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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FIRST LOAN ADMINISTRATION REPORT

ON THE

BANK'S LOAN TO EL SALVADOR

May 28, 1952

Department of Operations
Western Hemisphere

CURRENCY EQUIVALENTS

U.S. $1	-	2.50 Colones
1 Colon	-	U.S. $0.40
1 million Colones	-	U.S. $400,000

EL SALVADOR

FIRST LOAN ADMINISTRATION REPORT

ON THE

$12,545,000 LOAN TO THE COMISION EJECUTIVA HIDROELECTRICA DEL RIO LEMPA (CEL)

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EL SALVADOR

Basic Statistics

Area

Total	9,000 square miles
Cultivable	5,000 square miles

Population (1950 census) 1,855,917

Exchange Rate (since 1934) 2.50 colones - U.S. $1

External Trade

	1948	1949	1950	1951	
	(million dollars)				
Exports	45.6	55.0	69.4	85.5	
Imports, c.i.f.	41.5	39.5	47.2	28.9	1st six months

Balance of Payments

	1948	1949	1950
	(million colones)		
Current Account	3.5	38.8	34.2
Capital Account	- 1.6	- 6.2	- 28.5
Surplus	1.1	20.0	4.9

Foreign Reserves

	1950 (Dec.)	1951 (Dec.)	1952 (May)
		(million dollars)	
Gold	23.0	25.7	29.6
Foreign Exchange	17.9	16.9	23.8
Total	40.9	42.6	53.4

Money Supply and Bank Loans

	1950	1951	1952 (Feb.)
		(million colones)	
Money Supply	128.7	145.1	167.4
Bank Loans	83.4	96.8	99.4

Prices 1948 = 100

	1950	1951	1952 (Jan.)
Retail (Food)	99	n.a.	n.a.
Wholesale	136	144	147

EL SALVADOR

LOAN ADMINISTRATION REPORT

$12,545,000 LOAN TO THE COMISION EJECUTIVA HIDROELECTRICA DEL RIO LEMPA (CEL)

PART ONE

I. NEGOTIATIONS

1. The project for developing the water resources of the Lempa River was first brought to the Bank's attention in 1947, and was discussed when Mr. McCloy visited El Salvador in the fall of 1948. In March 1949, the Comision Ejecutiva Hidroelectrica del Rio Lempa (CEL) requested the Bank to consider financing the foreign exchange costs of the project. Accordingly, a Bank mission, which included an engineering consultant, visited El Salvador in May 1949 to examine the project and to make a preliminary survey of the economic position of the country.

2. The project was based on studies made by the Harza Engineering Company of Chicago. Selected by CEL on the recommendation of the T. V. A., they spent most of 1947 making topographic, hydrological, geological and economic studies, and submitted an exhaustive report which formed the basis of the loan application to the Bank.

3. Loan negotiations with representatives of the Government of El Salvador and of CEL began in Washington at the end of August 1949, and the resulting draft Loan and Guarantee Agreements were submitted to the Salvadorian Government. In view of the importance of the project to El Salvador, the Council of Government (see para. 44), wishing to have the benefit of responsible public opinion on the terms proposed, appointed an ad hoc committee of nine members, made up of three Government officials and six prominent lawyers, engineers and businessmen, to review the draft agreements. Under the chairmanship of the Under-Secretary of Economy, the Committee made a detailed study of the economic, legal and technical background of the loan, and presented a report to the Government. In this way, the Government obtained expert advice and, at the same time, the endorsement of the loan by a group of leading citizens. The points raised by the Committee were cleared in conversations with representatives of the Bank who made a brief visit to El Salvador for the purpose in November 1949.

II. THE LOAN

4. Loan and Guarantee Agreements providing for a $12,545,000 Loan to CEL were signed on December 14, 1949. The Loan, which is guaranteed by the Republic of El Salvador, is for a term of 25 years and carries an interest rate, including commission, of 4¼ per cent per annum. Amortization payments, calculated to retire the Loan by maturity, will begin on July 15, 1954. The Closing Date is July 1, 1953.

5. When the Agreements were signed, El Salvador had a provisional government only. The Bank therefore required the Guarantee Agreement to be ratified by an elected Constituent or Legislative Assembly before the Loan could become effective. An elected Constituent Assembly approved the Loan on June 20, 1950, and the Loan was declared effective by the Bank on September 15, 1950.

III. THE BORROWER

6. CEL is an autonomous public service, non-profit institution, established by legislation in 1946 to develop the hydroelectric resources of the Lempa River and its tributaries. The Board of Directors originally consisted of five members representing government, banking, industry and commerce; two more, including a representative of CEL's bondholders (see Section VI), were subsequently added.

7. CEL's charter provides that from 1948 through 1952 the Government is to advance CEL at least Colones 300,000 annually to meet administrative and organizational expenses. These advances are to be interest-free, and to rank junior to all other obligations of CEL. They are to be repaid, not according to any fixed schedule, but only as and when CEL is able to earn more than is required to meet other financial charges, to establish adequate reserves, and to provide for necessary expansion. Furthermore, in each of the years 1951 through 1955, the Government is also to grant CEL a subsidy of ¢ 1 million to build up a reserve fund. These advances and subsidies have been paid as due.

8. Under its charter, CEL is empowered to obtain loans and to issue bonds at home and abroad. Special enabling legislation authorizes the Government to appropriate funds to cover the interest on and amortization of CEL's bonds whenever necessary. The operations of CEL, and its movable property and real estate are exempt from taxes.

9. CEL's budget and financial transactions are under the supervision and inspection of the Court of Accounts, and the annual budget has to be submitted to the national Legislative Assembly for approval.

IV. THE PROJECT

10. There has been a shortage of power in El Salvador for many years. Even in the capital, power has had to be rationed, and shutdowns have been frequent.

11. In 1949, the generating capacity of the whole country amounted to only 33,500 kw, almost half of which consisted of small private plants. A supply of cheap and abundant power is urgently needed, not only to satisfy existing demands, but also to make possible the further development of the economy. Adequate power will facilitate irrigation and thus encourage the production of such crops as sugar cane, cotton, corn, beans and oilseeds. It will also enable water to be pumped at less cost to villages and towns which have hitherto been inadequately supplied even when water has been within easy reach.

12. Industrial development has hitherto been severely restricted by the lack of electric power. Although El Salvador is unlikely to develop any very large or heavy industries, abundant supplies of cheap, reliable power may be expected to result in a considerable expansion in such established forms of production as coffee milling, textile production, food processing and gold mining. In addition, a number of new light industries, such as the manufacture of soap, paper, pottery, carpets and matches may be expected to develop. Since the Loan was made, and probably as a consequence of it, one new cement plant has been established, and a second is being built. A plant to produce fertilizer from city waste has also been built. These projects are due to private initiative.

13. The development of hydroelectric power will permit the progressive retirement of high cost diesel and steam units, thus reducing expenditure on imported petroleum and reducing the consumption of wood fuel.

14. The project consists of the construction of a dam and hydroelectric station at Chorrera del Guayabo on the Lempa River 95 kilometers from San Salvador. The capacity to be installed will be 30,000 kw, but, as the market expands, CEL intends to increase the generating capacity at the Guayabo site to 75,000 kw. The power from the initial installation will be transmitted over a single circuit line to the capital, San Salvador, with a branch from an intermediate point at San Rafael Cedros to the industrial center of San Miguel. The bulk of it will be sold wholesale to producers and distributors already established to serve the capital and the main cities of the country, the chief of which is the Compania de Alumbrado de San Salvador, a subsidiary of the International Power Company of Montreal, Canada.

15. The main items in the construction program are:

(a) An access road suitable for moving the materials and equipment required for the project. This road, 31 kilometers long, is to be connected at Ilobasco with the Pan-American Highway.

(b) A reservoir covering a total area of about 20 square kilometers with a total storage capacity of 183 million cubic meters.

(c) A concrete dam at the main river channel, about 64 meters high and nearly 500 meters in length, with spillways and headworks.

(d) An underground powerhouse containing two generating units with normal generating capacity of 30,000 kw.

(e) A substation at the dam and one 115,000-volt transmission line to connect with receiving substations at San Rafael Cedros and San Salvador and one 69,000-volt transmission line from San Rafael Cedros to the receiving substation at San Miguel.

V. PROGRESS OF THE PROJECT

16. The Loan Agreement requires that the construction of the project be supervised by consultants satisfactory to the Bank, and CEL has retained the services of the Harza Engineering Company for this purpose.

17. As agreed between CEL and the Bank, bids for the construction of the project and for the supply of the necessary equipment and materials were invited on an international basis. Most of the large contracts have now been awarded. The major construction contract, for the building of the dam, powerhouse and associated civil works, was awarded to the J.A. Jones Construction Company of U. S. A. in August 1950, and the major supply contract, for the turbines and generators, to the Bell Company and Brown Boveri, both of Switzerland, in November 1950. Altogether, contracts have been placed or purchases made in twelve different countries: U. S. A., Canada, Switzerland, France, Italy, Germany, Belgium, U. K., Panama, Guatemala, Honduras and Argentina.

18. Work on the project began in October 1950, when the J.A. Jones Company took over the completion of the access road of which approximately 90% had already been constructed by CEL. The access road was completed early in 1951. At first, progress on the project was retarded by difficulties in obtaining equipment and materials. In addition, deliveries of materials were delayed because of a strike on the Guatemalan Railroad, over which goods imported through Puerto Barrios, Guatemala, have to be carried.

19. The major items of equipment, which have been ordered largely from European manufacturers, are expected to be delivered on schedule. The supply of cement was made difficult when conditions in the Far East interfered with delivery by Japanese firms. An alternative source of supply was located in Panama, however, and operations were not appreciably delayed.

20. At the present time, work is going forward on the excavation of the intake canal, the access tunnel, and the discharge channel for the powerhouse, and at the north end of the dam. Work has just been started on the transmission line. Official ceremonies to mark the first pouring of the concrete for the dam were held at the site in June 1951. On January 31, 1952 about 50% of the concrete for the dam had been poured.

21. Until recently, progress on all aspects of the program was according to schedule. In February and March 1952, however, the contractor encountered difficulties with the stream diversion, as a result of which excavation and concrete operations are now about two months behind schedule. It is possible, however, for the contractor to make up this lost time and complete the project in mid-1953 as planned.

22. It now appears that the foreign exchange cost of the project will exceed the amount of the loan, and that the local currency cost will also exceed the original estimate. The Bank has asked CEL to discuss with it the exact amounts involved, and methods of financing them. No appreciable changes have been made in the original plans for the project.

23. Differences have arisen between CEL and the J. A. Jones Construction Company over the interpretation of certain provisions of the contract between them. One of the points to be settled is the price which the Contractor may charge for the type of cement actually used, which was, as a result of the change of source of supply mentioned in paragraph 19 above, not that specified in the contract. The contract contains an arbitration clause which provides that such differences should be submitted to a tribunal of three arbitrators. In accordance with this clause, CEL and the Jones Company have each appointed an arbitrator and, at their request, the President of the Bank has appointed a third, in the person of Mr. Eduardo Suarez, the former Mexican Secretary of Finance.

VI. LOCAL CURRENCY FINANCING

24. The local currency costs of construction, ₡13.1 million, equivalent to $5.24 million, and almost 30 per cent of the total cost, are being met by the sale of colones bonds, issued by CEL with the guarantee of the Government. This arrangement was proposed by the Bank for the two-fold purpose of encouraging the development of a capital market and of enlisting private capital for development. The Loan Agreement required that the full amount of these bonds be sold before CEL could begin to withdraw from the loan account.

25. The financing of a productive undertaking by a public bond issue was unprecedented in El Salvador. Moreover, the amount required was large in relation to the wealth and population of the country. It was therefore particularly important that the terms and form of the bond issue be designed to obtain widespread participation by individual investors as well as by banks and government agencies.

26. The Bank lent the services of the late Mr. Norman F. Tucker, the Director of its Marketing Department, to advise the authorities on the preparation and marketing of the issue. Mr. Tucker spent four months in El Salvador, from March to June 1950, making a thorough analysis of the potential market, advising on the term and form of the bonds, and working out a marketing plan.

27. In order to make the Rio Lempa bonds attractive, it was necessary that they should be able to compete successfully with the bonds of the Salvadorian Mortgage Bank, which are guaranteed by the Government and secured by mortgages on real property, without at the same time making them so attractive as to set a bad precedent for future issues. It was finally decided that the Rio Lempa bonds should be issued as 5% Guaranteed Sinking Fund bonds, representing direct unsecured obligations of CEL, and fully guaranteed by the Republic of El Salvador. The date for final amortization was fixed for January 15, 1975, about the same time as final payment of the Bank Loan.

28. The Central Bank was chosen to act as Fiscal Agent for CEL and given authority to conduct open market operations and to invest in the bonds itself.

29. To increase their marketability, the bonds were given a number of special features. Their principal and interest are exempt from taxation. The bonds and interest coupons can be used at their nominal value to pay taxes and inheritance duties. They are eligible as collateral for customs and other tax liabilities for which the posting of a bond is required, and may be used as security for loans from the Central Bank. The bonds are eligible for investment of Government trust funds. While some of these privileges are also enjoyed by the bonds of the Mortgage Bank, eligibility for payment of inheritance duties and for the securing of customs liabilities are confined to the Rio Lempa issue.

30. At the suggestion of the International Bank, the bonds were sold for cash by CEL, except when purchased by the Government or the Banco Central, in which case CEL accepted unconditional demand notes bearing interest at the same rate as the bonds. The bonds not paid for in cash represent, in effect, a reserve fund on which CEL can draw as and when it needs cash, and upon which interest becomes payable only as the cash is needed.

31. The bonds were issued by CEL at the end of June 1950, in denominations of ₡100, ₡500 and ₡1,000, in the form of temporary certificates, to be subsequently exchanged for fully registered bonds in like denominations. As El Salvador has no Stock Exchange, the bonds were sold through the banks.

32. In order to ensure against any possibility that the issue might not be fully subscribed, the Government undertook to purchase all bonds unsold at the end of October. Such purchases were to be in addition to those made by the Government at the time of the initial offering to the public.

33. The operation was successful. The fact that the issue was helping to finance a project for which the International Bank was making a loan inspired confidence, and the bonds were fully subscribed within one week of the date of offering. Over ₡2 million was taken up by private investors.

34. The changes in the distribution of the bonds between August 1950 and September 1951 are shown in the following tabulations:

	August 1950	September 1951
Government	₡ 4,000,000	₡ 4,000,000
Official Institutions	1,500,000	1,500,000
Central Bank	1,762,800	2,097,600
Commercial Banks	3,489,100	2,097,400
Private Investors	2,348,100	2,955,000
Corporations	-	450,000
	₡13,100,000	₡ 13,100,000

These figures show that about 20% of the total amount of the bonds changed hands in 13 months. The commercial banks disposed of ₡1,391,700 worth of their original holdings,while the Central Bank purchased an additional

₡334,800 worth, and private investors an additional ₡606,900. A new class of investor appeared - the private corporation - which bought bonds to the amount of ₡450,000. The amount held by private investors and corporations together was almost 25% of the total value of the issue. As of February 29,1952, ₡11,777,800 of the total subscription to the bond issue had been paid in. The remainder represented reserved bonds held by the Central Bank and official institutions, for which demand notes had been given (see paragraph 30).

VII. DISBURSEMENT AND SERVICE OF THE LOAN

35. The right to begin withdrawals under the Loan was made conditional upon the fulfillment of the following three requirements:

(a) the completion of the access road;
(b) the sale of the full amount of local currency bonds;
(c) the acquisition by the Borrower of clear, unencumbered title to the land to be overflowed by the reservoir.

36. In November 1950, the Bank, satisfied that an adequate rate of progress was being maintained on (a), and that (b) had been fully accomplished, acceded to CEL's request to allow some latitude in respect of condition (c), prompt performance of which was made difficult by the legal formalities involved in transferring title.

37. The Bank therefore agreed not to await complete fulfillment of condition (c) before permitting withdrawals, but reserved the right to suspend them if CEL had failed to obtain full legal title to all the land to be overflowed by the reservoir by April 30, 1951. Since this concession modified the terms of the Loan Agreement, the Government of El Salvador decided to obtain Congressional approval for it, even though the change was to CEL's advantage. Such approval was given on February 28, 1951. By April 30, 1951, CEL had acquired 98% of the land by means of voluntary sale, and the remainder has since been purchased. The title to about 1% of the land still remains to be registered.

38. The first withdrawal from the Loan Account was made on April 16, 1951. As of March 31, 1952, approximately $4,600,000 had been disbursed made up as follows:

Currency	Amount	U.S. $ Equivalent
U. S. dollars	3,953,255.70	3,953,255.70
Canadian dollars	217,203.44	197,457.67
Swiss francs	1,922,158.95	447,273.77
French francs	487,500.00	1,393.06
		4,599,380.20

Expenditures on the project in local currency, as of January 31, 1952, amounted to the equivalent of about $1,420,000.

39. Payments of interest and commitment charge have been made as due.

40. To date, CEL has not been asked to deliver any bonds to the Bank.

VIII. THE EFFECTS OF THE LOAN

41. Although the Rio Lempa project will relieve the present power shortage as soon as it comes into operation, it will be some years before its effects are fully felt. The present program, which will double the existing installed capacity of the country, is due for completion in mid-1953, and is based on estimates which show that the market will be able to absorb the entire output of the initial installation by 1958.

PART TWO

RELATIONS BETWEEN THE BANK AND EL SALVADOR

I. POLITICAL AND GENERAL

42. When the Rio Lempa Loan was being negotiated, the 1886 Constitution and the 1945 amendments thereto had been suspended and El Salvador was governed by an interim administration under the name of the Council of Revolutionary Government. Although the Council assumed both the legislative and executive powers of the State, its role was from the outset intended as that of caretaker only, and it set to work at once to prepare drafts of electoral legislation and a new Constitution.

43. Under the old Constitution, the executive power could have contracted or approved a loan, or acted as Guarantor, only if authorized by the National Legislative Assembly. The Council of Revolutionary Government appreciated the position of the International Bank, and suggested that the Guarantee Agreement be ratified by a Government empowered to do so by an elected assembly. It was therefore agreed that the Guarantee Agreement should be executed by the provisional government but should not become effective until ratified by a national constituent assembly.

44. A number of special Decrees issued by the Council of Government gave CEL authority to enter into the loan contract with the International Bank, and to float a local bond issue.

45. National elections were held at the end of March 1950 and Colonel Oscar Osorio, leader of the Partido Revolucionario de Unificacion Democratica, a party of the center, became President of the Republic. The Constituent Assembly formally ratified the Loan and Guarantee Agreements

and authorized the sale and issue of the CEL local currency bonds in June 1950.

46. From the time of Mr. McCloy's visit a few months before the 1948 Revolution, through the interim regime of the Council of Revolutionary Government, and throughout the present administration of President Osorio, relations between the Bank and El Salvador have been consistently harmonious. Bank representatives visiting the country have at all times been most hospitably received and given all possible assistance in their work.

PART THREE

IMPORTANT ECONOMIC DEVELOPMENTS SINCE 1949

Conclusions of first Bank report -

47. The first Bank economic report on El Salvador[1/] laid stress on three features of the economic situation:

(a) the pressure of population against resources;
(b) the complete dependence of the country on the cultivation of coffee;
(c) the very conservative financial policies of the Central Reserve Bank.

48. In the light of economic developments in El Salvador since 1949, (a) and (b) above require some qualifications.

Population smaller than believed -

49. The 1950 census, the first since 1928, revealed that the Republic's total population was only 1,855,917, as compared with the 1949 estimate of 2,250,000. Thus, instead of more than 2%, the annual rate of increase of the resident population over the last two decades was 1.3% -- still a high figure. The explanation lies partly in unrecorded migration to neighboring countries and Mexico.

50. Thus, while the problem of providing for a fast-growing population still remains, it is somewhat less alarming than previously assumed, and migration seems to provide at least a temporary safety valve.

Coffee prosperity -

51. Since 1940, world coffee prices have risen continuously. While the New York spot prices for Salvadorian coffee averaged 7.6 cents in 1940, the June 1949 price was 31.3 cents per pound. During the last two and a half years prices have almost doubled, and current (February 1952) prices average 58 cents.

1/ Report on the Economy of El Salvador, July 8, 1949 (No. E53a).

52. This recent steep rise has more than counterbalanced the 10 - 20 per cent drop in the volume of coffee production since 1948/49, due mainly to bad weather. The fall has been from 1,224,000 bags in 1948/49 to an estimated 1,000,000 bags in 1951/52.

53. The coffee boom has created unprecedented prosperity in El Salvador, which has been reflected mainly in residential building construction, higher imports and in an increase of monetary reserves.

Recent trends in production -

54. The production of cotton and of dairy and beef cattle has increased. The acreage planted for the 1951/52 cotton crop was almost twice that for the previous season. A record crop may thus be expected, which will increase foreign exchange earnings. A powdered milk plant is also being considered. Strong interest is being demonstrated by dairy farmers in the construction of silos designed to provide adequate feed during the dry season.

55. Production of the main domestic food crops - corn, beans and rice - remains below consumption needs. In order to stabilize prices and to cut down spoilage, the Government's Institute for Regulation of Grains and Food Supplies is building a storage plant near San Salvador, which will be completed this year.

56. Apart from the cement projects mentioned in paragraph 12, there has been very little new private industrial investment. The Government is, however, framing plans to establish new industries, such as canned goods and fisheries, based on local raw materials.

Residential construction and public works -

57. Residential building construction, the traditional field of local private investment, has boomed during the present coffee prosperity. During 1950, private builders invested $6 million in construction, and during the first half of 1951, about $4 million worth of buildings was completed or begun. The Government, through its Institute of Urban Housing, is also carrying out a large low-cost housing program in various cities.

58. Government investment in public utilities is at a relatively high level. The largest undertaking is the Rio Lempa Project. A $1 million automatic telephone system and a number of municipal markets and a slaughterhouse have recently been completed. Work is proceeding on a modern tourist hotel, a nationwide system of feeder roads, and on water, drainage and sewage systems in several rural areas, which form part of a joint U.S.-Salvadorian public health program. A $2 million bridge across the lower Lempa River is approaching completion.

59. Budgetary expenditures for public works amounted to about ₡17 million ($6.8 million) in each of the years 1950 and 1951. For future public works and development needs, the National Assembly in late 1950 approved a ₡10 million ($4 million) internal loan which is being used to purchase

machinery and equipment abroad. This action was recommended by the Government in order to guard against shortages resulting from the international situation. The importation of equipment for stockpiling under this loan was started in 1951.

Domestic and external financial position -

60. The Salvadorian Government has continued to follow a cautious financial policy, and the country's financial position remains strong both internally and externally.

61. The Government has taken steps to tighten fiscal administration. The coffee export tax rates were substantially increased in 1950, and a new income tax law, passed in December 1951, establishes higher rates for large private incomes and for business earnings as well as broadening the scope of applicability to include a larger segment of the population.

62. Budgetary expenditures increased from ₡64 million in 1948 to ₡67 million in 1949, and ₡89 million in 1950. However, revenues also increased, so that a ₡2 million surplus was realized in 1949 but in 1950 a ₡371,400 deficit was calculated. The 1951 budget estimated that expenditures and revenues would balance at ₡122 million ($49 million). The results of the 1951 financial year are not yet available. The 1952 budget estimates that expenditures and revenues will balance at ₡133 million ($53 million).

63. Private bank loans increased from ₡54 million to ₡80 million between 1949 and 1950 and were partially used to finance the construction boom referred to in paragraph 57 above. In 1951 this credit expansion, which was financed by the banks from their own resources, slowed down considerably and at the end of December 1951 outstanding loans stood at ₡94 million. Figures for money supply follow a similar pattern, increasing from ₡104 million in 1949 to ₡129 million at the end of 1950 and ₡145 million at the end of 1951.

64. The 1950 credit expansion can be accounted for by the large balance of payments surpluses which occurred in 1949 and 1950. In 1949, the trade balance provided a ₡38.7 million surplus, and the over-all surplus was estimated at ₡27 million. In 1950 the trade surplus increased to ₡55.6 million, while the over-all surplus fell to ₡5 million. Partial trade returns for 1951 indicate that a substantial trade surplus has been maintained.

65. The colon has remained at its parity, ₡2.50 = $1, since the 1930's and now its position is stronger than ever. There are no exchange controls. The foreign assets of the Central Reserve Bank increased from $35 million at the end of 1949 to $44 million at the end of 1950, and reached their peak, $62 million, in May 1951. The February 29, 1952 figure stood at $54 million, the decline being due to a seasonal drop in coffee exports.

66. The high value of coffee exports should enable El Salvador's strong foreign exchange position to continue. However, the increased export earnings and rising import prices have increased the danger of inflation. To date, increases in the domestic price level have been due mainly to the rising cost of imports. The greatest rise in domestic prices

occurred between 1949 and 1950, when the wholesale index rose from 101 to 136 (1948 = 100). During 1951, wholesale prices rose by about 5% only, and in January 1952, the index stood at 147. In the present situation, the country's traditionally cautious financial policy, as expressed in the present government's restrictive fiscal measures, constitutes a safeguard against an uncontrolled monetary expansion.

Development plans of the present Government -

67. Before embarking on a large-scale development program, the Government has proceeded to create an appropriate organizational basis. Its first measures have been: (1) to prepare surveys and technical studies of the potential fields of economic development; (2) to carry out administrative reforms; and (3) to create agencies to carry out development.

68. This first stage of planning and preparation is now nearing its end. During its course the Government has - mainly through external technical assistance - made studies of such problems as administrative reorganization, improvement of customs procedures, fisheries and reforestation, soil erosion, civil aviation, and an over-all economic survey. It has created new agencies, such as the Office of Regulation of Grain and Food Supplies, the Institute of Urban Housing and the Institute of Rural Settlement, and is engaged in preparations for the establishment of a development corporation and an agricultural bank.

69. The approaching completion of the drafting of a development program will mark the end of this preparatory stage. The task was given to a comprehensive survey mission which, organized by the U. N. Technical Assistance Administration Board, arrived in the country in July 1951.

70. The present Salvadorian Government is playing a leading role in the country's economic and social development, and there are good prospects that the present coffee prosperity will lead, not only to increased spending on consumer goods, but also to the development of the economy. To the extent that El Salvador continues to make good use of the present opportunity to strengthen and to diversify her economy, she should be the better able to meet an eventual decline of coffee prices.