PROVISIONAL ACCESSION OF EL SALVADOR

Memorandum on Foreign Trade Régime

The following Memorandum on Foreign Trade Régime has been received from the Minister for Foreign Trade of El Salvador. In order that the matter may be examined by the Working Party (L/6169/Rev.1), contracting parties are requested to communicate to the secretariat by 15 November 1988 any questions they may wish to put concerning the matters dealt with in the Memorandum, for transmission to the authorities of El Salvador.
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The Annexes are available for consultation in the secretariat (Development Division, office 2010).
Republic of El Salvador
Ministry of Foreign Trade
Memorandum of the Foreign Trade Régime

I. GENERAL FEATURES OF THE COUNTRY

1.1 Geographical situation

El Salvador is situated on the Central American isthmus. It is bounded north and north-east by the Republic of Honduras, east and south-east by the Republic of Honduras and the Gulf of Fonseca, separating it from the Republic of Nicaragua, south by the Pacific Ocean and west by the Republic of Guatemala.

1.2 Area

El Salvador has an area of 21,040.79 km², with a perimeter of 943 km, 744 m. and a Pacific coastline of 335 km.

1.3 Population

The latest estimates of the country's population, taking account of the political and social events resulting in high population mobility, indicate that the population will double in less than forty years, rising from 4.8 million inhabitants in 1985 to 11.3 million in 2025.

Likewise, the school-age population (from five to twenty-four years) is expected to increase from 1.9 million in 1985 to 3.7 million by the year 2000, and to 5.5 million in 2025. The requirements of education at all levels and technical training will therefore call for major efforts and substantial funds to ensure a supply of adequately qualified human resources. In recent years, open unemployment reached the level of 32 per cent of the active population, but the internal crisis and deteriorating economic situation raised this figure to 40 per cent in 1986, as a result of the closure of about 250 undertakings by May of that year.

1.4 Labour aspects

It is estimated that as a result of natural growth, between 1978-79 and 1987 the labour force increased by 270,000 persons. Rural unemployment during this period, primarily as a result of the reduction in coffee and cotton harvests, means that at present about 200,000 rural workers are unemployed.

These two elements - natural growth of the labour force and rural unemployment - represent an increase over the last nine years of roughly 470,000 persons looking for work.

At the same time, non-casual employment generated over the same period is as follows: 50,000 employees in the public sector and a maximum of 20,000 non-agricultural workers, primarily in sectors connected with
construction, as a result of the reconstruction process following the earthquake in 1986. In light of the foregoing, unemployment has increased by at least 400,000 persons, which means that at present the rate of unemployment and under-employment is least 50 per cent.

1.5 Political aspects

Since the country's independence in 1821, its successive political constitutions have opted for the system of republican and representative government.

All of them have established respect for free enterprise and private property. The concept of private property having a social function was introduced in the 1962 Constitution and has been maintained in the present Constitution, which was adopted in 1983.

The Government is divided into three independent powers: legislative, executive and judicial.

The Legislative Power consists of an Assembly of sixty members elected directly by the people in proportion to the number of inhabitants of each of the departments into which the country is divided.

The Executive Power is vested in a President directly elected by the people. The President appoints the Government Cabinet consisting of Ministers and Under-Secretaries of State.

The Judicial Power is vested in a Supreme Court of Justice and courts of second instance and other courts of justice. Members of the Supreme Court are appointed by the Legislative Assembly.

There is also an Office of the Attorney-General consisting of the Attorney-General and the Government Procurator of the Republic. The Constitution guarantees the independence of local municipalities.

Language: the official language is Spanish.

II. ECONOMY AND PUBLIC FINANCE

2.1 General

Since 1980 the country has had to face internal resistance from armed groups resolved to destroy production and economic infrastructure; for this reason, approximately 30 per cent of the national budget has been earmarked for defence expenditure, the remainder being allocated to government programmes of a social character.

The decline in production and instability of prices of our principal export products have adversely affected El Salvador's foreign trade.
At regional level, trade with the rest of Central America has been eroded by reason of reduced payment facilities and declining competitive capacity of producing industry, to the extent that whereas a trade surplus had been achieved at regional level, a deficit in the trade balance has developed in recent years. Factors contributing to this situation have included tax imbalance, increased overall indebtedness, higher unemployment rates and economic and social uncertainty in general.

The Government, for its part, has been proposing various solutions since 1980. In that year, a short-term "Emergency Programme" was implemented rapidly with the prime objectives of checking the decline in production which had already shown signs of weakening; avoiding increased unemployment, and maintaining international reserves at acceptable levels in order to meet requirements from abroad; within the global context of State macropolicy, high priority was also attached to consolidating the structural reforms introduced at the beginning of 1980.

Nevertheless, the economic policy objectives of the Emergency Programme were set at nought by the deepening crisis, making it necessary to re-formulate economic policy guidelines which were announced in a document entitled "Three-Year Plan, 1981-1983", with the following objectives: "to consolidate and foster structural changes and lay the bases for a new economic and social order; to remedy conjunctural disequilibria and reconstruct the national economy; to expand production of goods and services with the highest possible content of domestic raw materials and inputs; to foster equal opportunities for all citizens of El Salvador; and to encourage organized participation of the population as the basis for social development".

The economy continued to decline still further, to a point where Gross Domestic Product at constant prices of 1962, which had reached $3,650 million in 1978, had dropped back to $2,847.7 million by the end of 1982. This was the most critical point to date in the economic crisis. Thereafter, statistics have reflected a slight trend towards stabilization and even some recovery which, in terms of cumulative average, was in the region of 0.6 per cent at the end of 1986.

In 1984, a short-term Economic Re-activation Plan was launched, providing for certain concrete measures to promote economic recovery. In parallel, the "General Governmental Plan, the path to peace, 1985-1989" was formulated, establishing the philosophical framework to underpin the new economic and social development model and stating targets for formulation of the "Stabilization Measures, 1986" and the "Economic Programme" in effect during 1987.

Optimism was barely reviving when in 1986 production capacity and infrastructure were hit by a series of natural adversities. First of all, between February and March, strong winds blew away the blossom in coffee plantations; subsequently, in July and August, agriculture was beset by a severe drought, reducing output to a level 22 per cent below the forecasts. Thereafter, the earthquake of 10 October caused further damage to the country's economy since it severely affected the region around the national
capital, San Salvador, where production and trade activities are largely concentrated. In addition to bringing economic activity to a temporary standstill, this natural disaster caused direct damage in excess of $1,000 million.

Furthermore, from the social aspect, the earthquake is estimated to have destroyed the housing and belongings of more than 300,000 persons (20 per cent of the population of San Salvador), further aggravating the problems of persons displaced by the armed conflict who are estimated at some 500,000 and who are largely dependent on international assistance for their survival. To these adversities one must add the fact that the armed conflict continues to take up increasing amounts of public sector income, which should in principle be used for financing social works and infrastructure in support of producing activities.

In addition, since 1985 the inflationary process has gained momentum, causing severe distortions in the economic system and a decline in real income.

The annual average rate of inflation was 32 per cent in 1986 and 25 per cent in 1987. This slowing down in the price increase rate is attributable to international aid and to the exchange and credit restrictions that were introduced. The continuing climate of insecurity generated by the economic crisis and armed conflict, together with persisting uncertainty of various economic factors, are making a lower rate of inflation impossible.

2.2 Consumption

Consumption also followed the downward trend in output during the first three years of the crisis, but less rapidly and with a firmer trend towards recovery between 1983 and 1986. This performance was basically reflected by private consumption. Government consumption has been somewhat more stable and has been rising since 1983. In absolute terms, global consumption declined gradually from $3,161.5 million at the end of 1979 to a low point of $2,520.1 million in 1982. Thereafter, it recovered steadily, reaching $2,802.0 million in 1986. This performance is also attributable to deliberate policy on the part of the Government, designed to offset the negative impact of the decline in private consumption.

2.3 Investment

By its very nature, this variable constitutes the motive force for economic growth and one of the best reflections of vigour, stability or deterioration of the economy. Gross domestic investment has confirmed the reality of events in El Salvador during the period under consideration (1979-1986). Reflecting the decline in fiscal receipts, the unavoidable expansion of public expenditure and uncertainty over the crisis, gross domestic investment dropped back sharply from 1979 on - from $606.1 million at 1962 prices to $325.6 million in 1983, the lowest level recorded in the national economy over the past twenty years.
2.4 Agriculture

Consistently with the structure of overall gross domestic product, at 1962 prices, the share of the agricultural sector has continued at around 25 per cent, with slight variations and even though having followed the same trend as the other macroeconomic variables from 1979 on.

The three principal export products of agro-industry - coffee, cotton and sugar - represent on average 68 per cent of the country's exports; however, in relation to gross domestic product of the agricultural sector, they represented approximately 44 per cent in 1979 and around 39 per cent in 1986.

2.5 Manufacturing industry

Since 1982, this sector has been the second largest contributor to gross domestic product at constant prices of 1962, coming immediately after agriculture, and like all economic activity, it has suffered the impact of the crisis. Changes within the country from 1980 on, deterioration of regional trade and inadequate autonomous generating of foreign exchange for ready acquisition of raw materials are the principal elements which have contributed to the decline in industrial GDP, which reached its low point in 1982.

2.6 Public finance

2.6.1 General

The financial situation of the Central Government has shown a chronic deficit, and results over the past five years can be seen in Table 1. Nevertheless, it should be noted that this negative financial situation has shown some improvement since 1984 - indeed, compared with the two preceding years, the financial deficit dropped back to levels equivalent to less than 50 per cent of those recorded in the period 1982-1983.

The improvement is more appreciable in respect of the balance on current account in particular, which was in surplus in 1986, a highly important development having regard to the fact that previously it had not even been possible to cover current expenditure out of regular resources, whereas last year not only was the account in balance, but some savings were available to finance part of the resources required for capital expenditure. It should be noted that over the present decade, this was the first occasion on which such a result had been achieved.

Since public expenditure has remained above the capacity of current receipts, the Government had to increase taxes and loans, causing a rapid increase in the direct public debt; in addition, measures have been taken in the area of expenditure and income to cover the deficit, supplemented by donations from friendly countries.
2.6.2 Income and expenditure

In the period 1982-1986, expenditure increased at an annual average rate of 21.5 per cent.

Table 2 gives a breakdown of trends in public expenditure. Current expenditure increased from $1,294.2 million in 1982 to the level of $2,477.8 million in 1986, i.e. it practically doubled in five years. This situation basically reflects the trend in remuneration, because of wage increases granted by the Central Government in order to some extent to offset losses in the purchasing power of public employees.

There has also been a significant increase in transfers, which in cumulative terms have risen by 95.2 per cent, reflecting a sacrifice by the Government destined in particular for public institutions, in order to meet the financial needs of the latter.

The annual average increase in capital expenditure has been 33.3 per cent. In this connection, it is relevant to mention the increased indebtedness caused by the deficit financial situation, whose effects on debt servicing are beginning to have an impact on public expenditure; whereas in 1982 repayment of the public debt was in the amount of $83.1 million, it reached the level of $475.8 million in 1986, in which year the effects of devaluation were felt in respect of this expenditure.

Investment expenditure as such during the period under consideration was at a low level, reflecting the fact that less attention was being given to this activity.

Indeed, while current expenditure has expanded at an annual average rate of 34.2 per cent, this increase has not sufficed to cover the financing needs of government activities, resulting in the deficit situation already mentioned.

In 1986 in particular, current receipts increased by 57.4 per cent, the highest growth rate recorded in the period 1982-1986, as a result of tax reform measures (increase in direct taxation) introduced in this area of fiscal policy under the "Stabilization and Economic Re-activation Programme".

Tax revenue accounts for around 85 per cent of total current receipts. The trend in tax revenue has been influenced furthermore by the increase in indirect taxes, in particular revenue derived from the stamp tax, the rates of which have been raised.

Special mention should be made of the effects of the devaluation on revenue collection, in that tax receipts from foreign trade have risen appreciably as a result of the doubling of the official exchange rate in 1986.

Similarly, income tax has shown an annual average increase of 24 per cent, reflecting the effects of inflation on profits together with
salary and wage increases which this process has generated. A similar trend can be seen in wealth tax and property transfer tax, since the increase results from higher prices of real estate.

Nevertheless, it is appropriate to note that notwithstanding a nominal increase in revenue collection, terms of "constant money" real tax receipts have still not returned to their 1978 levels.

It should be noted that non-tax receipts are growing in importance in relative terms, having shown a cumulative increase of 122.7 per cent over the period 1982-1986; nevertheless, because such receipts are only of limited relative significance, they have not had any substantial impact on the structure of current receipts.

2.6.3 Tax structure

The structure of the tax system comprises three main headings: direct taxes, indirect taxes and export taxes. The first of these includes income tax, wealth tax and property transfer tax. The second heading comprises taxes on consumption of products and services, stamp tax and other taxes, while among the export taxes the principal one is the tax on coffee.

Direct taxes account for the major part of revenue collection, reflecting the regressive character of the tax system which has a heavier impact on lower-income taxpayers, a situation that tends to impair the latters' living conditions. Accordingly, in December 1986, with a view to achieving greater equity in the tax system by making it more progressive and increasing revenue collection, tax sources were revised and greater emphasis laid on direct taxation; adjustments were made to income tax, wealth tax, real estate transfer tax (whether against payment, or by inheritance or gift). In addition, adjustments were made to other less important indirect taxes.

Table No. 4 shows current receipts in percentage terms, reflecting the tax structure according to the relative significance of the various taxes in total revenue collection.

III. GENERAL ECONOMIC POLICY

El Salvador's economic policy is specifically aimed at correcting basic imbalances of our economy: imbalance in the external sector, in the domestic market and in State finances, as reflected respectively in the deficit on current account of the balance of payments, the rate of inflation and the tax deficit. A simultaneous objective is to encourage economic growth. Accordingly, economic policy is focused on rationalizing public expenditure and modernizing the tax system, while exercising permanent control over inflation, diversifying and promoting exports, and encouraging investment. For these reasons, and in order to foster economic growth, it will be necessary in a first stage to consolidate the structural reforms initiated in 1980, since these constitute the basis for ensuring the social, political and economic stability which the country needs.
### Table No. 1

**Result of Settlement of the General Budget, 1982-1987**

(In £ million)

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<td>1,366.0</td>
<td>1,717.5</td>
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<td><strong>Financial surplus or deficit (-) at end of financial year</strong></td>
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1 Including £ 121 million in respect of tax for defence of national sovereignty

Source: Constitutional Supplementary Report (various years)
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<td>Current expenditure</td>
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<tr>
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<tr>
<td>To public sector</td>
<td>80.6</td>
<td>51.2</td>
<td>54.6</td>
<td>17.9</td>
<td>21.5</td>
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<td>1,715.2</td>
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<td>2,242.4</td>
<td>3,412.7</td>
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<td><strong>Current receipts collected and drawn</strong></td>
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<td>1,229.0</td>
<td>1,577.6</td>
<td>1,911.0</td>
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<tr>
<td><strong>Direct taxes</strong></td>
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<tr>
<td>On income</td>
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<td>306.1</td>
<td>341.0</td>
<td>384.7</td>
<td>646.7</td>
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<td>On wealth, property transfer, agricultural land and other tax receipts</td>
<td>246.6</td>
<td>234.8</td>
<td>267.4</td>
<td>297.8</td>
<td>432.8</td>
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<td><strong>Indirect taxes</strong></td>
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<td>773.7</td>
<td>1,009.6</td>
<td>1,274.7</td>
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<td>On foreign trade</td>
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<td>533.0</td>
<td>1,168.4</td>
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<td>On imports</td>
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<td>89.5</td>
<td>125.2</td>
<td>170.3</td>
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<tr>
<td>On exports</td>
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<td>247.4</td>
<td>362.7</td>
<td>964.3</td>
<td>442.9</td>
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<td><strong>On consumption of products and services</strong></td>
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<td>252.4</td>
<td>292.8</td>
<td>318.5</td>
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<tr>
<td>On consumption of products</td>
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<td>224.4</td>
<td>258.0</td>
<td>279.6</td>
<td>331.3</td>
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<tr>
<td>On use of services</td>
<td>24.0</td>
<td>24.7</td>
<td>28.0</td>
<td>34.8</td>
<td>38.9</td>
<td>50.3</td>
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<td><strong>Taxes and charges on producing and commercial activities, legal acts and transactions</strong></td>
<td>160.2</td>
<td>263.3</td>
<td>383.2</td>
<td>447.6</td>
<td>566.8</td>
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<td>Charges on producing and commercial activities</td>
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<td>5.6</td>
<td>6.2</td>
<td>6.2</td>
<td>6.7</td>
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<tr>
<td>Taxes and charges on legal acts and transactions</td>
<td>155.0</td>
<td>257.7</td>
<td>441.4</td>
<td>441.4</td>
<td>560.1</td>
<td>713.6</td>
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<td>1.3</td>
<td>1.9</td>
<td>1.8</td>
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<tr>
<td><strong>Non-tax receipts</strong></td>
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<td>130.8</td>
<td>202.8</td>
<td>202.8</td>
<td>272.1</td>
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<tr>
<td><strong>Current transfers</strong></td>
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<td>15.0</td>
<td>39.4</td>
<td>39.4</td>
<td>28.4</td>
<td>32.1</td>
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<td><strong>Other current receipts</strong></td>
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<td>3.4</td>
<td>9.4</td>
<td>9.4</td>
<td>4.5</td>
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Source: Constitutional Supplementary Report, Fiscal Year 1987, Ministry of Finance.
## Table No. 4

Current Receipts of Central Government in Relative Values, 1982-1987

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<tbody>
<tr>
<td>Current receipts collected and drawn</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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<td><strong>TAX RECEIPTS</strong></td>
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<tr>
<td>Direct taxes</td>
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<td>85.6</td>
<td>86.3</td>
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<td>92.5</td>
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<tr>
<td>On income</td>
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<td>24.9</td>
<td>21.6</td>
<td>20.1</td>
<td>21.5</td>
<td>26.1</td>
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<tr>
<td>On wealth, property transfer, agricultural land and other tax receipts</td>
<td>20.2</td>
<td>19.1</td>
<td>16.9</td>
<td>15.6</td>
<td>14.4</td>
<td>20.6</td>
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<tr>
<td>Indirect taxes</td>
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<td>64.0</td>
<td>66.7</td>
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<tr>
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<td>22.7</td>
<td>23.6</td>
<td>27.9</td>
<td>38.9</td>
<td>25.8</td>
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<tr>
<td>On imports</td>
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<td>7.3</td>
<td>7.9</td>
<td>8.9</td>
<td>6.8</td>
<td>9.5</td>
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<tr>
<td>On exports</td>
<td>18.0</td>
<td>15.4</td>
<td>15.7</td>
<td>19.0</td>
<td>32.1</td>
<td>16.3</td>
</tr>
<tr>
<td>On consumption of products and services</td>
<td>19.7</td>
<td>18.7</td>
<td>16.0</td>
<td>15.3</td>
<td>10.6</td>
<td>14.0</td>
</tr>
<tr>
<td>On consumption of products</td>
<td>17.5</td>
<td>16.7</td>
<td>14.2</td>
<td>13.5</td>
<td>9.3</td>
<td>12.2</td>
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<tr>
<td>On use of services</td>
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<td>2.0</td>
<td>1.8</td>
<td>1.8</td>
<td>1.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Taxes and charges on producing and commercial activities, legal acts and transactions</td>
<td>14.4</td>
<td>21.4</td>
<td>24.3</td>
<td>23.4</td>
<td>18.8</td>
<td>26.5</td>
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<tr>
<td>Charges on producing and commercial activities</td>
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<td>0.3</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Taxes and charges on legal acts and transactions</td>
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<td>10.9</td>
<td>23.9</td>
<td>23.1</td>
<td>18.6</td>
<td>26.2</td>
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<tr>
<td>Other taxes and charges</td>
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<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>NON-TAX RECEIPT</strong></td>
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<td>6.0</td>
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<td>1.0</td>
<td>1.2</td>
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<td>0.1</td>
<td>0.3</td>
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3.1 Main economic policies

3.1.1 Fiscal policy

Reduction of budgetary imbalance will require a substantial improvement in fiscal administration so as to allow: increased tax collection and more effective combatting of contraband and tax evasion in general; rationalization of tax exemptions and tax privileges, so as to limit these to what is strictly essential to encourage producing activity; and maintenance of austerity in public expenditure based on priority objectives and rationalization of allocations. At the same time, tariffs for public services will have to be rationalized so that the State agencies furnishing them can become self-financing.

In addition, in view of the fact that some undertakings controlled by the State have become an administrative burden for it, those that can be efficiently run by the private sector will be the subject of purchase and sale operations.

Before these undertakings are privatized, studies will be made in order to determine their commercial value; this implies evaluating technology, equipment, staff and other aspects in order to determine the terms for the relevant negotiations.

It will be possible for the undertakings to be acquired by individual entrepreneurs or by associations in which workers, entrepreneurs and the State can participate.

In another context, since the current abnormal and delicate situation calls for huge financial resources, the State is intending having recourse to international credit and co-operation as necessary to cover its fiscal deficit, while at the same time encouraging private investment.

3.1.2 Monetary and credit policy

The prime objective of this policy is to maintain liquidity in the economy at adequate levels for expanding economic activity while ensuring that the creation of payment means does not sustain the inflationary process.

Financial assistance will be allocated to generating the financial flows needed by the public sector and the private sector, as follows.

(a) Financial flows for the private sector

Basically, funds available to the private sector will be used for financing producing activities with the greatest impact on the economic recovery process. Resources will be used for financing investment projects, working capital and export promotion, in accordance with the following criteria:
Activities offering appreciable job opportunities so as to raise existing employment levels.

Activities whose end products comprise a significant content of domestic raw materials.

Activities in which investment is used for fixed-capital formation.

Activities which produce essential consumer goods and services and those which replace imports of products of basic importance for the population or for the country's economic development.

Financing for small and medium-sized undertakings is considered of strategic importance for consolidating expansion of the producing structure and similarly export undertakings will receive special attention in regard to credit, particularly where their output is intended for non-traditional markets.

The priority interest of financing for the non-formal sector of the economy is to turn users of this sector into real credit subjects, by strengthening their economic position and training them in the efficient use of bank credit, and thereafter developing entrepreneurial capacity in order to align this sector with the new development style aimed at.

The financial system will establish specific lines and adequate mechanisms to make credit accessible for projects launched by co-operative associations or associations with a large membership.

(b) Financial flows for the public sector

Financing for public-sector activities comes from current regular budgetary receipts and from funds deriving from international co-operation which are allocated to special budget headings.

For some time to come, the public sector will still have to be financed by the banking system and, more particularly, the Central Reserve Bank; nevertheless, credit for the public sector will basically be restricted so as not to compete with credit amounts that may be allocated to the private sector.

3.1.3 Investment policy

The State recognizes that investment is the vitalizing element of general economic activity, and accordingly while encouraging private investment, will strive toward the maximum public savings possible in order to pursue its programme of restoring and rebuilding the physical structures destroyed by guerrilla activities and by the earthquake of 10 October 1986, and to continue rural highway programmes, housing construction, the national re-forestation programme and all other activities that can generate increased employment.
The Export Promotion Law is one of the major instruments in the investment promotion programme, and the benefits it offers will be publicized both within and outside the country; it will be supplemented by a law affording the necessary guarantees to investment of whatever origin; further information concerning this policy may be found in the section on treatment of exports.

For its part, the National Fund for Pre-Investment Studies (FOSEP) is to expand its activities and sponsor the financing of new pre-investment studies for both the governmental and private sectors which can be added to the reserve of projects awaiting investment decisions.

3.1.4 Production policy

Through the instruments and mechanisms available to the State, efforts will continue to boost domestic production in various sectors, in particular goods to meet the basic consumer requirements and inputs needed for the manufacture of final consumer and capital goods. Measures will be taken to improve production and productivity levels, using under-utilized installed capacity.

In the agricultural sector these measures will be aimed at meeting domestic demand for foodstuffs, extending cultivation areas for traditional export products and expanding output of other exportable products.

In this connection, the agrarian reform process will be the subject of further studies, in order to improve its efficiency and, over time, achieve high productivity. Similarly, the second stage of the process will be launched, for the benefit of peasant families with no land of their own.

In the industrial and services sectors, protection and assistance will continue to be given to entrepreneurs, particularly small and medium-sized undertakings, as an incentive to generate more jobs and thus contribute to economic recovery.

Strategically, the aim is to encourage the growth of industries producing non-traditional export goods, more particularly those using domestic raw materials.

IV. FOREIGN TRADE DEVELOPMENTS

El Salvador’s foreign trade has been mainly concentrated on the export of traditional products: coffee, cotton, sugar, shrimps.

4.1 Analysis of the trade balance

In order to give a picture of El Salvador’s trade balance with the rest of the world, we have listed the countries of destination of our exports according to their relative importance in terms of export value. Similarly, we have listed the countries of origin of our imports, in terms
of highest value, since the value of imports exceeds that of exports, in
order to establish balances at the country level. Nevertheless, the list
of exports destinations includes some countries that are not included in
the list of countries from which El Salvador imports, and vice versa in
cases where exports are of some importance and imports of very little;
conversely, the list of import origins includes some countries that do not
appear in the list of export destinations, for the same reason.

4.1.1 Exports

The list of countries of destination shows the largest markets for our
products.

A. General performance

If one looks at the overall performance of our exports, one can see
variations from one year to another - for example US$717,373,000 in 1984,
falling back to US$678,968,000 in 1985 and a then slight increase to
US$712,970,000 in 1986.

B. Trend and destination by country or region

1. The United States is the leading market for our traditional exports,
which reached a value of US$267,973,000 (37.4 per cent of our total
exports) in 1984, followed by an increase to US$324,606,000
(47.8 per cent) in 1985, and US$350,440,000 in 1986.

2. The Federal Republic of Germany, is the second most important market
for some of our traditional products, reaching the level of
US$181,191,000 (22.5 per cent) in 1984, dropping back to
US$142,421,000 (21 per cent) in 1985, followed by an increase to
US$172,068,000 (24.1 per cent) in 1986.

3. Guatemala, which is third in importance is a market for non-
traditional products; our exports to that country reached a value of
US$117,301,000 (16.4 per cent) in 1984, US$61,405,000 (9 per cent) in
1985, and US$47,833,000 (6.7 per cent) in 1986. This decline is
fundamentally attributable to the reduction in production capacity due
to the economic and socio-political situation prevailing in our
country.

4. Japan is a less important market for our traditional products, exports
of which reached a value of US$39,650,000 (5.5 per cent) in 1984,
US$34,391,000 (5 per cent) in 1985 and US$28,861,000 (3.8 per cent) in
1986.

5. Costa Rica is a market for non-traditional products that has been only
of slight importance until now; the value of our exports to that
country totalled US$27,016,000 (3.8 per cent) in 1984, declined to
US$24,679,000 (4 per cent) in 1985 and then increased slightly to
US$26,071,000 (3.7 per cent) in 1986.
6. The figures regarding Spain show that this market is of no great importance for our traditional products, exports of which reached a value of US$15,239,000 (2.1 per cent) in 1984, US$15,051,000 (2.2 per cent) in 1985 and US$12,374,000 (1.7 per cent) in 1986, reflecting a downward trend in the three years indicated.

7. The Netherlands Antilles are an occasional market, showing an appreciable declining trend, from US$12,127,000 (1.7 per cent) in 1984 to US$103,000 (0.0 per cent) in 1985 and US$390,000 (0.0 per cent) in 1986.

8. El Salvador’s exports to Canada have been increasing, from US$11,570,000 (1.6 per cent) in 1984, to US$14,907,000 (2.1 per cent) in 1985 and US$19,705,000 (2.8 per cent) in 1986.

9. Honduras is one of the Central American countries with which trade relations have been established recently, and is an important market for our products, though with some fluctuation: our exports moved from US$7,859,000 (1 per cent) in 1984 to US$6,415,000 (0.9 per cent) in 1985, and US$7,580,000 (1 per cent) in 1986.

10. The heading "Other" covers the group of countries with which trade is of no great significance, having reached a total value of US$57,447,000 (8 per cent) in 1984, US$54,990,000 (8 per cent) in 1985, and US$49,644,000 (7.0 per cent) in 1986.

4.1.2 Imports

The list of countries from which we import has been drawn up in order of declining importance.

A. General performance

The overall performance of our imports shows a downward trend, attributable to difficulties arising from El Salvador’s limited foreign exchange availabilities, due mainly to the fall in our exports and low international prices of our export products; our imports reached a total value of US$977,430,000 in 1984, US$961,375,000 in 1985 and US$884,888,000 in 1986.

B. Trend and origin by country or region

1. Imports from the United States, one of our leading suppliers, have increased slightly from US$324,539,000 (33.2 per cent of El Salvador’s total imports in 1984) to US$325,368,000 (33.8 per cent) in 1985 and US$352,221,000 (39.8 per cent) in 1986. This situation is largely attributable to the fact this country is one of the largest markets for our products, and also the financial support we receive from it.
2. Guatemala is an important supplier for our country; nevertheless, the trade effects of difficulties besetting our economy have caused our imports to decline, from US$187,495,000 (19.2 per cent) in 1984 to US$149,646,000 (15.6 per cent) in 1985 and US$108,664,000 in 1986.

3. Mexico is one of El Salvador's principal suppliers of petroleum; nevertheless, our imports have been tending to decline, from a value of US$97,358,000 (10 per cent) in 1984 to US$89,545,000 (9.3 per cent) in 1985 and US$61,266,000 (6.9 per cent) in 1986; this trend is largely attributable to contraction of demand following the decline in industrial and agricultural output together with transport difficulties due to the socio-political situation in our country.

4. Imports from Venezuela, another major supplying country of petroleum, have shown some variation, with a total value of US$65,953,000 (6.7 per cent) in 1984, US$72,713,000 (7.6 per cent) in 1985 and US$57,266,000 (6.9 per cent) in 1986. This situation is also attributable to the production conditions prevailing in our country, already mentioned.

5. Costa Rica is one of the countries supplying certain inputs for our industry and certain finished consumer goods; nevertheless our imports have shown variations in the three years under consideration, having reached US$46,674,000 (4.8 per cent) in 1984, US$72,713,000 (7.6 per cent) in 1985 and US$57,283,000 (6.5 per cent) in 1986; this situation is attributable to the general situation of our economy.

6. The Federal Republic of Germany is a supplier of inputs and capital goods for our industry and likewise of finished consumer goods; these imports have varied slightly, from US$43,146,000 (4.1 per cent) in 1984 to US$41,985,000 (4.4 per cent) in 1985 and US$42,445,000 (4.8 per cent) in 1986.

7. Imports from Japan have varied somewhat in the three years under consideration, having reached US$41,918,000 (4.3 per cent) in 1984, US$49,618,000 (5.1 per cent) in 1985 and US$33,294,000 (3.8 per cent) in 1986; these variations can be attributed to limited availabilities of foreign exchange.

8. Because of our country's economic situation, our imports from Panama, comprising consumer goods and other products, are tending to decline, having reached US$31,376,000 (3.2 per cent) in 1984, US$30,560,000 (3.2 cent) in 1985 and US$13,712,000 (1.5 per cent) in 1986.

9. Honduras is a Central American country with which our trade relations were restored a few years ago; our imports are tending to decline, from US$16,685,000 (1.7 per cent) in 1984 to US$10,595,000 (1.1 per cent) in 1985 and US$9,228,000 (1 per cent) in 1986, a situation that is attributable to the economic crisis currently besetting our country.

10. The heading "Other" covers imports from other countries in amounts of less significance; the aggregate value of these imports was US$122,286,000 (12.5 per cent) in 1984, US$137,213,000 (14.3 per cent) in 1985 and US$169,009,000 (19.1 per cent) in 1986.
4.1.3 Trade balance

A. Unfavourable to El Salvador

1. The United States has a balance unfavourable to our country, in the amount of US$56,566,000 (21.7 per cent) in 1984, US$762,000 (0.2 per cent) in 1985 and US$1,777,000 (1 per cent) in 1986; this narrowing trend in the deficit is attributable to our increased imports from that country.

2. Guatemala is one of the countries with which El Salvador has a substantial trade deficit, reaching US$70,194,000 (27 per cent) in 1984, US$88,241,000 (31.2 per cent) in 1985 and US$60,831,000 (35.4 per cent) in 1986.

3. We have an unfavourable balance with Mexico which is a petroleum supplier and a limited market for our non-traditional products; this balance reached US$97,358,000 (37.4 per cent) in 1984, US$89,545,000 (31.7 per cent) in 1985 and US$61,266,000 (35.4 per cent) in 1986.

4. Venezuela, a petroleum supplier and a limited market for our export products, has a balance unfavourable for our country which reached US$85,953,000 (25.4 per cent) in 1984, US$72,713,000 (25.7 per cent) in 1985 and US$57,283,000 (33.3 per cent) in 1986.

5. Costa Rica is a Central American country with which El Salvador has a negative balance that totalled US$19,658,000 (7.5 per cent) in 1984, US$29,456,000 (10.4 per cent) in 1985 and US$11,695,000 (6.8 per cent) in 1986.

6. Our country has a negative balance with Japan that reached US$2,268,000 (0.9 per cent) in 1984, US$15,227,000 (5.4 per cent) in 1985 and US$6,433,000 (3.7 per cent) in 1986.

7. Panama has a balance unfavourable to El Salvador, in the amount of US$31,376,000 (12 per cent) in 1984, US$30,560,000 (10.8 per cent) in 1985 and US$13,712,000 (7.9 per cent) in 1986.

8. Honduras is another Central American country with which El Salvador has a negative trade balance, reaching US$8,826,000 (3.4 per cent) in 1984, US$4,180,000 (1.5 per cent) in 1985 and US$1,648,000 (0.9 per cent) in 1986.

B. Favourable to El Salvador

1. El Salvador's trade with the Federal Republic of Germany is in surplus, as a result of larger exports than imports; the surplus totalled US$118,045,000 (45.5 per cent) in 1984, US$100,436,000 (35.5 per cent) in 1985 and US$129,623,000 (75.4 percent) in 1986. As these figures show, Germany is one of El Salvador's principal markets for traditional exports.
2. **Spain** has a balance favourable to **El Salvador**, reaching US$15,239,000 (5.8 per cent) in 1984, US$15,051,000 (5.3 per cent) in 1985 and US$12,374,000 (7.2 per cent) in 1986.

3. **El Salvador** has a small trade surplus with the **Netherlands Antilles**, which reached US$12,127,000 (4.6 per cent) in 1984, US$103,000 (0 per cent) in 1985 and US$390,000 (0 per cent) in 1986, reflecting the fact that there are no stable trade relations between the two countries, any transactions being of an occasional character and determined by current needs.

4. **El Salvador** has a trade surplus with **Canada**, totalling US$11,570,000 (4.4 per cent) in 1984, US$14,907,000 (5.2 per cent) in 1985 and US$19,705,000 (11.4 per cent) in 1986.

5. The heading "**Other**" shows a negative balance for **El Salvador**, in the amount of US$64,839,000 (24.9 per cent) in 1984, US$82,223,000 (29.1 per cent) in 1985 and US$119,365,000 (69.4 per cent) in 1986.

### 4.1.4 Major export products

#### A. General performance

The value of exports varied appreciably during the period under consideration, totalling US$717,373,000 in 1984, US$678,968,000 in 1985 and US$712,970,000 in 1986.

#### B. Major products

1. **Coffee** in various forms accounts for the largest share of exports, which reached a value of US$442,779,000 (61.7 per cent) in 1984, US$452,553,000 (66.7 per cent) in 1985 and US$523,577,000 (73.5 per cent) in 1986. As these figures show, coffee is the most significant export item and its percentage share is tending to increase.

2. **Crude sugar** is the second most important export item, with a value that reached US$25,875,000 (3.6 per cent) in 1984, US$23,172,000 (3.4 per cent) in 1985 and US$25,316,000 (3.6 per cent) in 1986. As may be seen, the decline in international prices of this product has been offset by larger export volumes.

3. **Fresh shrimps** are third in order of importance among **El Salvador's** exports, and reached a value of US$23,337,000 (3.3 per cent) in 1984, US$12,547,000 (1.8 per cent) in 1985 and US$17,186,000 (2.4 per cent) in 1986. Variations in the value of exports of this product are attributable to a production decline that was due to **El Salvador's** socio-political situation.

4. **Cotton** is in fourth place among our country's exports, reaching US$10,350,000 (1.4 per cent) in 1984, US$30,760,000 (4.5 per cent) in 1985 and US$8,103,000 (1.1 per cent) in 1986. The variations in these exports are attributable to smaller production due to the socio-political situation prevailing in **El Salvador**, and also to the decline in world market prices for this product.
5. Cotton yarn and thread come next in importance after cotton, having reached US$12,842,000 (1.8 per cent) in 1984, US$9,313,000 (1.4 per cent) in 1985 and US$6,996,000 (1 per cent) in 1986.

6. The heading "Other" comprises the difference between the aggregate value of export products considered significant and total exports, and reached US$202,190,000 (28 per cent) in 1984, US$150,618,000 (22 per cent) in 1985 and US$131,792,000 (18 per cent) in 1986.

As may be seen, exports under the heading "Other" are tending to decline, which may be inferred as indicating a reduction in our exports in general.

4.1.5 Major import products

A. General performance

The total value of imports was US$977,430,000 in 1984, US$961,378,000 in 1985 and US$884,389,000 in 1986. These figures reflect a downward trend in imports attributable to the economic difficulties that were besetting our country and the impact of the 1986 devaluation.

B. Major products

We shall refer to those representing a value exceeding $10,000 listing them in order of importance.

1. Petroleum comes first on the list of imports, representing a value of US$130,723,000 (13.3 per cent) in 1980, US$133,233,000 (13 per cent) in 1985 and US$81,974,000 (9.3 per cent) in 1986. These figures reflect price reductions in the first two years considered, and an increase in prices in the third following devaluation of the national currency (the colón).

2. Medicinal and pharmaceutical products are second in order of importance, having reached US$61,003,000 (6.3 per cent) in 1984, US$63,799,000 (6.6 per cent) in 1985 and US$95,469,000 (10.7 per cent) in 1986. The rising trend in these figures can be explained by the socio-political situation in El Salvador is passing, since these are products of vital importance.

3. Machinery, appliances and utensils for household use are third in order of importance among imports, accounting for US$52,556,000 (6.4 per cent) in 1984, US$62,356,000 (6.5 per cent) in 1985 and US$43,409,000 (4.9 per cent) in 1986. In these figures, the variation for the last year is attributable to the change of tariff nomenclature (BTN) and to devaluation of the national currency.

4. Chemical elements and compounds come fourth in order of importance, having reached a value of US$43,288,000 (4.4 per cent) in 1984, US$40,836,000 (4.3 per cent) in 1985 and US$42,890,000 (4.8 per cent) in 1986. These variations were likewise attributable to the events mentioned in the preceding paragraph.
5. **Paper, paperboard and articles thereof** are next in order of importance, reaching US$37,747,000 (3.9 per cent) in 1984, US$33,104,000 (3.4 per cent) in 1985 and US$25,569,000 (2.9 per cent) in 1986. This last figure reflects the impact of the new tariff classification and the devaluation of the colon.

6. **Imports of machinery for mining, construction and other industrial uses** reached a value of US$37,024,000 (3.7 per cent) in 1984, US$38,514,000 (4 per cent) in 1985 and US$71,250,000 (8.1 per cent) in 1986. These figures reflect an upward trend in imports, even though the last of them was affected by the developments as already mentioned.

7. **Imports of motor vehicles** reached US$32,934,000 (3.4 per cent) in 1984, US$52,681,000 (5.5 per cent) in 1985 and US$36,799,000 (4.2 per cent) in 1986. The variation in these figures is attributable to the factors already mentioned.

8. **Iron and steel purchases** accounted for a value of US$26,960,000 (2.8 per cent) in 1984, US$27,518,000 (2.9 per cent) in 1985 and US$28,870,000 (3.3 per cent) in 1986. This increase is attributable to the fact that the products concerned are inputs.

9. **Metal manufactures n.e.s.** reached US$26,665,000 (2.7 per cent) in 1984, US$25,316,000 (2.6 per cent) in 1985 and US$14,395,000 (1.6 per cent) in 1986.

10. **Manufactured fertilizers** reached a value of US$25,072,000 (2.6 per cent) in 1984, US$39,514,000 (4.1 per cent) in 1985 and US$24,737,000 (2.8 per cent) in 1986. The variation in imports of this product is accounted for by the reasons already mentioned.

11. The value of **wheat** imports reached US$24,470,000 (2.5 per cent) in 1984, US$12,634,000 (1.3 per cent) in 1985 and US$16,455,000 (1.6 per cent) in 1986; this performance can be attributed to the domestic milling industry's needs for this cereal.

12. **Animal oils and fats** were imported to a value of US$20,020,000 (2.1 per cent), US$12,950,000 (1.3 per cent) and US$12,306,000 (1.4 per cent) in the years 1984, 1985 and 1986 respectively, reflecting the domestic soap industry's requirements for these products.

13. Imports of **yarn and thread of textile fibres** moved from US$13,356,000 (1.9 per cent) in 1984 to US$19,573,000 (1.9 per cent) in 1985 and US$10,079,000 (1.1 per cent) in 1986. These figures reflect an upward trend which dropped back in the last year considered, following the devaluation of the Colón.

14. Imports of **perfumery products** and other toilet preparations reached US$17,625,000 (1.3 per cent) in 1984, US$14,316,000 (1.5 per cent) in 1985 and US$6,399,000 (0.8 per cent) in 1986. These figures represent a decline in imports since these are less essential consumer products.
15. Imports of maize dropped back from US$16,200,000 (1.7 per cent) in 1984 to US$2,104,000 (0.2 per cent) in 1985 and US$796,000 (0.1 per cent) in 1986. This decline in imports is attributable to the fact that demand could be met from domestic production of maize.

16. Imports of rubber tyres and inner tubes for motor vehicles reached US$15,887,000 (1.6 per cent) in 1984, US$14,410,000 (1.5 per cent) in 1985 and US$24,384,000 (1.4 per cent) in 1986. The variations recorded in the three years under consideration were attributable to fluctuating transport requirements.

4.2 Analysis of the balance of payments

4.2.1 Current transactions

In the course of the year 1986, economic and financial operations in the external sector increased the level of net international reserves by US$75.4 million. The current account showed a surplus of US$107.9 million, an improvement by US$132.7 million over the preceding year's deficit. Net transfers, which in 1986 reached a total of US$393.7 million, contributed substantially to this result.

Exports increased to the level of US$713 million; this increase by 5 per cent was attributable to increased earnings from sales of coffee, which totalled US$504.9 million, resulting from the marketing of 2,628,900 quintals.

Exports of cotton dropped back in both value and volume in 1986. Foreign sales of 131,600 quintals yielded US$4.5 million.

Exports of sugar reached a value of US$25.3 million, 9 per cent up from the 1985 level, notwithstanding a 11.5 per cent reduction in volume in relation to the preceding year.

The increase was attributable to higher international prices.

Export earnings in respect of shrimps are estimated at US$17 million corresponding to a volume of 4,364,000 kilograms and representing increases by 73.5 per cent and 70.1 per cent respectively in relation to 1985.

Exports of non-traditional products to the Central American region reached a total value of US$91 million, down by 4.9 per cent from the preceding year. This decline was closely linked to the worsening of economic and political conditions in the region, which adversely affected manufacturing industry whose exportable output largely goes to Central America. Exports of non-traditional products to countries outside the Central American region reached a total value of US$70.3 in 1986, slightly below the level for 1985; this was attributable not only to the limited impact of development programmes, but also to persistent economic problems within El Salvador and in the rest of the world (Table No. 2).
## Annex 1

### Trade Balance of El Salvador

#### In Terms of Value by Country

(In US$'000)

<table>
<thead>
<tr>
<th></th>
<th>1984 Value</th>
<th>1985 %</th>
<th>1985 Value</th>
<th>1986 %</th>
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<td></td>
<td></td>
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</tr>
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<td>100.0</td>
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<tr>
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<td>0.0</td>
<td>+390</td>
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<td>3.12 Canada</td>
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<td>-24.9</td>
<td>-82,223</td>
<td>-29.1</td>
<td>-119,365</td>
</tr>
</tbody>
</table>

1 Including petroleum
Total imports declined for the second consecutive year, and are estimated at US$934.9 million, representing a reduction by 2.7 per cent in relation to 1985.

Intermediate and capital goods increased by 1 per cent and 12.1 per cent respectively, while consumer goods dropped back by 19.6 per cent, largely due to the effect of exchange measures introduced in recent years (Table No. 3).

In respect of services, there was a deficit of US$63.9 million, 27.5 per cent below the previous year's level. This reduction was attributable to exchange measures introduced to channel earnings from services into the banking system and to discourage expenditure, and likewise to payment of insurance claims deriving from the earthquake.

Net transfers showed a surplus of US$393.7 million, reflecting a substantial increase by 13.9 per cent in relation to 1985; this increase was attributable, inter alia, to assistance sent by Salvadorian nationals resident abroad to their families, and to donations from IDA and foreign governments following the earthquake.

4.2.2 Capital transactions

On the capital account, there was a net deficit of US$123.2 million, a decline by US$194.8 million from the surplus recorded in the preceding year.

This account included net inflow of official capital in the amount of US$50.2 million, US$38.2 million below the corresponding level for the preceding year. This reduction was attributable to a lower level of public sector income from loans than in the preceding year, while in addition expenditure for loan repayment was higher than in 1985.

Medium- and long-term bank capital showed a net deficit of US$74 million, basically due to the fact that, in comparison with 1985, foreign debt repayments by the Central Bank increased considerably more than income from loans. Receipts included credits through facilities established under the petroleum agreements signed with Mexico and Venezuela, as well as loans from the Central American Bank for Economic Integration, IDB and IDA, designed mainly to maintain the flow of basic imports for producing activities. Expenditure included repayments to the financial institutions already mentioned and to the IMF, as well as to the Central Banks of Guatemala and Costa Rica in respect of trade commitments.

Net outflow of private capital is estimated at US$99.4 million, partly due to payment of external trade credits with dollar vouchers.

4.2.3 Gross international reserves

At the end of 1986, gross international reserves of the Central Bank stood at US$364.5 million, i.e. US$95.5 million more than one year earlier; this increase was due in particular to the revaluation of gold, the value of which was raised from US$42.2 to US$250 per troy ounce.
4.2.4  **Net international reserves**

At the end of 1986, net international reserves of the banking system were at the level of US$251.1 million, i.e. US$75.4 million (42.9 per cent) higher than in December 1985 (Table No. 4).

Within total net international reserves, those corresponding to the Central Bank showed a balance of US$178.1 million, an increase by US$109.8 million over the 1985 level, due not only to a substantial increase in international assets as a result of the above-mentioned gold revaluation, but also to a reduction in international liabilities.

Net international reserves of commercial and mortgage banks showed a balance of US$73 million, an amount US$34.4 million below that recorded in 1985, attributable to the fact that the foreign exchange assets of these banks were declining more than their foreign short-term commitments.

Table 1 shows the balance of payments over the past five years in terms of dollars, for better comparability having regard to the adjustment of the exchange rate of the national currency in 1986.

V.  **TRADE POLICY OBJECTIVES**

5.1  **General**

In view of the unfavourable trade balance of recent years and the increase in the external debt which has affected the fiscal deficit, El Salvador has had to take trade policy decisions designed to relieve this unfavourable situation as much as possible.

The situation has deteriorated in regard to exports of traditional products - coffee, sugar, cotton and shrimps: not only has production declined in volume, but international prices have declined substantially, in particular prices of coffee.

Accordingly, an incentive policy has been introduced for the export of non-traditional products with the aim of achieving a definite and progressive improvement in the trade balance in the coming years.

These trade policy objectives can be summarized as follows:

(a) to improve the quantity of traditional products and improve their marketing by diversifying outlets;

(b) to improve export capacity to new markets in respect of non-traditional products;

(c) to encourage bilateral trade agreements;

(d) to accede to the General Agreement on Tariffs and Trade, as an element for opening markets;

(e) to carry out market studies for non-traditional products and afford technical and credit support to export undertakings.
Table 1

Balance of Payments
(in $ million)

<table>
<thead>
<tr>
<th></th>
<th>1982*</th>
<th>1983*</th>
<th>1984*</th>
<th>1985*</th>
<th>1986(^1)</th>
</tr>
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<td>Exports of goods (f.o.b.)</td>
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<td>757.9</td>
<td>725.9</td>
<td>678.9</td>
<td>713.0</td>
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<td>Imports of goods (c.i.f.)</td>
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<td>892.8</td>
<td>977.5</td>
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<td>934.9</td>
</tr>
<tr>
<td>Trade balance</td>
<td>-157.2</td>
<td>-134.9</td>
<td>-251.6</td>
<td>-282.4</td>
<td>-221.9</td>
</tr>
<tr>
<td>Services (net)</td>
<td>-170.0</td>
<td>-164.9</td>
<td>-109.5</td>
<td>-88.1</td>
<td>-63.9</td>
</tr>
<tr>
<td>Transfers (net)</td>
<td>207.7</td>
<td>271.6</td>
<td>307.5</td>
<td>345.7</td>
<td>393.7</td>
</tr>
<tr>
<td>Balance on current account</td>
<td>-119.5</td>
<td>-27.9</td>
<td>-53.6</td>
<td>-24.8</td>
<td>107.9</td>
</tr>
<tr>
<td>Capital account</td>
<td>189.6</td>
<td>228.3</td>
<td>61.1</td>
<td>71.6</td>
<td>-123.2</td>
</tr>
<tr>
<td>Official capital</td>
<td>162.5</td>
<td>179.0</td>
<td>92.2</td>
<td>88.4</td>
<td>50.2</td>
</tr>
<tr>
<td>Withdrawals</td>
<td>184.5</td>
<td>203.3</td>
<td>130.6</td>
<td>135.2</td>
<td>101.4</td>
</tr>
<tr>
<td>Amortizations</td>
<td>22.0</td>
<td>24.3</td>
<td>38.4</td>
<td>46.8</td>
<td>51.2</td>
</tr>
<tr>
<td>Bank capital</td>
<td>124.9</td>
<td>137.0</td>
<td>-16.1</td>
<td>-35.6</td>
<td>-74.0</td>
</tr>
<tr>
<td>Withdrawals</td>
<td>204.7</td>
<td>264.6</td>
<td>141.1</td>
<td>116.2</td>
<td>141.8</td>
</tr>
<tr>
<td>Amortizations</td>
<td>79.8</td>
<td>127.6</td>
<td>157.2</td>
<td>151.8</td>
<td>215.8</td>
</tr>
<tr>
<td>Private capital(^2)</td>
<td>-97.8</td>
<td>-87.7</td>
<td>-15.0</td>
<td>18.8</td>
<td>-99.4</td>
</tr>
<tr>
<td>Adjustment for revaluation</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>90.7</td>
</tr>
<tr>
<td>Net international reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change</td>
<td>70.1</td>
<td>200.4</td>
<td>7.5</td>
<td>46.8</td>
<td>75.4</td>
</tr>
<tr>
<td>Level</td>
<td>-79.0</td>
<td>121.4</td>
<td>128.9</td>
<td>175.7</td>
<td>251.4</td>
</tr>
</tbody>
</table>

\(^*\) Converted at exchange rate of US$1 = $2.50

\(^1\) Preliminary figures. At exchange rate US$1 = $5.00

\(^2\) Includes errors and omissions

\(^3\) Includes revaluation of gold ($97.5) and bank capital ($-6.8)
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td>402.6</td>
<td>442.8</td>
<td>449.8</td>
<td>447.5</td>
<td>504.9</td>
</tr>
<tr>
<td>Cotton</td>
<td>45.2</td>
<td>55.4</td>
<td>9.1</td>
<td>29.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Sugar</td>
<td>15.9</td>
<td>40.1</td>
<td>25.9</td>
<td>23.2</td>
<td>25.3</td>
</tr>
<tr>
<td>Shrimps</td>
<td>18.2</td>
<td>11.7</td>
<td>20.2</td>
<td>9.8</td>
<td>17.0</td>
</tr>
<tr>
<td>CACM</td>
<td>174.2</td>
<td>164.9</td>
<td>157.2</td>
<td>95.7</td>
<td>91.0</td>
</tr>
<tr>
<td>Non-traditional to rest of world</td>
<td>43.5</td>
<td>43.0</td>
<td>63.7</td>
<td>73.7</td>
<td>70.3</td>
</tr>
<tr>
<td>Total</td>
<td>699.6</td>
<td>757.9</td>
<td>725.9</td>
<td>678.9</td>
<td>713.0</td>
</tr>
</tbody>
</table>
### Table 3

**Economic Breakdown of Imports (c.i.f.)**

(in $ million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I.</strong> Consumer goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Durable</td>
<td>261.4</td>
<td>262.9</td>
<td>276.5</td>
<td>258.8</td>
<td>208.0</td>
</tr>
<tr>
<td>2. Non-durable</td>
<td>26.0</td>
<td>28.7</td>
<td>38.0</td>
<td>47.9</td>
<td>29.1</td>
</tr>
<tr>
<td><strong>II.</strong> Intermediate goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Manufacturing industry (Petroleum)</td>
<td>235.4</td>
<td>234.2</td>
<td>238.5</td>
<td>210.9</td>
<td>178.9</td>
</tr>
<tr>
<td>2. Agriculture (Fertilizers)</td>
<td>46.7</td>
<td>52.4</td>
<td>57.3</td>
<td>75.5</td>
<td>70.0</td>
</tr>
<tr>
<td>3. Construction</td>
<td>18.4</td>
<td>26.7</td>
<td>25.0</td>
<td>39.5</td>
<td>49.5</td>
</tr>
<tr>
<td>4. Other</td>
<td>45.8</td>
<td>51.4</td>
<td>50.6</td>
<td>46.2</td>
<td>55.0</td>
</tr>
<tr>
<td><strong>III.</strong> Capital goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Manufacturing industry</td>
<td>4.9</td>
<td>7.1</td>
<td>6.3</td>
<td>5.6</td>
<td>7.9</td>
</tr>
<tr>
<td>2. Agriculture</td>
<td>507.2</td>
<td>532.7</td>
<td>568.8</td>
<td>544.8</td>
<td>550.1</td>
</tr>
<tr>
<td>3. Construction</td>
<td>88.2</td>
<td>97.2</td>
<td>132.2</td>
<td>157.7</td>
<td>176.8</td>
</tr>
<tr>
<td>4. Transport</td>
<td>856.8</td>
<td>892.8</td>
<td>977.5</td>
<td>961.3</td>
<td>934.9</td>
</tr>
<tr>
<td>5. Other</td>
<td>276.5</td>
<td>258.8</td>
<td>208.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Estimates*
Table 4

International Reserves
(in US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net reserves</th>
<th>Gross reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>-79.0</td>
<td>240.3</td>
</tr>
<tr>
<td>1983</td>
<td>121.4</td>
<td>350.5</td>
</tr>
<tr>
<td>1984</td>
<td>128.9</td>
<td>364.3</td>
</tr>
<tr>
<td>1985</td>
<td>175.7</td>
<td>417.5</td>
</tr>
<tr>
<td>1986</td>
<td>256.1</td>
<td>458.9</td>
</tr>
</tbody>
</table>

Note: Additional statistics regarding El Salvador (a publication of the Central Reserve Bank) may be found in Annex I to this Memorandum.

VI. TRADE POLICY INSTRUMENTS

To attain the trade policy objectives described above, legislation on imports and exports exists, constituting the instruments of trade policy. These are described below.

6.1 Treatment of imports

The treatment of imports will be described as follows:

(a) tariff and customs régime;

(b) system of levies;

(c) prohibitions, controls and requirements.

6.1.1 Tariff and customs régime

The tariff and customs régime is contained in the Central American Tariff and Customs Convention, with its Annexes A and B and the Regulations of Annex B, as well as some supplementary national provisions.

On 4 December 1984, four Central American countries - Costa Rica, Guatemala, Nicaragua and El Salvador - signed the above-mentioned Convention under which in practice they form a customs union. The Convention is therefore the legal basis for the Tariff and Customs Régime of El Salvador (see Annex II).

Annex A of the Convention, also known as the Central American Import Tariff, was adopted by the Central American Tariff Council on 17 September 1985 under Resolution No. 2 and ratified by the Legislative
Assembly of El Salvador by Decree No. 221 of 17 December 1985. It entered into force on 1 January 1986, with subsequent amendments (see full tariff and amendments in Annexes III, IV and V).

Part III of Annex A of the Convention, containing the tariff headings which were not brought into line and for which each country was free to determine the duties, was ratified by the Legislative Assembly of El Salvador by Decree No. 222 of 17 December 1985, and also entered into force on 1 December 1986 (included in Annex II).

Annex B of the Convention constitutes the Central American Legislation on Customs Valuation of Goods. This annex was the subject of a special convention signed by the above-mentioned countries on 7 June 1985 and ratified by the Legislative Assembly of El Salvador by Decree No. 223 of 17 December 1985, which also entered into force on 1 January 1986 (see full text in Annex II).

The Regulations of Annex B of the Convention, in other words the Regulations on Customs Valuation, were approved by the Central American Tariff and Customs Council on 5 December 1985 and ratified by the Executive Power of El Salvador by Decision No. 770 of 19 December 1985, and also entered into force on 1 January 1986. (See full text in Annex III.)

We shall describe below the main features of the operative part of the Convention and its Annex B (Customs Valuation Legislation). Annex A (Nomenclature and Import Duties) is described below in the section on the System of Import Levies (see section 6.1.2.1).

6.1.1.1 Tariff and Customs Convention (operative part)

(a) Content of the Régime

The Convention states, in its initial part, that the Central American Tariff and Customs Régime consists of:

- the Central American Import Tariff, comprising the tariff headings with the rates of duty appearing in Annex A of the Convention;
- the Central American Legislation on Customs Valuation, contained in Annex B of the Convention;
- the Central American Uniform Customs Code and its Regulations, currently being negotiated;
- the decisions and other common tariff and customs provisions based on the Convention.

(b) Objectives of the Régime

In accordance with Article 4 of the Convention, the objectives of the Régime are:
- to be a basic instrument of the integration process;
- to guide and strengthen development of the producing sectors;
- to encourage efficient production and rationalize the cost of tariff protection, especially for the consumer;
- to contribute to the achievement of the foreign trade policy objectives of the contracting States;
- to contribute to equitable distribution of the benefits and costs of Central American integration;
- to improve the organization and administration of the Central American customs services, with the aim of gradually and progressively consolidating a regional tariff and customs system.

(c) Institutional provisions of the Régime

The following bodies have been established:

- The Central American Tariff and Customs Council

This is the highest body of the Régime and is responsible for directing and administering it.

It consists of the Ministers responsible for Central American integration affairs.

- Committees

So far, two committees have been established: the Tariff Policy Committee and the Customs Committee.

The Committees are working groups which advise the Council, although they may also have executive functions according to the terms of reference given them by the Council.

- Secretariat

The Central American Economic Integration Secretariat (SIECA) acts as secretariat for the Régime. It is also empowered to propose measures for the implementation and improvement of the Régime.

(d) Definition of the Central American Import Tariff

Article 13 defines the Central American Import Tariff as follows: ... it appears as Annex A to the Convention and is the instrument containing the nomenclature for the official classification of goods which may be imported into the territory of the contracting States, the rates of import duty and rules for the implementation of the tariff (see below, section 6.1.2.1).
(e) Nomenclature

Article 15 states that the Central American Uniform Nomenclature (NAUCA II) is the official classification of goods in the Central American Import Tariff.

It is based on the Nomenclature of the Customs Co-operation Council (CCCN), Brussels, as amended and amplified at the date of signature of the Convention.

The CCCN Explanatory Notes serve for its interpretation in so far as the correspondence is maintained between NAUCA II and the CCCN.

The NAUCA II is divided into sections, chapters, sub-chapters and headings corresponding to the CCCN.

NAUCA II creates sub-headings and lines for specific goods in its international trade.

Goods imported into the customs territory of each of the contracting States are officially classified according to the customs legislation in force in each State.

(f) Import duties

All imports of goods into the customs territory of the contracting States are subject to payment of the duties specified in the Tariff, which are expressed in ad valorem terms. The contracting States undertake not to charge, on or in connection with importation, duties other than those established in the Central American Import Tariff (Annex A of the Convention, described below in section 6.1.2.1).

(g) Dutiable basis

Everything pertaining to the determination of the dutiable basis and application of duties is governed by the provisions of Annex B of the Convention, Legislation on Customs Valuation. (This annex is described below, see section 6.1.1.2).

(h) Monetary unit and conversion of currencies

The monetary unit is the "Central American peso", the value of which is fixed by the Central American Monetary Council. The Council has fixed the value at one Central American peso to one United States dollar.

Foreign currencies are converted to Central American pesos at the exchange rate resulting from the international listing of the foreign currency against the official value of the Central American peso on the date of acceptance of the import document. The Central Bank of each State is responsible for providing this information.

Central American pesos are converted into the currencies of contracting States according to the value established by the national legislation in force on the date of acceptance of the import document.
(i) Duty-free admission and exemption from duty

These are authorized only in respect of the following:

- household effects of persons who have resided outside the country for at least twenty-four months prior to their definitive return;
- goods covered by the provisions of regional or international conventions;
- goods covered by national legislation relating to purposes or activities other than manufacturing, as referred to in the Central American Convention on Fiscal Incentives and the Protocols thereto. (Details are given below of the legislation adopted by El Salvador and the exemptions from duty granted for the development of certain activities - see section 6.1.2.6.)
- goods imported for the development of handicraft activities, small industries and industries exporting to third countries;
- goods imported for activities authorized by the Central American Tariff and Customs Council;
- domestic goods re-imported within a period of less than three years;
- goods subject to temporary import régimes.

(j) Responsibility and procedure for modification of customs duties

The Council is empowered to modify customs duties for the purpose of encouraging production activities, protecting consumers and co-operating in the implementation of the trade policies of contracting States.

- Scope of modifications

The power of modification is limited to a tariff range of between 1 per cent and 100 per cent ad valorem. Once a modification has been adopted, no further modification may be made within one year.

- Entry into force of decisions of the Council

The decisions adopted by the Council are put into force in each State within not more than thirty days, by Decision or Decree of the Executive Power which must be published in the Official Gazette of each country.

Modifications have been made on three occasions by Council decisions which El Salvador has put into force and published in its Official Gazette. These amendments are included in Annex A, with an indication of the date of modification.
(k) Unfair trade practices

The Convention authorizes contracting States to take countervailing measures in respect of unfair trade practices which threaten to injure regional production, such as dumping and export subsidies.

(1) Safeguard clauses

Each contracting State may adopt safeguard measures for not more than thirty days if it is experiencing serious balance-of-payments problems, sudden shortfalls in the supply of raw materials and basic final goods, market disruption or any other circumstance which threatens to lead to situations of national emergency. The Council must adopt a decision within thirty days on the action taken.

(m) Validity, denunciation, accessions

The Convention has a validity of ten years and will be tacitly renewed for like periods if it is not denounced.

Denunciation by a contracting State has effect only for that State, two years following presentation of the denunciation.

The Convention is open for accession to Honduras, which took part as an observer in all the negotiations.

6.1.1.2 Annex B of the Convention: Customs valuation legislation and its regulations

The Protocol of Annex B of the Convention, entitled "Central American Legislation on Customs Valuation of Goods" was signed on 7 July 1985, and ratified by the Legislative Assembly on 17 December 1985, and entered into force in the four countries that signed the Convention on 1 January 1986. The Regulations of Annex B were approved by the Central American Tariff and Customs Council on 5 December 1985 and ratified by Decision 770 of the Ministry of the Economy of 19 December 1985 and entered into force on 1 January 1986.

The features of the legislation are substantially those of the Brussels Definition of Value (see full text in Annex II and III).

The basic features of the Central American Legislation on customs valuation of goods are summarized below.

(a) Normal price

For the application of ad valorem duties, the customs value of imported goods is their normal price.

Normal price means the price which it is considered could be fixed for the imported goods, at the time of acceptance of the import document, as a result of a sale in the open market (under "conditions of free competition") between a buyer and seller independent of one another.
The normal price is determined on the assumption that:

- The goods are delivered to the buyer at the port or place of introduction into the territory of the country of importation.
- The seller bears all costs incidental to the sale and delivery of the goods to the port or place of introduction into the territory of the country of importation, and therefore these costs are included in the normal price.
- The buyer bears the duties or charges payable in the country of importation, and therefore such duties and charges are included in the normal price.

The normal price includes the following elements:

- The price paid or payable may be taken as the basis for the determination of the normal price of the goods provided it corresponds to the price which would be obtained in a sale in the "open market" and the time between the date of the invoice and the date of acceptance of the import document does not exceed the time period stipulated in the Regulations.
- The time or moment which must be taken into account for valuation purposes is that of the acceptance of the import document.
- The place is understood to mean the port or place of introduction of the goods into the territory of the country of importation.
- Quantity: it is assumed that the sale covers only the quantity of the goods to be valued, taking account of the commercial circumstances of the transaction.

(b) Conditions of free competition (open market)

For a sale to be considered as having been effected in the open market, it must meet the following conditions:

- payment of the price of the goods constitutes the sole actual compensation on the part of the buyer;
- the price must not be influenced by any other commercial or financial relationship;
- no part of the proceeds of any subsequent resale of the goods must accrue directly or indirectly to the seller;
- any other conditions laid down by the Council.

(c) Determination of the normal price

The normal price shall be determined on the basis of the "price paid or payable" with any necessary corrections or adjustments if such a price
differs from the open-market price. If this cannot be done, the normal price shall be determined on the basis of the following elements, in succession and with exclusive effect:

- the usual open-market price;
- the probable sales price;
- the actual sales price;
- the price determined on the basis of the rental contract or contracts.

(d) Definitions of the above-mentioned prices

The above-mentioned prices are defined as follows:

- The price paid or payable is the price agreed between the buyer and seller and appearing in the invoice or contract.

- Normal open-market price is the price that usually obtains in sales transactions in open-market conditions, under similar circumstances, for goods identical or similar to those being valued.

- Probable sales price is the price that obtains for goods identical or similar to those to be valued in the case of imports made previously into the national territory under similar conditions within a period of not more than ninety days.

- Actual sales price is the price fetched by the goods themselves in sales made in the national territory for the first time.

- Price determined on the basis of a rental contract or contracts is the price established on the basis of the rents provided for in agreements for the use and enjoyment of the goods during the normal period of use of the imported goods, with the deduction of elements not pertinent to the notion of the normal price, such as legal interest charged during the period and technical assistance.

(e) Documents required

The importer must declare the customs value of the goods in the form entitled "Declaration of Customs Value" and must provide any other information that is requested and is considered necessary for verifying the customs value of the goods.

(f) Verification and investigation of customs value

The Customs Authority of each State shall be responsible for the investigation of the customs value of the goods within a period of up to ninety days of the payment of the customs duties. In case of fraud in the
declaration, the investigation shall continue even beyond that period in accordance with the customs legislation of each country.

(g) National Committee for Customs Valuation

A Customs Valuation Committee is established in each contracting State to examine and decide, at the final administrative level, any complaints or appeals concerning customs valuation.

Its decisions may be appealed to the Director of Customs, and the latter's decisions may be appealed in all the forms provided for by the domestic legislation of each contracting State.

In El Salvador, an appeal may go all the way up to the Supreme Court.

6.1.1.3 The Central American Uniform Customs Code (CAUCA) and its Regulations (RECAUCA)

These are draft texts currently being examined at the level of the Customs Committee, the fundamental aim being to unify, at the level of the countries which signed the Central American Tariff and Customs Convention, the customs organization, administration and procedures of the contracting countries.

These draft texts are based on the CAUCA and RECAUCA signed a number of years ago within the framework of the Central American Common Market, but which El Salvador did not bring into effect because of legal difficulties. The draft texts now under examination have improved that Convention and it is hoped that it can be approved by the Central American Tariff and Customs Council in the course of 1988.

Meanwhile the customs organization, administration and procedures of El Salvador are governed by national provisions very similar to the draft texts and to the earlier Convention, which is used as supplementary legislation.

6.1.2 Tax system for imports

El Salvador's tax system for imports has been greatly simplified by reason of signature of the Central American Tariff and Customs Convention and the entry into force of Annex A to the Convention, i.e. the Central American Import Tariff, with effect from 1 January 1986.

Nevertheless, certain other taxes have been retained, so that the tax system on imports currently comprises the following:

(a) Central American Import Tariff (Annex A to the Convention);

(b) selective consumption tax;

(c) sales tax;
(d) special levies on certain types of goods;
(e) tax exemption laws for certain activities.

We shall comment briefly on each of these.

6.1.2.1 Central American Import Tariff (Annex A to the Convention)
(See Annex III.)

(a) Legal basis: Decrees No. 221 and 222 of 23 December 1985 of the Legislative Assembly, approving Annex A to the Central American Tariff and Customs Convention in its three parts, which entered into force on 1 January 1986 and stipulate the customs duties or tariffs applicable to imports.

In subsequent negotiations some tariff rates were adjusted under the decisions described below:

Decision No. 371 of 16 July 1986 bringing into effect Resolution No. 12 of the Central American Tariff and Customs Council, which contains tariff changes (see Annex IV);

Decision No. 669 of 12 December 1986 bringing into effect Resolution No. 18 of the Council, which contains tariff changes (see Annex V);

Decision No. 452 of 5 October 1987 bringing into effect Resolution No. 22 of the Council, which contains tariff changes (see Annex VI) and implementing regulations for Clauses 25 and 26 of the Convention.

(b) Subject of the tax

The tax is charged on the admission of foreign goods (from outside countries which have signed the Central American Tariff and Customs Convention) intended for definitive use and consumption in El Salvador.

(c) Tax base

The customs value of the goods as determined in accordance with the legislation on customs valuation, Annex B to the Convention.

(d) Tariffs (customs duties on imports)

Annex A to the Convention setting forth the customs duties on imports is divided into three parts:

Part I: This sets forth the tariff headings with tariffs or customs duties which are uniform, i.e. common to the four countries that have signed the Convention. This part also sets forth non-uniform headings, with an indication that the relevant tariffs are set forth in Part II or III of that Annex.
Part II: This sets forth the tariff headings that have not been made uniform, on which the various countries can apply the negotiated differential tariff.

Part III: This sets forth the tariff headings that are not the subject of trade between the countries that have signed the Convention, the tariff on which is left to the discretion of each contracting State. El Salvador fixed the tariff on these headings by Decree No. 222 of the Legislative Assembly dated 23 December 1985 (see complete text in Annex III). In that same Decree No. 222, El Salvador established internal rules for imports, some prohibitions and supplementary notes for each chapter in the tariff; it was essential to incorporate these because of all the domestic provisions that were to be revoked when the new legislation entered into force.

(e) Negotiated tariffs

The characteristics of the negotiated tariffs in Parts I and II are the following:

- on raw materials and inputs in general, end-products and machinery and equipment, not manufactured within the area, a tariff of between 1 and 5 per cent was negotiated;

- on raw materials and inputs for other industries, produced within the area of the contracting parties, tariffs of between 10 and 30 per cent were negotiated, depending on the degree of processing of the input;

- on end-products processed within the area, tariffs were negotiated within a scale of effective protection varying between 50 and 150 points according to the following formula:

$$t_j = G_j \frac{V_j}{P_j} + t_i \frac{(1 - V_j)}{P_j}$$

- there were some exceptions in respect of which the tariffs negotiated are higher for reasons of greater protection or fiscal interest in the case of luxury products. But the tariff ceiling is 100 per cent under the Convention;

- in general, one can say that the negotiated tariffs are generally lower than those in force until 31 December 1985;

- the Central American Convention on Fiscal Incentives for Industrial Development has been revoked. This granted full tariff exemption on imports of inputs, machinery and equipment for manufacturing industry with a view to an import substitution policy, industrial protection being afforded through a rationalized tariff with a lower degree of protection, with the aim of making undertakings more competitive in the international market by obliging them to be more efficient.
(f) **Exemption**

In describing the convention we have already indicated the cases in which each contracting party can grant tariff exoneration, exemption or duty-free admission. We shall comment below on national legislation granting privileges of this kind.

6.1.2.2 Selective consumption tax

(a) **Legal basis**

The legal basis for this tax is Decree No. 583 of the Legislative Assembly of 29 January 1987 (Annex VII to this Memorandum).

(b) **Period of validity**

This is a temporary tax to be in effect until 31 December 1989: it was established to restore equilibrium in the trade balance and balance of payments, by discouraging the import of mainly luxury articles or products manufactured in El Salvador in adequate conditions as to quantity, quality and price.

(c) **Purpose of the tax**

The selective consumption tax is applicable on the products listed in the Decree in the event of sale, donation or any other act implying transfer of ownership on the part of producers or importers of the goods referred to in the Law. In the event that the goods are reserved for or at the disposal of producers or importers, the relevant tax is likewise applicable. It covers 331 tariff headings, of which forty-three are subject to differential tariffs in relation to domestic production.

(d) **Tax base**

In the case of imports from outside the Central American region, the tax is calculated on the normal price used as a basis for determining the customs value of the imported product plus the amount of any charges, taxes or surcharges collected on the import document.

The tax is paid together with the import duties.

(e) **Rate of tax**

It is charged ad valorem on the tax base, at a rate that varies between 20 per cent and a maximum of 125 per cent, depending on the type of goods concerned.

(f) **Exemptions and exonerations**

- Goods acquired by the Government, autonomous official institutions and agencies, or by the municipalities;
- goods imported by diplomats and officials of international organizations;
- temporary imports;
- domestic products that are being exported;
- domestic handicraft articles;
- raw materials and inputs for industry, even if included under a general heading of the list;
- replacements and accessories, provided they are not deemed to be appliances or artifacts for semi-finished use or models;
- domestic goods or goods imported by undertakings eligible for duty-free treatment under special legislation.

6.1.2.3 Sales tax (stamp tax on import documents)

(a) Legal basis

Legislative Decree No. 284 - Law on Stamped Paper and Stamps (Annex VIII to this Memorandum)

This Law regulates the tax on stamped paper that has to be used for contracts, deeds, obligations, applications, etc. and the stamp tax charged on sales of goods and services (in practice this replaces the domestic value-added tax that exists in a great many countries).

Since the import of goods is deemed to be the first sales transaction within the country, this tax is charged on all import documents in respect of goods.

It is not discriminatory, since it is also charged on sales of domestic products.

(b) Subject of the tax

The customs document or form or any other document covering the import of goods.

(c) Tax base

The c.i.f. value or the customs value indicated in the document.

(d) Rate of tax

The tax is charged at the rate of 5 per cent on the value mentioned in the preceding sub-paragraph.

In respect of goods the price of which is regulated by the Government, and which are described below, the tax is reduced to the rate established in the table for the use of official stamped paper for contracts, which is approximately one per mil.
(e) **Exemptions, exonerations or tax-free treatment**

The following goods are exempt from this tax:

- those eligible for tax-free treatment under special legislation or international agreements;
- those used in agriculture, such as fertilizers, insecticides, fungicides, herbicides, products for the treatment of diseases in agriculture, and the like, and raw materials needed for the preparation of such products;
- agricultural products in the natural state for use as food;
- wheat;
- crude petroleum for refining;
- concentrates for livestock and poultry feedingstuffs, and raw materials for the preparation thereof;
- medicines, medicaments or pharmaceutical specialities and medicinal products for human and veterinary use, and raw materials for the preparation thereof;
- foodstuffs subject to price regulation and raw materials for the preparation thereof.

(f) **Products subject to price regulation**

The executive authority for the economy is empowered to regulate prices of certain products when this is necessary, under Decree No. 455 of 18 October 1973 and Decisions Nos. 261 of 28 August 1984 and 119 of 21 April 1988 (see full texts in Annex IX).

The products currently subject to prices regulated by the Ministry of the Economy are likewise listed in Annex IX.

In addition, the Supply Control Institute, under its statutes, is also empowered to regulate prices of certain commodities, namely maize, grain sorghum, rice, beans, and milk powder, imported.

The text of the law establishing that Institute is in Annex X, together with Legislative Decree No. 1051 of 3 June 1953 and Amendments thereto.

6.1.2.4 **Special levies on certain goods**

Imports of alcoholic beverages are subject to a specific levy of $3.00 per litre, under Decree No. 1312 of 16 December 1953, plus 25 per cent of the value, under Decree No. 513 of 4 December 1980, in addition to the selective consumption tax and the customs duty. These levies are also payable by domestic industry.
Under Decree No. 591 of 12 December 1969 and amendments thereto, imports of sacks and bags made from synthetic fibres are subject to a supplementary levy of 1.50 per bag.

6.1.2.5 Consular fees and formalities

Consular fees are charged on endorsement of documents for exporting to El Salvador, under the General Law regulating Salvadorian consulates abroad. The Law also stipulates the requirements to be complied with at the consulate.

The relevant sections of the law, indicating the charges and requirements, may be found in Annex XI.

6.1.2.6 Legislation on tariff exemptions for certain activities

As already mentioned, the Central American Tariff and Customs Convention prohibits the grant of tariff exemptions to manufacturing industry, but allows it for other activities mentioned in Article 21(b) of that Convention.

El Salvador has enacted the following legislation in this respect:

(a) Legislative Decree No. 219 of 28 September 1984 (Animal Husbandry Development Law) (see Annex XII)

This allows the import of all products, machinery and equipment in relation with livestock rearing, selection, fattening for meat and production of milk, free of customs duties, for a period of seven years as from the date of application made by each undertaking.

(b) Legislative Decree No. 367 of 28 June 1967 (Tourist Industry Promotion Law) (see Annex XIII)

This allows the import of utensils, machinery and equipment needed for developing the tourist infrastructure, and for replacement and maintenance.

(c) Decree No. 339 of 6 May 1986 (General Law on Co-operative Associations) (Annex XIV)

This allows the duty-free import of machinery, tools, replacements, fertilizers, insecticides, consumer goods, building materials and animals which contribute directly to the development of agriculture, animal husbandry or industry, provided they are neither produced nor manufactured in El Salvador in acceptable conditions as to quality in the opinion of the National Co-operative Development Institute or where domestic production is not sufficient to meet market requirements. The exemption is granted to each co-operative that so requests for a period of five years as from the date of the relevant application.
(d) Decree No. 799 of 26 September 1983 (General Law on Fishery Activities and Implementing Regulations), Decree No. 82 of 26 September 1983 (see Annex XV)

This allows the import, duty-free or subject to reduced duties, of construction materials for installations of establishments, vessels, machinery, equipment, tools, replacements and accessories for such vessels; appliances, devices and equipment for fishery, fuels and lubricants for use in vessels, and likewise tools, equipment, replacements and accessories needed for the marketing of products. The special treatment is granted for a period of five years, which may be further extended.

(e) Decree No. 315 of 13 March 1986 (Export Promotion Law) (Annex XVI)

This allows duty-free import in the following conditions:

- Undertakings that export their entire production are eligible for full exemption from duties on the import of machinery, equipment, tools, replacements and accessories, furniture, utensils and other fixtures; raw materials, semi-processed products, intermediate products, containers, packaging, samples and patterns; fuels and lubricants.

  These exemptions are not subject to any time-limit.

- Undertakings that export 25 per cent or more of their output are eligible for the same exemptions as are indicated in the preceding sub-paragraph, but for a period of ten years which may be extended.

- Undertakings engaged in assembly are eligible for exemptions similar to the above-mentioned case.

- International marketing undertakings.

Undertakings installed in the free zone, which sell their products outside the Central American Common Market, are eligible for full exemption on the import of equipment, tools, replacements and accessories and other articles for carrying on their operations; raw materials, semi-processed products, intermediate products, containers, packaging, samples and patterns for the manufacture of products to be exported, in cases in which the international marketing undertaking acts as an intermediary in the execution of production contracts. The exemptions are granted for a period of ten years.

(f) Decree No. 471 of 22 December 1966 and Amendments thereto (Poultry Farming Promotion Law) (Annex XVII)

This allows duty-free import of the following products for an indefinite period:

- live day-old chicks, fertilized eggs for incubation, mixtures of raw materials used in preparation of poultry feed, industrial plant and
installations for poultry-farming, chemical, pharmaceutical and biological products used for the protection, conservation and rearing of poultry, unmixed raw materials for the preparation of poultry feed.

All these exemptions are granted provided there is no domestic production in adequate conditions as to quantity, quality and price.

6.1.3 Import controls - prohibitions - requirements

El Salvador has legal provisions providing for the prohibition, regulation or control of imports; we shall differentiate among them according to the objective pursued. In practice, there are two main groups:

(a) prohibitions or controls on the import of certain specified goods in order to protect public morals, human, animal or plant health or national security, and certain goods which may only be imported by the State;

(b) prohibitions, controls or requirements for the import of goods of any kind, established as a general measure for the purpose of protecting the trade balance and the balance of payments.

We shall describe each of these:

6.1.3.1 Prohibitions and requirements for specific goods

These concern a small number of products, some of which are absolutely prohibited, such as pornographic publications, others being subject to import restrictions, such as firearms, while certain other products are under State monopoly, such as weapons; most of the products concerned are subject to certain requirements for admission, such as analysis of purity, registration of medicines, etc.

Details of all these requirements are set forth in the last part of Decree No. 222 dated 23 December 1985 which brought into effect Part III of Annex A to the Central American Tariff and Customs Convention already mentioned (see Annex III).

The last part of that Decree sets forth the customs regulations for import and the prohibitions and requirements applicable to certain products, by chapter of the tariff; accordingly we shall not go into further details in this Memorandum.

Nevertheless, special mention should be made of medicines for human consumption and veterinary products, pesticides and fertilizers for use in agriculture and animal husbandry.

Regulations in regard to medicines for human consumption are set forth in the Decree of 11 May 1988 (Health Code) and special regulations thereto.

Under these legal provisions, any medicine, whether of domestic origin or imported, must be duly authorized by the Public Health Council. In
addition, the trade mark must be registered. (For the full text of the Law and regulations see Annex LI.)

Veterinary products, pesticides and fertilizers for use in agriculture and animal husbandry are under the control of the Ministry of Agriculture, in accordance with Decree No. 315 of 4 May 1973. That Decree stipulates that all veterinary products for use in animal husbandry and likewise pesticides, fertilizers and the like for agricultural use must be registered with and authorized by the Ministry of Agriculture through its specific agencies. These provisions are applicable both to domestic products and to imported goods. (For the full text, see Annex LII.)

6.1.3.2 Prohibitions and general requirements for imports

The prohibitions, controls and requirements of a general character in respect of imports are aimed at protecting the trade balance and the balance of payments which have been in deficit for El Salvador in recent years.

(a) Prohibitions

Executive Decision No. 31 of 21 January 1986 introduced a general prohibition on the import of goods falling within 200 headings of the customs tariff. The goods concerned are articles produced in El Salvador in adequate conditions of supply, products of a luxury character and passenger motor vehicles.

The Order was a temporary measure, and was to be in effect until 31 December 1986. At the end of that year, however, in view of continuing disequilibrium in the trade balance and the balance of payments, the prohibitions were extended, under Order No. 1322 of 22 December 1986, so as to remain in effect until 31 December 1987. Under that Order, the number of tariff headings subject to import prohibition was reduced to 170.

Since at the end of 1987 the situation in the trade balance remained unchanged, the validity of the Order was further extended until 31 December 1988. The number of tariff headings under prohibition was reduced to 106 under Order No. 598 of 22 December 1987, and under Order No. 500 of 26 May 1987, further reduced to only twenty-eight tariff headings (see Annex XX).

We should mention that in respect of most of these tariff headings, the prohibitions are not absolute, since Articles 3 and 4 of the Order stipulate the products that may be imported within each heading, and the requirements to be complied with.

Annex XX to this Memorandum lists the prohibited headings.

(b) General controls and requirements on imports

General controls on all imports are within the province of the Central Reserve Bank, since the first requirement for any import of goods is to obtain the foreign exchange permit; nevertheless, all import formalities
pass through CENTREX, described in section 6.1.4, which centralizes and processes formalities.

The Central Reserve Bank has responsibility for all transactions in foreign currency, under El Salvador’s financial legislation which will be described in the next chapter.

For the moment, we would merely state that the legal bases for establishing import controls and requirements are as follows:

Decree No. 146 of 30 May 1961 (Law on Control of International Transfers and Implementing Regulations) (see Annex XXI)

This Law regulates all transfers of foreign currency, whether to or from other countries.

Article 3 thereof states: "The Central Reserve Bank shall sell at the official rate of exchange, subject to the usual margins for bank transactions, as determined by the Executive Board (now by the Monetary Board), directly or through commercial banks, the foreign exchange requested by any natural or legal person for payments abroad intended to cover the value of:

(a) products, articles or goods of any kind imported into the country in accordance with the legal regulations";

(b) (etc.).

And Article 6 stipulates:

"The Central Reserve Bank shall have responsibility for the implementation of this Law and its regulations. For the purposes of implementing this Law, the Bank may require a prior licence for the import or export of goods and may lay down rules for the approval of maximum prices of imported goods and minimum prices for those exported."

Implementing provisions for this Law were established by Decree No. 147 of 30 May 1961, setting up the Foreign Exchange Control Department within the Central Reserve Bank; the Department has responsibility for verifying all operations involving international transfers of foreign exchange.

Article 24 of the Regulations states:

"Before making any application in respect of goods, the importer must obtain a permit from the Department."

Resolutions of the Monetary Board

Decree No. 1055 of 25 March 1982 (see Annex XXII) enacted and promulgated the Monetary Régime Law which established the Monetary Board as
the body with responsibility for formulating and directing State policy on monetary, exchange, credit and financial matters in general. That decree also incorporates all the provisions establishing the Central Reserve Bank, with the necessary adjustments to give the latter authority to carry out decisions of the Monetary Board.

Under the Law, the Monetary Board is empowered to "approve measures to regulate international transfers and payments in foreign currency".

In pursuance of these legal provisions, the Monetary Board has adopted resolutions for which the Central Bank has established implementing provisions in the form of instructions.

The text of these resolutions and instructions, with amendments up to June 1988, is in Annex XXIII to this Memorandum.

In general terms, one can summarize as follows the arrangements for foreign exchange allocation and the import requirements, agreed on by the Monetary Board and the Central Reserve Bank, as follows:

(a) Priorities are established for approving import applications and allocating foreign exchange, in particular when foreign exchange reserves are declining substantially.

(b) The prior deposit of 100 per cent of the value of goods to be imported, in national currency, was reduced to 25 per cent with effect from 1 September 1988 and is to be eliminated entirely as from 31 December 1988.

(c) For opening any letter of credit, a deposit termed "exchange regulation deposit" will be required, in an amount equivalent to 20 per cent of the value of the goods to be imported.

(d) In addition to that 20 per cent, the Executive Council of the Bank stipulates that banks must require a further 25 per cent of prior deposit for opening any letter of credit, plus a deposit of 50 per cent at the moment when the banks hand over to the applicant the documents covering payment of the letter of credit to the beneficiary.

Basically, these are the requirements, but there are numerous exceptions which are indicated in Annex XXIII to this Memorandum.

In general, there is no prior licensing for exports, nor any payment for obtaining approval of foreign-exchange applications and allocation, the only requirement being an import permit solely for purposes of allocating foreign exchange and prior deposits in the event of any shortage of monetary reserves, in order to bring the trade balance and balance of payments into equilibrium.
6.1.4 **Processing Centre (CENTREX)**

Under Decree No. 8 of 29 January 1987, the Processing Centre for Exports and Imports (CENTREX) was established, where all permits required for importing are centralized, together with all permits required for exports, in order to facilitate the relevant formalities (see Annex XVIII).

A list of the products subject to CENTREX control upon export or import may be found in Annex XIX which also reproduces the instructions for processing.

6.2 **Treatment of exports**

For purposes of payment of taxes, permits and export promotion, export products are classified in two groups:

(a) Traditional export products:

   coffee - cotton - sugar and shrimps

(b) Non-traditional export products:

   all other products.

6.2.1 **Export tax**

Export tax is payable only on the following traditional products: coffee, sugar and shrimps.

**Coffee**

This is El Salvador's principal export product, accounting for approximately 65 per cent of the total value of exports.

Decree No. 836 of 13 September 1950 established a progressive ad valorem tax on coffee exported. In accordance with the relevant table, when the price is in excess of US$45.00 per quintal, the tax is charged at the rate of 30 per cent on the price obtained (see Annex XXIV).

**Shrimps**

Shrimps account for approximately 2 per cent of exports, and under Decree No. 364 dated 21 August 1980 are taxed at the rate of US$0.20 per pound (453 gr.) exported (see Annex XXV).

**Sugar**

Under Decree No. 135 of 19 November 1974, a progressive tax was established, based on the price per quintal. The tax is not applied if the price is $ 10.00 or less (see Annex XXVI).
6.2.2 Prior licensing for exports

As we have already said, coffee is the basic product for the country's economy and coffee exports yield the major part of export earnings.

Decree No. 75 of 20 December 1979 (see Annex XXVII) established the National Coffee Institute which, acting on behalf of the State, is the only body authorized to export coffee produced in El Salvador. Accordingly all the export mechanisms for this product are centralized in the Institute.

For the export of products processed in the country, a prior licence must be requested from the Ministry of Foreign Trade, within which there is a specialized office known as the Processing Centre for Exports and Imports (CENTREX) to which we have already referred in connection with its functions in regard to control of imports (see section 6.1.4).

With the exception of coffee, already mentioned, exports are totally and absolutely unrestricted. A prior permit is required, because the Government needs to verify foreign-exchange earnings from any export transaction, as provided for in the Law on International Transfers (Decree No. 46 of 30 May 1961), already commented on in connection with import control (see section 6.1.3.2).

The export application authorized by CENTREX must also be registered in the Central Reserve Bank, for purposes of controlling foreign-exchange receipts.

Certain products are subject to export restrictions, in particular essential products which must in the first place be used to meet domestic demand.

CENTREX is the body that controls all these restrictions and announces any products subject to special controls. The products subject to export restriction are listed in Annex XIX.

6.2.3 Export promotion

Through its trade policy, the Government of El Salvador has taken specific measures to promote the export of non-traditional products, in order to diversify the economy and bring the trade balance and balance of payments into equilibrium, with the basic objective of raising the standard of living of the national population.

In order to achieve this objective, it has implemented policies of fiscal, credit and other incentives, which we shall comment on below:

6.2.3.1 Export Promotion Law and Regulations

Legislative Decree No. 315 dated 21 March 1986 brought into effect the Export Promotion Law, designed to expand exports of non-traditional industrial products, manufactures, semi-manufactures, agro-industry
products, handicraft products and agricultural products, including services outside the area of the Central American Common Market. The full text of the Law and its Regulations are in Annex XVI.

Certain aspects of this Law have already been commented on in connection with customs duty exemptions (see section 6.1.2.6); since, however, the fiscal incentives are less extensive than the customs duty exemptions, it is appropriate to comment in greater detail on the characteristics bearing on export promotion.

The Law affords the following benefits:

(a) **For undertakings that export their entire output**

- customs duty exemption for the import of machinery, equipment and supplementary items;
- customs duty exemption for the import of raw materials and the like;
- customs duty exemption for the import of fuel and lubricants;
- full exemption from income tax;
- full exemption from wealth tax.

This type of undertaking may be installed in or outside a free zone, in which latter case the industrial plant will be declared to be a fiscal enclave. The exemptions are granted for a ten-year period which is renewable.

(b) **For undertakings that export more than 25 per cent of their output**

They are eligible for the same benefits as those mentioned above, in respect of that part of their output which is exported and for the same periods of time.

For control purposes, the industrial plant will be declared to be a fiscal enclave.

(c) **For undertakings that export less than 25 per cent of their output**

These undertakings will receive a tax rebate certificate of a value equivalent to not more than 30 per cent of the value of exports.

The percentage is determined on the basis of the producing structure of the undertaking and may never exceed the amount of taxes incurred in the processing of the products imported.
The tax rebate certificate is a document made out to the bearer, and may be used only for the payment of taxes of any kind.

(d) Undertakings engaged in assembly for export

Any natural or legal person being a national of El Salvador may conclude assembly contracts with persons domiciled abroad. Any foreign person or undertaking may establish subsidiaries in El Salvador, in order to carry out directly assembly operations.

These undertakings are eligible for the same fiscal incentives as those mentioned in (a) and (b) above and for the same periods of time, and must be installed in a free zone or fiscal enclave.

(e) For international marketing undertakings

These are undertakings which, without being producers, are engaged in the export of non-traditional manufactures, semi-manufactures, products of agro-industry, handicraft products or agricultural products, whether of domestic or Central American origin. For these purposes they may import, store, exhibit and in general handle products of any kind with a view to their marketing.

They may also be authorized to export to destinations outside the Central American Common Market.

They are eligible for the same tax exemptions as undertakings falling under (a), for the same periods of time, and must be located in a free zone or fiscal enclave.

(f) Free zones

Industrial or commercial free zones in respect of exports are those areas of the national territory previously recognized as being outside customs authority, in which domestic or foreign undertakings that export their entire production directly can establish themselves and operate, being engaged in international marketing, assembly of products for export, and related or complementary activities.

Free zones may be the property of the State or of natural or legal persons, whether nationals of El Salvador or foreign.

Free zones of individual persons must have prior authorization and their operations are subject to supervision.

All goods entering a free zone that are intended for export or to form part of a product to be exported are exempt from taxes, duties or fiscal charges of any kind.
Persons operating free zones are eligible for the following fiscal incentives:

- full exemption from import duties on machinery, equipment and the like for operations within the zone;
- full exemption from income tax for a ten-year period;
- full exemption from wealth tax for a ten-year period.

The Law also comprises provisions on the customs régime applicable to the system and on the procedures to be complied with to obtain the grant of fiscal incentives.

The Law is accompanied by detailed regulations.

6.2.3.2 Government free zone

In 1970 the Export Promotion Institute (which is now part of the Ministry of Foreign Trade) constructed installations for the first free zone in El Salvador.

Operating in this free zone (named "San Bartolo") are export industries which pay rent for Government-built premises and warehouses.

There are plans for expanding these installations.

There are also plans for another free zone to be situated near the international airport of El Salvador.

6.2.3.3 Financing programmes

There are various credit lines for the promotion of non-traditional exports. The main ones are as follows:

(a) Special credit line for manufacturing industry.
   Reduced interest rate for new export projects.

(b) Special credit line for the purchase of shares in manufacturing industries or agro-industries for the export of non-traditional products.
   Reduced interest rate.

(c) Special credit line for the production of handicraft articles.
   Reduced interest rate for export projects.

(d) Special credit line for the purchase and processing of non-traditional products.
Reduced rate for exporters of non-traditional goods.

(e) Special credit line for pre-export and export.
Credit with guarantee of export documents.
Reduced interest rate.

6.3 Other trade policy instruments

6.3.1 Measures against unfair trade practices. Dumping, subsidies and countervailing measures

Prior to the entry into force of the Central American Tariff and Customs Convention, the Government of El Salvador had no specific legal provisions regarding measures that could be taken in the event of unfair trade situations (for text of the Convention, see Annex II).

Since 1 January 1986, however, when that Convention entered into force, the provisions of Articles 25 and 26 thereof and likewise the relevant regulations can be applied as indicated below:

Article 25 reads as follows:

"In respect of goods coming from outside the region, the contracting states may take such countervailing measures as are necessary to counteract unfair trade practices or practices that cause or threaten injury to Central American production, in particular in the case of imports of goods at less than their normal value or of export subsidization".

The safeguard clause in Article 26 states inter alia that in the event of unfair trade practices and market disruption, the State may unilaterally apply the provisions of Chapter VI of the Convention, concerning modification of import duties, during a maximum period of thirty days, without prejudice to any non-tariff measures that may be adopted in pursuance of domestic legislation.

Implementing regulations have been drawn up for these two articles, and were approved by the Central American Tariff and Customs Council by Resolution No. 32 of 10 September 1987. (The full text may be found in Annex VI.)

The Resolution was brought into effect by the Government of El Salvador under Decision No. 453 of 5 October 1987, and was published in the Official Gazette on 8 November 1987, since which date it has been in effect.

Article 1 of the Regulations stipulates that tariff measures adopted under Articles 25 and 26 of the Convention must be of an exceptional and strictly temporary character, for the sole object of avoiding any
aggravation of the situation referred to in Articles 25 and 26. Non-tariff measures may not be more unfavourable for the contracting states than for the rest of the world, nor may they discriminate among them.

The Regulations define unfair trade practices as follows: "... the import of goods from outside the region at less than their normal value, through dumping practices, subsidies or any other mechanism having the effect of reducing prices when those practices cause or threaten material injury to Central American industry or have a disincentive effect on investments in the region."

Market disruption is deemed to exist "when there is a pronounced decline in sales of domestic products as a consequence of the admission of like articles from outside the region in abnormal quantities."

Article 4 defines dumping and subsidization as follows: "Dumping is deemed to exist when goods are imported from outside the area at less than the sale price in the domestic market of the exporting country; and subsidization and other measures to reduce prices, when the State or its institutions in the exporting country outside the area grant incentives to the production or export of goods which directly or indirectly have the effect of artificially reducing costs or increasing profits, in order to maintain or increase exports."

Article 5 of the Regulations defines "less than normal value" as follows: "... when the price is less than the comparable price in the ordinary course of trade, for the like product when destined for consumption in the exporting country or, in the absence of such domestic price, when the price of the product in the exporting country is:

(a) less than the highest comparable price for the like product for export to any third country in the ordinary course of trade, or

(b) less than the cost of production of the product in the country of origin plus a reasonable addition for selling costs and profit."

"Due allowance shall be made in each case for differences in conditions and terms of sale, for differences in taxation and for other differences affecting price comparability."

Article 7 of the Regulations, concerning countervailing measures, states:

"If any State determines the existence of unfair trade practices, it may impose a countervailing duty not greater in amount than the margin of dumping, the amount of the subsidy or subsidization or any other difference existing between the normal price and the import price, provided that the latter is not consistent with normal conditions of international trade."

The other articles of the Regulations refer to the safeguard measures already mentioned and to procedures for the application of countervailing measures.
6.3.2 Government procurement - monopolies - State enterprises

In order to clarify the situation of El Salvador, we shall describe these aspects in relation with the relevant articles of the General Agreement.

6.3.2.1 Government procurement

Clear and specific provisions exist regarding purchases to be made by the various State entities, so as to ensure free competition by seeking the optimum economic and technical conditions for the purchase of goods of any kind needed by the Government in its various activities. The provisions are applicable to all public institutions, including the autonomous and autarchic entities.

Procurement is covered by Decree No. 280 of 19 December 1945 and its Regulations (Annex XXVIII).

Under these provisions, the procedures for government procurement can be summarized as follows:

(a) Open tendering:

This is a contractual procedure under which a public institution publishes a notice inviting interested parties to submit tenders, in accordance with the relevant specifications; the most appropriate tender will be selected on the basis of criteria established in advance by the selection board.

Natural or legal persons, whether nationals of El Salvador or foreigners, may participate in tendering procedures.

(b) Selective tendering:

This is the same procedure as in the case of open tendering, except that only a limited number of suppliers, specialized in the subject of the proposed purchase, are invited to tender. There are two possible cases: either the suppliers selected for an invitation to tender are drawn from lists maintained by the entities, or an open invitation to tender is published first, and from among the replies received, a selection is made of undertakings to be given the conditions for the procurement operation.

(c) Single tendering:

In this case, the supplier is selected directly, without any competition. Accordingly, it is an exception from the above procedures, and is used only in respect of certain purchase values and very special cases of urgency or shortage.
6.3.2.2 Monopolies

The Constitution of the Republic of El Salvador stipulates (see Annex XXIX):

"Article 110. No monopoly shall be authorized except in favour of the State or the municipalities, when the social interest makes this essential. Monopolies may be established in favour of the State. In order to guarantee the freedom of entrepreneurs and to protect the consumer, monopolistic practices are prohibited."

Accordingly, while a monopoly can exist in favour of the State or the municipalities it may not be de facto. It must fulfil the condition of being essential for the social interest. Accordingly, it can only be authorized by the Legislative Assembly. The monopolies which the Assembly has authorized are the following:

(a) National Coffee Institute

Decree No. 75 of 20 December 1979, stipulating that the State is to be the sole exporter of coffee.

This Decree has already been referred to above (see Annex XXVII and section 6.2.2).

(b) Supply Regulation Institute

The Protocol of Limón was signed at Limón, Costa Rica on 28 October 1965 by the Ministers for the Economy for Guatemala, Honduras, Costa Rica, Nicaragua and El Salvador (see Annex XXX).

Under Article 1 of that instrument the contracting states regulate the marketing of and trade in basic grains within the Central American region, namely maize, rice, beans and grain sorghum. In addition, they co-ordinate domestic production and supply policies and ensure the utmost freedom of trade.

It is also stipulated that in each of the countries concerned, basic grains may be imported only by the bodies with responsibility for price stabilization. Exports to third countries are permitted provided none of the other Central American states has expressed an interest in purchasing.

In El Salvador, the body with responsibility for all price stabilization matters is the Supply Regulation Institute (IRA) set up under Decree No. 1051 of 3 June 1963 (Annex X).

The characteristics of this Institute are the following:

(a) it is an autonomous body under public law with legal personality and its own funds;
(b) its objective is to participate in the promotion and marketing of agricultural output, more particularly maize, rice, beans and grain sorghum as well as other related products, regulating supply on the basis of stable prices which must be remunerative for the producer and fair to the consumer;

(c) it is managed by an Executive Board, comprising the Ministers for Agriculture, Finance and the Economy, a representative of the Central Bank and of the Rural Welfare Administration, one representative of the agricultural associations and one of the agricultural co-operatives;

(d) the initial capital was furnished by the State, which may make further contributions when circumstances so require;

(e) in fulfilling its objectives, the Institute may purchase, sell, import or export products subject to regulation, and may establish material installations and plants for the storage, handling, processing, improvement and transformation of the products for which it has responsibility.

Other details regarding the organization and operation of this Institute may be found in the Law creating it (Annex X).

(c) National Sugar Institute (INAZUCAR)

This was established by Decree No. 237 of 20 May 1980 (see full text of the Sugar Legislation in Annex XXXI).

The basic objectives of this Institute are:

(A) to establish, acquire and operate for its own account sugar mills, warehouses and other installations intended for the processing of sugar-cane, the manufacture, storage and handling of sugar, honey and other products and by-products of sugar-cane; and likewise to conclude agency agreements and other agreements in order to obtain those services on a contractual basis;

(B) to fix annual quotas for the various categories of sugar and honey, for domestic consumption and for export;

(C) to determine the sugar qualities produced;

(D) to encourage and co-ordinate sugar-cane cultivation.

In the context of agrarian reform, nearly all the sugar mills in the country have become the property of this Institute, so that one can say that sugar production is centralized.

The Institute is managed by a Board of Governors composed of the Ministers for Foreign Trade, Planning, Agriculture and Finance and the President of the Central Bank.
6.3.2.3 State-trading enterprises: National Investment Corporation (CORSAIN)

Apart from the institutions marketing and producing goods, as mentioned in the preceding section, there are no other types of marketing undertakings in El Salvador that can compete with private enterprise or impair the system of free enterprise guaranteed by the country's Constitution.

We should mention nevertheless that Decree No. 930 of 22 December 1981 established the National Investment Corporation (CORSAIN) (see Annex XXXII) with the objective of administering the assets of commercial, industrial and services undertakings which had become State property under other legislation, in particular following the dissolution of the National Industrial Promotion Institute. This was a matter of property attached because of non-payment by debtors of the Institute. Those undertakings are up for sale to private investors, but meanwhile are being administered by CORSAIN.

6.3.3 International barter

Article 55 of the Export Promotion Law, already mentioned, stipulates that the Executive, in the area of foreign trade and in co-ordination with the Central Reserve Bank, may establish and regulate special trade systems when the circumstances of international trade so require.

Under these systems, barter trade, counter trade, triangular trade and sales on consignment can be authorized.

In pursuance of that Article, the Executive issued Decision No. 18 of 1 June 1987 establishing regulations for barter trade, counter trade and triangular trade (Annex XXXIII to this Memorandum).

The Decree lays down the following definitions:

Barter trade: An international trade operation carried out through the exchange of goods and/or services of equivalent value, without any payment in foreign exchange being involved.

Countertrade: An international trade operation in which the goods and/or services to be traded are negotiated in the form of global amounts, for a specified period, at the end of which the equivalent values are settled between the two parties and the balances become payable in the currency agreed upon by the parties concerned.

Triangular trade: This is trade in goods and services by barter or counter trade arrangements in which three or more countries intervene.
The Regulations lay down the requirements to be fulfilled in respect of barter, countertrade and triangular operations.

In general, the requirements to be met are those in respect of import or export operations, already referred to, in addition to the requirements specifically concerned with barter trade. The latter does not involve any restriction for non-traditional products. In respect of traditional products, specific authorization must be obtained from the Monetary Board.

- Objectives of barter trade:

  (a) This is a measure designed to generate international trade in non-traditional products.

  (b) It facilitates operations in the event of any restriction or shortage of foreign exchange.

  (c) It encourages production by facilitating exports.

6.3.4 Law regulating the exercise of trade and industry

The conditions in which foreigners can engage in trade and industrial activities are governed by Decree No. 279 of 12 March 1969 and the corresponding regulations, Decree No. 9 of 27 January 1970 (for full text see Annex XXXIV).

The fundamental objective is to reserve the exercise of small-scale trade and industrial activities for Salvadorian nationals.

To that end, the Law defines small-scale trade and industry on the basis of the amount of investment, as follows:

Individual trade: liquid capital may not be less than $100,000 for foreigners.

Individual industry: liquid capital may not be less than $50,000 for foreigners.

Commercial and industrial companies: liquid capital may not be less than double the amounts indicated for individuals, whatever the extent of foreign participation.

Services undertakings are assimilated to industry.

The Law and the Regulations establish additional requirements to be fulfilled by foreigners to obtain official registration for commercial and industrial activities, but basically the authorization is determined according to the minimum amounts of investment indicated.
VII. TRADE RELATIONS WITH OTHER COUNTRIES

7.1 Central American Common Market

7.1.1 Background

Here follows a brief review of the historical background to the Central American Common Market and Central American economic integration.

(a) Economic Co-operation Committee

At the fourth session of ECLA, held at Mexico City in 1951, a resolution was adopted expressing the will of the Central American countries to develop agricultural and industrial production and transport so as to promote the integration of their economies and the formation of wider markets.

In pursuit of these aims the Central American Economic Co-operation Committee, composed of the Ministers for Economic Affairs of the Central American countries, was established. At its first session the Committee decided to recommend to Governments:

- that in formulating their economic policies they should take into account the need to integrate their economies and to develop programmes conducive to that purpose, on the basis of community of aspirations and the principles of mutual co-operation and reciprocity;

- that in order to achieve such integration they should progressively and gradually study and adopt economic promotion projects requiring joint action.

These recommendations embody the entire philosophy on which subsequent Central American integration has been based.

(b) The Multilateral Treaty on Free Trade

This instrument originated from the third session of the Central American Economic Co-operation Committee, held at Managua in January 1956, at which a commission was instructed to prepare a draft Multilateral Treaty on Central American Free Trade and Economic Integration.

After passing through the necessary stages, the Treaty was signed at the Committee's fifth session, held at Tegucigalpa, on 10 June 1958 by the Minister of Economic Affairs of each of the five Central American countries: Guatemala, Honduras, El Salvador, Costa Rica and Nicaragua (Annex XXXV).

This Treaty granted unconditional and unlimited most-favoured-nation treatment to the goods of the contracting States, with the proviso that such treatment should not extend to concessions made under other free-trade agreements signed between Central American States.
In addition it maintained the "Central American Clause of Exception" in such trade agreements as they might conclude on the basis of most-favoured-nation treatment with countries other than contracting States.

(c) Agreement on Central American Integration Industries

On the same date as the aforementioned Multilateral Treaty, namely 10 June 1958, the Agreement on the Régime for Central American Integration Industries was also signed; the Agreement stipulated that products of industrial plants covered by the Régime would be eligible for the benefits of free trade and that the contracting States undertook not to grant exemption or tariff reductions to a level below the Central American common rate on imports from outside the area of like, similar or substitute products in relation to those produced in any of the Central American countries by plants included among the integration industries.

This Agreement was terminated upon the signature of the Central American Tariff and Customs Convention which entered into force on 10 January 1986, since industrial protection was absorbed in import duties.

(d) Central American Convention on Equalization of Import Charges

In September 1959 the Central American Convention on Equalization of Import Charges was signed; in this instrument the contracting States agreed to establish a common tariff policy and decided to draw up a Central American Import Tariff to meet the needs of Central American integration and economic development. To that end it was agreed to establish uniform charges within a time-limit of five years and to maintain the Central American Uniform Customs Nomenclature (based on SITC) as the basis of the tariff. In Article VII the contracting States affirmed that, since the Convention was specifically Central American and was one of the foundations of a customs union of the contracting countries, they agreed to maintain the "Clause of Exception" in relation to third countries in respect of the application of the preferential tariff régime.

This Convention was entirely superseded by the Central American Tariff and Customs Convention which, as already mentioned, entered into force on 10 January 1986 and in which the Central American Clause of Exception is maintained.

(e) Treaty of Economic Association (Tripartite Treaty)

In February 1960 the Governments of Guatemala, El Salvador and Honduras signed the above-mentioned Treaty for a term of twenty years. This instrument marked a highly significant step in the direction of freeing trade. It guaranteed not only free movement of goods and capital between the three territories but also the movement of nationals of the signatory countries. A time-limit of five years was set for the final achievement of free trade and machinery was instituted for the automatic incorporation in the free trade régime, year by year, of products subject to restrictions.
This Treaty too was virtually superseded when the General Treaty on Economic Integration was signed in 1961; this Treaty is in force today and will be discussed later on.

(f) Central American Agreement on Fiscal Incentives for Industrial Development

This Agreement was concluded at San José, Costa Rica, on 31 July 1962 in order to unify the fiscal exemptions which each country granted under national legislation in favour of industrial development.

This Agreement marked the origin of the industrial policy based on import substitution. The Agreement remained in force until 31 December 1985, when it was terminated by the entry into force of the Central American Tariff and Customs Convention together with the Annexes A and B already discussed. With the rationalization of industrial protection through the new tariff, the policy of import substitution is supplemented by a policy of promoting exports of non-traditional products.

(g) General Treaty on Economic Integration (Annex XXXVI to this Memorandum)

On the basis of the agreements reached in the previous institutional instruments mentioned, the General Treaty on Central American Economic Integration was signed at Managua, Nicaragua, on 13 December 1960. This is in essentials the measure now governing the Common Market, together with the Central American Tariff and Customs Convention which, as we have seen, took the place of other instruments and amended the Treaty itself.

The Treaty was signed by the Ministers for Economic Affairs of the Governments of Guatemala, El Salvador, Honduras and Nicaragua and was open for accession by Costa Rica, which acceded to it in July 1962.

This Treaty and the Central American Convention on Equalization of Import Charges functioned without problems as the basic institutional instruments of the Common Market and of Central American integration until 1970, when the Government of Honduras decided to withdraw from the Common Market.

The Common Market continued to function for the remaining four countries, but the process of advancement towards integration was left virtually at a standstill because the Economic Council and Executive Council which directed, administered and applied the Treaty could take only piecemeal decisions concerning such problems as might arise in trade between the four countries.

Since then Honduras has begun concluding bilateral agreements with the individual countries that remained in the Common Market.
7.1.2 Characteristics of the Treaty and present situation of the Common Market and integration

The essential purposes of the Treaty on Central American Economic Integration are the following:

- To reaffirm the intention to unify the economies of the countries of the area;
- To strengthen and encourage, by joint action, the development of Central America;
- To improve the living conditions of the population.

The contracting States grant one another free trade in all products originating from their respective territories subject only to the limitations imposed by special régimes. Consequently all natural products of the contracting countries and products manufactured there are exempt from import and export duties including consular fees.

They undertake not to grant exemptions from or reductions in customs duties on imports, from outside the area, of articles which are produced under proper conditions in the contracting States.

They further agree not to enter unilaterally with non-Central American countries into new treaties which affect the principles of integration and to maintain the "Central American Clause of Exception" in such trade agreements as they may conclude on the basis of most-favoured-nation treatment with countries other than contracting States.

As we have already explained, the Central American Tariff and Customs Convention which was signed in 1984 and entered into force on 10 January 1986 places no restrictions of any kind on imports from outside the Central American area, only the customs duty specified in Annex A to the Convention being payable.

7.1.3 Central American Bank for Economic Integration (Annex XXXVI)

In the Treaty on Central American Integration the contracting countries agreed to establish the Central American Bank for Economic Integration as a separate corporation.

The Bank was established on 13 December 1960 and now serves as an instrument for financing and promoting integrated economic growth on a basis of regional balance.

7.1.4 The Central American Institute of Industrial Research and Technology (ICAITI)

This Institute was established under an agreement signed by the five Central American Governments and by the United Nations in 1955 and was inaugurated on 20 January 1956.
It is a self-governing, non-profit-making organization for industrial research and technical information in the service of Central American integration.

7.1.5 The Central American Institute of Public Administration

This Institute has been in operation in Costa Rica since 1954 under an agreement between the countries of the Central American area and the United Nations. It was incorporated in February 1957.

Its main purpose is to train specialists in public administration and to advise the Governments of the area on the modernization of administrative systems.

7.2 Bilateral trade agreements and treaties

The Government of El Salvador has signed several bilateral trade treaties with a view to increasing its exports. The characteristics of these treaties are briefly described below.

7.2.1 Bilateral trade treaty with Honduras

Following the withdrawal of Honduras from the Central American Common Market in 1970 all the countries of the area have signed bilateral trade treaties with that country. El Salvador was the last country in the area to arrive at such an agreement because the Treaty of Peace between the two countries was signed at Lima, Peru, on 30 October 1980. The Trade Treaty was signed at Tegucigalpa on 30 October 1981 (Annex XXXVII to this Memorandum).

In essentials a free-trade régime is established between the two countries for goods originating from or produced in territories of the contracting parties; a list of these goods is included in Annex A to the Treaty.

Goods listed in Annex B are to be subject to a régime of special charges, between 1 and 25 per cent ad valorem, which have been negotiated product by product.

Goods listed in Annex C are to be subject to a régime of quantitative controls, also negotiated product by product.

The Treaty also provides that goods which have been negotiated shall not be subject to domestic surcharges or duties higher than those imposed on the same articles produced in any other country.

The two countries also undertake to maintain and include the "Central American Clause of Exception" in all agreements which they conclude with countries not in the Central American area; in virtue of this clause, such advantages as either of them may have conferred upon or may grant to any Central American country shall be expressly excluded from the advantages which it grants to a foreign country.
7.2.2 **Treaty on Free and Preferential Trade between El Salvador and Panama**

This Treaty was signed at San Salvador on 2 June 1970 and ratified on 11 August of the same year (Annex XXXVIII to this Memorandum).

The Treaty covers approximately 250 tariff headings, among which are sixty items considered to be the products which have shown most movement throughout the period of validity of the Treaty.

This text establishes three kinds of treatment for the products it covers. These are: free trade (non-payment of duty in either direction); preferential treatment (which means a percentage reduction in the Panamanian and Salvadorian tariff); and products subject to import and export control as an administrative requirement to be met before the products are allowed in. It should be mentioned that for our products - brooms, gloves and pencils - Panama established import quotas; this measure remained a dead letter as regards gloves and pencils as a result of negotiations held between the two countries in January 1986.

In addition the inclusion of fifty new Salvadorian products and twenty-five products from Panama has been requested; the outcome of negotiations on this subject is awaited.

National treatment is prescribed for products originating in, or manufactured by, the contracting parties so far as domestic taxes and other restrictive measures are concerned, with the exception of inspection for health, security or police reasons.

The contracting parties also agree to apply the Central American Clause of Exception.

7.3 **Partial-scope agreements with LAIA countries**

The agreements signed are covered by the 1980 Treaty of Montevideo in which the LAIA countries agreed to grant tariff preferences to the relatively less developed countries; each preference granted was communicated to GATT by the countries granting it in accordance with the enabling clause.

7.3.1 **Partial-scope agreement between El Salvador and Mexico**

This Agreement was signed in Mexico City on 6 February 1986 and ratified by the Legislative Assembly on 16 May of that year. It covers seventy-two tariff headings comprising roughly 250 products. It institutes unilateral tariff preferences in favour of El Salvador (Annex XXXIX to this Memorandum).

No evaluation of trade under this Agreement has been made as yet because the instruments of ratification were only recently exchanged (on 11 June 1987) and the Joint Negotiating Commission has not yet been appointed on the Mexican side.
The Ministry of Foreign Trade is at present engaged in, and co-ordinating with the private sector, promotional activity with a view to gaining access to the benefits conferred by the Agreement after the products have been negotiated.

Special régime of access to the southern frontier strip of Mexico

This régime also includes unilateral preferences in favour of El Salvador for most products in exportable supply with the exception of those tariff headings which are considered sensitive and of which a list is annexed. These may be classified in three groups: clothing, textiles and toys.

The annual import quota fixed by the Government is 1,000 million pesos, this amount being distributed among the countries of the Central American region.

One advantage making for maximum utilization of this special régime lies in the ease of transport by land and sea and the short distances to be served.

7.3.2 Partial-scope agreement between El Salvador and Colombia

Signed on 24 May 1987; ratified on 27 December of the same year (Annex XL).

This instrument also institutes tariff preferences unilaterally in favour of El Salvador and extends the benefit to twenty-six products.

In order to achieve better coverage, El Salvador has requested the inclusion of new products; negotiations on the subject are pending.

7.3.3 Partial-scope agreement between El Salvador and Venezuela

Signed on 10 March 1986 and ratified on 16 May of the same year (Annex XLI).

This Agreement too, grants preferences in only one direction - in favour of El Salvador - for twenty-four products.

The Ministry of Foreign Trade, in its eagerness to make better use of the Agreement, has also requested the inclusion of new products which have not been accepted by the Venezuelan Government.

7.4 Agreements with developed countries

The Government of El Salvador has signed a series of trade and technical co-operation agreements for the fundamental purpose of expanding export trade, making use of most-favoured-nation treatment in trade relations without reciprocity, and receiving technical co-operation from the countries concerned.
The countries with which such agreements have been signed and the economic blocs to which they belong are shown in Annex XLII, with a brief note on their characteristics.

7.5 **Generalized System of Preferences (GSP)**

El Salvador is a beneficiary of the Generalized System of Preferences (GSP) which was brought into force by the industrialized countries in 1971 and by the United States from 1975 onwards. These preferences granted to developing countries have the approval of GATT on the basis of the enabling clause, so we shall refrain from further comment on the subject (Annex XLIII).

7.6 **Caribbean Basin Recovery Programme**

The country has also been chosen as a beneficiary of the Caribbean Basin Initiative launched by the United States Government with effect from August 1983 with a view to achieving the recovery of the Caribbean Basin countries by granting tariff preferences on products originating from those countries. These preferences have been granted with the approval of GATT under Article XXV:5. We therefore refrain from further comment on the subject (Annex XLIII).

VIII. **MONETARY, FINANCIAL AND FOREIGN-EXCHANGE REGIME**

The monetary, financial and foreign-exchange régime of El Salvador is in essential, governed by four laws:

(a) Monetary Régime Law;

(b) Bank Nationalization Law;

(c) Law on Credit Institutions and Auxiliary Organizations;

(d) Law on Control of International Transfers.

These Laws establish the necessary agencies and systems to handle and control all aspects of the monetary, financial and foreign-exchange régime. Although we have already commented on the exchange-control aspects of some of these Laws, we shall review below their essential provisions in order to convey a clear idea how the monetary, financial and foreign-exchange régime functions in El Salvador.

8.1 **Monetary Régime Law (see complete text in Annex XXII)**

Decree No. 1055 of 25 March 1982, known as the Monetary Régime Law, collects under one heading provisions relating to the régime formerly governed by several texts, which were superseded.

8.1.1 **Monetary Board**

Title I, chapter I, of the Law deals with the Monetary Board. Article 1 provides as follows:
"This Law governs the monetary régime, which shall be directed by the Monetary Board and applied by the Central Reserve Bank of El Salvador; both bodies shall act subject to the competence established by this Law and other applicable laws."

8.1.1.1 Objective and composition

Article 2 provides as follows:

"The Monetary Board shall be the body responsible for the formulation and direction of State policy in monetary, foreign-exchange, credit and financial matters generally and shall be oriented towards the economic development of the Republic."

The Board is composed of the following:

- Minister for Planning and Co-ordination of Economic and Social Development;
- Minister for Economic Affairs;
- Minister for Finance;
- Minister for Agriculture;
- Minister for Foreign Trade;
- President of the Central Reserve Bank (Secretary).

8.1.1.2 Financial system

Article 60 of the Law provides that all the Board's resolutions shall be complied with by the financial system, which shall be composed of the following:

(a) The Central Reserve Bank;
(b) Credit institutions and auxiliary organizations;
(c) The Official credit institutions: the Mortgage Bank of El Salvador, the Agricultural Development Bank, the Federation of Savings Banks, the National Coffee Institute, the National Sugar Institute, the Social Fund for Housing, the Public Employees' Pension Institute, the Armed Forces' Social Security Institute and other official credit institutions;
(d) The National Housing Finance Corporation, savings and loans associations and other bodies affiliated to the system;
(e) Insurance and bond institutions;
(f) Co-operative funds affiliated to the rural credit system;
(g) Co-operative societies and associations, which habitually perform credit operations;

(h) Natural or legal persons habitually engaging in operations governed by this Law.

8.1.1.3 Functions and powers of the Monetary Board

Article 7 of the Law sets out in detail the functions and powers of the Board, which are summarized below:

(a) To fix the cash reserves or reserves of deposits;

(b) To approve the monetary and foreign-exchange budget prepared by the Central Reserve Bank and to allot priorities for optimum utilization of foreign exchange;

(c) To determine credit quotas, rates of interest, and quantitative and qualitative controls over credits and securities or discountable documents acceptable as security;

(d) To formulate policy measures relating to foreign currencies, gold or special drawing rights. For this purpose the Board must decide parities with the El Salvador colon, the level of international reserves, any increase or decrease in the quota in the International Monetary Fund and all measures regulating international transfers in foreign currencies;

(e) To determine the limits or amounts of securities issued;

(f) To lay down rules for the official credit institutions;

(g) To regulate consumer credit operations;

(h) To arrange for deposit operations to take place in official banks when it sees fit;

(i) To authorize the issue of notes and coin by the Central Reserve Bank;

(j) To appoint the country's titular and alternate Governors to the International Monetary Fund, the World Bank, the Inter-American Development Bank and any other international financial institution of which the country is a member;

(k) To secure the co-operation of decentralized agencies and to perform other functions and exercise other powers in accordance with the law.

The Monetary Board may delegate some of these functions to the Board of Directors of the Central Reserve Bank, the Superintendency of Banks and other financial institutions.
8.1.1.4 Superintendency of the Financial System

Chapters II and III of the Monetary Régime Law are concerned with the Superintendency of the Financial System.

This is the body responsible for ensuring compliance with the relevant laws and with the resolutions adopted by the Monetary Board, to which it is to be directly subordinate.

The Law (Annex XXII) specifies the composition of the Superintendency, its powers and obligations and the appeal procedures which lie from its resolutions.

8.1.2. Central Reserve Bank of El Salvador

Title II of the Monetary Régime Law contains in its thirteen chapters all the provisions concerning this agency, which was established as a self-governing Public Institution by Decree No. 116 of 20 April 1961 and which was henceforth to be governed by the provisions of the Law we are discussing.

8.1.2.1 Objectives of the Bank

Article 23 provides that the principal purpose of the Bank shall be to promote and maintain the monetary, foreign-exchange, credit and financial conditions most favourable to the development of the national economy.

The powers conferred on the Bank for the purpose of attaining those objectives are spelt out in this Article; in essentials they are as follows:

(a) To adapt means of payment and credit policy to the country's needs and to the development of productive activities;

(b) To co-ordinate the various economic and financial activities of the State which affect the country's monetary, capital and credit market;

(c) To promote the liquidity, solvency and smooth operation of the national financial system;

(d) To avert or moderate inflationary, speculative and deflationary trends prejudicial to collective interests;

(e) To maintain the external value and convertibility of the currency;

(f) To administer international monetary reserves and the transfer régime;

(g) To carry on such activities, operations and services as the laws and other applicable provisions stipulate and as are compatible with its status as a Central Bank.
The Bank shall act in accordance with the relevant legal provisions and shall when it sees fit recommend to the Monetary Board the adoption of the measures needed to attain the objectives stated above.

8.1.2.2 Composition of the Board of Directors

The Bank shall be managed by a Board of Directors composed of the following:

(a) A President appointed by the President of the Republic;

(b) A first Vice-President appointed by the President of the Republic;

(c) A second Vice-President appointed by the President of the Republic;

(d) A titular Director appointed by the Monetary Board and confirmed by the President of the Republic;

(e) A titular Director appointed from among three names put forward by the commercial banks and the Mortgage Bank;

(f) A titular Director appointed by the Monetary Board from among three names put forward by official credit institutions, savings and loans associations, insurance institutions and auxiliary credit organizations;

(g) A titular Director appointed by the Monetary Board from among three names put forward by the industrialists' and traders' associations and farmers' associations.

There shall also be four alternate Directors appointed by the same procedures as the titular Directors.

8.1.2.3 Powers of the Board of Directors and other provisions

The powers of the Board of Directors are spelt out in Article 41 of the Law.

Chapters IV-XIII specify the powers of the Chairman and all procedures for the attainment of the stated objectives.

8.1.3 Issue of currency (monetary system)

Title III of the Monetary Régime Law contains the provisions concerning the unit of currency and the issue of notes.

The currency unit of El Salvador is the colón (₡) divided into 100 centavos.

The value of the colón shall be fixed by the Monetary Board in relation to one or other of the following benchmarks:
(a) A foreign currency or group of foreign currencies;

(b) An international asset created by an international agreement signed by El Salvador;

(c) An international asset which is accepted internationally or regionally as a means of payment.

For fifty years the value of the colón was set at $2.50 per US$ until, on 21 January 1986, the Monetary Board devalued it to its present level of $5.00 per US$.

The emission of currency is the function of the Central Reserve Bank, which is required to comply with the provisions of the Law and to pursue the objectives of monetary policy. Notes of 100, 50, 25, 10, 5, 2 and 1 colón and fractional coins of 1, 0.50, 0.25, 0.10 and 0.05 are in circulation in addition to the existing 3, 2 and 1 centavos coins.

8.2 Bank Nationalization Law

By Decree No. 158 of 7 March 1980 (see Annex XLIV), the nationalization of private commercial banks, business finance corporations and savings and loans associations affiliated to the National Housing Finance Corporation system was declared to be of public utility and a public necessity. To this end the shares in these institutions were expropriated *ipso jure* and passed into the ownership of the State.

The Law provides that some 20 per cent of the shares may be offered to the employees and up to some 29 per cent to private investors; the former owners are to have a prior right to that 29 per cent.

8.3 Credit Institutions and Auxiliary Organizations Law (LICOA)

This Law was issued by Decree No. 94 of 19 September 1974; its fundamental purpose is to control and regulate all the operations of credit institutions and auxiliary organizations (see Annex XLV).

For the purposes of the Law, the only institutions deemed to be credit institutions are those which act as intermediaries in the financial market, receiving deposits (passive operations) and granting credits or loans (active operations).

We may virtually call them commercial banks. The other institutions which make up the country's financial system as described in section 8.1.1.2 do not fall within the scope of this Law. Some of its provisions, however, are applicable to all of them.

The Law governs the procedure whereby national institutions may be established or foreign institutions authorized, the sectors in which they may operate and how deposits, cash reserves, savings cover and credits are to be handled in each sector.
Auxiliary organizations are defined in the Law as those providing treasury and cashier services, general deposit warehouses, and securities and commodity exchanges.

8.4 Foreign-exchange system. Control of Law on International Transfer

The entire foreign-exchange system is governed by Decree No. 146 of 30 May 1961, entitled Control of Law on International Transfers, and the Regulations thereunder (see complete texts in Annex XXI). The system is supplemented by the resolutions of the Monetary Board.

This Law, the Regulations thereunder and the resolutions of the Monetary Board were described in section 6.1.3.2(b), to which the reader is referred.

IX. INSTITUTIONAL ORGANIZATION OF FOREIGN TRADE

9.1 Ministry of Foreign Trade

By Decree No. 68 of 20 December 1979 the Ministry of Foreign Trade was established as a Secretariat of State forming part of the Executive Power (Annex XLVI to this memorandum).

The Ministry was established in pursuit of one of the objectives of the Revolutionary Government Junta, namely to reform foreign trade with a view to providing the Salvadorian population with greater economic opportunities.

9.1.1 Functions and powers of the Ministry

The Ministry of Foreign Trade has authority:

(1) To formulate and propose the Government’s policy in all matters relating to the country’s trade relations with foreign countries;

(2) To guide and co-ordinate the policies and activities of State, private or mixed institutions or undertakings responsible for the export, import or domestic distribution of products the marketing of which is in their hands;

(3) To maintain a watch and control over foreign corporate or individual traders, to authorize foreign companies wishing to carry on permanent trading activities in the country and to impose penalties on them for any violation they may commit;

(4) To authorize persons owning undertakings not domiciled in the Republic who wish to carry on casual or temporary industrial and commercial activities;

(5) To approve the inflow of foreign capital and register it for purposes of repatriation;
(6) To promote the growth of the country's exports and the organization of imports of goods and services in such a way as to foster the country's well-being and serve the Salvadorian population;

(7) To formulate draft legislation and regulations designed to regulate or control exports and imports and such measures as may be appropriate to harmonize foreign trade in particular goods or services with the prices and other features pertaining to domestic transactions connected with foreign trade;

(8) To participate together with the Ministries of Planning, Foreign Relations and Economic Affairs in the direction and conduct of the country's economic policy as regards trade relations with other countries and especially in the negotiation of trade treaties and agreements and the representation of the Republic in international agencies responsible for regulating or controlling trade in products and services of any kind.

9.1.2 Structure of the Ministry of Foreign Trade

The Ministry is organized as follows:

9.1.2.1 Minister

The Minister, who heads this Secretariat of State, is appointed by the President of the Republic and is responsible for the arrangement of all foreign trade policy in keeping with the purposes already mentioned and with the guidelines laid down by the National Economic Committee and the President of the Republic.

He is a member ex officio of the following State agencies:

(a) The National Economic Council;

(b) The Monetary Board.

In addition he is ex officio Chairman of the Board of Governors of the following autonomous institutions:

(a) National Coffee Institute (INCAFE)
   Responsible for regulating domestic and foreign trade in coffee;

(b) National Sugar Institute
   Responsible for regulating domestic and foreign trade in sugar.

9.1.2.2 Deputy Minister

Acts for the Minister in his absence and has specific functions delegated from among those of the Minister.
9.1.2.3 Advisory Panels

The Ministry has advisory panels on Legal and Technical matters and on External Co-operation.

9.1.2.4 General Directorates

The Ministry is divided into five General Directorates with the functions listed below; each is headed by a sector Director:

(a) General Directorate of Planning

This has the following functions:

- To formulate the strategies, instruments and mechanisms required to implement and support foreign trade policy and to strengthen and develop the organization of the Ministry;

- To co-ordinate the execution of programmes and projects of national or international technical and economic co-operation and to formulate projects derived therefrom;

- To negotiate bilateral or multilateral trade treaties, agreements or conventions and to promote the application thereof as part of the scheme for creating the legal framework of trade relations;

- To serve as a link with the Ministry of Economic Planning and with other governmental institutions for the purpose of co-ordinating the plans of the Ministry of Foreign Trade with the general planning of the country's economy;

- To prepare the Ministry's budget and effect the appropriate follow-up, control and evaluation.

All these functions are performed through three units:

- The Division of Economic Studies and Trade Policy;

- The Division of Economic Programming and Institutional Development;

- The Division of International Economic Negotiation.

The last-mentioned Division is responsible for all matters relating to GATT.

(b) General Directorate of Promotion and Commercial Development of Exports

Objectives

To achieve the expansion and diversification of non-traditional exports through the development and promotion of exportable products and the consolidation of markets.
General functions:

- To foster the growth and diversification of exportable supply and its adjustment to demand in foreign markets;

- To support the development of specific export-oriented production projects, making use of the necessary instruments and mechanisms;

- To identify problems involved in the production and marketing of export goods and to support undertakings in solving them;

- To organize activities which help to strengthen the effort to export Salvadorian products through effective co-ordination between the institution and the sectors concerned.

Specific functions:

- To provide producers with support services such as technical assistance, advertizing, etc.;

- To participate in the formulation and execution of export promotion projects implemented in conjunction with the public and private sector;

- To promote, organize and participate in commercial events of interest to the export sector;

- To promote the organization of associations of producers of non-traditional goods for export, with a view to consolidating the exportable supply from small and medium-sized undertakings;

- To co-ordinate and supervise the activities of trade offices abroad and to advise on the opening of new offices;

- To keep the exportable supply up to date;

- To participate in updating and extending surveys of exportable supply;

- To provide the technical assistance required by undertakings with regard to quality standards for export and supplementary information in order to render our products competitive in the international market.

These general and specific functions are carried out through the following units:

- Division of Domestic Promotion;

- Division of Promotion Abroad;

- Division of Standards and Quality.
(c) General Directorate of Investment

General objective:

To help in establishing suitable conditions for attracting investments oriented towards the expansion of exportable supply, import substitution and the creation of new production processes.

General functions:

- To propose the establishment and/or modification of the instruments and mechanisms needed to promote the establishment of suitable conditions for attracting investments;

- To define the appropriate strategies, criteria and procedures for promoting, securing and establishing investments in the country;

- To develop investment promotion in accordance with the policies and strategies laid down in the plans and programmes of the sector.

Specific functions:

- To prepare analyses and formulate plans as a basis for devising and/or modifying instruments, mechanisms and measures needed in the pursuit of its activities;

- To supply the potential investor with the assistance needed in effecting investments;

- To promote utilization of the free zone and ensure that it is properly maintained;

- To evaluate and approve applications made for the inflow of foreign capital and to keep a register thereof;

- To administer the investment agreements concluded by El Salvador with other countries;

- To maintain co-ordination with the General Directorate of Foreign Trade Planning with regard to the preparation and execution of the plans and programmes of the General Directorate of Investment.

It performs these functions through the following units:

- Division of Investment Promotion;

- Division of Foreign Investment;

- Division of Free Zones.
In view of their importance, the objectives and functions of the Division of Foreign Investment and the Division of Free Zones are described in detail below.

**Division of Foreign Investment:**

**General objectives:**

- To help strengthen the process of technology transfer to the country and to increase its bargaining power in relation to technology-supplying countries;

- To secure an adequate supply of foreign financial resources in accordance with criteria of complementarity with national savings;

- To regulate the foreign capital entering the country in keeping with the existing legal, economic and technical order.

**General functions:**

- To analyse, evaluate and approve applications for an inflow of foreign capital;

- To measure and record the real movement of capital.

**Specific functions:**

- To evaluate and approve applications for an inflow of foreign capital within the meaning of Article 36 of the Regulations pursuant to the Law on Control of International Transfers, namely:

(a) Foreign currency;

(b) Agricultural, industrial or mining machinery, equipment, tools, instruments, accessories, spare parts and raw materials needed for the installation and operation of agricultural, industrial or mining undertakings;

(c) Invisible assets such as patents, licences, trade-marks, services and the hire of equipment;

- To attend national and international meetings concerned with the treatment of foreign capital;

- To keep informed of any decision, resolution or provision relating to foreign capital.
Division of Free Zones

General objectives:
- To achieve adequate physical and integral development of the San Bartolo Free Zone already mentioned, where the foreign investor is provided with the necessary infrastructure;
- To ensure that the undertakings installed in the Free Zone comply with the economic and legal provisions in force in the country;
- To provide adequate maintenance of the infrastructure of the San Bartolo Free Zone.

General functions:
- To plan, co-ordinate and carry out research as a basis for proposals designed to make better use of the San Bartolo Free Zone in accordance with the country's needs;
- To prepare technical and economic studies on the development of free zones in the country.

Specific functions:
- To administer the San Bartolo Free Zone;
- To carry out preventive maintenance of and repairs to the installations of the San Bartolo Free Zone;
- To handle loans for the San Bartolo Free Zone project;
- To design and build works for the administration;
- To make and/or participate in a study of the requisite tenders for the contractual execution of infrastructural works in the Zone;
- To supervise and co-ordinate physical works in the San Bartolo Free Zone;
- To study rental rates for the buildings in the Zone according to the existing costs and services;
- To participate in negotiations with foreign undertakings which are to be installed in the Free Zone.

(d) General Directorate of Administration

General objective:
To ensure that the administrative services needed for the smooth operation of the Ministry are provided efficiently and promptly and that
the budget is implemented in accordance with the institution's plans and programmes.

General functions:

- To provide the various units of the Ministry with the administrative support required for their smooth operation;
- To supervise the financial implementation of the Ministry's budget according to programme.

Specific functions:

- To evaluate the use made of the financial and material resources assigned to the Ministry's various programmes and to report thereon to higher authority;
- To supply the equipment and materials needed for the smooth operation of the Ministry's various units;
- To run the Ministry's correspondence and filing system;
- To keep the personnel control register.

Subordinate units:

- Division of Finance;
- Division of Administrative Services;
- Division of Personnel.

(e) Directorate of CENTREX

Objectives:

To promote the integration of activities connected with centralizing foreign trade procedures in order to facilitate and simplify them, co-ordinating the efforts of the various institutions, and to develop CENTREX institutionally.

Functions:

- To develop foreign trade strategies and policy guidelines relating to export or import procedures as the case may be;
- To plan, organize and co-ordinate work in the areas of export and import procedures, assistance and control, and EDP;
- To inform other government bodies involved in export and import of the actions taken in accordance with the CENTREX Regulations;
- To approve the various documents submitted to CENTREX;
- To serve as a link with the other institutions responsible for applying procedures in the area of approval of export or import applications as the case may be;
- To convene and conduct meetings of the Inter-Agency Co-ordinating Committee;
- To convene and conduct meetings of the Advisory Committee of Delegations;
- To approve manuals and instructions on the operation of CENTREX;
- To approach the other institutions in the foreign trade procedure system in order to facilitate procedures when they are impeded or delayed for reasons beyond the user's control;
- To promote the systematic training and development of the staff running the foreign trade procedure system;
- To participate in negotiations held in connection with the conclusion of agreements and other instruments for facilitating and simplifying export and import procedures at both the domestic and the international level.

9.1.2.5 Other special units

The Ministry also has five special units under the direct control of the sector Directors:

(a) The Trade Information Centre

General objective:

To provide all the bodies which make up the foreign trade sector with comprehensive, up-to-date and prompt trade information.

General functions:

- To maintain comprehensive, exact, relevant and up-to-date information in keeping with the country's trade policy guidelines and on other subjects in order to provide support for economic activities in accordance with the sector's own plans, programmes and projects;
- To provide efficiently and promptly such aid in matters of information as may be requested by the various units of the Ministry and by the entrepreneurial sector;
To analyse and disseminate in permanent form all information which contributes to the development of foreign trade;

To deal with the work requirements of the Directorates of the Ministry of Foreign Trade.

Specific functions:

- To procure, select and process the trade information required by the various users in the foreign trade area.

(b) Public relations and press

General objective:

- To develop at the national and international level the projection of a positive image that will help to form a favourable current of opinion in support of the activities undertaken by the Ministry.

General functions:

- To plan, co-ordinate and carry out promotion campaigns designed to generate currents of public opinion favourable to the pursuit of the sector's activities;

- To carry on the public relations and press activities which the Ministry's programmes of action require.

Specific functions:

- To formulate, propose and co-ordinate in practice the activities needed to develop publicity campaigns and other activities of dissemination based on the Ministry's programmes;

- To carry out all those activities of aprotocolar nature, and involving attendance on foreign missions visiting the country, which relate to foreign trade.

(c) Fiscal incentives

The Fiscal Incentives Unit was established on 10 November 1987 to perform tasks connected with the award of fiscal incentives under the Export Promotion Law.

Objective:

To ensure that all activities connected with the award of the fiscal benefits granted by the Export Promotion Law constitute an incentive for the export of non-traditional manufactured and semi-manufactured industrial, agro-industrial, handicraft and agricultural products and traditional agricultural products containing at least 30 per cent of national value added.
Functions:

1. Organization of the Fiscal Incentives Unit and preparation of the appropriate manuals of functions and requirements;

2. Award of fiscal benefits to the various undertakings which comply with the requirements laid down by the Export Promotion Law and the Regulations thereunder, in the following categories:

- Undertakings which directly export their entire output;
- Undertakings which directly export part of their output;
- International marketing undertakings;
- Undertakings engaged in assembly or processing for re-export;
- Undertakings which export services.

(d) Transfer of capital and technology

The essential purpose is to promote foreign investment and technology transfer to industries to enable them to develop the production of articles internationally competitive in quality and price.

(e) Computing office

Responsible for centralizing and processing all information required by the directorates and units described.

9.1.3 Activities

In order to achieve the purposes described, the following Law and regulations concerning exports have been approved:

(a) Export Promotion Law and Regulations concerning the Grant of Incentives and the Customs Régime;

(b) Regulations on the Export Processing Centre (CENTREX);

(c) Regulations on barter, countertrade and triangular trade.

In addition a Foreign Investment Law and other regulations connected with the policy of exporting non-traditional products are under consideration.

9.2 Private export institutions

Among private institutions connected with exports we may mention the following:
9.2.1 Exporters' Corporation of El Salvador (COEXPORT)

A private non-profit-making institution, organized as an entrepreneurs' association, of producers of non-traditional products; its purposes, according to its statutes (Annex XLVII), are the following:

- To promote and protect the exportable national output;
- To protect the interests of the country's producers and exporters in general and those of its associates in particular;
- To deal, in the interests of the producing sector, with the authorities or agencies responsible for promulgating, issuing, amending or revoking regulations and other legal provisions or administrative measures, and to engage in marketing with a view to export;
- To promote domestic production both qualitatively and quantitatively by every means and in every way and form in order to increase the export of products and services and thus to increase the number of jobs in undertakings;
- To promote the development of new export products;
- To co-operate with industrialists, farmers or service undertakings in opening up foreign markets to their products;
- To serve as an advisory body to the State in all matters relating to exports;
- To promote participation in national or international exhibitions in order to make known products or services suitable for export;
- To promote the establishment of international marketing firms.

This institution has been in operation since 1985.

9.2.2 National Foundation for Economic Studies (FUSADES)

This is a private non-profit-making institution established to prepare investment studies in the service of the country's economic development. It works with funds contributed by its founders and donations which it has received and continues to receive from the International Development Agency of the United States.

According to its statutes (Annex XLVIII), the principal purposes of FUSADES are the following:

- To carry on activities of all kinds which tend to promote the economic, social, intellectual and physical security and well-being of the Salvadorians within a system of economic and individual freedoms. Its activities in pursuit of these objectives are the following:
To analyse the country's economic situation systematically at regular intervals;

To promote the development of free enterprise through the dissemination of its principles and fundamental ideas;

To formulate specific programmes and promote their execution in order to contribute to economic and social development;

To offer advice to bodies in the public or private sector in solving economic and social problems;

To promote the investment of local and foreign capital in agricultural, industrial, commercial or services activities;

To carry out campaigns for the inclusion of the various population groups in the effort to overcome development problems;

To promote communication and understanding between the various national sectors;

To promote the improvement of the country's international relations.

This institution has been in operation since 1983; its organization includes the following departments and programmes:

- Department of Economic and Social Studies;
- Investment Promotion and Export Diversification Programme;
- Agricultural Diversification Programme;
- Programme for Strengthening Associations;
- Promotion Programme for Small Undertakings and Micro-Undertakings;
- Irrigation Programme.

9.2.3 Chamber of Commerce and Industry of El Salvador

This is a private non-profit-making institution organized as an entrepreneurs' association; according to its statutes (Article XLIX) its purposes are the following:

- To defend the commercial and industrial interests of its associates and to harmonize their relations with one another, promoting the spirit of professional association;
- To protect the commercial, industrial and financial interests of the country in general;
- To co-operate in the study of the country's economic and social problems, especially in so far as they affect the interests of its associates;

- To oversee the effective and orderly development of the Central American Common Market, which stands to benefit from its experience, guidance and help;

- To promote agricultural productivity, national industrialization and the growth of trade in its various forms, with the prosperity and well-being of the Salvadorian community always in mind; and

- To ensure that ethical standards are maintained in commercial transactions and activities.

More specifically the Committee of Exporters (composed of members of the Chamber), co-ordinating with the Technical Management, has as its objective to assist the Board of Directors of the Chamber in promoting activities designed to encourage and strengthen the export sector.

The Chamber of Commerce and Industry of El Salvador is a member of the Ibero-American Association of Chambers of Commerce (AICO). In 1988 the International Chamber of Commerce (ICC) appointed the Chamber of Commerce and Industry of El Salvador one of the ten Direct Members. ICC considers that the Direct Members will contribute their experience in specific matters relating to their own activity and to that of their country or region and that they can make a valuable contribution to ICC.

9.2.4 National Association of Industrialists (ASI)

Organization, objectives and activities

According to its statutes (Annex L), the National Association of Industrialists (ASI) is an autonomous institution free from any political, religious or profit-making activity and designed specifically to promote, preserve and defend the country's industry.

As a properly organized body, ASI is governed by its statutes, which have been in force since 6 November 1958. Its supreme organ is the General Board of Associates, which elects a Board of Directors composed of twelve members whose terms of office are renewable year by year; it also has an Executive Director, a Manager and other administrative officers. Its operations and resources are supervised and checked by an auditor elected by the Ordinary General Board.

The Association's principal objectives include the following: to secure improvements in the quality of articles of domestic manufacture; to encourage the growth of production for the benefit of the consumer; to campaign for consumers to give preference to Salvadorian products; to promote the domestic production of basic raw materials, agricultural, commodities or semi-manufactures; and to co-operate with industrialists in obtaining foreign markets for their surplus output.
In pursuit of its objectives, ASI is organized in four committees as follows: the Executive Committee; the Economic Committee, which deals with fiscal, tariff, legal and banking matters; the Promotion and Public Relations Committee; and the Technical Training Committee. In addition it has qualified advisers to deal with problems which affect or may affect the industrial sector in particular or private enterprise in general.

ASI now has 400 associates, who are natural or legal persons engaged principally in industrial, related or complementary activities. In the service of its associates, ASI assists them and collaborates with them in solving economic, banking, tax and other problems. It helps them to deal with problems relating to the Central American Common Market, labour laws, administrative legislation and export promotion, with financing and with administrative procedures.

ASI appears as its associates' representative before governmental authorities and agencies in order to induce them to promulgate, amend or rescind laws, regulations or provisions in the interests of the industrial sector. It represents the industrial sector, with the right to speak and vote, in the following permanent bodies:

* Inter-Agency Commission on GATT matters;
* Permanent Mixed Commission on Trade Treaties, Agreements and Conventions;
* National Tariff Commission; and

ASI provides advice on exports of non-traditional products to third markets. It supplies information on matters relating to various industrial activities in the firm of circulars, press bulletins, communiqués, etc., in addition to having its own information media, namely the Directorio de Asociados (Directory of Associates), which is published annually, and the periodical Industria, which is published twice a month.

Furthermore it helps to train its associates' staff by holding courses, seminars and round-tables; in addition it channels and promotes the fellowships made available by national and international agencies.

Among other services, ASI provides a library service. It supplies certificates of origin and customs forms for exports to various countries. It has halls for meetings of various kinds, an auditorium for commercial and cultural events, etc.

ASI is now an institution of acknowledged standing and its views and analyses carry great weight with the national and international community; it has accordingly become one of the firmest foundations on which the free enterprise system rests in El Salvador.
ANNEXES TO MEMORANDUM ON THE FOREIGN TRADE REGIME OF EL SALVADOR


II - Central American Tariff and Customs Convention.


IV - Decision No. 371. Amendments to the Tariff.

V - Decision No. 660. Amendments to the Tariff.

VI - Decision No. 453. Amendments to the Tariff and Regulations on Customs Value of Goods.

VII - Decree No. 583. Selective Consumption Tax Law.


IX - Decree No. 455. Marketing and Price Regulation Law.

X - Decree No. 1051. Supply Regulation Institute (IRA) Organization Law.

XI - Section relevant to consular fees.


XVIII - Decree No. 8 of 29 January 1987. Law establishing CENTREX.

XIX - List of imported products subject to CENTREX control.


XXI - Decree No. 146 of 30 May 1961. Law on Control of International Transfers.
XXII - Decree No. 1055. Monetary Régime Law.

XXIII - Decree No. 3/86 and Central Bank Instructions on Exchange Control in Import and Export Operations.


XXVII - Decree No. 75 of 20 December 1979. Act establishing INCAFE.

XXVIII - Decree No. 280 of 19 December 1945 and Regulations thereunder. Supplies Law.

XXIX - Political Constitution of El Salvador.

XXX - Central American Convention on Primary Commodities, known as the Treaty of Limón, of 28 October 1965.

XXXI - Decree of No. 237 of 20 May 1980. Law establishing INAZUCAR.

XXXII - Decree No. 930 of 22 December 1981. Law establishing CORSAIN and BANAFI.

XXXIII - Decision No. 18 of 10 June 1987. Law on barter trade, countertrade and triangular trade.

XXXIV - Decree No. 279. Law regulating the Exercise of Trade and Industry.


XXXVI - General Treaty on Economic Integration and the Central American Bank for Economic Integration (CABEI).

XXXVII - Bilateral Trade Treaty with Honduras.

XXXVIII - Free-Trade Treaty with Panama.

XXXIX - Partial-scope Agreement with Mexico.

XL - Partial-scope Agreement with Colombia.

XLI - Partial-scope Agreement with Venezuela.

XLII - Agreements with developed countries (summary).

XLIII - Generalized System of Preferences with the United States of America and the Caribbean Basin Institute (CBI).

XLV  - Decree No. 94 of 19 September 1974. Law on Credit Institutions and Auxiliary Organizations (LICOA).

XLVI  - Decree No. 68 of 20 December 1979. Law establishing the Ministry of Foreign Trade.

XLVII  - Statutes of COEXPORT.

XLVIII  - Statutes of FUSADES.

XLIX  - Statutes of the Chamber of Commerce and Industry.

L  - Statutes of ASI.

LI  - Health Code and Regulations.

LII  - Law on the Control of Pesticides, Fertilizers and Products for Agricultural Use.