capital revenue	82	227	23	18	67
Official grants	1,224	983	679	162	201
Expenditure and net lending	**10,776**	**12,632**	**14,646**	**17,720**	**16,971**
Current expenditure	8,023	9,617	11,152	13,716	13,292
Consumption	5,579	6,817	8,076	9,601	9,446
Wages and salaries	4,270	5,070	5,922	6,754	6,889
Goods and services	1,309	1,747	2,154	2,847	2,557
Interest	1,422	1,378	1,369	1,592	1,550
Current transfers	1,022	1,423	1,708	2,524	2,296
Capital expenditure	2,764	2,927	3,461	4,015	3,737
Fixed capital formation	2,593	2,718	2,997	3,745	3,471
Capital transfers	171	209	465	270 ·	267
Net lending	-11	88	32	-11	-58
Current account balance (deficit -)	**469**	**1,407**	**2,681**	**1,657**	**1,621**
Overall balance before grants	**-2,202**	**-1,381**	**-790**	**-2,329**	**-1,991**
Overall balance after grants	**-978**	**-398**	**-111**	**-2,167**	**-1,790**
External financing	**1,187**	**1,399**	**1,098**	**2,121**	**1,916**
Disbursements	2,316	2,580	1,682	2,503	2,154
Amortization	-1,030	-1,181	-1,272	-1,073	-1,244
Other	-99	0	689	691	1,006
Domestic financing	**-210**	**-1,001**	**-987**	**47**	**-126**
Central reserve bank	-96	-1,165	9	675	165
Commercial banks	172	-57	-512	-576	-399
Other financial intermediaries	34	20	-151	124	70
Bonds outside banking system	0	-41	-124	-22	-213
Floating debt	0	0	0	-79	0
Other	-320	241	-210	-76	251

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

Table 15. El Salvador: Consolidated Operations of the Nonfinancial Public Sector

(In percent of GDP)

	1993	1994	1995	1996	Prel. 1997
Revenue and grants	**16.2**	**17.3**	**17.5**	**16.9**	**15.2**
Current revenue	14.0	15.6	16.6	16.9	14.9
Tax revenue	10.3	10.9	12.0	11.2	10.8
Nontax revenue	2.5	2.9	3.1	3.7	2.8
Operating surplus of public enterprises	1.3	1.8	1.5	2.0	1.3
Capital revenue	0.1	0.3	0.0	0.0	0.1
Official grants	2.0	1.4	0.8	0.2	0.2
Expenditure and net lending	**17.8**	**17.9**	**17.6**	**19.5**	**17.0**
Current expenditure	13.3	13.6	13.4	15.1	13.3
Consumption	9.2	9.6	9.7	10.5	9.4
Wages and salaries	7.1	7.2	7.1	7.4	6.9
Goods and services	2.2	2.5	2.6	3.1	2.6
Interest payments	2.4	1.9	1.6	1.7	1.5
Current transfers	1.7	2.0	2.1	2.8	2.3
Capital expenditure	4.6	4.1	4.2	4.4	3.7
Fixed capital formation	4.3	3.8	3.6	4.1	3.5
Capital transfers	0.3	0.3	0.6	0.3	0.3
Net lending	0.0	0.1	0.0	0.0	-0.1
Current account balance (deficit -)	**0.8**	**2.0**	**3.2**	**1.8**	**1.6**
Overall balance before grants	**-3.6**	**-2.0**	**-0.9**	**-2.6**	**-2.0**
Overall balance after grants	**-1.6**	**-0.6**	**-0.1**	**-2.4**	**-1.8**
External financing	**2.0**	**2.0**	**1.3**	**2.3**	**1.9**
Disbursements	3.8	3.6	2.0	2.7	2.2
Amortization	-1.6	-1.7	-1.5	-1.2	-1.2
Other	-0.2	0.0	0.8	0.8	1.0
Domestic financing	**-0.3**	**-1.4**	**-1.2**	**0.1**	**-0.1**

Source: Statistical Appendix, Tables 1 and 14.

Table 16. El Salvador: Central Government Consolidated Operations

(In millions of colones)

	1993	1994	1995	1996	Prel. 1997
Revenue and grants	**8,008**	**9,524**	**11,437**	**11,390**	**12,202**
Current revenue	6,536	8,218	10,560	10,972	11,408
Tax revenue	6,247	7,704	10,011	10,196	10,795
Nontax revenue	289	514	548	776	613
Current transfers from public enterprises	167	143	176	247	537
Capital revenue	81	180	23	9	58
Official grants	1,224	983	679	162	199
Expenditure and net lending	**8,806**	**10,060**	**11,892**	**14,090**	**13,366**
Current expenditure	6,797	8,133	9,245	11,209	11,227
Wages and salaries	3,290	3,761	4,522	4,955	5,329
Goods and services	750	960	1,342	1,673	1,582
Interest	1,207	1,123	1,131	1,402	1,362
Transfers	1,550	2,289	2,250	3,179	2,954
Rest of general government	849	1,230	977	1,179	1,305
Public enterprises	18	31	26	32	27
Public financial intermediaries	43	91	102	80	40
Private sector	592	894	1,070	1,842	1,535
Other	48	43	75	45	47
Capital expenditure	1,904	1,841	2,511	2,861	2,342
Fixed capital formation	1,618	1,449	1,925	2,330	1,864
Transfers	286	393	586	531	479
Rest of general government	34	83	78	160	172
Public enterprises	81	100	43	100	40
Public financial intermediaries	117	150	341	172	137
Private sector	54	60	124	98	130
Net lending	105	88	136	20	-204
Rest of general government	70	41	58	1	-42
Public enterprises	61	-44	46	30	-144
Public financial intermediaries	-26	56	32	-11	-16
Private sector	0	32	1	0	-1
Other	0	0	0	0	0
Extraordinary transfer receipts	**0**	**0**	**0**	**858**	**0**
Current account balance (deficit -)	**-94**	**228**	**1,491**	**10**	**718**
Overall balance before grants	**-2,022**	**-1,519**	**-1,134**	**-2,004**	**-1,163**
Overall balance after grants	**-798**	**-536**	**-455**	**-1,842**	**-1,362**
External financing	**1,006**	**1,253**	**998**	**1,965**	**1,769**
Disbursements	1,570	2,148	2,115	3,969	3,524
Amortization	-465	-895	-1,117	-2,004	-1,755
Refinancing	0	0	0	0	0
Payment of arrears	-99	0	0	0	0
Domestic financing	**-208**	**-717**	**-543**	**-86**	**-605**
Central reserve bank	-178	-1,044	148	144	-148
Commercial banks	182	202	-259	1	58
Other financial intermediaries	15	44	-40	25	-40
Bonds outside banking system	0	-2	-124	-22	-121
Floating debt	0	0	0	-79	0
Other	-227	-82	-268	-156	-353
Memorandum item:					
Defense expenditure	916	829	857	886	...

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

Table 17. El Salvador: Central Government Consolidated Operations

(In percent of GDP)

	1993	1994	1995	1996	Prel. 1997
Revenue and grants	**13.2**	**13.5**	**13.7**	**12.5**	**12.2**
Current revenue	10.8	11.6	12.7	12.1	11.4
Tax revenue	10.3	10.9	12.0	11.2	10.8
Nontax revenue	0.5	0.7	0.7	0.9	0.6
Current transfers from public enterprises	0.3	0.2	0.2	0.3	0.5
Capital revenue	0.1	0.3	0.0	0.0	0.1
Official grants	2.0	1.4	0.8	0.2	0.2
Expenditure and net lending lending	**14.6**	**14.2**	**14.3**	**15.5**	**13.4**
Total expenditure	14.4	14.1	14.1	15.5	13.5
Current expenditure	11.2	11.5	11.1	12.3	11.2
Wages and salaries	5.4	5.3	5.4	5.4	5.3
Goods and services	1.2	1.4	1.6	1.9	1.6
Interest	2.0	1.6	1.4	1.5	1.4
Transfers	2.6	3.3	2.7	3.5	3.0
Rest of general government	1.4	1.8	1.2	1.3	1.3
Public enterprises	0.0	0.0	0.0	0.0	0.0
Public financial intermediaries	0.1	0.1	0.1	0.1	0.0
Private sector	1.0	1.3	1.3	2.0	1.6
Other	0.1	0.1	0.1	0.0	0.1
Capital expenditure	3.1	2.6	3.0	3.1	2.3
Fixed capital formation	2.7	2.1	2.3	2.5	1.9
Transfers	0.5	0.6	0.7	0.6	1.1
Rest of general government	0.1	0.1	0.1	0.2	0.8
Public financial enterprises	0.1	0.1	0.1	0.1	0.0
Public intermediaries	0.2	0.2	0.4	0.2	0.1
Private sector	0.1	0.1	0.1	0.1	0.2
Net lending	0.2	0.1	0.2	0.0	-0.2
Extraordinary transfer receipts	**0.0**	**0.0**	**0.0**	**0.9**	**0.0**
Current account balance (deficit -)	**-0.2**	**0.3**	**1.8**	**0.0**	**0.7**
Overall balance before grants	**-3.3**	**-2.1**	**-1.4**	**-2.2**	**-1.4**
Overall balance after grants	**-1.3**	**-0.8**	**-0.5**	**-2.0**	**-1.2**
External financing	**1.7**	**1.8**	**1.2**	**2.2**	**1.8**
Disbursements	2.6	3.0	2.5	4.4	5.1
Amortization	-0.8	-1.3	-1.3	-2.2	3.3
Refinancing	0.0	0.0	0.0	0.0	0.0
Payment of arrears	-0.2	0.0	0.0	0.0	0.0
Domestic financing	**-0.3**	**-1.0**	**-0.7**	**-0.1**	**-0.6**
Memorandum item:					
Defense expenditure	1.5	1.2	1.0	1.0	...

Source: Statistical Appendix, Tables 1 and 16.

Table 18. El Salvador: Central Government Current Revenue (Budgetary Operations)

(In millions of colones)

	1993	1994	1995	1996	Prel. 1997
Current revenue	**6,681**	**8,317**	**10,689**	**11,141**	**11,883**
Tax revenue	**6,247**	**7,705**	**10,011**	**10,196**	**10,795**
Direct taxes	1,625	2,109	2,802	2,819	3,000
Income	1,380	1,820	2,689	2,731	2,895
Wealth	155	187	0	0	0
Property transfers	90	102	113	89	105
Taxes on foreign trade	1,206	1,497	1,741	1,428	1,243
Import	1,197	1,497	1,741	1,428	1,243
Export	9	0	0	0	0
Taxes on domestic transactions	3,416	4,099	5,468	5,915	6,552
Liquor and beer	0	0	0	0	0
Cigarettes	0	0	0	0	0
Consumption taxes	574	610	661	633	644
Petroleum products	0	0	0	0	0
Other consumption taxes	48	79	84	0	0
Stamp tax/value-added tax	2,668	3,283	4,634	5,282	5,895
Airline tickets	0	0	.0	0	0
Automobile registrations	0	0	0	0	0
Other taxes	126	127	90	35	13
Nontax revenue	**267**	**469**	**502**	**.698**	**551**
Current transfers from public enterprises	**167**	**143**	**176**	**247**	**537**

Sources: Ministry of Finance; and Central Reserve Bank.

Table 19. El Salvador: Operations of the General Government 1/

	1993	1994	1995	1996	Prel. 1997
	(In millions of colones)				
Revenues and grants	**9,189**	**11,119**	**13,494**	**13,992**	**14,423**
Current revenue	7,717	9,767	12,616	13,573	13,628
Tax revenue	6,247	7,705	10,011	10,196	10,795
Nontax revenue	1,470	2,062	2,605	3,377	2,833
Current transfers from public enterprises	167	143	176	247	537
Capital revenue	81	227	23	10	59
Official grants	1,224	983	679	162	199
Expenditure and net lending	**9,872**	**11,412**	**13,630**	**16,473**	**15,198**
Current expenditure	7,860	9,412	10,940	13,558	13,132
Consumption	5,579	6,817	8,076	9,601	9,446
Wages and salaries	4,270	5,070	5,922	6,754	6,889
Goods and services	1,309	1,747	2,154	2,847	2,557
Interest	1,241	1,140	1,133	1,402	1,363
Current transfers	1,040	1,455	1,734	2,556	2,323
Public enterprises	18	33	26	32	27
Public financial intermediaries	43	91	102	80	40
Private sector	931	1,288	1,531	2,398	2,209
Other	48	43	75	45	47
Capital expenditure	2,012	2,000	2,687	2,915	2,310
Fixed capital formation	1,710	1,651	2,101	2,525	2,075
Capital transfers to:	252	309	508	371	479
Public enterprises	81	100	43	100	40
Public financial intermediaries	117	150	341	172	137
Private sector	54	59	124	98	130
Net lending	50	39	79	19	-244
Extraordinary transfer receipts	**0**	**0**	**0**	**858**	**0**
Current account balance (deficit -)	**24**	**498**	**1,849**	**262**	**1,033**
Overall balance before grants	**-1,907**	**-1,275**	**-815**	**-2,836**	**-974**
Overall balance after grants	**-683**	**-292**	**-136**	**-1,622**	**-775**
External financing	**1,013**	**1,248**	**998**	**1,928**	**1,790**
Disbursements	1,580	2,148	2,115	3,931	3,624
Amortization	-468	-900	-1,117	-2,004	-1,834
Refinancing	0	0	0	0	0
Payment of arrears	-99	0	0	0	0
Domestic financing	**-330**	**-957**	**-864**	**-305**	**-1,015**
Central reserve bank	-181	-1,119	61	84	-97
Commercial banks	149	-70	-522	-300	-453
Other financial intermediaries	15	33	-96	46	-5
Bonded debt	0	-41	-124	-96	-212
Floating debt	0	0	0	0	0
Other	-313	240	-183	-39	-248
	(In percent of GDP)				
Revenues and grants	**15.2**	**15.9**	**16.2**	**15.1**	**14.4**
Expenditure	16.3	16.3	16.4	18.0	15.2
Current	13.0	13.4	13.2	14.8	13.1
Capital	3.3	2.9	3.2	3.2	2.1
Current account balance (deficit -)	**0.0**	**0.7**	**2.2**	**0.1**	**1.0**
Overall balance before grants	**-3.2**	**-1.8**	**-1.0**	**-3.1**	**-1.0**
Overall balance after grants	**-1.1**	**-0.4**	**-0.2**	**-1.8**	**-0.8**
External financing	**1.7**	**1.8**	**1.2**	**2.1**	**1.8**
Domestic financing	**-0.7**	**-1.4**	**-1.0**	**-0.3**	**-1.0**

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

1/ Includes the central governmt, the Salvadoran Social Security Institute (ISSS), the Salvadoran Agrarian Transformation Institute, the municipalities, the public hospital system, the University of El Salvador, and other institutions.

Table 20. El Salvador: Operations of the Rest of General Government

	1993	1994	1995	1996	Prel. 1997
(In millions of colones)					
I. Consolidated					
Current revenue	**2,030**	**2,780**	**3,036**	**3,780**	**3,525**
Contributions to ISSS	948	1,288	1,522	1,686	1,905
Sales of goods and services and property income	233	261	534	915	315
Central government transfers	849	1,232	979	1179	1,305
Current expenditure	**1,912**	**2,506**	**2,675**	**3,528**	**3,209**
Consumption	1,539	2,095	2,212	2,972	2,535
Wages and salaries	980	1,309	1,400	1,799	1,560
Goods and services	559	787	812	1,173	975
Interest	34	17	2	0	1
Transfers to private sector	339	394	461	556	673
Current account balance (deficit -)	**118**	**274**	**361**	**252**	**316**
Capital revenue	34	131	78	161	172
Central government transfers	34	84	78	160	172
Other capital receipts	0	47	0	1	0
Capital expenditure	92	203	176	195	211
Net lending	15	0	0	0	-40
Overall balance before grants	**-45**	**202**	**264**	**218**	**319**
Overall balance after grants	**-45**	**202**	**264**	**218**	**319**
External financing	**7**	**-5**	**0**	**0**	**-96**
Domestic financing	**-52**	**-197**	**-264**	**-218**	**-222**
Central reserve bank	-3	-75	-87	-56	51
Commercial banks	-33	-271	-263	-303	-511
Other financial intermediaries	0	-11	-56	22	35
Bonds outside banking system	0	-39	0	0	-91
Borrowing from central government	70	41	58	1	189
Other	-86	158	85	118	105
(In percent of GDP)					
Current account balance	0.2	0.4	0.4	0.3	0.3
Overall balance after grants	0.1	0.3	0.3	0.2	0.3
II. Salvadoran Social Security Institute (ISSS)					
(In millions of colones)					
Current revenue	**1,091**	**1,467**	**1,697**	**1,931**	**2,144**
Contributions	948	1,288	1,522	1,686	1,905
Sales of goods and services and property income	143	170	172	252	237
Central government transfers	0	9	3	0	0
Current expenditure	**998**	**1,200**	**1,371**	**1,686**	**1,904**
Consumption	666	809	910	1,130	1,231
Wages and salaries	336	405	457	575	647
Goods and services	330	404	453	555	584
Transfers to private sector	332	392	461	556	673

Table 20. El Salvador: Operations of the Rest of General Government

	1993	1994	1995	1996	Prel. 1997
(In millions of colones)					
Current account balance (deficit -)	93	267	327	252	239
Capital expenditure	43	31	100	34	148
Overall balance (deficit -)	50	236	226	218	92
External financing	0	0	0	0	9
Domestic financing	-50	-236	-226	-218	-101
III. Salvadoran Agrarian Transformation Institute (ISTA)					
Current revenue	21	41	7	20	10
Of which					
Central government transfers	20	30	7	17	10
Current expenditure	23	44	9	20	11
Of which					
Wages and salaries	14	18	5	14	7
Current account deficit (-)	-2	-2	-2	0	0
Capital revenue	14	53	18	18	129
Of which					
Central government transfers	14	6	18	18	129
Capital expenditure	14	96	3	18	20
Overall balance (deficit -)	-2	-46	14	0	149
External financing	0	0	0	0	0
Domestic financing	2	46	-14	0	-149
IV. Municipalities					
Current revenue	97	70	351	379	20
Of which					
Central government transfers	17	5	8	13	20
Current expenditure	82	70	348	379	20
Of which					
Wages and salaries	75	49	252	266	14
Current account balance (deficit -)	15	0	3	0	0
Capital revenue	0	61	4	109	0
Of which					
Central government transfers	0	61	4	109	0
Capital expenditure	15	59	19	109	0
Overall balance (deficit -)	0	2	-11	0	0

Table 20. El Salvador: Operations of the Rest of General Government

	1993	1994	1995	1996	Prel. 1997
(In millions of colones)					
External financing (net)	-3	-5	0	0	0
Domestic financing	3	3	11	0	0
V. Public Hospital System					
Current revenue	333	422	497	710	765
Of which					
Central government transfers	328	422	496	710	765
Current expenditure	333	422	497	710	765
Of which					
Wages and salaries	249	295	398	458	536
Current account balance (deficit -)	0	0	0	0	0
Capital revenue	0	0	0	0	9
Of which					
Central government transfers	0	0	0	0	9
Capital expenditure	0	0	0	0	9
Overall balance (deficit -)	0	0	0	0	0
External financing	0	0	0	0	0
Domestic financing	0	0	0	0	0
VI. University of El Salvador (UES)					
Current revenue	106	143	149	173	164
Of which					
Central government transfers	102	129	147	159	164
Current expenditure	105	133	141	173	164
Of which					
Wages and salaries	71	97	104	121	115
Current account balance	1	10	8	0	0
Capital expenditure	0	0	0	0	2
Overall balance (deficit -)	1	10	8	0	1
External financing	0	0	0	0	0
Domestic financing	-1	-10	-8	0	-1
VII. Other Units of Rest of General Government					
Current revenue	336	638	336	560	423
Of which					
Central government transfers	336	638	319	335	345

Table 20. El Salvador: Operations of the Rest of General Government

	1993	1994	1995	1996	Prel. 1997
(In millions of colones)					
Current expenditure	371	638	310	560	345
Of which					
Wages and salaries	235	' 446	235	366	242
Current account balance (deficit -)	-35	0	26	0	78
Capital revenue	20	16	56	27	31
Of which					
Central government transfers	20	16	56	27	31
Capital expenditure	20	16	54	27	32
Overall balance (deficit -)	-50	0	27	0	77
External financing	10	0	0	0	-105
Domestic financing	40	0	-27	0	28

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

Table 21. El Salvador: Operations of the Nonfinancial Public Enterprises

	1993	1994	1995	1996	Prel. 1997
	(In millions of colones)				
I. Consolidated Operations					
Operating surplus	**775**	**1,257**	**1,217**	**1,800**	**1,285**
Operating revenue	3,170	3,758	4,493	5,102	5,466
Operating expenditure	2,395	2,500	3,276	3,302	4,181
Current transfers from central government	18	28	24	32	27
Current transfers to central government	167	143	176	247	537
Interest payments	181	238	236	190	187
Current account balance (deficit -)	**445**	**905**	**830**	**1,363**	**601**
Foreign grants	0	0	0	0	2
Capital transfers from central government	82	100	43	100	40
Extraordinary transfer expenditures	0	0	0	858	0
Capital revenue	1	0	0	8	7
Capital expenditure	883	1,066	896	1,220	1,396
Overall balance before grants (deficit -)	**-355**	**-61**	**-23**	**-575**	**-761**
Overall balance after grants (deficit -)	**-355**	**-61**	**-23**	**-575**	**-759**
External financing	**174**	**150**	**100**	**207**	**394**
Disbursements	736	425	649	678	751
Amortization	-562	-275	-549	-471	-357
Domestic financing	**181**	**-94**	**-77**	**369**	**365**
Central reserve bank	85	-46	-52	587	263
Commercial banks (net)	23	13	10	-302	55
Other financial intermediaries	19	-13	-55	77	35
Borrowing from central government	61	-49	46	30	-144
Bonds outside banking system	0	0	0	0	0
Other	-7	2	-27	-23	-156
	(In percent of GDP)				
Operating surplus	1.3	1.8	1.5	2.0	1.3
Net transfers to government	0.3	0.2	0.2	0.2	0.5
Current account balance (deficit -)	0.7	1.3	1.0	1.5	0.6
Capital expenditure	1.5	1.5	1.1	1.3	1.4
Overall balance after grants (deficit -)	-0.6	-0.1	0.0	-0.6	0.8
External financing	0.3	0.2	0.1	0.2	0.4
Domestic financing	0.3	-0.1	-0.1	0.4	0.4
II. Lempa River Hydroelectric Commission (CEL)					
Operating surplus	**234**	**654**	**608**	**783**	**799**
Operating revenue	1,120	1,467	1,961	2,112	2,330
Operating expenditure	887	813	1,353	1,329	1,531
Current transfers from central government	0	2	1	0	0
Current transfers to central government	0	0	46	0	206
Interest payments	137	173	151	105	93
Current account balance (deficit -)	**97**	**483**	**412**	**678**	**500**

Table 21. El Salvador: Operations of the Nonfinancial Public Enterprises

	1993	1994	1995	1996	Prel. 1997
	(In millions of colones)				
Foreign grants	0	0	0	0	2
Capital transfers from central government	37	36	7	18	0
Capital revenue	1	0	0	0	0
Capital expenditure	305	407	317	570	721
Overall balance (deficit -)	**-170**	**112**	**102**	**126**	**-218**
External financing (net)	**87**	**20**	**19**	**45**	**217**
Disbursements	548	206	415	291	479
Amortization	-461	-186	-396	-247	-262
Domestic financing	**83**	**-133**	**-120**	**-171**	**1**
Operating surplus	**418**	**472**	**507**	**945**	**381**
Operating revenue	1,136	1,319	1,433	1,849	1,892
Operating expenditure	718	847	927	904	1,511
Current transfers to central government	101	109	80	247	282
Interest payments	11	38	53	58	56
Current account balance (deficit -)	**306**	**324**	**374**	**640**	**43**
Capital transfers from central government	3	12	3	-858	0
Capital revenue	0	0	0	0	0
Capital expenditure	363	532	383	366	245
Overall balance (deficit -)	**-54**	**-196**	**-7**	**-530**	**-201**
External financing	**-50**	**149**	**0**	**28**	**26**
Disbursements	22	209	123	247	116
Amortization	-72	-60	-123	-219	-90
Domestic financing	**104**	**47**	**7**	**502**	**175**
IV. National Water and Sewerage Administration (ANDA)					
Operating surplus	**16**	**22**	**-21**	**-17**	**-28**
Operating revenue	283	293	377	417	456
Operating expenditure	267	272	398	434	484
Current transfers from central government	0	1	2	6	0
Interest payments	22	14	19	16	14
Current account balance (deficit -)	**-6**	**8**	**-38**	**-27**	**-42**
Capital transfers from central government	34	34	26	70	20
Capital expenditure	175	59	104	149	293
Overall balance (deficit -)	**-147**	**-17**	**-116**	**-106**	**315**
External financing	**142**	**-13**	**60**	**131**	**143**
Disbursements	165	10	83	131	143
Amortization	-23	-23	-23	0	0
Domestic financing	**5**	**30**	**56**	**-26**	**173**

Table 21. El Salvador: Operations of the Nonfinancial Public Enterprises

	1993	1994	1995	1996	Prel. 1997
(In millions of colones)					
V. Port Commission (CEPA)					
Operating surplus	**68**	**63**	**80**	**43**	**82**
Operating revenue	283	319	346	317	356
Operating expenditure	215	256	266	274	274
Current transfers from central government (net)	16	13	6	10	27
Interest payments	12	13	12	11	24
Current account balance (deficit -)	**72**	**63**	**74**	**41**	**31**
Foreign grants	0	0	0	0	0
Capital transfers from central government	8	18	7	12	20
Capital revenue	0	0	0	8	7
Capital expenditure	40	69	92	135	137
Overall balance (deficit -)	**40**	**13**	**-11**	**-74**	**-24**
External financing	**-5**	**-5**	**22**	**4**	**8**
Disbursements	1	0	29	9	13
Amortization	-6	-5	-7	-5	-5
Domestic financing	**-35**	**-8**	**-11**	**71**	**16**
VI. National Lottery					
Operating surplus	**40**	**47**	**43**	**45**	**49**
Operating revenue	348	359	376	406	431
Operating expenditure	308	312	333	361	382
Current transfers to central government	64	22	35	38	49
Current account balance (deficit -)	**-24**	**26**	**8**	**7**	**0**
Capital expenditure	0	0	0	0	0
Overall balance (deficit -)	**-24**	**26**	**8**	**7**	**0**
Domestic financing	**-24**	**-26**	**-8**	**-7**	**0**

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

Table 22. El Salvador: Distribution of Public Sector Bonded Debt

(In millions of colones)

| | December 31 | | | | |
	1993	1994	1995	1996	Prel. 1997
Total debt	**3,130**	**3,108**	**3,029**	**2,716**	**2,625**
Central reserve bank	378	361	362	208	187
Commercial and mortgage banks	1,044	1,371	1,382	1,365	1,252
Public nonbank financial intermediaries	320	352	632	528	490
Private nonbank financial intermediaries	211	225	82	108	0
Central government	74	72	73	220	405
Rest of general government	79	77	77	77	0
Nonfinancial public enterprises	0	0	0	0	2
External sector	77	64	52	40	33
Private sector	947	587	404	170	256
Central government debt	**2,375**	**2,519**	**2,432**	**2,243**	**1,939**
Central reserve bank	341	323	289	170	150
Commercial and mortgage banks	1,044	1,334	1,355	1,317	1,235
Public nonbank financial intermediaries	260	219	420	369	355
Private nonbank financial intermediaries	171	187	82	108	0
Central government 1/	0	0	0	77	61
Rest of general government	79	77	77	77	0
Nonfinancial public enterprises	0	0	0	0	2
External sector	77	64	52	40	33
Private sector	403	314	157	87	103
Rest of general government debt	**645**	**570**	**527**	**423**	**635**
Central reserve bank	37	37	37	37	37
Commercial and mortgage banks	0	27	0	20	17
Public nonbank financial intermediaries	60	133	212	161	135
Private nonbank financial intermediaries	40	38	0	0	0
Central government	74	72	73	143	343
Private sector	434	262	204	61	103
Public financial intermediaries debt	**110**	**20**	**70**	**50**	**51**
Central reserve bank	0	0	0	0	0
Commercial and mortgage banks	0	9	27	28	0
Public nonbank financial intermediaries	0	0	0	0	0
Private nonbank financial intermediaries	0	0	0	0	0
Central government	0	0	0	0	1
Rest of general government	0	0	0	0	0
Private sector	110	11	43	22	50

Sources: Ministry of Finance; and Central Reserve Bank.

1/ Bonds collected as part of tax payments.

Table 23. El Salvador: Operations of the Financial System 1/

(In millions of colones, at end of period)

	1993	1994	1995	1996	Prel. 1997
I. Consolidated Operations					
Net international reserves	5,830	6,243	5,876	7,753	10,256
Net domestic assets	21,631	24,844	29,832	34,722	37,892
Credit to public sector (net)	3,965	2,955	2,301	2,524	2,359
Credit to rest of financial institutions (net)	-1,237	-1,291	-2,016	-3,502	-5,655
Private sector	17,771	21,939	28,954	33,419	39,596
Official capital	-1,859	-1,916	-1,664	-1,664	-1,725
Private capital	-1,175	-1,236	-1,702	-1,906	-2,290
Other	4,165	4,393	3,958	5,851	5,607
Medium- and long-term foreign liabilities	2,275	877	1,717	2,600	3,374
Government trust funds	119	54	19	14	15
Liabilities to private sector	25,495	30,156	33,972	39,858	44,762
Currency in circulation	2,644	2,972	3,131	3,104	3,227
Sight deposits	3,412	3,691	3,825	5,070	4,787
Time and savings deposits	18,362	22,018	24,869	28,229	31,820
Foreign currency deposits	841	1,295	1,578	2,340	3,285
Other	235	180	569	1,115	1,642
II. Private Nonbank Financial Institutions					
Net international reserves	0	-11	-99	-29	-4
Monetary reserves and currency holdings	1,198	960	1,318	1,160	390
Cash in vault	26	27	30	22	13
Deposits and investments	1,172	933	1,288	1,138	377
Net domestic assets	2,353	2,572	3,671	3,877	1,638
Credit to public sector (net)	-392	-222	-373	-249	-179
Credit to commercial banks	95	225	127	87	20
Credit to rest of financial institutions (net)	-292	-378	-419	-283	-89
Private sector	3,484	3,365	4,876	4,179	2,011
Private capital	-331	-233	-320	-317	-219
Other	-211	-185	-220	460	93
Liabilities to central bank	16	17	95	229	245
Medium- and long-term foreign liabilities	7	0	0	8	5
Liabilities to private sector	3,528	3,504	4,795	4,770	1,774
Time and savings deposits	3,528	3,424	4,578	4,590	1,650
Foreign currency deposits	0	0	44	104	124
Other	0	80	173	75	0
III. Banking System					
Net international reserves	5,830	6,254	5,974	7,783	10,260
Net domestic assets	18,096	21,329	24,939	29,914	36,109
Credit to public sector (net)	4,357	3,177	2,674	2,773	2,538
Central government (net)	6,257	5,417	5,306	5,451	5,361
Rest of public sector (net)	-1,900	-2,240	-2,632	-2,678	-2,822
Credit to rest of financial institutions (net)	-2,222	-2,080	-2,946	-4,237	-5,732
Private sector	14,287	18,574	24,079	29,240	37,586
Official capital	-1,859	-1,916	-1,664	-1,664	-1,725

Table 23. El Salvador: Operations of the Financial System 1/

(In millions of colones)

	1993	1994	1995	1996	Prel. 1997
Private capital	-844	-1,004	-1,381	-1,589	-2,072
Other	4,377	4,578	4,178	5,391	5,514
Medium- and long-term foreign liabilities	1,841	877	1,717	2,593	3,369
Government trust funds	119	54	19	14	15
Liabilities to private sector	21,967	26,652	29,178	35,088	42,988
Currency in circulation	2,644	2,972	3,131	3,104	3,227
Demand deposits	3,412	3,691	3,825	5,070	4,787
Time and savings deposits	14,834	18,594	20,291	23,639	30,170
Foreign currency deposits	841	1,295	1,534	2,235	3,161
Other	235	100	397	1,040	1,642

III.a. Commercial Banks

	1993	1994	1995	1996	Prel. 1997
Net international reserves	26	-641	-2,204	-1,839	-2,533
Monetary reserves and currency holdings	7,633	9,227	8,926	9,297	11,426
Cash in vault	336	471	466	620	858
Deposits with CRB	4,977	6,261	6,803	7,791	9,454
CEMs colones, CEMs US$ and other	1,128	1,651	1,193	886	1,155
Bonos Safor	1,192	844	465	106	0
Net domestic assets	12,987	16,919	21,779	27,516	34,718
Credit to public sector	27	-14	-526	-1,102	-1,501
Central government (net)	911	1,113	854	855	913
Rest of the public sector (net)	-884	-1,127	-1,380	-1,957	-2,414
Private sector	14,286	18,574	24,079	29,240	37,586
Nonbank financial institutions	-960	-1,055	-977	-1,079	-1,317
Private capital	-844	-1,004	-1,381	-1,589	-2,072
Other	478	417	585	2,046	2,022
Liabilities to central bank	1,324	1,750	2,195	2,324	2,689
Medium- and long-term foreign liabilities	0	75	261	664	1,161
Liabilities to private sector	19,322	23,680	26,047	31,984	39,761
Demand deposits	3,412	3,691	3,825	5,070	4,787
Time and savings deposits	14,834	18,594	20,291	23,639	30,170
Foreign currency deposits	841	1,295	1,534	2,235	3,161
Mortgage bonds	114	100	85	80	96
Other	121	0	312	961	1546

III.b. Central Bank

	1993	1994	1995	1996	Prel. 1997
Net international reserves	5,804	6,895	8,178	9,622	12,793
Net domestic assets	-1,200	-3,067	-3,571	-4,575	-7,342
Credit to the public sector (net)	4,330	3,191	3,200	3,875	4,040
Central government	5,346	4,304	4,452	4,596	4,448
Rest of public sector	-1,016	-1,113	-1,252	-721	-408
Financial system (net)	-7,570	-8,503	-8,701	-10,131	-13,149
Commercial banks (net)	-6,308	-7,477	-6,732	-6,973	-8,733
Financial institutions (net)	-1,262	-1,025	-1,969	-3,158	-4,415
Official capital	-1,859	-1,916	-1,664	-1,664	-1,725
Other	3,899	4,161	3,593	3,345	3,492
Medium- and long-term foreign liabilities	1,841	802	1,456	1,929	2,208
Government trust funds	119	54	19	14	15
Currency in circulation	2,644	2,972	3,131	3,104	3,227

Sources: Central Reserve Bank; and Fund staff estimates.

1/ The reference exchange rate is C 9 per U.S. dollar in 1993 and C 8.75 per U.S. dollar in 1994 through 1997.

Table 24. El Salvador: Financial System Credit Expansion—Origin,
Destination, and Financing 1/

(In millions of colones)

	1993	1994	1995	1996	Prel. 1997
Net domestic credit	**4,574**	**3,213**	**4,988**	**4,887**	**3,170**
Origin					
Central bank	-1,650	-1,867	-505	-1,003	-2,767
Commercial banks	5,592	5,101	4,115	5,975	8,984
Private nonbank institutions	633	-21	1,378	-86	-3,047
Destination					
Nonfinancial public sector	201	-1,011	-653	220	-165
Businesses and individuals	3,737	4,168	7,016	4,464	6,177
Public nonbank financial intermediaries	573	-54	-725	-1,486	-2,153
Other	64	110	-649	1,688	-689
Financing					
Net international reserves	-1,391	-413	368	-1,876	-2,503
Medium- and long-term foreign liabilities	-427	-971	840	884	774
Liabilities to private sector	6,274	4,661	3,816	5,885	4,904
Other	119	-64	-36	-6	-5

Source: Statistical Appendix, Table 23.

1/ Flows since the beginning of the year.

Table 25. El Salvador: Commercial Bank Interest Rates

(Percent per annum; end of period)

	1993	1994	1995	1996	1997
		Interest rates on loans 1/			
Loans up to one year					
Domestic currency	17.0-20.0	17.6-20.6	18.7-21.7	16.7	15.3
Foreign currency	...	11.6-13.6	12.2-14.2	11.3	10.5
Loans of more than one year					
Domestic currency	17.4-20.4	18.1-21.1	18.0-21.0	18.2	17.2
Interbank loans	15.0	12.0	21.5	11.8	12.0
		Interest rates on deposits			
Time deposits					
30 days	12.0	12.3	17.8	11.2	13.0
60 days	13.0	12.8	17.8	11.5	12.8
90 days	13.3	13.0	16.5	11.4	12.5
180 days	14.0	13.2	16.9	12.0	12.7
Foreign currency deposits 2/	...	6.0	7.2	7.2	6.8
Stabilization bonds (CEMs) 3/					
30 days	8.4	10.5	14.5	11.0	9.5
180 days	9.9	13.5	14.5	12.3	10.4

Source: Central Reserve Bank.

1/ Loan rates were liberalized in March 1992.
2/ Thirty-day time deposits.
3/ Interest on CEMs are income-tax exempted for business (unlike other financial assets).

Table 26. El Salvador: Distribution of Commercial Bank
Credit to the Private Sector 1/

	1993	1994	1995	1996	1997 2/
	(In millions of colones)				
Total	**18,934**	**18,911**	**21,816**	**27,193**	**27,343**
Agricultural sector	3,785	2,423	2,933	2,822	3,032
Coffee	2,404	1,290	1,520	1,781	2,170
Cotton	43	77	5	23	2
Sugarcane	497	329	359	258	277
Livestock	208	204	175	89	42
Other 3/	633	523	874	671	541
Mining and quarrying	13	17	6	15	4
Manufacturing	4,803	4,702	4,878	4,759	4,840
Foodstuffs	1,144	1,426	1,362	1.101	1,307
Beverages and tobacco	271	261	439	352	280
Textiles and clothing	732	696	673	815	734
Paper and paper products	417	451	470	483	560
Chemicals	595	496	410	637	608
Metal products	311	227	152	88	115
Other 3/	1,333	1,145	1,372	1,283	1,236
Construction	2,871	3,040	2,201	5,558	3,272
Housing	642	1,153	762	1,563	1,348
Other 3/	2,229	1,887	1,439	3,995	1,924
Electricity, gas, water, and sewerage	8	19	30	52	166
Commerce	5,086	5,285	7,888	8,846	11,080
Imports	1,940	1,777	2,346	2,004	3,160
Exports	322	264	526	449	1,783
Other 3/	2,824	3,244	5,016	6,394	6,137
Transport, storage, and communications	433	576	660	669	453
Services	567	773	796	1,357	1,344
Other 3/	1,368	2,076	2,442	3,115	3,152
	(In percent of total)				
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agricultural sector	20.0	12.8	13.4	10.4	11.1
Coffee	12.7	6.8	7.0	6.5	7.9
Cotton	0.2	0.4	0.0.	0.1	0.0
Sugarcane	2.6	1.7	1.7	0.9	1.0
Livestock	1.1	1.1	0.8	0.3	0.2
Other	3.3	2.8	4.0	2.5	2.0
Mining and quarrying	0.0	0.0	0.0	0.1	0.0
Manufacturing	25.4	24.9	22.4	17.5	17.7
Foodstuffs	6.0	7.5	6.2	4.0	4.8
Beverages and tobacco	1.4	1.4	2.0	1.3	1.0
Textiles and clothing	3.9	3.7	3.1	3.0	2.7
Paper and paper products	2.2	2.7	2.2	1.8	2.0
Chemicals	3.1	2.6	1.9	2.3	2.2
Metal products	1.6	1.2	0.7	0.3	0.4
Other 3/	7.0	6.1	6.3	4.7	4.5
Construction	15.1	16.1	10.1	20.4	12.0
Housing	3.4	6.1	3.5	5.7	5.0
Other 3/	11.8	10.0	6.6	14.7	7.0
Electricity, gas, water, and sewerage	0.0	0.1	0.1	0.2	0.6
Commerce	26.9	28.0	36.2	32.5	40.5
Imports	10.2	9.4	10.8	7.4	11.6
Exports	1.7	1.4	2.4	1.7	6.5
Other 2/	14.9	17.2	23.0	23.5	22.4
Transport, storage, and communications	2.3	3.1	3.0	2.5	1.7
Services	3.0	4.1	3.7	5.0	4.9
Other 2/	7.2	11.0	11.2	11.5	11.5

Source: Central Reserve Bank.

1/ Loans approved during the period indicated.
2/ January-October.
3/ Includes refinancing.

Table 27. El Salvador: Minimum Capital, Legal Reserve,
and Portfolio Requirements

(In percent)

	December 31				
	1993	1994	1995	1996	1997
Capital requirements 1/	8.0	8.0	8.0	8.3	8.6
Legal reserve requirements					
Foreign borrowing	0.0	10.0	10.0	10.0	10.0
Local currency deposits 2/					
Demand deposits	30.0	30.0	30.0	30.0	30.0
Savings deposits	20.0	20.0	20.0	20.0	20.0
Time deposits	20.0	20.0	20.0	20.0	20.0
Foreign currency deposits 3/	50.0	50.0	20-30	20.0	20.0
Remunerated reserve requirements					
Demand deposits	0.0	0.0	0.0	0.0	0.0
Savings deposits 4/ 5/	5.0	5.0	5.0	5.0	5.0
Time deposits 4/ 5/	5.0	5.0	5.0	5.0	5.0

Source: Central Reserve Bank.

1/ Ratio of paid-in capital to total loans and investments, excluding government and central reserve bank bonds.

2/ In 1991, reserve requirements for savings and loan associations were 4 percentage points below those of commercial banks. Since August 1995, reserve requirements on public sector deposits are 35 percent for all kinds of deposits.

3/ In April 1995, reserve requirements for foreign and domestic currency deposits were unified.

4/ Through March 1996, the renumerated reserve requirements were 15 percent for public sector deposits.

5/ In August 1996, the renumerated reserve requirements on deposits with a maturity larger than 180 days were increased from 5 to 10 percent.

Table 28. El Salvador: Liquidity of the Commercial Banks

	December 31				
	1993	1994	1995	1996	Prel. 1997
(In millions of colones at end of period)					
Total deposit liabilities	**19,791**	**24,633**	**27,196**	**31,961**	**38,931**
Required reserves	3,995	5,029	5,882	6,643	7,986
Total liquid reserves	4,634	5,896	6,529	7,596	8,903
Deposits at central bank	4,309	5,428	6,034	6,976	8,208
Currency	325	468	495	620	695
Excess over statutory liquidity 1/	315	398	152	333	222
Excess liquidity 2/	640	867	647	953	917
(In percent of deposit liabilities)					
Required reserves	20.2	20.4	21.6	20.8	20.5
Total liquid reserves	23.4	23.9	24.0	21.8	22.9
Deposits at central bank	21.8	22.0	22.2	18.9	21.1
Currency and other claims on central bank	1.6	1.9	1.8	1.9	1.8
Excess over statutory liquidity 1/	1.6	1.6	0.6	1.0	0.6
Excess liquidity 2/	3.2	3.5	2.4	3.0	2.4

Source: Central Reserve Bank.

1/ Deposits at central bank less required reserves.
2/ Total liquid reserves less required reserves.

Table 29. El Salvador: Net International Reserves
of the Central Reserve Bank

(In millions of U.S. dollars)

| | December 31 | | | | Prel. |
	1993	1994	1995	1996	1997
Net official reserves	**644.9**	**788.0**	**934.6**	**1,099.7**	**1462.1**
Assets	675.0	787.9	934.4	1,099.6	1462.1
Gold	152.5	152.5	152.5	152.5	152.5
Clearing arrangements	19.6	19.6	19.6	6.8	6.8
Other	502.9	615.8	762.3	940.3	1,302.8
Liabilities	30.1	-0.1	-0..2	-0.1	0.0
Fondo Centroamericano de					
Estabilización Monetaria (net)	-0.1	-0.1	-0.2	-0.1	0.0
Clearing arrangements	0.0	0.0	0.0	0.0	0.0
Banco Centroamericano de					
Integración Económica	0.0	0.0	0.0	0.0	0.0
Foreign commercial banks	0.2	0.1	0.0	0.0	0.0
Foreign central bank deposits	30.0	0.0	0.0	0.0	0.0
Net international reserves	**644.9**	**788.0**	**934.6**	**1,099.5**	**1,462.1**
(in months of imports)	4.0	4.2	3.9	4.9	5.9
(in percent of the monetary base)	75.1	71.2	74.3	79.8	98.2

Source: Central Reserve Bank.

Table 30. El Salvador: Medium- and Long-Term Foreign
Liabilities of the Central Reserve Bank 1/

(In millions of U.S. dollars)

	December 31				
	1993	1994	1995	1996	Prel. 1997
Total	**239.5**	**126.7**	**165.6**	**214.3**	**252.3**
International agencies	88.9	62.1	103.3	152.7	185.8
BCIE	18.7	0.0	0.0	0.0	0.0
IDB	70.2	62.1	103.3	152.7	185.8
Government agencies	22.0	21.6	21.6	21.6	26.5
Venezuela	0.0	0.0	0.0	0.0	0.0
Argentina	0.0	0.0	0.0	0.0	0.0
Guatemala	0.0	0.0	0.0	0.0	0.0
Other	22.0	21.6	21.6	21.6	26.5
Private banks and others	128.6	43.0	40.7	40.0	40.0
Of which					
Dollar bonds 2/	7.0	2.1	0.7	0.0	0.0
With maturities					
From one to five years	38.8	0.9	40.7	0.9	4.9
Over five years	200.7	125.8	124.9	213.4	247.4

Source: Central Reserve Bank.

1/ Changes in the stock of debt differ from balance of payments flows due to short-term liabilities converted to medium-term liabilities, dollar bonds issued by the central reserve bank, rescheduling of medium-term liabilities, accounting adjustments, valuation adjustments, repayments of arrears and statistical discrepancies.
2/ Bonds issued by the central bank to refinance external arrears.

Table 31. El Salvador: Balance of Payments

(In millions of U.S. dollars)

	1993			1994			1995			1996			1997 1/		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
Current account	2,444	2,526	-82	2,958	2,976	-18	3,489	3,750	-262	3,509	3,678	-169	4,106	4,180	-74
Goods and services	1,398	2,523	-1,125	1,670	2,974	-1,303	2,095	3,746	-1,651	2,250	3,673	-1,423	2,830	4,175	-1,345
Merchandise trade	1,032	2,144	-1,112	1,249	2,574	-1,325	1,652	3,329	-1,677	1,789	3,222	-1,433	2,359	3,701	-1,342
Of which:															
Maquila	290	220	70	430	322	108	647	473	174	765	551	214	1,033	751	282
Services	366	379	-12	421	400	22	443	417	26	461	451	10	471	474	-3
Transportation	80	61	18	94	72	22	97	75	22	99	80	19	102	82	20
Travel	78	60	17	85	70	15	86	72	13	86	73	14	89	75	14
Factor income	25	142	-116	30	92	-62	51	121	-70	44	142	-98	72	192	-120
Direct investment	0	32	-32	0	0	0	3	0	3	0	8	-8	8	43	-35
Interest	25	110	-84	30	92	-62	47	121	-73	44	135	-91	64	149	-85
Government transactions	83	16	67	88	20	69	84	22	62	96	23	73	95	24	71
Other services	98	97	0	123	144	-22	125	126	-1	134	132	2	113	101	12
Insurances (except merchandise)	22	29	-6	26	32	-6	27	33	-6	27	34	-7	28	35	-7
Other	75	68	7	96	112	-16	99	93	6	107	98	9	85	66	19
Transfer payments	1,046	2	1,043	1,287	2	1,285	1,394	4	1,390	1,259	5	1,254	1,276	5	1,271
Private	823	0	823	1,001	0	1,001	1,197	2	1,195	1,195	2	1,193	1,223	2	1,221
Public	222	1	220	285	1	284	197	3	194	64	3	61	53	3	50
Capital account	422	185	237	435	274	161	568	159	408	531	197	333	582	146	436
Private capital	143	1	142	122	21	101	221	9	211	42	0	42	189	0	189
Direct investment	16	0	16	0	0	0	0	0	0	0	0	0	0	0	0
Deposit and mortgage banks and other private financial institutions 2/	18	0	18	84	0	84	210	0	210	-3	0	-3	127	0	127
Long term (net)	18	0	18	9	0	9	21	0	21	46	0	46	51	0	51
Short term (net)	0	0	0	75	0	75	189	0	189	-50	0	-50	76	0	76
Short term 3/	108	1	107	38	21	17	11	9	2	45	0	45	62	0	62
Official capital 4/	266	125	140	281	104	177	271	147	124	435	194	241	361	142	219
Central government	182	58	124	230	72	158	197	83	114	357	163	194	266	90	176
Rest of general government	0	0	0	0	0	0	0	0	0	0	0	0	0	11	-11
Nonfinancial public enterprises	83	66	16	51	32	19	74	64	10	78	31	46	95	41	54
Public financial intermediaries	12	58	-46	31	148	-117	76	3	73	54	3	51	32	4	28
Central reserve bank	12	58	-46	31	148	-117	41	3	38	54	3	51	32	4	28
Other 5/	0	0	0	0	0	0	35	0	35	0	0	0	0	0	0
Overall balance (deficit -)			155			143			147			165			362
Change in net official reserves			-144			-143			-147			-165			-362
of the central bank (increase -)			-169			-143			-147			-165			-362
Change in nonreschedulable arrears (decrease -)			-25			0			0			0			0
Change in reschedulable arrears			-13			0			0			0			0
Rescheduling			5			0			0			0			0
Capital gains			23			0			0			0			0

Sources: Central Reserve Bank; and Fund staff estimates.

1/ Preliminary.
2/ During the period 1991-1995, all these institutions were privatized.
3/ Includes errors and omissions.
4/ Excludes government dollar bonds issued to refinance arrears but includes repayments of government dollar bonds and short-term financing.
5/ Conversion of short-term liabilities to medium-term liabilities of the Central Reserve Bank took place in 1992 and was reversed in 1995.

Table 32. El Salvador: Merchandise Exports 1/

	1993	1994	1995	1996	Prel. 1997
(Value in millions of U.S. dollars; volume in millions of unit indicated; and unit price in U.S. dollars)					
Total exports, f.o.b.	**741.9**	**818.9**	**1,004.6**	**1,024.3**	**1,326.4**
Traditional exports	**295.8**	**324.0**	**425.6**	**414.5**	**594.4**
Coffee					
Value	235.4	270.9	361.8	339.0	505.3
Volume (quintals)	3.8	2.7	2.3	3.0	3.5
Price	61.9	101.2	154.3	113.8	143.7
Cotton					
Value	0.1	0.0	0.0	0.0	0.0
Volume (quintals)	0.0	0.0	0.0	0.0	0.0
Price	79.5	0.0	0.0	0.0	0.0
Sugar					
Value	34.5	30.4	37.8	36.7	60.0
Volume (quintals)	2.7	2.2	2.0	2.1	3.8
Price	12.8	13.7	19.0	17.1	15.8
Shrimp					
Value	25.8	22.7	26.0	38.8	29.1
Volume ('000 kg.)	4.5	3.6	4.3	5.6	3.5
Price	5.7	6.3	6.1	7.0	8.3
Nontraditional exports					
Value	446.1	494.9	579.0	609.8	732.0
To Central American Common Market	309.2	340.4	426.6	454.8	550.1
To other markets	136.9	154.5	152.4	155.0	181.9
(In percent of total exports)					
Traditional exports	39.9	39.6	42.4	40.5	44.8
Nontraditional exports	60.1	60.4	57.6	59.5	55.2
To Central American Common Market	41.7	41.6	42.5	44.4	41.5
To other markets	18.5	18.9	15.2	15.1	13.7
(Annual percentage change)					
Total exports	24.2	10.4	22.7	2.0	29.5
Traditional exports	36.2	9.5	31.4	-2.6	43.4
Nontraditional exports	17.3	10.9	17.0	5.3	20.0
To Central American Common Market	20.2	10.1	25.3	6.6	21.0
To other markets	11.3	12.9	-1.4	1.7	17.4
(In percent of GDP)					
Total exports	**10.7**	**10.2**	**10.6**	**9.8**	**11.6**

Sources: Central Reserve Bank; and Fund staff estimates.

1/ Excluding maquila.

Table 33. El Salvador: Merchandise Imports 1/

	1993	1994	1995	1996	Prel. 1997
	(In millions of U.S. dollars)				
Total imports (c.i.f.)	**1,924.7**	**2,252.0**	**2,856.1**	**2,671.2**	**2950.1**
Consumer goods	522.0	597.7	802.3	792.1	894.7
Nondurables	440.8	492.6	657.7	677.4	765.1
Durables	81.2	105.1	144.6	114.7	129.6
Raw materials and intermediate goods	**837.8**	**988.0**	**1,210.7**	**1,200.6**	**1341.3**
Agriculture	70.2	81.9	95.8	116.9	130.0
Of which					
Fertilizers	33.7	36.4	33.9	51.4	61.0
Manufacturing	642.5	760.9	905.6	917.5	1,025.0
Construction materials and other	125.1	145.2	209.3	172.2	191.4
Capital goods	**564.9**	**666.3**	**843.1**	**672.5**	**714.1**
Agriculture	10.9	12.3	12.2	12.5	13.3
Manufacturing	170.5	155.6	218.7	190.8	202.6
Transport	257.4	331.0	413.2	286.9	303.6
Construction	29.7	36.2	47.3	40.5	43.0
Other	96.4	131.2	151.7	141.8	150.6
	(In percent of total)				
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Consumer goods	27.1	26.5	28.1	29.7	30.3
Raw materials and intermediate goods	43.5	43.9	42.4	45.2	45.5
Capital goods	29.3	29.6	29.5	25.2	24.2
	(Annual percentage changes)				
Total	**13.3**	**17.0**	**26.8**	**-6.5**	**10.4**
Consumer goods	6.7	14.5	34.2	-1.3	13.0
Raw materials and intermediate goods	7.6	17.9	22.5	-0.3	11.2
Capital goods	31.0	18.0	26.4	-20.2	6.2
	(In percent of GDP)				
Total	**27.7**	**28.1**	**30.0**	**25.7**	**25.8**
Consumer goods	7.5	7.5	8.4	7.6	7.8
Raw materials and intermediate goods	12.0	12.3	12.7	11.6	11.7
Capital goods	8.1	8.3	8.9	6.5	6.2
Memorandum items:					
Petroleum					
Value	123.0	111.6	110.9	121.5	127.0
Volume (millions of barrels)	6.6	6.0	6.0	5.2	5.7
Unit value (US$/bb)	18.7	18.6	18.5	23.5	22.2
Nominal GDP	6,957	8,004	9,508	10,475	11,441

Source: Central Reserve Bank.

1/ Excluding maquila.

Table 34. El Salvador: Directions of Trade

(In percent of total)

	1993	1994	1995	1996	Jan.-Jun. 1997
Exports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
United States	29.9	48.5	50.8	53.4	50.9
Canada	1.0	1.1	1.0	0.3	1.4
Japan	1.5	0.6	0.9	0.6	0.9
Europe	16.7	18.6	19.3	18.2	19.3
Germany	7.2	9.8	8.4	8.9	11.4
Belgium	4.6	2.8	2.3	3.4	2.6
Netherlands	2.7	1.8	4.9	1.8	1.2
Other	2.2	4.2	3.7	4.1	4.1
Central America	42.4	27.4	25.4	25.4	23.4
Costa Rica	9.0	5.8	5.3	5.2	4.8
Guatemala	22.0	14.2	13.0	11.8	10.8
Nicaragua	4.8	2.9	2.5	3.0	2.8
Honduras	6.5	4.5	4.8	5.4	6.0
Other countries	8.5	3.8	2.6	2.1	3.1
Imports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
United States	44.2	47.9	50.7	49.8	43.0
Canada	1.1	0.5	0.5	0.8	0.3
Japan	5.1	5.5	4.2	3.5	2.3
Europe	7.8	7.6	7.6	7.6	9.6
Germany	3.5	2.8	2.7	3.0	2.4
Netherlands	1.1	0.5	1.0	0.9	0.9
United Kingdom	1.0	1.0	1.0	0.8	1.2
Other	2.8	3.3	2.8	2.9	5.1
Central America	17.1	15.5	14.8	15.7	17.4
Costa Rica	3.6	3.1	2.9	3.2	3.6
Guatemala	10.8	9.4	9.0	8.7	10.0
Other	2.7	3.0	2.7	3.8	3.8
Other Western Hemisphere countries	17.4	15.4	14.6	15.1	22.7
Panama	3.5	3.1	4.7	5.5	10.8
Venezuela	5.0	5.4	2.7	1.8	2.1
Mexico	5.9	4.1	4.7	5.3	5.0
Other	3.0	2.8	2.5	2.5	4.8
Other countries	6.7	7.6	7.7	7.5	4.7

Sources: Central Reserve Bank; and *Direction of Trade Statistics*, IMF.

Table 35. El Salvador: Terms of Trade Indices

	1993	1994	1995	1996	Prel. 1997
(1980=100)					
Exports, f.o.b.					
Value	69.0	76.1	93.4	95.2	123.3
Volume	66.4	59.6	60.2	66.1	76.8
Unit value	103.9	127.7	155.3	144.2	160.5
Imports, c.i.f.					
Value	200.0	234.1	296.9	277.6	306.6
Volume	207.0	237.0	295.2	266.9	289.1
Unit value 1/	96.7	98.8	100.6	104.0	106.1
Terms of trade	**107.5**	**129.3**	**154.4**	**138.6**	**151.4**
(Annual percentage change)					
Exports, f.o.b.					
Value	24.2	10.4	22.7	2.0	29.5
Volume	18.0	-10.2	0.9	9.8	16.3
Unit value	5.3	22.9	21.6	-7.1	11.4
Imports, c.i.f.					
Value	13.3	17.0	26.8	-6.5	10.4
Volume	11.6	14.5	24.5	-9.6	8.3
Unit value 1/	1.6	2.2	1.8	3.4	2.0
Terms of trade	**3.6**	**20.3**	**19.4**	**-10.2**	**9.2**

Sources: Central Reserve Bank; and Fund staff estimates.

1/ Weighted average of U.S. inflation (for non–oil imports) and oil prices.

Table 36. El Salvador: External Transfers

(In millions of U.S. dollars)

	1993	1994	1995	1996	Prel. 1997
Net transfers	**1,043.5**	**1,285.2**	**1,389.5**	**1,254.6**	**1,271.1**
Credits	1,046.0	1,287.7	1,394.0	1,259.3	1,276.3
Private	823.9	1,001.8	1,196.8	1,194.9	1,223.4
Family remittances	790.6	964.3	1,062.6	1,086.6	1,115.1
USAID (in kind)	3.0	5.0	0.0	0.8	0.8
Other	30.3	32.5	134.2	107.5	107.5
Public	222.1	285.9	197.2	64.4	52.9
USAID 1/	134.1	215.0	119.0	36.1	15.0
Foreign governments	36.6	54.2	57.0	22.6	31.0
Other	51.4	16.7	21.2	5.7	6.9
Debits	**2.5**	**2.5**	**4.5**	**4.8**	**5.2**
Private	0.7	0.7	1.7	1.9	2.3
Public	1.8	1.8	2.8	2.9	2.9

Sources: Central Reserve Bank; and Fund staff estimates.

1/ Includes ESF and PL 480, Title II.

Table 37. El Salvador: Disbursements of External Loans
to the Public Sector by Creditor 1/

(In millions of U.S. dollars)

	1993	1994	1995	1996	Prel. 1997
Nonfinancial public sector	**266.0**	**281.6**	**270.9**	**363.9**	**246.2**
Multilateral institutions	185.4	227.7	123.6	198.2	182.1
BCIE	44.5	67.0	19.5	·47.4	34.6
IBRD	47.0	71.4	19.9	23.6	41.3
IDB	93.4	86.8	82.7	125.6	104.4
FIDA	0.5	2.5	1.5	1.6	1.8
Bilateral official	36.8	17.8	43.5	84.0	59.9
United States	30.5	2.7	9.7	9.8	10.5
Germany	6.1	10.1	20.1	30.5	8.7
Venezuela	0.2	1.4	0.0	0.0	0.0
Spain	0.0	0.0	0.0	0.0	3.7
OECF-Japan	0.0	3.6	13.7	34.8	37.0
Other	0.0	0.0	0.0	0.0	0.0
Commercial creditors	43.8	36.1	103.8	8.9	4.2
Central bank	**12.3**	**31.7**	**41.1**	**54.4**	**31.9**
Multilateral institutions	12.3	0.0	0.0	0.0	31.9
BCIE	3.0	0.0	0.0	0.0	0.0
IDB	9.3	31.7	41.1	0.0	31.9
FOCEM	0.0	0.0	0.0	0.0	0.0
Bilateral official	0.0	0.0	0.0	0.0	0.0
Venezuela	0.0	0.0	0.0	0.0	0.0
Mexico	0.0	0.0	0.0	0.0	0.0
USAID	0.0	0.0	0.0	0.0	0.0
CCC	0.0	0.0	0.0	0.0	0.0
Commercial creditors	0.0	0.0	0.0	0.0	0.0

Source: Central Reserve Bank.

1/ Excludes short-term commercial credits.
2/ For 1995 and 1996, includes the net change in the stock of treasury bills.

Table 38. El Salvador: Disbursements of Medium-Term External Loans
to the Public Sector by Debtor

(In millions of U.S. dollars)

	1993	1994	1995	1996	Prel. 1997
Total	**263.3**	**313.0**	**233.2**	**339.4**	**278.1**
Multilateral institutions	**182.7**	**259.4**	**164.7**	**252.6**	**214.0**
Government	130.4	212.1	101.8	162.0	115.1
Public enterprises	40.0	15.6	21.7	35.7	67.0
Central bank	12.3	31.7	41.1	54.3	31.9
Bilateral official	**36.8**	**17.8**	**43.5**	**84.0**	**59.9**
Government	35.3	12.7	24.8	44.7	35.4
Public enterprises	1.5	5.1	18.7	39.3	24.5
Central bank	0.0	0.0	0.0	0.0	0.0
Commercial creditors	**43.8**	**36.1**	**36.1**	**2.8**	**4.2**
Government	1.2	0.0	0.0	0.0	0.0
Public enterprises	42.6	36.1	25.0	2.8	4.2
Central bank	0.0	0.0	0.0	0.0	0.0

Source: Central Reserve Bank.

Table 39. El Salvador: Public External Debt and Debt Service by Creditor

	1993	1994	1995	1996	Prel. 1997
	(In millions of U.S. dollars)				
External debt outstanding	**1,905.5**	**2,071.8**	**2,242.9**	**2,534.9**	**2,774.3**
Medium and long term	1,858.9	2,024.5	2,149.2	2,362.4	2,494.3
IMF	0.0	0.0	0.0	0.0	0.0
Other multilateral creditors	1,168.1	1,333.7	1,446.7	1,606.3	1,733.9
Official bilateral creditors	555.5	551.4	579.7	641.6	676.2
Commercial banks and suppliers	135.3	139.4	122.8	114.5	84.2
Short term	46.6	47.3	93.7	172.5	280.0
Central government	15.0	15.0	85.0	165.0	280.0
Public enterprises	0.0	0.0	8.7	7.5	0.0
Central reserve bank 1/	0.0	0.0	0.0	0.0	0.0
Deposit and mortgage banks	31.6	32.3	0.0	0.0	0.0
Disbursements	**278.3**	**313.3**	**233.2**	**339.4**	**278.1**
IMF	0.0	0.0	0.0	0.0	0.0
Other multilateral creditors	197.7	259.4	164.6	252.6	214.0
Official bilateral creditors	36.8	17.8	43.5	84.0	59.9
Commercial banks and suppliers	43.8	36.1	25.1	2.8	4.2
Amortization payments	**184.0**	**253.3**	**148.0**	**126.2**	**146.2**
IMF	0.0	0.0	0.0	0.0	0.0
Other multilateral creditors	63.3	121.1	70.6	93.0	86.4
Official bilateral creditors	50.0	28.8	41.8	22.1	25.3
Commercial banks and suppliers	70.7	103.4	35.6	11.1	34.5
Interest payments 2/	**107.5**	**92.7**	**101.9**	**109.7**	**111.0**
IMF	1.8	0.4	0.0	0.0	0.0
Other multilateral creditors	66.0	59.7	77.8	81.7	64.4
Official bilateral creditors	31.6	24.6	21.5	17.3	20.5
Commercial banks and suppliers	8.1	8.0	2.6	10.7	26.1
Debt service payments (MLT debt) 2/	**291.5**	**346.0**	**249.9**	**236.0**	**257.2**
IMF	1.8	0.4	0.0	0.0	0.0
Other multilateral creditors	129.3	180.8	148.4	175.0	150.8
Official bilateral creditors	81.6	53.4	63.3	39.0	45.8
Commercial banks and suppliers	78.8	111.4	38.2	22.7	60.6
	(In percent of GDP)				
External debt outstanding	**27.4**	**25.9**	**23.6**	**24.1**	**24.2**
Medium and long term	26.7	25.3	22.6	21.7	21.8
IMF	0.0	0.0	0.0	0.0	0.0
Other multilaterals	16.8	16.7	15.2	15.2	15.2
Official bilateral creditors	8.0	6.9	6.1	6.1	5.9
Commercial banks and suppliers	1.9	1.7	1.3	1.1	2.2
Short-term debt	0.7	0.6	1.0	1.6	2.4
	(In percent of exports of goods and services)				
External debt outstanding	161.7	153.6	138.4	152.4	133.4
Debt service (MLT debt) 2/	24.7	25.7	15.4	14.1	12.4
Amortization	15.6	18.8	9.1	7.4	7.6
Interest payments 2/	9.1	6.9	6.3	6.7	7.0

Sources: Central Reserve Bank; and Fund staff estimates.

1/ Includes liabilities to the IMF.
2/ Includes interest payments on short-term debt.

Table 40. El Salvador: Effective Exchange Rates

(Indices: 1990=100)

	Real Effective Exchange Rate 1/	Nominal Effective Exchange Rate 1/	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars 1/	Consumer Price Index (Seasonally Adjusted)
1991					
I	99.0	99.2	99.7	94.5	109.8
II	104.5	103.9	100.6	95.0	113.2
III	107.0	105.3	101.6	94.9	117.1
IV	103.2	104.2	99.1	93.6	117.5
1992					
I	103.0	106.2	97.0	93.2	118.6
II	103.1	106.7	96.6	92.7	121.7
III	102.6	103.2	99.5	89.9	128.9
IV	108.6	104.0	104.5	86.4	139.6
1993					
I	113.0	108.1	104.6	86.6	144.1
II	114.9	110.2	104.3	86.9	148.5
III	120.1	115.2	104.3	87.2	153.8
IV	122.7	119.4	102.8	87.5	156.9
1994					
I	124.9	122.6	102.0	86.9	162.0
II	125.7	125.4	100.3	86.9	165.9
III	123.2	125.0	98.5	86.9	167.8
IV	124.0	124.8	99.4	86.8	171.5
1995					
I	126.8	126.6	100.2	86.8	175.4
II	126.5	124.8	101.4	86.8	179.7
III	131.0	126.7	103.3	86.8	187.7
IV	134.6	128.7	104.6	86.8	191.4
1996					
I	137.6	130.8	105.3	86.8	195.3
II	140.2	132.0	106.2	86.8	199.7
III	141.9	131.9	107.6	86.8	204.7
IV	142.1	132.8	107.0	86.8	206.1
1997					
I	146.8	136.3	107.7	86.8	210.1
II	148.1	137.5	107.7	86.8	211.7
III	147.5	139.5	105.8	86.8	209.9
IV	147.4	140.2	105.1	86.8	210.2
1997					
January	144.6	134.8	107.3	86.8	208.6
February	147.6	136.8	107.9	86.8	210.6
March	148.3	137.4	107.9	86.8	211.0
April	148.8	137.8	108.0	86.8	211.6
May	147.9	137.2	107.8	86.8	211.7
June	147.6	137.3	107.5	86.8	211.7
July	147.7	138.5	106.7	86.8	210.8
August	148.1	140.2	105.7	86.8	209.7
September	146.8	139.7	105.1	86.8	209.4
October	146.0	139.3	104.8	86.8	209.1
November	147.0	139.8	105.0	86.8	210.3
December (prel.)	149.1	141.6	105.3	86.8	211.2

Source: IMF Information Notice System.

1/ Increase denotes appreciation.