COUNTRY REPORT

Guatemala

El Salvador

1st quarter 1996

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The Economist Intelligence Unit

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Summary

Guatemala, El Salvador 1st quarter 1996

January 9, 1996

The region

Outlook: In 1996 the presidents of Central America hope to speed up free-trade talks and secure NAFTA parity. A new PARLACEN president will woo Costa Rica. An embargo on tuna exports to the USA should end in 1996. A regional fibre optics network is planned. ***Page 3***

Review: In October the presidents met to discuss integration with the FTAA. ECLAC supported the idea. A presidential summit focused on democracy. A 5th Ibero-American summit was held. Brazil and Colombia have joined the coffee retention scheme, but Guatemala's support is in the balance. Costa Rica has been nominated to coordinate the Latin American and Caribbean group of the WTO; its representative will help to resolve the banana war. The US Congress has postponed debating the Crane bill. The WTO has ruled against the USA on underwear quotas. The region's stock exchanges will be modernised. A dengue epidemic has spread across the region. Nicaragua has questioned oil concessions by Honduras. Poverty is a source of concern. EU aid is buoyant. Japan aims to establish a dialogue with the region. A local *Wall Street Journal Americas* weekly began publication. ***Pages 4-8***

Guatemala

Political and economic structures ***Pages 9-10***

Outlook: Alvaro Arzú will be the new president. His party has a legislative majority. The left will be represented in Congress. Peace talks will re-start, but negotiations will be difficult. Growth will rise to 5% in 1996 and slow slightly to 4.8% in 1997. Inflation will remain in single figures. A growing trade gap will push up the current-account deficit. The quetzal will depreciate steadily to end 1996 at Q6.25:$1 and 1997 at Q6.63:$1. ***Pages 11-13***

The political scene: The November 12, 1995, general elections gave Mr Arzú and the PAN the upper hand. In the presidential run-off on January 7, 1996, Mr Arzú won by a narrow margin in a low poll. The left-wing FDNG made a strong showing. Mayan representation at municipal level increased. A massacre of refugees in October led to the resignation of the defence minister. The UN observer mission has criticised the judicial system. There was a dispute between the prosecutor-general and the outgoing president, Ramiro de León Carpio. The USA has suspended military aid. The private-sector and the military have increased their opposition to the peace talks. The kidnapping of Rigoberta Menchú's nephew has caused controversy. Violence has continued to worsen. ***Pages 14-20***

The economy: IMF and World Bank teams have paid visits. Monetary policy remains tight. The central bank has intervened to stabilise the quetzal. VAT rose by 3% on January 1. Capital goods import tariffs have fallen to 1%. Congress proposed fiscal decentralisation, but approved the 1996 budget. Official estimates put growth at 4.9% and year-end inflation at 8.6% in 1995, but interest rates remain high. Heavy rain has affected harvests, but prospects for coffee and sugar output are good. Tourism is recovering. A US delegation has inspected *maquila* (offshore assembly) factories. There has been investment in telecoms. Export revenue rose by 28.6% in 1995 on 1994, while the import bill rose by only 19%; the current-account deficit fell to $652m, according to the central bank, but net foreign reserves fell by $140m. ***Pages 20-25***

Outlook: The government of Armando Calderón Sol will look for a strategy to fill the vacuum left by the weakening of the Hinds Plan. Protests by ex-soldiers and public servants will intensify. Growth will fall sharply in 1996, before picking up in 1997. The colón will remain at c8.76:$1. Inflation will fall. The current-account deficit will widen to $680m by 1997. ***Pages 28-30***

The political scene: Mr Calderón Sol has announced the completion of the peace process, but there is still work to be done. Job cuts have sparked off protests by public-sector employees. A US delegation has arrived to inspect *maquila* (offshore assembly) factories, causing bitter disputes between political and labour leaders. Ex-soldiers have taken public employees hostage, leading to clashes with the police and rumours of a coup d'état. Cabinet changes have been announced, and the military will be restructured. Violence has continued. Opinion polls has given ARENA a low rating. The Río Lempa has flooded. ***Pages 30-33***

The economy: The IMF has agreed a $58m stand-by loan. A credit boom has undermined the Hinds Plan, in particular its proposals of dollarisation and rapid trade liberalisation. Monetary policy has been tightened to cool the economy and dampen credit expansion. The government has decided to cut 15,000 public-sector jobs, financing severance payments with Treasury bills. It has appointed a commissioner for state reform. Electricity, telecommunications, ports and pensions will be privatised; the sale of the Banco Hipotecario has already begun. A *maquila* bill has led to charges of unfair competition. Growth rose to 6.3% in 1995, but inflation rose to 11.5%. The 1996 budget has been approved; increased spending will be financed with higher taxation. A record sugar harvest is predicted, and the 1995/96 coffee harvest is up on 1994/95. The airport will be expanded. Guinness will be produced and sold locally. A new transport law has been passed. Work is beginning on the San Salvador metro. *Maquila* output is growing rapidly. The stock exchange will trade private equities. CEL has outlined investment spending. The trade deficit (fob-cif) widened by 25% in 1995 as the import bill surged. The current-account gap widened, but net foreign reserves rose. Foreign loans and aid reached over $1bn last year, and more is planned for 1996. ***Pages 33-41***

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The region

Outlook

Presidents hope for free trade

The presidents of Central America hope to speed up the free-trade negotiations of the Mexican government with the Northern Triangle (El Salvador, Guatemala and Honduras) and Nicaragua. Talks have been delayed by Mexico's problems following the peso crisis of December 1994. However, a meeting planned for January 15-16 in San José, Costa Rica is intended to revive the trade negotiations. The region's leaders also hope to gain the support of the US president, Bill Clinton, for the rapid passage of the Crane bill through the US Congress this year. This would secure North American Free Trade Agreement (NAFTA) parity for the region's textiles and clothing exporters until 2005 (see Review).

PARLACEN president will woo Costa Rica

The new president of the Central American parliament (PARLACEN), Rolando Valenzuela Oyuela, who took office at the end of October 1995, will try to persuade Costa Rica to join the region's political forum. PARLACEN is made up of representatives from Guatemala, El Salvador and Honduras. Panama sends 16 permanent observers to the forum and Nicaragua will hold its first elections for the parliament in November 1996. But Costa Ricans remain strongly opposed to PARLACEN, seeing it as powerless and wasteful. Mr Valenzuela Oyuela will try to persuade Costa Rica that it should back the parliament's work on political integration by approving its statutes and holding elections for regional deputies.

The tuna embargo should end soon

On October 5, 1995, in Panama City representatives of the USA and 11 Latin American countries signed a declaration making the principles of a 1992 agreement on tuna fishing, known as La Jolla, binding for all parties. This agreement is designed to end consumer boycotts of countries which use methods of yellow fin tuna fishing resulting in widespread dolphin casualties by establishing a voluntary curb on such methods. Tuna-fishing countries have promised that under no circumstances will the total dolphin mortality rates exceed 5,000 per year. The Panama declaration should take effect in early 1996.

A fibre optics network is planned

Central American governments have agreed to cooperate on building a $75m fibre-optics network covering all five Central American countries and Panama. A number of international firms intend to bid for the contract to build the network. Among those which have already presented proposals are AT&T, Siemens, Ericcson, Alcatel, NEC and Fujitsu.

Review

The presidents meet to discuss the FTAA—

On October 5, 1995, the presidents of Central America met in El Salvador to exchange views on various issues in preparation for the Ibero-American Summit in Argentina later in the month. They were also concerned to prepare for a meeting with the Canadian prime minister, Jean Chrétien, and for the regional summit with Mexico in February 1996. The presidents were joined by the vice-president of Panama, Tomás Gabriel Altamirano, and the deputy prime minister of Belize, Henry Young. They agreed that their priority was to persuade the USA, Canada and Mexico to promote the rapid integration of Central America into the Free Trade Area of the Americas (FTAA).

—and ECLAC sees its benefits

At the 11th summit for cooperation with Central America, held in Antigua, Guatemala, at the beginning of October 1995, the UN Economic Commission for Latin America and the Caribbean (ECLAC) backed the proposal for setting up a FTAA. The summit was attended by the region's economy ministers. In what appeared to be a departure from its traditional emphasis on providing a degree of protection for "infant industries" in developing countries, ECLAC representatives implied that free trade and a reduction of barriers to foreign investment would benefit the region's small economies by giving them access to the advantages currently enjoyed by those within the North American Free Trade Agreement (NAFTA). However, ECLAC reminded the economy ministers that a joint position in negotiations on reductions in the common external tariff could lead to valuable concessions from their northern neighbours; such potential advantages would be lost if the Central American countries engaged in unilateral adjustment of their tariffs, as Costa Rica and El Salvador have done in 1994-95.

The presidents' meeting focuses on democracy

In mid-December, 1995, the region's leaders met in San Pedro Sula, Honduras, to sign a proposed treaty on democracy (*Tratado de Seguridad Democrática*), establishing a security framework for peacetime to replace that of the 1980s, when civil war prevailed. The treaty specifically aims to fight crime, corruption and drug-trafficking and to promote the professionalisation of the region's armies and public security forces and the disarmament of civilians. Spain has announced that it is setting up a trust fund with the UN Development Programme to finance efforts to strengthen democracy in Central America, especially the reform of the judiciary, police training and education. The fund will be established with an initial contribution of $11m.

The treaty on democracy was approved in November by the Central American Security Council, meeting in Tegucigalpa. Earlier in the month, soldiers from Guatemala, El Salvador, Honduras, Nicaragua, Belize and the USA took part in a joint training session on responding to natural disasters, one of the security forces' new peacetime roles. However, proposals to reduce the size of armies from their civil war proportions continue to meet with opposition from the Honduran and Guatemalan military.

The Ibero-American summit focuses on Cuba—

On October 16-17, 1995, the presidents of Latin America and Spain met in Bariloche, Argentina for the 5th Ibero-American summit. The presence of the Cuban president, Fidel Castro, caused attention to be focused on that country's problems. The European Union (EU) announced an aid package for Central America worth $200m per year for the next five years.

—and coffee—

The Latin American members of the Association of Coffee Producing Countries (ACPC) took advantage of the Ibero-American summit to secure the commitment of Brazil and Colombia, the two main coffee producers in the region, to their 20% retention scheme (4th quarter 1995, page 4). The ACPC met again in Bali, Indonesia, at the end of November to try to bolster the retention scheme. However, the price of "other milds" (arabica, the coffee predominant in Central America) continues to decline. It fell from 119.65 cents/lb at the beginning of October 1995 to 97.41 cents/lb on January 2, 1996.

—but coffee growers disagree

The position of the Guatemalan coffee producers' association, ANACAFE, on coffee retention continues to diverge from that of other producers in the region. In early December 1995 Salvadorean, Costa Rican and Honduran growers discussed further measures for strengthening the retention scheme during the 1995/96 harvest (October-March), such as a temporary shut-down of coffee exports. But ANACAFE's president, Max Quirín, has ruled out Guatemalan participation in any plan to withhold exports entirely. Guatemalan producers have a history of opposition to regional retention schemes. In April 1995 ANACAFE opted out of the 1994/95 scheme (3rd quarter 1995, page 20); they were later persuaded to rejoin it for 1995/96.

Costa Rica leads WTO group—

Costa Rica has been given the coordination of the Latin American and Caribbean group of the World Trade Organisation (WTO). Ronald Saborío, Costa Rica's ambassador to the WTO, assumed the task of coordination on October 5, 1995. He will play an important role in resolving trade disputes brought before the WTO by the region's 31 member countries.

—and seeks a way out of the banana dispute

One of the first disputes which Mr Saborío is helping to resolve in his new role is the conflict over restrictive EU banana quotas between, on the one hand, Europe and the Caribbean and, on the other, the USA, Guatemala, Honduras and Mexico. The latter group began a WTO 60-day consultation process on bananas at the end of September 1995. Mr Saborío's position could prove difficult, since his country is involved in the dispute. After the Costa Rican government accepted the EU quota in the "banana settlement" of March 1994, Chiquita Brands International persuaded Mickey Kantor, the US trade representative, to bring an investigation against it (4th quarter 1995, page 5). Costa Rica has 23.4% of the total EU quota for Latin America of 2.2m tons. However, at the end of October the Costa Rican foreign trade minister, José Rossi, confirmed that his government supports the WTO procedure and will observe the organisation's ruling. The US Republican, Robert Dole, is currently attempting to persuade the US Congress to punish Costa Rica for its acceptance of the quota system by suspending its export benefits under the Caribbean Basin Initiative (CBI) and the US Generalised System of Preferences (US-GSP).

NAFTA parity is delayed

In mid-September 1995 the US Congress decided to postpone its decision on the Crane bill, which proposes allowing textiles and clothing exports from Caribbean Basin Initiative (CBI) countries into the USA for a ten-year period on the same basis as Mexico. However, the US-GSP was extended for two years. Central American countries are keen to secure the Crane bill's approval, since it would give them NAFTA parity until the establishment of the FTAA. But US trade unions and textile companies have raised objections to the legislation, arguing that it will promote unfair competition by Central American textile *maquila* (offshore assembly).

A delegation of US government officials and trade unionists visited Guatemala and El Salvador in mid-November, 1995 (see Guatemala: Production and services; El Salvador: The political scene), to investigate allegations of ill-treatment by workers in textile *maquila*. Local governments fear that their conclusions may be used as arguments against approving the Crane bill or for the withdrawal of US-GSP benefits.

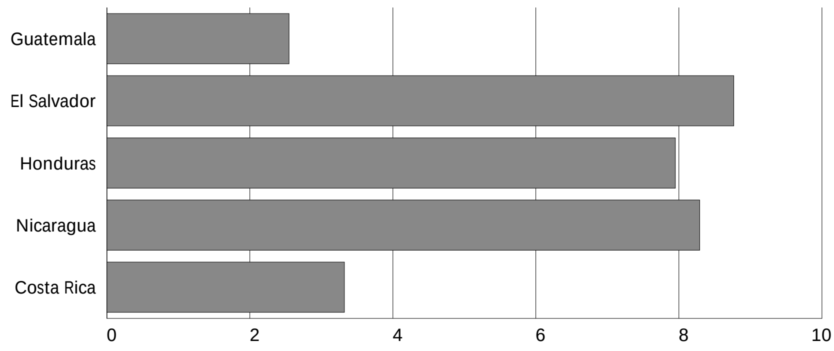
Underwear quotas are declared unnecessary

In September 1995 the WTO's Textile Monitoring Board upheld a decision that a series of quotas imposed by the US Commerce Department on Honduran underwear exports earlier in the year were unnecessarily restrictive. In October the board came to the same conclusion in the case of Costa Rica. US officials had imposed protective quotas on underwear (6.5m dozen for Honduras and 14.4m dozen for Costa Rica) and pyjamas (157,990 dozen each). The Textile Monitoring Board ordered the USA to eliminate the quotas on nightwear and expand them for underwear. El Salvador had already settled with the USA, after an earlier challenge before the WTO (4th quarter 1995, pages 5-6).

A dengue epidemic spreads

The region's ministers of health have implemented emergency measures to combat the spread of dengue fever in Central America, in what is probably the worst epidemic in the region since 1981. The fever is transmitted by the *aedes aegypti* mosquito, and, in its haemorrhagic form, can be fatal. Widespread flooding this year has produced ideal conditions for the mosquito to breed. El Salvador and Nicaragua have been worst affected.

Cases of common dengue, Jan 1-Sep 20, 1995
'000



Source: UNICEF.

The region's exchanges will be modernised

The Inter-American Development Bank (IDB) has approved a $1.7m grant to modernise agricultural commodity exchanges—*bolsas de productos agropecuarios*—in Costa Rica, El Salvador and Nicaragua, as well as in Dominican Republic. The grant is intended to support the development of price reporting and certification requirements systems as well as the standardisation of warehouse inspection procedures.

Six Central American stock exchanges—*bolsas de valores*—are cooperating with the University of Miami on a project to set up an electronic bulletin board which would display the prices of stocks and bonds, as well as company news. The bulletin board will probably be located in Miami.

Nicaragua does not recognise frontier oil concessions

In late September 1995 the Nicaraguan authorities said they were concerned about petroleum concessions apparently granted by Honduras to US and Venezuelan oil companies in Nicaragua's Caribbean territorial waters in 1991-93. The Nicaraguan deputy foreign minister, José Pallais, said that if Honduras had made oil concessions south of the 17th parallel they would have no validity, since they were not recognised by Nicaragua.

Human rights body issues poverty warning

The Comisión para la Defensa de los Derechos Humanos de Centroamérica (CODEHUCA, the region's human rights body) said at the end of October 1995 that Central America is a "social time-bomb" due to economic hardship and the deterioration of its social fabric.

EU aid is buoyant

A report by the EU shows that in mid-1995 aid to Central America was strong. Regional integration and development projects currently receive $345m, with a further $19m worth of projects planned. Of the individual countries in the region, Guatemala is the largest beneficiary of EU aid, with $153m worth of projects in progress and $4m planned, while Costa Rica receives only $9m in EU development cooperation.

EU development cooperation[a] with Central America, Jun 30, 1995
($ m)

	In progress	Planned
Guatemala	152.9	3.9
El Salvador	121.7	27.6
Honduras	50.4	19.9
Nicaragua	86.8	21.3
Costa Rica	9.1	0
Panama	24.1	0
The region[b]	344.7	18.9

[a] Covers technical, economic, environmental, democratisation and regional integration projects.
[b] Includes Mexico and Cuba.

Source: European Commission.

Japan establishes a dialogue

At the end of August 1995 the Japanese government announced that it was setting up a Japan-Central America Dialogue and Cooperation Forum. Costa Rica, Panama, Guatemala, El Salvador, Nicaragua and Honduras are to take part in the forum, which will meet once a year for high-level official talks. The first meeting was held in San Salvador at the end of November.

The *Wall Street Journal* moves in

At the end of November local newspapers began publishing *The Wall Street Journal Americas* weekly news sheet, after reaching an agreement with Dow Jones & Co. Inc., which publishes *The Wall Street Journal*. The Costa Rican daily, *La Nación*, and *La Prensa Gráfica* of El Salvador were the first to publish the six-page weekly, and *Diario La Prensa* of Honduras and *Siglo XXI* of Guatemala were expected to follow.

Political structure: Guatemala

Official name: Republic of Guatemala

Form of state: unitary republic

Legal system: US-style Supreme Court system

National legislature: unicameral Congress of 80 members. Elected every four years, re-election possible

Electoral system: universal adult suffrage

Last elections: November 1995-January 1996 (presidential; congressional; municipal)

Next elections due: November 1999 (presidential—first round; congressional)

Head of state: president, elected by universal suffrage, for single period of four years

National government: cabinet, headed and appointed by president

Main political organisations: Partido de Avanzada Nacional (PAN); Frente Repúblicano Guatemalteco (FRG); Partido Democracia Cristiana Guatemalteca (PDCG); Unión del Centro Nacional (UCN); Movimiento de Liberación Nacional (MLN); Unión Democrática; Partido Socialista Democrático (PSD); Frente Democrático Nueva Guatemala (FDNG)
extra-parliamentary opposition—Unidad Revolucionaria Nacional Guatemalteca (URNG); Representación Unitaria de la Oposición Guatemalteca (RUOG)

The cabinet	
President	Alvaro Arzú Irigoyen
Vice-president	Luis Flores Asturias
Key ministers	
agriculture	Luis Reyes Mayen
communications, transport & public works	Fritz García Gallont
defence	General Luis Balconi Turcios
economy & trade	Juan Mauricio Wurmser
education	Arabela Castro
energy & mines	Leonel López Rodas
finance	José Alejandro Arévalo
foreign relations	Eduardo Stein
health & social welfare	Marco Tulio Sosa
interior	Rodolfo Mendoza
labour & social security	Arnoldo Ortiz Moscoso
Central bank president	Willy Zapata Sagastume

Economic structure: Guatemala

Latest available figures

Economic indicators	1991	1992	1993	1994	1995[a]
GDP at market prices Q m	47,302	53,985	63,733	74,491	84,368
Real GDP growth %	3.7	4.8	3.9	4.0	4.5
Consumer price inflation (av; %)	33.2	10.2[b]	13.4[b]	12.5[b]	8.4[b]
Population m (mid-year)	9.47	9.74	10.03	10.32	10.62
Exports fob $ m	1,230	1,284	1,363	1,550	1,994[b]
Imports fob $ m	1,673	2,328	2,384	2,547	3,030
Current account $ m	–184	–706	–702	–625	–580
Reserves excl gold $ m	807	765	868	863	720
Total external debt $ m	2,824	2,751	2,954	3,132[a]	3,461
Debt-service ratio %	16.5	26.3	14.5	10.2[a]	12.5
Exchange rate (av) Q:$	5.03	5.17	5.64	5.75	5.80

January 8, 1996 Q6.08:$1 (bank rate)

Origins of gross domestic product 1994	% of total
Agriculture	24.4
Manufacturing	14.3
Construction	2.1
Commerce	24.3
Banking & insurance	4.6
Public administration	7.7
GDP at factor cost incl others	100.0

Components of gross domestic product 1994	% of total
Private consumption	86.0
Government consumption	6.2
Fixed investment	15.2
Change in stocks	1.2
Exports of goods & services	17.2
Imports of goods & services	–25.8
GDP at market prices	100.0

Principal exports 1994	$ m
Coffee	346
Sugar	172
Bananas	120
Cardamom	42
Oil	22

Principal imports cif 1994	$ m
Raw materials & intermediate products	1,047
Consumer goods	828
Capital goods	624
Fuel	201
Building materials	78

Main destinations of exports 1994	% of total
USA	31.9
El Salvador	15.2
Costa Rica	6.5
Honduras	5.8
Mexico	4.5

Main origins of imports 1994	% of total
USA	43.0
Mexico	7.0
El Salvador	6.2
Venezuela	5.2
Germany	3.9

[a] EIU estimates. [b] Central bank estimate.

Guatemala

Outlook

Alvaro Arzú will be president—

Alvaro Arzú, a businessman and former mayor of Guatemala City, who leads the right-wing Partido de Avanzada Nacional (PAN), has won the presidential race by a narrow margin. He will take office on January 14, ending the one and a half year transitional term of Ramiro de León Carpio after the failed attempt at an *autogolpe* (self-coup; coup by the head of state) by the president elected in the country's last general elections, Jorge Serrano Elías. The victory of Mr Arzú and the PAN in the general elections of November 12, 1995-January 7, 1996, ensures the continuing support of the international business community. This would have been in doubt had the presidential run-off been won by Alfonso Portillo Cabrera, the candidate of the Frente Repúblicano Guatemalteco (FRG), the party led by the ex-dictator and born-again Christian, General Efraín Ríos Montt.

—and will have a majority in Congress

The results of the general elections have consolidated the position of the PAN in Congress—it has 42 of the 80 seats. But it will need the support of other parties to achieve the two-thirds majority required on a number of key policy issues. The government may try to mend relations with the FRG, which has 20 seats, when the new Congress meets. The elections confirmed the FRG as the second political force in the country, despite the constitutional ban on the candidacy of its controversial leader.

The left will have representation in Congress

Of 80 deputies in the new Congress, six will belong to the Frente Democrático Nueva Guatemala (FDNG), the new left-wing party which includes trade unions, peasant organisations and human rights groups. The FDNG's decision to participate in the elections means that the left will have a stake in the political system as an opposition party for the first time in four decades. The FDNG's electoral platform emphasised commitment to ending the country's 35-year-old civil war and to implementing the peace accords signed to date. The strong showing of the FDNG favours the consolidation of the peace talks in 1996.

Peace will be a priority—

The signing of a final peace settlement between the government, the military and the Unidad Revolucionaria Nacional Guatemalteca (URNG, the guerrillas) will be a priority for the new administration. Mr Arzú has publicly stated his commitment to respecting those accords signed in 1994-95 and to reaching a settlement. International pressure will provide momentum for the negotiation process and a final peace agreement should be signed by mid-1996. The appointment of General Otto Pérez Molina, formerly the head of Mr de León Carpio's presidential guard to the government peace commission, COPAZ, should favour continuity in the negotiations. However, little progress is expected until the new government announces its negotiating team.

—but negotiations will meet with increased resistance

The key topics on the peace talks agenda remain those known as "socio-economic issues and the land question" and "the role of the military in a democratic society". These thorny issues have held up the progress of the negotiations since the second quarter of 1995. Towards the end of last year the talks stalled due to pressure from conservative elements in the private sector and military hardliners. The country's landowners are against any discussion of land reform, while peasant organisations and indigenous groups want the guerrillas to secure concessions on this issue. Meanwhile, the military is expected to resist calls for a reduction in the size of the armed forces, currently inflated to a wartime footing.

Growth will remain strong—

According to the preliminary estimate of the Banco de Guatemala (the central bank) GDP growth rose to 4.9% in 1995 from 4% in 1994. However, the EIU expects the 1995 estimate to be revised down to 4.5%. Now that Mr Arzú has won the presidency, macroeconomic stability is secure. In 1996 growth should rise to 5%, as expectations of the new administration run high and private investment benefits from a gradual reduction in interest rates. Capital inflows will recover as electoral uncertainty fades. International agencies will provide an injection of development funding to support the peace process, and a peace accord should further improve the climate for investment. Consumption will be hit by a planned increase in value-added tax (VAT) from 7% to 10% on January 1, 1996, and private consumption will continue to decline as the export boom tails off. However, this will be partially offset by an increase in public spending as the tax take rises from extremely low levels, reflecting the success of the finance ministry's tax reforms; public investment will rise rapidly from a low base.

We expect growth to slow to 4.8% in 1997 as the honeymoon period after the elections and the peace accord recedes and it becomes clear that social conflicts remain unresolved; nevertheless, economic activity will remain strong in most sectors.

—and inflation low

Mr Arzú's administration is expected to continue its predecessor's policies of tight monetary control to keep inflation in single figures. Nevertheless, the 3% increase in VAT in January 1996 will fuel inflationary pressures in the early part of this year, and the recovery of capital inflows will sustain liquidity despite a decline in coffee earnings compared with the first quarter of 1995. The government will loosen the monetary squeeze to lower interest rates and promote growth, and year-end inflation is expected to rise to 9.5%. In 1997 we expect a gradual decline in year-end inflation to 8.5%, as growth and consumer demand weaken somewhat.

The current-account gap will widen

We have revised our current-account figures for 1994 on the basis of data published recently by the IMF and for 1995 on the basis of the central bank's year-end estimates. We estimate that the current-account gap fell from $625m in 1994 to $580m last year, largely due to the strong growth of export revenue (see Foreign trade and payments), which constrained the growth of the trade deficit. However, in 1996-97 the trade deficit will increase as coffee and sugar prices fall on world markets, undermining the growth of export earnings. In 1996 we expect a one-off rise in remittance transfers from workers in the USA as the government allows commercial banks to open dollar accounts in Guatemala. This should help limit the deterioration of the current account to $650m this year, but in 1997 the current-account gap is forecast to widen to $870m.

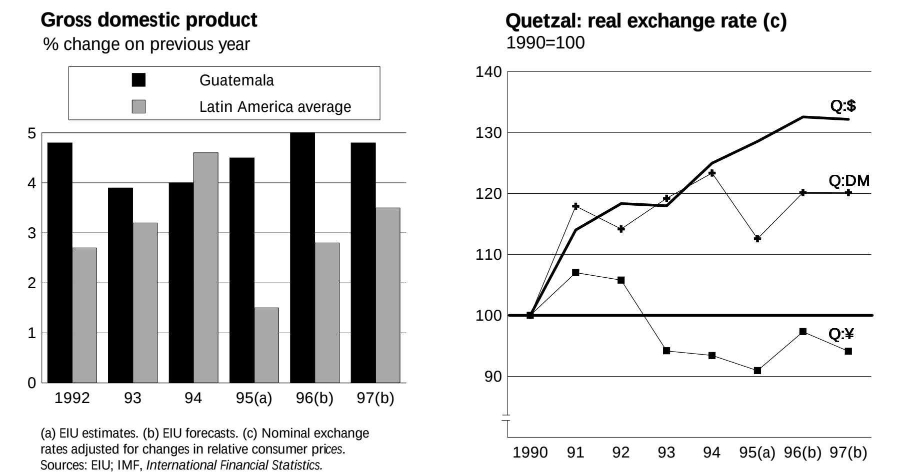
Forecast summary
($ m unless otherwise indicated)

	1994[a]	1995[a]	1996[b]	1997[b]
Real GDP growth (%)	4.0	4.5[c]	5.0	4.8
Consumer price inflation (year end; %)	11.6	8.6	9.5	8.5
Merchandise exports fob[c]	1,550	1,994	2,134	2,390
Merchandise imports fob[c]	2,547	3,030[c]	3,275	3,718
Current-account balance	–625	–580[d]	–650	–870
Exchange rate (year-end; Q:$)	5.65	5.95[d]	6.25	6.63

[a] Actual. [b] EIU forecasts. [c] Excludes *maquila* (offshore assembly). [d] EIU estimates.

Exchange rate depreciation will stabilise

Nominal depreciation of the quetzal accelerated in the last five months of 1995 (see Economic policy). We estimate that the exchange rate ended the year at Q5.95:$1. This represents a slight real currency appreciation during 1995 as a whole. Official figures for January 8, 1996, show the reference exchange rate of the central bank as Q6.08:$1, while the parallel market rate was Q5.82:$1. The rate of nominal currency depreciation should remain steady in 1996, as external financing linked to the peace process helps boost foreign reserves. We forecast a year-end exchange rate of Q6.25:$1. In 1997, with the financing requirement inflated by a large current-account deficit and peace-related foreign assistance tailing off, we forecast a slight decline in foreign reserves and an increase in the pace of exchange rate depreciation. The quetzal is expected to depreciate at around 6% in nominal terms, slightly ahead of the inflation differential with the USA, to end the year at Q6.63:$1.



(a) EIU estimates. (b) EIU forecasts. (c) Nominal exchange rates adjusted for changes in relative consumer prices.
Sources: EIU; IMF, *International Financial Statistics.*

Review

The political scene

General elections give the PAN the upper hand

On November 12, 1995, the electorate was asked to choose between 19 political parties or party alliances running for the presidency, 80 congressional seats and 330 municipalities. The right-wing Partido de Avanzada Nacional (PAN) polled 36.5% of the vote, gaining the largest bloc in Congress (42 seats). The PAN's presidential candidate, Alvaro Arzú, won the first round of the presidential election. However, he did not poll enough votes to give him an outright victory, and the authorities declared that the second round would be held as planned on January 7, 1996. The right-wing Frente Repúblicano Guatemalteco (FRG), captured 22% of the national vote on November 12, gaining the second largest bloc in Congress (20 seats). Its candidate for president, Alfonso Portillo Cabrera, a former Christian Democrat who joined the party in early 1995, emerged as the runner-up to Mr Arzú in the first round of the presidential contest.

Election results, November 12, 1995

Party	Presidential candidate	% of national vote	No of votes
PAN (Partido de Avanzada Nacional)	Alvaro Arzú	36.50	565,393
FRG (Frente Repúblicano Guatemalteco)	Alfonso Portillo	22.04	341,364
UCN-DCG-PSD (Unión del Centro Nacional—Democracia Cristiana Guatemalteca—Partido Social Demócrata)	Fernando Andrade	12.94	200,393
FDNG (Frente Democrático Nueva Guatemala)	Jorge González del Valle	7.70	119,305
PLP (Partido Libertador Progresista)	Acisclo Valladares	5.21	80,761
UD (Unión Democrática)	José Chea Urruela	3.63	56,191
DIA (Desarrollo Integral Auténtico)	Rolando Torres	2.55	39,425
MLN (Movimiento de Liberación Nacional)	Mario López	2.30	35,675
PP (Partido Progresista)	Pepe Fernández	1.63	25,219
FUN-PID (Frente de Unidad Nacional—Partido Institucional Democrático)	Héctor Alejandro Gramajo	1.17	18,060
PREG (Partido Reformador Guatemalteco)	Miguel Angel Montepeque	1.13	17,471
CAMHINA (Cambio Histórico Nacional)	Ramón Godoy	0.73	11,344
PDP (Partido del Pueblo)	Juan José Rodil Peralta	0.53	8,140
PDG (Partido Demócrata Guatemalteco)	Aníbal Guevara	0.43	6,714
AP5 (Alianza Popular Cinco)	Carlos Morales	0.40	6,193
CAN (Central Auténtica Nacionalista)	Lionel Sisniega	0.39	6,079
FDP (Fuerza Demócrata Nacional)	Flor de Solís	0.38	5,885
MD (Movimiento de los Descamisados)	Mario Castejón	0.20	3,119
PCN-MPL (Partido de Conciliación Nacional—Movimiento Patriótico Libertad)	Carlos González	0.14	2,113

Source: Tribunal Supremo Electoral, final figures published November 27, 1995.

Presidential candidates prepare for a run-off

The November 12 poll meant that voters would have to choose between Mr Arzú of the PAN and Mr Portillo Cabrera of the FRG on January 7. As soon as the initial result was known, the FRG began negotiations with regional committees of the main centrist parties, the Unión del Centro Nacional (UCN) and the Democracia Cristiana Guatemalteca (DCG), in the hope of building alliances to support Mr Portillo Cabrera in the second round of the presidential elections.

Although most observers expected Mr Arzú to win, much was likely to depend on the decisions made by the smaller parties in the two intervening months. The PAN, which had long maintained a strongly independent stance, floated the idea of a “programmatic alliance” with the left-wing Frente Democrático Nueva Guatemala (FDNG). This suggested that it was concerned to overcome the popular perception of the PAN as a private-sector party with little support in rural areas, which might give Mr Portillo Cabrera the upper hand on January 7. However, the FDNG said it would not instruct its supporters how to vote in the second round of the presidential elections. The URNG also declared its neutrality for the January poll, but announced a ceasefire from Christmas until January 8.

Mr Arzú wins the presidency

The second round of the presidential elections took place on January 7, amid attempts to disrupt voting by protesters burning tyres and covering roads with nails to prevent traffic from circulating. On January 8 the electoral authorities announced that Mr Arzú had won the presidency by a narrow margin, polling 51.22% of the vote against 48.78% for Mr Portillo Cabrera. Mr Arzú assumes the presidency on January 14.

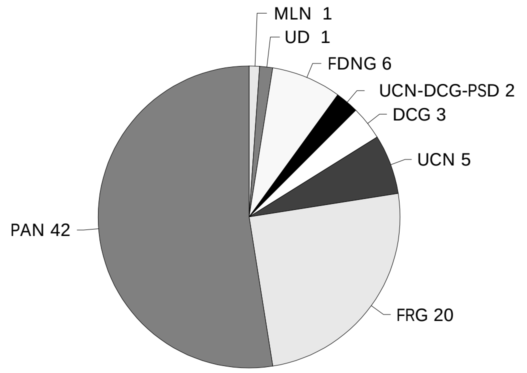
Many parties lose their deposit

Of the 19 parties and party alliances which contested the presidential elections, 12 failed to gather the minimum number of votes required by electoral law (4% of the total) or to win seats in Congress, and were de-registered after the first round. These included the Partido Institucional Democrático (PID) of the ex-defence minister, General Héctor Alejandro Gramajo, who was recently fined by a US court for human rights crimes (3rd quarter 1995, page 14). The Frente de Unidad Nacional (FUN) and the Central Auténtica Nacionalista (CAN) were also de-registered. The ultra-right Movimiento de Liberación Nacional (MLN) gained one seat in Congress, ensuring its continued existence.

Support for DCG and UCN weakens

Although the alliance of the DCG, UCN and Partido Social Demócrata (PSD) came third in the November 12 poll, the three parties in the alliance polled only 12.94% of the vote between them, equivalent to just over the 4% minimum required for each party. This was in large part a consequence of internal divisions and power struggles, and grass-roots opposition to the alliance. As a result, the DCG and the UCN are substantially weaker in the new Congress than in the old one. The DCG held an absolute majority in the legislature during the late 1980s. On November 12 they won only three seats. Similarly the UCN, which held a majority of congressional seats in the early 1990s, now has only five representatives in the legislature.

Composition of Congress
Number of seats



Source: Tribunal Supremo Electoral.

The FDNG surprises observers

The surprise result was the strong showing of the newly formed FDNG (4th quarter 1995, page 14), composed of trade unions, peasant organisations and human rights groups, which will have six representatives in the new Congress. Despite its inexperience in formal politics—the legacy of civil war and repression of left-wing parties—the FDNG polled third place in Guatemala City and in Quezaltenango, the country's second largest city, and fourth place in the republic as a whole. The FDNG gained deputies in the capital, Quiché and Quezaltenango provinces. Its deputies include Nineth Montenegro of the human rights group Grupo de Apoyo Mutuo (GAM), which represents the families of the "disappeared"; Amílcar Méndez of the Consejo de Comunidades Etnicas Runujel Junam (CERJ), which unites various Mayan organisations in the north of the country; and Rosalina Tuyuc of the widows' organisation CONAVIGUA. Ms Tuyuc and Manuela Alvarado López, a community leader in Quezaltenango, are the first indigenous women ever to be elected to Congress.

Mayans gain greater representation at local level—

The greater representation won by indigenous Mayas (who make up around 60% of the total population) in the municipalities was a feature of the elections. Civic committees unaffiliated to the political parties made significant gains, winning control of 21 municipal councils. In Quezaltenango, the main city in the predominantly indigenous western highlands, the civic committee Xel-Ju, backing the candidacy of Rigoberto Quemé Chay, won the municipal elections. Of the total of 330 municipal councils contested on November 12, the PAN won control of 107. It retained control of Guatemala City, where the incumbent mayor, Oscar Berger, was re-elected for a second term. The FRG won control of 46 councils, the DCG 30, the UCN 20, the Desarrollo Integral Auténtico (DIA) 11, the Unión Democrática (UD) 9, the UCN-DCG-PSD coalition 16, and the FDNG 4. The remaining 66 are controlled by the smaller parties.

—but abstentionism remains high

The election campaign was characterised by the efforts of the left to combat traditionally high voter abstentionism, particularly among Mayan voters. The Rigoberta Menchú Foundation, led by the Nobel Peace Prize winner Rigoberta Menchú, ran a voter registration campaign focusing particularly on the rural, indigenous areas of the country (4th quarter 1995, page 15). The URNG also urged the population to vote. The guerrillas staged occupations of towns and villages to encourage its supporters to vote. It also ran a series of paid adverts in the newspapers and took the unprecedented step of broadcasting its own television advertisement. However, abstentionism was high on November 12: 53.2% of the 3.7 million registered voters failed to cast their ballot. Transport problems in the interior contributed. In addition, the poll took place during the coffee and sugar harvest, preventing many peasants, particularly migrant workers from the highlands working on the southern coast, from exercising their right to vote. In the second round of the presidential election on January 7 the Supreme Electoral Tribunal recorded a turnout of only 36.9% of registered voters.

International observers declare the first round fair

Doubts about the fairness of the November 12 poll emerged after a countrywide power cut of approximately 45 minutes on the night of the vote, ostensibly due to a fallen tree. The Tribunal Supremo Electoral (TSE, the electoral authority) was obliged to convene new elections for municipal authorities in three municipalities, due to reports of irregularities. In Tecún Uman in the department of San Marcos, citizens disputing the results of municipal elections burned ballot papers. However, international missions, including the electoral observer missions of the European Union (EU) and the Organisation of American States (OAS), affirmed that these were isolated cases and endorsed the overall fairness of the poll and the performance of the TSE.

Massacre leads to an outcry—

On October 5 one of the worst massacres in recent years occurred at a refugee camp at Xamán in the province of Alta Verapaz. Eleven refugees, who had returned from Mexico as part of the UN-supervised resettlement programme, were gunned down by a military patrol. The army maintained the massacre was an isolated incident and a response to “provocation” by the refugees. The refugees countered with suggestions that hardline sectors of the military were trying to block the resettlement programme. The killings led to a wave of international protest.

—and Ramiro de León Carpio takes a tough line

The outgoing president, Ramiro de León Carpio, told journalists that the Xamán massacre was probably the hardest blow he had received during his term in office. He moved rapidly, replacing the defence minister, General Mario Enríquez, with General Marco Antonio González Taracena. General González Taracena is generally perceived as belonging to the more moderate sector of the armed forces. Afterwards, a reshuffle in the military high command strengthened the so-called institutional current within the armed forces (reformists who believe in strengthening the image of the military as an institution within a democratic framework).

Mr de León Carpio also dismissed Colonel Sami Noé Vásquez Benavente, the commander of the military zone responsible for the 27 soldiers accused of carrying out the killings. The soldiers have been arrested and will be tried by a military court. However, local human rights groups have criticised the public prosecutors’ investigations into the incident, alleging that there has been insufficient care in gathering forensic evidence. The Maya leader, Ms Menchú, has argued that the trial should take place under civil, rather than military jurisdiction. Nevertheless, the case will be seen as a test of whether the government is prepared to punish military offenders.

MINUGUA criticises the judicial system

The third quarterly report of the UN observer mission in Guatemala, MINUGUA, was published at the end of October. Some 2,156 complaints were received by the mission between May 21 and August 21 1995, an increase over the previous three-month period. MINUGUA acknowledged that the abolition of the military commissioners (4th quarter 1995, page 16) represented a step forward. But it highlighted setbacks in other aspects of human rights and criticised the judicial system. It noted that coordination was weak between the police, the prosecutor-general's office and the judiciary and that there was a repeated failure to investigate, try and punish members of the military accused of abuses and acts of corruption. MINUGUA documented a number of cases where public prosecutors had refused to respond to public petitions or were afforded insufficient support by the prosecutor-general's office. The UN mission also condemned the URNG for its armed actions and propaganda exercises which endangered the civilian population and for its continued collection of "war taxes" from landowners. MINUGUA condemned the fact that the government has failed to date to follow up the mission's recommendations with concrete initiatives.

The president and the prosecutor-general disagree

In November acute divisions emerged between the prosecutor-general, Ramsés Cuestas Gómez, and Mr de León Carpio after the office of Mr Cuestas Gómez was criticised by MINUGUA. Mr Cuestas Gómez has been the target of criticism by various local human rights organisations during his year and a half in office. Mr de León Carpio demanded his resignation, but Mr Cuestas Gómez refused to resign and accused Mr de León Carpio and high-ranking members of the military of trying to block progress in the case of the "disappeared" guerrilla commander, Efraín Bámaca Velásquez (4th quarter 1995, pages 15-16). In an unprecedented move, Mr Cuestas Gómez appealed to the Constitutional Court, accusing the president of violating the constitution by trying to remove him without due cause before the end of his four-year term, and of failing to respect the autonomy of the prosecutor-general's office. The court rejected the appeal.

The USA cuts military aid to Guatemala

At the beginning of November the US congress suspended military aid to Guatemala in protest at the continuing violation of human rights. This was seen as a consequence of the campaign by Mr Bámaca Velásquez's wife, the US lawyer Jennifer Harbury, for those responsible for his killing to be put on trial (3rd quarter 1995, page 14). The ban on military aid will be lifted once a final peace settlement is signed and implemented and the recommendations of MINUGUA are carried out. The decision was largely symbolic, since US aid to the Guatemalan military has been meagre since its resumption during the administration of Vinicio Cerezo (1986-90).

The private sector steps up opposition to the peace talks—

Towards the end of 1995 the private sector increased its resistance to the peace negotiations. Landowners are vehemently opposed to making any concessions on land reform, which is being discussed under the euphemistic heading of "socioeconomic issues and the land question". In October the Coordinadora Nacional Agropecuaria (CONAGRO, the landowners' association), brought a legal action against Héctor Rosada Granados, the government's main peace negotiator and president of the Comisión de la Paz (COPAZ, the peace commission). CONAGRO alleged that Mr Rosada Granados had been involved in secret and unconstitutional negotiations with the URNG. The Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras (CACIF, the businessman's association), joined forces with CONAGRO to denounce the war taxes imposed by the URNG, arguing that the UN mission had failed to criticise the guerrillas sufficiently for exacting this tax. Mr Rosada Granados travelled to Mexico in mid-December for another round of talks with the guerrillas, but no agreement was reached.

—and is joined by military hardliners

Meanwhile, a group of ex-soldiers formed a veterans' organisation and took out advertisements in the newspapers opposing the peace talks. The veterans are led by the former heads of state General Kjell Eugenio Laugerud García (1974-78) and Oscar Mejía Victores (1983-86) and by General Domingo García Samayoa, the defence minister under Jorge Serrano Elías (1991-93). In November a group of lawyers linked to the armed forces brought a case before the Constitutional Court, arguing that COPAZ and the peace accords signed to date are unconstitutional. Their case was rejected by the court.

Kidnapping causes controversy—

A week before the November 12 elections, an apparent kidnapping by unidentified gunmen of the 22-month-old nephew of Ms Menchú led to accusations and counter-accusations between government officials and the Maya leader. Juan Carlos Velásquez Menchú was found safe a few days after his mother asked Ms Menchú to denounce possible involvement by the security forces in his kidnapping. Ms Menchú had received telephone calls demanding $500,000 for the return of the child. The government's official organ the *Diario de Centroamérica* accused the Nobel Peace Prize winner of simulating the kidnapping for political reasons. However, representatives of the Rigoberta Menchú Foundation discovered that the child's kidnapping had been a set-up by his parents, who hoped to extort money from Ms Menchú. Kidnapping is big business in Guatemala, with as many as ten kidnappings estimated to take place every day.

—and violence worsens

Murders are also a daily occurrence. The police estimate that there were around 500 killings between September and November. In early December the body of Lucina Cárdenas Ramírez, a Mexican working for the UN Development Programme, was found in a shallow grave in Quezaltenango province. Later in the month a former judge and prominent member of the FRG, José Vicente González, was assassinated in his home by unidentified gunmen. He had resigned on October 31, after receiving death threats. In early December Mr de León Carpio ordered the military on to the streets of the capital to combat crime, in an effort to back up the ineffective police force.

Disasters claim lives

On December 19 an earthquake struck in the province of Alta Verapaz, killing at least one person and damaging homes and infrastructure. The quake measured 5.3 on the Richter scale, and lasted nine seconds. On the same day the US pilot and co-pilot of a courier plane were killed when trying to land at Guatemala City airport in thick fog. Later in the month at least three people drowned in an overcrowded boat on Lake Petén, while taking part in a Christmas ceremony. A French and a Canadian citizen were among the eight people rescued.

Economic policy

The IMF withholds its judgement

An IMF team arrived in Guatemala at the end of November to review the authorities' adhesion to the targets established by the May 1995 shadow stand-by agreement with the Fund (3rd quarter 1995, page 16). The team was expected to make a positive evaluation of policy in the last six months of Ramiro de León Carpio's administration. The vice-president of the World Bank, Javed Burki, spent three days in Guatemala in late November. He expressed satisfaction with the government's economic management and announced a $48m loan disbursement. The IMF is unlikely to consider authorising a full stand-by agreement until it becomes clear whether the new government which takes over in January 1996 will adhere to tight fiscal and monetary policies.

Monetary policy remains tight

The Banco de Guatemala (the central bank) kept a tight control on the money supply and credit during 1995. Between January 1 and November 16 the money supply grew by 5.2%, as money in circulation grew by 2% and quasi-money grew by 7.2%. Meanwhile, net credit expanded moderately, by 14.2% in January to mid-November, reflecting a combination of a 37.2% decline in net credit from the central bank to the public sector, while private-sector credit grew by 17.9%.

The central bank intervenes to stabilise the exchange rate

After enjoying relative stability in the six months from February to July 1995, the quetzal began to depreciate rapidly in August. The reference exchange rate of the central bank slid from Q5.77:$1 to Q6.06:$1 at the beginning of November. This was partly due to increased cyclical demand for foreign currency in the run-up to Christmas. But it also reflected reduced capital inflows due to investor uncertainty during the election period and delays in inflows of earnings from coffee and sugar exports, as harvesting was affected by heavy rain (see Production and services). These factors produced a decline in foreign reserves (see Foreign trade and payments).

The central bank sold foreign exchange reserves and increased its open-market operations in an effort to stabilise the currency and keep year-end inflation on target. These interventions halted the currency's slide, at the expense of rising interest rates (see The economy). The reference exchange rate began to strengthen, reaching Q5.96:$1 after the first round of elections on November 16. But the quetzal slid again towards the end of the year, and reached $6.08:$1 on January 8, 1996. The central bank president, Willy Zapata, expected the bank to incur operational losses in excess of Q750m ($129m) in 1995; these losses will be largely the result of the bank's intervention in the currency market.

VAT is increased

On January 1 value-added tax (VAT) rose from 7% to 10%, in accordance with a tax reform approved by Congress at the end of 1994 (1st quarter 1995, pages 15-16). The increase is part of the finance ministry's efforts to raise the total tax take from around Q6.9bn (8% of GDP) to Q8.7bn (9% of GDP) in 1996. However, there have been signs that retailers have taken advantage of the VAT increase to make dramatic increases in prices. Mr de León Carpio has threatened to close businesses which indulge in "speculation" with the prices of basic consumer goods.

Capital goods tariffs are reduced

In November the government announced a cut in tariffs on capital goods imports from 5% to 1% to take effect from December 1, 1995. This represents an attempt to bring Guatemala into line with El Salvador, which cut tariffs on capital goods to 1% in April 1995 as part of the Hinds Plan (see El Salvador: Economic policy). The authorities hope that the tariff reduction will stimulate local production. Local analysts expect the measure to reduce import tax revenue by some Q200m ($33m) during 1996.

Congress proposes financial decentralisation—

In a continuation of the running battle between the finance minister, Ana Ordóñez de Molina, and Congress, the legislature has accused the ministry of lack of transparency in the administration of public funds. Ms de Molina has been the target of criticism because of the government's apparent failure to provide budgeted funds to ministries, autonomous institutions and municipalities. In October the congressional finance commission proposed decentralising budget allocations, thereby reducing the powers of the finance ministry. Congress also proposed that the increased revenue from higher VAT should be channelled directly into projects linked to development and the peace process through more efficient autonomous institutions, such as the Fondo de Inversión Social (FIS, the social investment fund).

—and there is conflict over the 1996 budget

In November the congressional finance commission took the battle a stage further, suggesting a reduction in the 1996 budget of Q11.3bn ($1.9bn) which was presented to Congress in September 1995 (4th quarter 1995, pages 17-18). The original proposal projected an increase in expenditure of 15.6% compared with the 1995 budget, to be financed by a rise in tax receipts. The revised congressional proposal reduces projected expenditure in 1996 by Q1bn, implying an increase over 1995 expenditure (Q9.8bn) of only 5.4%. Congress argued that the finance ministry has significantly overestimated the revenue it is likely to gain from higher VAT and improved tax collection this year. However, by the end of November Congress had modified its position, and approved a 1996 budget of Q11.1bn, representing a 13.1% increase in expenditure over 1995.

New minimum wage levels set

In November the government fixed new minimum salary levels for this year. A 10% increase will raise the minimum daily wage from Q14.50 to Q15.95 in the agricultural sector and from Q16 to Q17.60 in the industrial sector. This measure is expected to cost employers around Q200m. However, the new minimum wage levels have been rejected as too low by the trade unions, which argue that with inflation remaining high they are likely to represent a reduction in real wages.

The economy

Growth strengthened in 1995

The Banco de Guatemala (the central bank) estimates GDP growth for 1995 of 4.9%, compared with 4% in 1994. The fastest growing sectors last year were mining; banking, insurance and real estate; and construction. Utilities, commerce and transport also performed well, but manufacturing and agriculture lagged behind. The authorities have established a 5% growth target for 1996, although this may be revised by the incoming administration of Alvaro Arzú.

Gross domestic product growth by sector, 1995[a]

(% change on previous year; at constant 1958 prices)

Agriculture	2.9
Mining	11.9
Manufacturing	3.2
Electricity, gas & water	7.0
Construction	7.9
Commerce	6.6
Transport, storage & communications	6.3
Banking, insurance & real estate	8.0
Property letting	4.1
Personal services	4.1
Government services & defence	4.3
GDP	4.9

[a] Official estimates, January 1996.

Source: Banco de Guatemala.

Inflation is on target—

The central bank has released estimates of inflation to December 31, 1995, which show that year-end inflation reached 8.6%, an improvement on the 11.6% year-end inflation registered in 1994 and a considerable achievement in an election year. Average annual inflation was 8.4% last year, compared with 12.5% in 1994. Yet there was some deterioration in performance at the end of the year. By the middle of 1995 the authorities had been expecting to bring inflation down below the year-end target band of 8-10% established at the beginning of the year. Accumulated inflation for the first nine months of 1995 was only 5.2%, compared with 8.7% in the first nine months of 1994. But pre-Christmas demand combined with supply-side shortages provoked by crop damage (see Production and services) and the impact of electoral uncertainty on the exchange rate fuelled sharp price rises October and November.

—but interest rates remain high

In spite of the monetary authorities' tight control on the money supply and net credit to the public sector, which kept lending rates above 20% throughout 1995, the exchange rate began to slide in August (see Economic policy). The central bank increased its open-market operations, and interest rates on its 63-day, 182-day and 364-day CENIVACU bonds rose sharply in the first two weeks of November from just under 20% across the board to 25.63%, 22.24% and 19.67% respectively.

Meanwhile, between mid-November and early December the government had to meet heavy internal debt obligations, as the terms expired on government certificates of deposits worth Q455.5m ($76m) issued to cover the fiscal deficit in 1994. As a result, the authorities were obliged to issue more bonds, putting further pressure on lending rates, which rose to 21.5% at the end of 1995.

Trend of consumer prices[a]
(% change)

	1994		1995	
	Monthly	Annual	Monthly	Annual
Jan	2.1	13.5	0.1	9.3
Feb	1.0	14.3	–0.3	7.9
Mar	0.6	14.1	0.5	7.8
Apr	1.2	13.9	0.8	7.4
May	0.8	14.1	1.5	8.1
Jun	0.3	11.8	1.3	9.2
Jul	0.5	9.7	0.2	8.9
Aug	1.2	10.7	0.6	8.3
Sep	0.7	12.0	0.6	8.1
Oct	0.9	12.3	1.4	8.7
Nov	1.4	12.4	1.3	8.6
Dec	1.5	11.6	0.5	8.6

[a] Guatemala City only.

Source: Instituto Nacional de Estadística.

Production and services

Heavy rain affects harvests—

Heavy rains in September to November have caused losses in the agricultural sector, particularly affecting basic grains, vegetables, coffee, bananas, melon and sugar. The Ministry of Agriculture estimated basic grains losses at Q35m, vegetables losses at Q15m, and fruit losses at Q14m. It expects that 300,000-400,000 46-kg bags of coffee, worth $29m-39m at current prices, to be lost.

—but coffee and sugar exports rise

According to the coffee growers' association, ANACAFE, Guatemala exported 134,800 60-kg bags of green coffee in October 1995, nearly double its exports in the same month in 1994. In mid-January, the association said that it expected exports for the 1995/96 harvest to reach 2.7m 60-kg bags. This estimate has been revised down from earlier estimates of 3.2m bags, due to reports of fungal diseases caused by the heavy rains.

The crop of raw sugar could exceed 1.3m tons in 1995/96, compared with output of 1.13m tons in 1994/95, according to Armando Boesche of the Asociación de Azucareros de Guatemala (ASAZGUA, the sugar growers' association).

A US coffee importer demands good practice

A major retailer of speciality coffee in the USA, Starbucks Coffee Co, has agreed on a code of conduct to encourage improvements in labour conditions and protection of the environment in its supplier countries, including Guatemala. The US firm hopes to work with ANACAFE on implementing the new code.

Tourism grows slowly

Tourism is recovering slowly from the effects of the travel warning issued by the US State Department in mid-1994 following the murder of a US citizen in

Alta Verapaz. In 1994 tourism activity fell by 9%, but in November 1995 the tourist board, INGUAT, estimated that there was 4.5% growth in tourism during last year as a whole. From January to November 550,000 tourists visited the country, generating an estimated $260m. The signing of a peace settlement during 1996 will improve prospects for growth in this sector.

A US delegation visits *maquila* factories

In mid-November a delegation of US government officials and trade unionists visited Guatemala to inspect conditions of work in the *maquila* (offshore assembly) sector. The authorities expressed confidence that the delegation's findings would be satisfactory, and that they would not threaten the country's benefits under the US Generalised System of Preferences (US-GSP).

The telecoms future brightens

At the end of September, 1995, a US firm, Northern Telecom, and the state telephone company, Empresa Guatemalteca de Telecomunicaciones (GUATEL) inaugurated a turnkey project worth $42m. The project set up an advanced switching platform which will be able to provide services based on the ITU-T ISUP CC7 protocol. A network of 40,000 telephone lines, 36,000 toll trunks and an international gateway exchange, based on modern technology, should allow major improvements on GUATEL's outdated services.

In November Comunicaciones Celulares (Comcel), a subsidiary of the US company Millicom, which operates a local cellular telephone monopoly, announced that it had given Motorola's Pan American Wireless Infrastructure Division a contract for work worth $20m. High-technology equipment will be installed, improving the coverage and quality of Comcel's system in the Guatemala City area. In October a US firm, Mobile Telecommunications Technologies Corp (Mtel), established a joint venture with local investors in Guatemala to provide paging and messaging services.

Foreign trade and payments

Export performance improves in 1995—

Export revenue rose by 28.6% year on year to $2.2bn in 1995, according to official estimates released in January 1996. Traditional export earnings rose sharply due to high prices of coffee and sugar on world markets, as well as strong growth in the oil sector. Non-traditional export revenue also increased rapidly, with *maquila* (offshore assembly) performing well, despite fears earlier in the year that the sector would suffer as a result of competition from Mexican *maquila* producers, enjoying the joint stimulus of the North American Free Trade Agreement (NAFTA) and exchange rate devaluation.

—and the current-account gap narrows—

The import bill also rose quite strongly, by 19%, and because of the greater volume of imports the trade deficit (fob-cif) rose by 4.3%. But the central bank registered a dramatic rise in net service receipts, from $8.6m in 1994 to $81.3m in 1995, and a steady increase in net private transfers, from $386m in 1994 to $408.7m last year. Consequently, the current-account deficit fell from $700.2m in 1994 to $651.6m in 1995, according to the central bank. The bank's methodology for calculation of the current-account balance differs from that of the IMF (see Outlook).

Foreign trade
($ m)

	1994	1995[a]	% change
Exports fob	1,686.6	2,169.4	28.6
Traditional	710.7	990.3	39.3
of which:			
coffee	346.0	550.8	59.2
sugar	172.4	230.5	33.7
banana	119.5	129.4	8.2
cardamom	42.2	42.5	0.7
oil	22.2	30.8	38.2
Non-traditional	975.9	1,179.1	20.8
Central America	475.0	584.7	23.1
Extra-regional	364.5	419.4	15.1
Maquila	136.4	175.0	28.3
Imports cif	–2,781.4	–3,311.1	19.0
of which:			
consumer goods	828.3	918.2	10.9
fuel & lubricants	200.5	302.5	50.9
raw materials & intermediate goods	1,046.6	1276.0	21.9
Machinery & equipment	623.5	730.4	17.2
Trade deficit	–1,094.8	–1,141.7	4.3

[a] Estimates.

Source: Banco de Guatemala.

—but reserves fall

According to the IMF, the country's gross foreign reserves fell from $863m at the end of 1994 to $693m at the end of October 1995. The central bank estimates that net reserves fell by $140m in 1995 as a whole, largely due to a negative balance of foreign capital flows to the public sector.

Lending plans are outlined

In December the Japanese government announced that it had agreed to lend up to ¥3.1bn ($30m) to Guatemala to support improvements in provincial infrastructure. The loan will carry a 3% interest rate, and has a term of 30 years with a ten-year grace period. Meanwhile, in November the Venezuelan government announced a $35m loan to modernise the country's electricity network. In October the Canadian government said that it had agreed to extend its Fund for the Democratic Development of Guatemala for three years from March 1996, providing an extra $3m.

Political structure: El Salvador

Official name: Republic of El Salvador

Form of state: unitary republic

Legal system: US-style Supreme Court system

National legislature: unicameral Legislative Assembly, consisting of 64 locally and 20 nationally elected deputies, elected every three years

Electoral system: universal adult suffrage

Last elections: March 1994 (legislative); April 1994 (presidential—second round)

Next elections due: by March 1997 (legislative); March 1999 (presidential—first round)

Head of state: president, elected independently of Legislative Assembly every five years

National government: Council of Ministers, chosen and headed by the president

Main political organisations: Alianza Repúblicana Nacionalista (ARENA); Frente Farabundo Martí para la Liberación Nacional (FMLN); Partido Democrático (PD); Partido Demócrata Cristiano (PDC); Partido de Conciliación Nacional (PCN); Convergencia Democrática (CD); Movimiento de Unidad (MU)

The cabinet	
President	Armando Calderón Sol
Vice-president	Enrique Borgo Bustamante
Ministers	
agriculture	Oscar Manuel Gutiérrez
defence	Jaime Guzmán Morales
economy	Eduardo Zablah Touché
education	Maria Cecilia Gallardo de Cano
finance	Manuel Enrique Hinds
foreign relations	Ramón Gonzáles Giner
health	Eduardo Interiano
interior	Mario Acosta Oertel
justice	Rubén Antonio Mejía Peña
labour	Eduardo Tomasino
public security	Hugo César Barrera Guerrero
public works	Jorge Sansivirini
Central Bank president	José Roberto Orellana Milla

Economic structure: El Salvador

Latest available figures

Economic indicators	1991	1992	1993	1994	1995[a]
GDP at market prices c m	42,594	49,841	60,522	71,019	84,900[b]
Real GDP growth %	3.6	7.5	7.4	6.0	6.3
Consumer price inflation (av; %)	14.4	11.2	18.6	10.5	9.8
Population m (mid-year)	5.35	5.45	5.56	5.67	5.69[b]
Exports fob $ m[c]	587	598	732	1,252	1,688
Imports fob $ m[c]	1,291	1,561	1,766	2,407	3,130[b]
Current account $ m	–213	–195	–118	–18[b]	–243
Reserves excl gold $ m	287	422	536	649	700[b]
Total external debt $ m	2,180	2,261	2,012	2,327[b]	3,303[b]
Debt-service ratio %	26.9	23.1	25.0	18.0[b]	17.3[b]
Exchange rate (av) c:$ (official)	8.02	8.36	8.70	8.73	8.76

January 5, 1996 c8.76:$1

Origins of gross domestic product 1994	% of total
Agriculture	13.9
Manufacturing & mining	22.7
Construction	4.6
Transport & utilities	8.5
Commerce	19.3
Finance	2.6
Government	5.9
GDP at factor cost incl other services & tax	100.0

Components of gross domestic product 1994	% of total
Private consumption	87.9
Government consumption	8.2
Fixed investment	18.5
Change in stocks	0.2
Exports of goods & services	20.1
Imports of goods & services	–35.0
GDP at market prices	100.0

Principal exports 1994	$ m
Coffee	275.3
Maquila	431.4
Garments[d]	37.1
Medicines	32.4
Paper & cardboard packaging	29.3

Principal imports cif 1994[c]	$ m
Raw materials & intermediate goods	853.7
Capital goods	667.1
Consumer goods	604.9
Building materials	125.8
Maquila	322.7

Main destinations of exports 1994	% of total
USA	48.5
Guatemala	14.2
Germany	9.8
Costa Rica	5.8
Honduras	4.5

Main origins of imports 1993	% of total
USA	47.9
Guatemala	9.4
Japan	5.5
Mexico	4.1
Panama[e]	3.1

[a] Central Bank preliminary figures. [b] EIU estimate. [c] Including *maquila* from1994. [d] Excluding *maquila.* [e] Including the Canal area.

El Salvador

Outlook

The government will search for an economic strategy—

The administration of Armando Calderón Sol has managed to overcome a number of alarming developments towards the end of 1995: a boom in private credit and a surge in inflation; civil unrest; and rumours of a military coup d'état. However, the weakening of the plan of his finance minister, Manuel Enrique Hinds, has left an economic strategy vacuum. The transition to a dollar-based economy and radical trade liberalisation are now only distant goals. In order to convince domestic opinion and international investors that he has not lost his sense of direction, Mr Calderón Sol will have to develop a coherent programme for economic and social development in the remaining three and a half years of his term in office. Progress will have to be made on modernisation of the country's public administration, and privatisation of public utilities and pensions, as well as investment in education and health. To achieve this, Mr Calderón Sol may consider bringing some new blood into his economic cabinet early in the New Year.

—as protests grow

Although the authorities have pronounced the UN-monitored peace process officially at an end, those who expected to benefit from the 1992 accord which ended the country's civil war will continue to protest until outstanding commitments have been fulfilled. Ex-soldiers and the war-wounded repeatedly took to the streets and occupied public buildings in 1995, demanding land and credit. They will continue to stage such protests in 1996. Meanwhile, public-sector employees' unions may be expected to step up opposition to the government's plans for reform of the state through job cuts and privatisation. Judicial reform will continue and the police will receive training; but the legal system and the public security forces will be hard-pressed to deal with protesters as well as fighting high levels of violent crime.

Growth will slow

GDP growth is expected to fall sharply in 1996, as the authorities deliberately slow the economy in order to curb import demand and avoid a balance of payments crisis. In late 1995 the Banco Central de Reserva de El Salvador (BCR, the central bank) adopted a much-reduced growth target of 5% for 1996. We believe that growth may fall even further this year, to 4.7% from 6.3% in 1995. Consumption will be deliberately stifled by a continuing combination of strict monetary control and the finance ministry's enthusiastic tax collection drive. In addition, the boost to liquidity in 1995 from the 1994/95 coffee harvest will not be repeated this year. Demand will also be dampened as households allocate part of their income to cover interest payments on private loans contracted during the mid-1995 credit boom. Small and medium-sized producers will find it hard to compete once the internal market is opened up to competition from the *maquila* (offshore assembly) sector. However, investment demand is expected to hold up as the opportunities remain good for large firms, particularly in *maquila* and utilities privatisation. Foreign assistance will flow in, supporting investment in infrastructure.

In early 1997 we expect that growth will pick up slightly as the government cautiously stimulates consumption and investment demand before the mid-term legislative elections in March. Small and medium-sized producers will be hit once more as the tariff ceiling drops from 20% to 15%, but large-scale production should respond as import tariffs on intermediate goods fall from 5% to 1%. Growth is forecast to rise to 5%.

The colón will remain stable

We expect the exchange rate to remain stable at c8.76:$1 over the forecast period. We no longer expect Mr Calderón Sol's team to complete the much-publicised "dollarisation" of the economy in 1996-97. But while José Roberto Orellana Milla remains president of the BCR, it will continue to intervene in the currency market to ensure the stability of the colón against the dollar. This is perceived as a vital part of efforts to create an attractive climate for foreign investment. There is little doubt that Mr Orellana Milla is willing to sacrifice growth in order to avoid devaluation.

Inflation will fall

Year-end inflation rose from 8.9% in 1994 to 11.5% in 1995 (see The economy). However, the stability of the colón, weak consumption demand and tight control of the money supply will help reduce price increases in 1996-97. We expect year-end inflation to fall to 8% this year and drop to 7% in 1997.

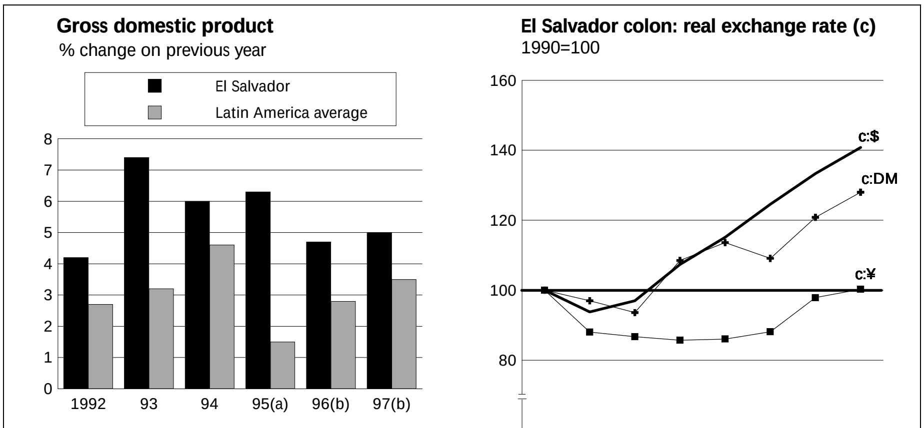
Forecast summary
($ m unless otherwise indicated)

	1994[a]	1995[b]	1996[c]	1997[c]
Real GDP growth (%)	6.0	6.3	4.7	5.0
Consumer price inflation (year-end %)	8.9	11.5	8.0	7.0
Merchandise exports fob[d]	1,252	1,688	1,932	2,300
Merchandise imports fob[d]	2,407	3,130[e]	3,630	4,360
Current-account balance	–18	–243	–420	–680
Exchange rate (year-end, c:$)	8.75	8.76[e]	8.76	8.76

[a] Actual. [b] Official estimates. [c] EIU forecasts. [d] Includes *maquila* (offshore assembly). [e] EIU estimate.

The trade and current-account deficits will widen

The country's greatest weakness remains its balance of payments. According to BCR year-end estimates, the current-account deficit rose from $18m in 1994 to $243m (2.5% of GDP) in 1995. We estimate that the trade deficit (fob-fob) reached $1.4bn last year as the import bill surged (see Foreign trade and payments). In 1996-97 the trade deficit will increase further as coffee prices fall on world markets, undermining the growth of export earnings. We expect the trade gap to widen to $1.7bn this year and $2.1bn in 1997. In 1995 the deficit on the trade account was partially offset by net transfers, comprising buoyant inflows of remittances from workers in the USA ($1.2bn), and official grants ($257m). These transfers constrained the growth of the current-account deficit last year. But remittance inflows are unlikely to sustain their current growth rate over the forecast period. We therefore expect the widening trade gap to push the current-account deficit up to $420m in 1996 and $680m in 1997.



(a) EIU estimates. (b) EIU forecasts. (c) Nominal exchange rates adjusted for changes in relative consumer prices.
Sources: EIU; IMF, *International Financial Statistics*.

Review

The political scene

The peace process draws to an end—

On October 31 the president, Armando Calderón Sol, announced the completion of the peace process which began with the signing of an accord between the government of Alfredo Cristiani and the guerrillas of the Frente Farabundo Martí para la Liberación Nacional (FMLN) in January 1992. The 1992 accord ended 12 years of civil war, stipulating a series of political and institutional changes which would provide for a transition to democracy. The date for the completion of the peace process was repeatedly put back, due to delays in the programme of land transfers to ex-soldiers, judicial reform and the establishment of a new civilian police force, the Policía Nacional Civil (PNC). The UN peace mission, ONUSAL, left the country on April 30, 1995, after the PNC had taken over from the old military police. A small UN presence, MINUSAL, remained to monitor the unfinished business of peace. MINUSAL has now agreed to remain in the country until April 30, 1996.

—but there is still work to be done

The FMLN says that the peace process is still incomplete. The former guerrillas, now a recognised political party and the biggest opposition bloc in the Legislative Assembly, argue that the government still has much to accomplish, especially on land transfers and judicial reform. According to MINUSAL, by the end of October 1995 the land transfer programme had reached 80.5% of potential beneficiaries, at a cost of c750m ($85.7m).

Meanwhile, the Supreme Court continues to make progress on judicial reform. On November 28 it announced the removal of more judges from their posts, as the result of investigations into inefficiency and corruption by its Departamento de Investigación Profesional (DIP, professional evaluation department). The court has so far removed 14 judges and warned many others. The authorities are also making changes in the PNC, based on recommendations by MINUSAL. The European Union (EU) and the Spanish government will provide the new police force with assistance worth $1.1m; nine Spanish policemen arrived in the country on November 1 to begin training PNC officers.

Job cuts spark off public-sector protests—

On October 14 the Legislative Assembly approved a bill which would cut some 15,000 public-sector jobs. The approval of the *ley temporal de compensación económica por servicios prestados en el sector público*, popularly known as Decree 471, led to widespread trade union protests. On October 23 some five thousand workers took to the streets, demanding that the Supreme Court rule against the law on the grounds that it constituted a violation of workers' rights. The government said that the cuts were designed to reduce inefficiency (see Economic policy), but the trade unions argued that the law, which stipulated that lists of those to be made redundant must be prepared within two weeks, was being used by the state to purge their members. They pointed out that 83 of the 160 labour activists at the public works ministry had been given redundancy notices. The Supreme Court later ruled unconstitutional that part of the new legislation which denied workers their statutory redundancy pay if they refused to resign voluntarily.

—and an accommodation is reached

In mid-November the authorities agreed to set up a high-level commission to study 3,400 of the job cuts to which the unions had raised specific objections. Opposition deputies in the assembly proposed the commissioning of an independent study, which would imply extending the December 15 deadline for implementation of the legislation until April 1996. This suggestion was rejected by the legislature.

Maquila is the subject of bitter exchanges

In recent months the *maquila* (offshore assembly) sector has been the focus of a debate on working conditions. On October 13 opposition deputies in the legislature sent a letter to a US firm, The Gap, alleging abuses of workers by The Gap's Salvadorean supplier, Mandarin Internacional. The Gap later announced that it would stop buying from Mandarin. The director of the Asociación Salvadoreña de la Industria de la Confección (ASIC, the garments industry association), Luis Anleu, said that US trade unions were orchestrating a campaign to undermine *maquila* production in El Salvador. Mr Calderón Sol accused local trade unionists and opposition politicians of falsely accusing the *maquila* factories, endangering the 62,000 jobs in this rapidly growing sector.

The debate intensified in mid-November, when a delegation of US trade unionists and government officials visited the country to inspect the *maquila* installations and talk to the workers. As the delegation was due to arrive, Juan José Huezo, the leader of the Federación Nacional Sindical de Trabajadores (FENASTRAS—one of the strongest trade union federations), accused the US labour movement of boycotting Mandarin International through the actions of a local union, the Central de Trabajadores Democráticos (CTD). The general secretary of the CTD and Christian Democrat deputy, Félix Blanco, denied the charges made by Mr Huezo, while, the CTD's leader, Amanda Villatoro, countered with charges that Mr Huezo was prepared to sacrifice the *maquila* workers' rights to protect the interests of FENASTRAS.

The US delegation conducted its interviews in private, and appeared reluctant to make its findings public. These could affect the country's status as a beneficiary of the US Generalised System of Preferences (US-GSP) and prospects for obtaining parity with the North American Free Trade Agreement (NAFTA) for clothing and textile exports to the USA (see The Region).

Ex-soldiers clash with the police—

On November 23 some 300 ex-combatants of the armed forces and the FMLN occupied the offices of the Fondo de Protección de Lisiados (war-wounded protection fund) at the armed forces' social welfare institute, IPSFA, demanding the land and credit they claim they were promised in the 1992 peace accord. The ex-soldiers held 24 employees hostage for five hours. Members of the UN peace mission, MINUSAL, and representatives of the human rights ombudsman, Victoria Marina de Avilés, mediated between the protesters and the police. But when talks broke down, the police anti-riot squad moved in, using tear gas to clear the building. One protester was killed by a plastic bullet fired at close range, 20 people were injured and around 30 were arrested.

The hardline public security minister, Hugo Barrera, accused Ms de Avilés of failing in the mediation between the protesters and the police and of ignoring the rights of office workers who were being held hostage. The protesters blamed the security forces for their handling of the incident, and demanded that the public security ministry provide compensation for the family of the dead man. The chief of the PNC, Rodrigo Avila, accepted that there had been some mistakes in the police handling of the incident. Mr Barrera and Ms de Avilés later signed a cooperation agreement at MINUSAL's offices, establishing the procedures to be followed in future confrontations between protesters and the police.

—creating an atmosphere of instability—

As the ex-soldiers' protest ended, rumours of a planned coup d'état began to circulate. The tension was exacerbated by the presence of military vehicles on the streets of San Salvador, and airforce helicopters flying over the presidential palace. The defence minister, Colonel Humberto Corado Figueroa, claimed that these were just routine troop movements, and Mr Calderón Sol denied that there was any sinister motive behind them. But the FMLN alleged that military and police intelligence were trying to provoke fear by arguing that the left was planning to destabilise the government. At the end of November two FMLN deputies in the Legislative Assembly, Gerson Martínez and Miguel Angel Sáenz Varela, said that the continuing rumours might be intended to justify a return to the country's authoritarian tradition of deploying the military as a domestic security force.

—and cabinet changes are announced

On December 21 Mr Calderón Sol made an announcement which appeared to contradict the official denials of a conspiracy. He called a news conference to inform the country that he had accepted the resignations of Colonel Corado Figueroa and the deputy defence minister, as well as of the labour minister, Juan Sifontes. Their replacements were named as: General Jaime Guzmán Morales, as the new defence minister; Colonel Eduardo Angel Orellana, as deputy defence minister; and Eduardo Tomasino as labour minister. The president also replaced the chief and deputy chief of the armed forces' joint staff, and announced further internal restructuring of the military.

Mr Calderón Sol took the opportunity to name Juan José Daboub as the new president of the state telecommunications company, Administración Nacional de Telecomunicaciones (ANTEL), replacing Juan José Domenech, who had announced its resignation earlier. Mr Domenech is also president of the ruling Alianza Repúblicana Nacionalista (ARENA).

Violence continues

At the end of October gunmen attacked and killed Hans Gunter Usko, a German citizen and retired local manager of a pharmaceutical company, Bayer. Mr Usko was driving with his wife in San Salvador. In mid-December nine prisoners escaped from the municipal jail of Apopa, killing two guards. The prisoners were being held on charges of armed robbery. Although most attacks continue to be perpetrated by criminals, the risks of politically motivated violence are also increasing. A clandestine left-wing organisation, Voz Popular Revolucionaria, emerged in August (4th quarter 1995, page 29) and in October another organisation, the Fuerza Guerrilla Nacionalista de El Salvador Libre issued a press communiqué declaring war on “national capitalists and multinationals”.

Under a third of voters back ARENA

A survey by one of the private universities, the Universidad Tecnológica (UTEC), on November 11-13 suggests that ARENA is still the favourite political party although Mr Calderón Sol’s popularity is declining. But of those surveyed, only 32.6% supported the right-wing ARENA, while 26.5% favoured the FMLN and 12.4% backed the centrist Partido Demócrata Cristiano (PDC). Over half of those surveyed said they had little confidence in the Legislative Assembly and the administration of justice.

The Río Lempa breaks its banks

Six people were killed and 5,000 were left homeless when the main river, the Río Lempa, burst its banks in Usulután and San Vicente provinces in late September, flooding nearby villages. Vegetable and grain crops suffered heavy damage.

Illegal immigrants in the USA face a new deadline

The US immigration authorities have granted a four-month extension of the Deferred Enforced Departure (DED) programme covering Salvadorean immigrants, which was due to expire on September 30, 1995, giving a new deadline of January 31, 1996. The DED programme allows Salvadoreans to work in the USA, while applying for asylum. It affects an estimated 200,000 immigrants, whose transfers of remittance payments to their families at home are essential for maintaining El Salvador’s balance of payments stability.

Economic policy

The IMF agrees a $58m stand-by

The IMF has agreed to provide a stand-by loan worth SDR 37.7m ($58m) to support the government’s economic reform programme. The stand-by runs from July 1995 to September 1996. The administration of Armando Calderón Sol is unlikely to draw on the funds. El Salvador has had no financing difficulties since the mid-1980s, but it negotiates stand-by loan agreements to signal to the international community that the authorities are committed to good practice in economic management.

A credit boom threatens the Hinds Plan—

In January 1995 Mr Calderón Sol announced a four-point development strategy based on the proposals of his finance minister, Manuel Enrique Hinds. The "Hinds Plan" proposed rapid trade liberalisation; modernisation of the state through privatisation of utilities and reforms to public administration; reduction of the fiscal deficit by increasing value-added tax (VAT) and improving tax collection; and a stable exchange rate ($8.75:$1) backed by a currency board. The exchange rate plan was later replaced by a proposal to "dollarise" the economy by replacing the colón with the dollar for domestic transactions.

But the consequence of the dollarisation measures (4th quarter 1995, page 30) was to encourage a rapid expansion of private credit in the second quarter of 1995, which began to draw in luxury imports. Given the big interest rate differential with the USA, commercial banks took advantage of the liberalisation of capital flows to borrow abroad. According to the IMF, the foreign liabilities of deposit money banks rose by 47% to c1.8bn ($206m) between the end of March and the end of June. Using these funds, the banks encouraged their clients at home to take out fresh loans to finance consumption, particularly of luxuries imported from abroad. As a result the trade deficit surged (see Foreign trade and payments). Meanwhile, the increase in VAT from 10% to 13% in July sparked off higher inflation, but did little to reduce consumption growth.

—undermining the plan—

The government is facing mounting domestic criticism of the Hinds Plan, in particular where trade liberalisation is concerned. Under the plan, the authorities began tariff reductions in April 1995, cutting duties on imports of capital goods from 5% to 1%; they aimed to cut duties on intermediate imports likewise on January 1, 1996, while tariffs on imports of finished goods should have fallen from 20% to 15%. However, the administration now appears to have postponed tariff liberalisation until December 1996. This is partly to control the influx of imported goods, and partly a response to complaints from local businessmen that rapid trade liberalisation would be damaging to them as long as the state remains inefficient, progress in the privatisation of public utilities is slow and there is no evidence of sectoral policies to help domestic producers become more competitive.

—and hindering dollarisation

As a result of the credit boom, the government has now admitted that dollarisation has become only a distant goal. Meanwhile, it insists that exchange rate stability is just as good. In August the Banco Central de Reserva (BCR, the Central Bank) reversed its reduction of the minimum reserve requirement for dollar accounts (4th quarter 1995, page 30), raising the requirement to 35% for both colón and dollar accounts. In September it also reinstated the 10% minimum reserve requirement on loans contracted abroad. But on November 27 the BCR began issuing Certificados de Estabilización Monetaria (CEMs) in dollars. The CEMs have terms of 30, 60, 90 and 180 days and will be traded on the stock exchange. The BCR hopes that Salvadoreans living abroad will invest in them. CEMs in colones and dollars are exempt from payment of value added and income tax.

Policy is tightened to slow growth

The authorities appear to be convinced that they can manage the economy by tightening monetary policy, raising tax revenue to bring down the fiscal deficit and intervening in the currency market to keep the exchange rate at around c8.75:$1. The growth targets established by the authorities for 1996 clearly indicate that they aim to cool the economy in order to curb demand for imports. The BCR forecasts a fall in GDP growth from an estimated 6.3% in 1995 to 5% in 1996, based on expectations that the growth of consumption demand will drop from an estimated 8.7% last year to 3.4% this year, leading to a fall in import volume growth from 22.6% in 1995 to 5% in 1996.

Although the BCR's 1996 targets for reducing consumption and import growth seem overoptimistic, there is evidence that the authorities have already begun to engineer a slowdown. In addition to raising the minimum reserve requirement for domestic deposits and reinstating the 10% reserve requirement on loans contracted abroad, in late September the BCR raised interest rates paid on 180-day local currency CEMs to 14.5%. These measures succeeded in dampening credit expansion in the fourth quarter of 1995. Credit to the private sector contracted by 10% in October, compared with September.

The government tries to speed up state reform—

Decree 471, which was approved by the Legislative Assembly in mid-October (see The political scene), is designed to show that the government is serious about modernising the country's inefficient public administration and cutting the public-sector pay-roll. Four ministries will bear the brunt of the 15,000 job cuts outlined in the new legislation: the interior ministry will lose 3,000 posts, the public works ministry 4,600, education 3,100 and health 1,000. The government aims to save c450m ($51m) annually in current expenditure as a result. The BCR will emit Letras del Tesoro (LETES, Treasury bills) to finance the severance payments stipulated by Decree 471. The LETES issue will be worth c600m ($68m). The BCR has asked the private banks to cooperate by buying the bonds, but the Asociación Nacional de la Empresa Privada (ANEP, the businessmen's association) has asked the authorities to place the LETES on the stock exchange rather than forcing private banks to acquire them.

—and privatisation

In an attempt to show a sceptical private sector that the government is serious about privatisation, the government has appointed Alfredo Mena Lagos as the presidential commissioner for the modernisation of the state. Mr Mena Lagos became a member of COENA, the governing body of ARENA, on October 1, 1995. Mr Hinds has announced that the privatisation process will take off in 1996 and that electricity, telecommunications, ports and pensions will be the first candidates. The income generated from the sale of state assets may only be used for servicing debt or investment in infrastructure and human resources.

The Banco Hipotecario is privatised

The privatisation of the last public financial institution, the Banco Hipotecario, has begun. In the initial stage, 25% of the stock was to be sold to the institution's workers at c192.50 per share. Another 5% was reserved for the country's coffee and the cattle-ranching associations. In the second stage small investors will be able to acquire 30% of the stock, and in the third stage the government will publicly auction the remaining 40% on the stock exchange.

There are changes in the tax administration

On November 28 Mr Hinds announced the removal of the director of internal taxation, Miguel Angel Espinoza, after receiving complaints of "fiscal terrorism" from businessmen. A finance ministry commission detected abuses and irregularities in Mr Espinoza's administration. The new director of internal taxation is Carlos René Luna Salazar, who moves from a position as head of the general treasury.

A free-trade zone law creates controversy

Government legislation which proposes to allow *maquila* (offshore assembly) firms to sell 25% of their production in the local or regional market, the *ley de zonas francas y recintos fiscales* has caused concern among local producers. The Asociación de Medianos y Pequeños Empresarios Salvadoreños (AMPES, the small and medium-sized businessmen's association) and the garments industry association, ASIC, argues that the new legislation would lead to unfair competition from *maquila* firms, which enjoy special tax breaks.

The economy

Growth remains high

Growth reached 5.4% during the first eight months of 1995, according to the Banco Central de Reserva (BCR, the Central Bank). Growth for 1995 as a whole is estimated at 6.3%, compared with the 1994 growth rate of 6%.

Gross domestic product growth by sector, 1995[a]
(% change on previous year; at constant 1990 prices)

Agriculture	5.3
Mining	7.2
Manufacturing	7.0
Electricity & water	5.5
Construction	6.0
Commerce, restaurants & hotels	8.0
Transport, storage & communications	6.3
Banking & insurance	16.1
Real estate & company services	6.1
Property letting	1.8
Local & personal services	5.9
Government services	3.5
GDP	6.3

[a] Official estimates, December 27, 1995.

Source: Banco Central de Reserva de El Salvador.

1996 budget
(% of total)

Social development	31.9
Public debt	18.0
Justice & security	16.3
Economic development	13.6
Administrative management	6.5
National defence	6.0
Total incl others	100.0

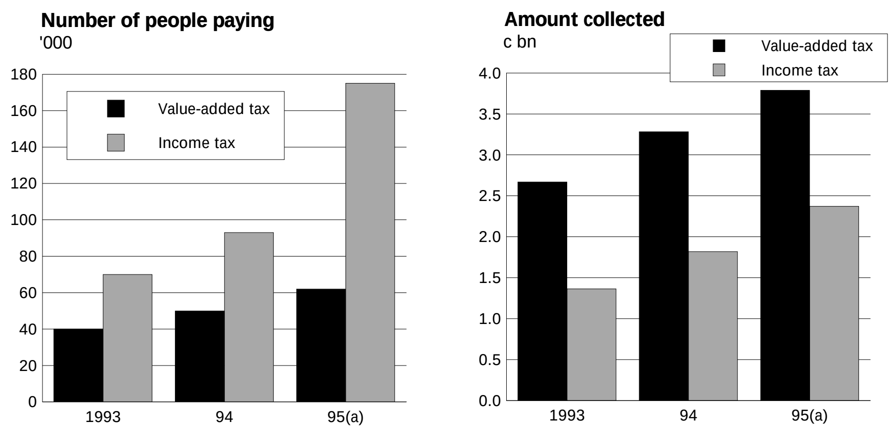
The 1996 budget is approved—

On October 10 the finance minister, Manuel Enrique Hinds, presented a budget of c14.8bn for 1996; it was approved by the legislature on December 22. Planned expenditure this year represents an increase of 25% over the 1995 budget of c11.8bn. Most of the increase is aimed at social development, with education receiving the largest part. Social spending will comprise 31.9% of the total, compared with 26.7% in 1995; this is still some way from the government's goal of raising it to 50% of the budget by 1999.

—and will be financed with higher taxation

The government expects that most of the increase in expenditure will be financed by higher taxation. It aims to raise the tax take to 13.1% of GDP in 1996 and 15% of GDP by 1999, with the help of last year's increase in value-added tax (VAT) and improved tax collection. The 1995 tax take is estimated at around 12% of GDP. Figures for last year show an increase in the number of people paying value-added tax and income tax, as well as the amount collected.

Tax collection



a January-October.

Source: Ministerio de Hacienda.

Inflation rises

Year-end inflation in 1995 rose to 11.5%, compared with 8.9% in 1994. The increase was due in part to one-off increases in charges for telephone, electricity and water services as part of the modernisation of these utilities. The BCR argues that these increases account for a full 5% of the total, leaving "core inflation" of 6.5%.

Inflation was pushed up sharply to 2.6% in July by the 3% increase in VAT. September's monthly inflation figure of 1.3% has been officially explained as a seasonal effect, due to the impact of heavy rains on agricultural production, which pushed up the price of vegetables by 15%. However, the credit expansion may also have fed through into inflation by stimulating demand.

Trend of consumer prices

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1994												
Monthly	2.1	0.1	1.0	0.9	0.0	0.9	0.7	1.4	–0.1	1.1	–0.1	0.5
Annual	12.0	12.5	12.7	13.2	11.8	9.8	8.4	9.7	9.6	9.7	9.4	8.9
1995												
Monthly	0.8	1.1	1.1	0.6	0.7	0.9	2.6	0.7	1.3	0.5	0.4	0.1
Annual	7.5	8.6	8.7	8.4	9.2	9.2	11.2	10.5	10.3	11.3	10.8	11.4

Source: Banco Central de Reserva.

Production and services

Sugar production rises—

A record harvest of sugarcane is expected in 1995/96, with estimated output of 7.7m tons. Approximately 74,000 ha are dedicated to sugar production. Sugarcane and coffee growers and cattle ranchers have called on the government to step up security measures to protect production in rural areas, where kidnapping and armed robbery remain widespread.

On December 1 the country became the 46th member of the International Sugar Agreement (ISA). The ISA now accounts for 64% of world production and 85% of world exports, according to the International Sugar Organisation.

—and so does the coffee harvest

The Consejo Salvadoreño del Café (the coffee council) is forecasting an increase in coffee output to 3.1m 46-kg bags in 1995/96, compared with 2.9m bags in 1994/95. The council's director, Rubén Pineda, announced in September that coffee growers are looking to the Inter-American Development Bank (IDB) to refinance loans, as an attempt to access credits with lower interest rates.

The airport will be expanded

The director of the Comisión Ejecutiva Portuaria Autónoma (CEPA, the port authority), José Arturo Zablah, has announced plans to expand the country's international airport to make it the fourth largest airport in Latin America. El Salvador's airline, TACA, has stakes in all of Central America's airlines and uses the airport as its regional hub. Work currently under way includes the expansion of the terminal building and the construction of a maintenance platform. The CEPA now plans to build 12 new terminal gateways and waiting areas. Its long-term plans include the development of a free-trade zone and a hotel near the airport. The work will be financed by the $18 airport departure tax.

Foreign companies move in

In October a UK brewer, Guinness Plc, announced that it was launching the production and sale of Guinness stout in El Salvador. The company has signed an agreement with a local brewer, La Constancia, which already produces Pilsener (its own brand), Budweiser and Corona. Later, Guinness hopes to move on to supply the Central American market.

A new transport law is announced

On October 19 the Legislative Assembly approved a reform of transport and road safety legislation, which is intended to tighten the extremely lax requirements currently prevailing. The law establishes that:

- from January 1, 2001, all buses and other vehicles used for public transport must be less than ten years old;
- from July 1, 1996, the production, import and sale of leaded petrol and diesel with sulphur is prohibited;
- from December 31, 1997, all cars imported into the country must have a catalytic converter;
- all vehicles will have to carry third-party insurance;
- all vehicles will be required to carry fire extinguishers; and
- all motorcycle passengers must wear safety helmets.

The new law has proved controversial. There are a total of 308,695 vehicles registered with the transport ministry, most of which do not have any form of accident insurance and will now be obliged to take out a third-party policy. The country currently has 5,930 buses in circulation, most of which are more than ten years old. Bus owners' cooperatives will have to seek finance to replace their vehicles; the government currently has no plans to provide such finance on concessional terms.

Metro construction will proceed

In January 1996 the construction companies GEC Alsthom, Systra and Ingenieros Civiles Asociados (ICA) will begin work on an overground metro, costing $200m, in the greater metropolitan area of San Salvador and Santa Tecla (Nueva San Salvador). The government expects the work to be financed by soft loans from France, Spain and Mexico. The loans will have 2% annual interest rates and a ten-year grace period.

Maquila is expanding rapidly

There are currently around 530,000 sq metres of free-trade zones in El Salvador, and another 355,000 sq metres are under construction. The latter include the American Park (125,000 sq metres), El Salvador (35,000 sq metres), El Pacífico (60,000 sq metres) and San Martín (235,000 sq metres). According to official estimates, exports from the *maquila* factories based in the zones were worth $657.8m in 1995, compared with $430.4m in 1994. *Maquila* imports were estimated to have risen from $322m in 1994 to $493.4m last year.

The stock exchange branches out

The country's Bolsa de Valores (stock exchange) may soon be trading private equities. Schwartz, a department store, hopes to sell shares on the exchange. Until now the only equities traded have been those of banks (4th quarter 1995, page 35) and the state-owned coffee mill, Torrefactora de Café. Most of the stock exchange's traded volume is currently made up of short-term repurchase agreements (repos).

CEL details investment spending—

The state electricity company, Comisión Hidroeléctrica del Río Lempa (CEL), has received a World Bank loan worth $65m for its modernisation programme. The project should be completed in the year 2000. Co-financing is being provided by Japan ($20m) and by CEL itself ($16.2m). The project aims to rehabilitate hydroplants at Guajoyo, Cerrón Grande and the 5 de noviembre dams, and to add another unit at Cerrón Grande. Modernisation of CEL's telecommunications and information systems is also being carried out.

—and commissions an environmental study

A Canadian company, AGRA Earth and Environmental, will carry out a study of CEL's environmental practices at four hydroelectric, two geothermal and four thermal power generation sites. The study will also look at local regulations and environmental protection measures. It is being funded by the World Bank, which hopes that it will provide the basis for introducing new environmental management requirements and training for CEL employees.

Foreign trade and payments

The trade deficit widens

According to year-end estimates from the Banco Central de Reserva de El Salvador (BCR, the Central Bank), the trade deficit (fob/cif) widened by 25.4% in 1995, compared with 1994. Total exports rose by 35.1% to $1.69bn. Traditional exports, particularly coffee and sugar, grew rapidly, and non-traditional exports to Central America also performed well. *Maquila* (offshore assembly) exports rose by an impressive 52.8% year on year in 1995.

Import growth, at 30.1%, was slower than that for exports but the greater absolute value of imports meant that the trade deficit worsened. Import expenditure (cif) climbed to $3.35bn. El Salvador's imports are largely capital and intermediate goods; in the first six months of 1995, consumer goods comprised only 22.6% of the cif value of imports. The import bill was financed largely by rapid growth in exports (35.1%) and remittances from workers in the USA. The BCR estimates that remittances grew by 15% in 1995 to $1.15bn.

Foreign trade
($ m)

	1994[a]	1995[b]	% change
Exports fob	1,249.3	1,687.6	35.1
Traditional	324.0	428.9	32.4
Coffee[c]	270.9	369.4	36.4
Sugar	30.4	37.8	24.3
Shrimp	22.7	21.7	–4.4
Non-traditional	494.9	600.9	21.4
Central America	340.4	438.9	28.9
Extra-regional	154.5	162.1	4.9
Maquila	430.4	657.8	52.8
Imports cif	–2,574.0	–3,348.4	30.1
Central America	398.1	485.4	21.9
Extra-regional	1,863.9	2,369.7	27.1
Maquila	322.0	493.4	53.2
Trade deficit	–1,324.7	–1,660.8	25.4

[a] Preliminary. [b] Official estimates, December 27, 1995. [c] Includes ground coffee.

Source: Banco Central de Reserva.

The current-account gap widens

The BCR estimates that the current-account deficit rose from $17.9m in 1994 to $243.4m (2.5% of GDP) in 1995. This was largely due to the growth in the trade deficit. Nevertheless, according to the bank, net foreign reserves rose by $140m last year as capital inflows rose rapidly.

Foreign assistance reaches $1bn—

The foreign relations ministry has released estimates of foreign assistance it claimed to have received in the first 11 months of 1995. Assistance totalled $1.06bn, comprising foreign loans of $929m and aid of $134m. The biggest bilateral lenders and donors were Spain, the USA, Germany, Japan and France. The loans provided by Germany and Japan were soft loans, with interest rates of 0.75% and 2.5% respectively, and long grace periods and terms. The biggest multilateral lenders were the Inter-American Development Bank (IDB) and the World Bank. However, BCR estimates of official capital inflows in 1995 suggest that only a small proportion of the assistance was in fact disbursed.

Foreign assistance, Jan-Nov 1995
($ m)

	Loans	Donations	Total
Bilateral	267.0	129.7	396.7
of which:			
Japan	95.1	32.7	127.8
Spain	100.0	2.2	102.2
USA	10.0	65.7	75.7
Germany	51.9	11.4	63.3
France	10.0	0.9	10.9
Canada	0.0	15.0	15.0
Luxembourg	0.0	1.8	1.8
Multilateral	661.8	3.9	665.7
of which:			
IDB	539.3	0.0	539.3
World Bank	64.0	0.0	64.0
UNDP[a]	0.0	1.4	1.4
EU	0.0	1.2	1.2
Total	928.8	133.6	1062.4

[a] UN Development Programme.

Source: Ministry of Foreign Relations.

—and more multilateral loans are promised—

The IDB announced in November that it had approved a loan of $100m to support private-sector investment. The bank said it would also provide $30m for environmental management, including soil conservation in the Río Lempa basin, and $685,530 to help establish the legal and regulatory structure of the Bolsa Agropecuaria de El Salvador (BOLPROES, the new agricultural stock exchange).

Meanwhile, the World Bank will lend $16m to finance technical assistance projects to improve business competitiveness. The project will aim to develop financial markets, back technological improvements, promote increases in public information availability and build administrative capacity. The loan is for 17 years with a five-year grace period and at an interest rate similar to Libor. The project will be monitored by a Consejo Nacional para la Competitividad (National Council for Competitiveness).

The Banco Centroamericano de Integración Económica (BCIE) has opened credit lines worth $65m to finance investments with European counterparts and exports to Europe. The European Union (EU) hopes to finance several projects in the industrial, agroindustrial, agriculture and cattle-ranching, fisheries and services sectors through the BCIE.

—while bilateral donors also pledge assistance

Germany will provide El Salvador with c278m ($32m) in financial and technical cooperation in 1996, 95.5% of which will be in the form of aid. The funds are destined for projects associated with the unfinished business of the 1992 peace accord (see The political scene), as well as the reduction of poverty and the development of health and education.

The French government has promised to donate $800,000 to study the network of pipes which distributes drinking water, to determine the location of leaks. It is estimated that some 40% of the water distributed is lost through leakage. The administration of Armando Calderón Sol plans to begin this study in 1996.

Appendix 1

Quarterly indicators of economic activity in Guatemala and El Salvador

		1993		1994				1995			
		3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GUATEMALA											
Production	Annual totals										
Coffee	’000 tons	(215[a])		(168[a])				(n/a)			
Prices	Monthly av										
Consumer prices:	1990=100	166	168	175	180	183	188	190	195	n/a	n/a
change year on year	%	11.0	9.6	11.1	9.8	10.5	12.1	8.3	8.4	n/a	n/a
Money	End-Qtr										
M1, seasonally adj:	Q m	4,415	4,602	5,152	5,609	6,034	6,460	n/a	n/a	n/a	n/a
change year on year	%	16.3	20.8	29.5	30.2	36.7	40.4	n/a	n/a	n/a	n/a
Foreign trade	Qtrly totals										
Exports fob	$ m	320.2	302.8	334.9	405.0	376.9	407.2	538.5	n/a	n/a	n/a
Imports cif	“	678.9	704.1	546.0	663.7	694.1	743.8	727.7	n/a	n/a	n/a
Exchange holdings	End-Qtr										
Bank of Guatemala:											
gold[b]	$ m	58.8	58.6	60.3	59.5	60.5	60.3	59.4	61.1	60.5	60.3[c]
foreign exchange	“	736.1	852.1	872.9	855.7	801.8	846.5	689.4	674.4	695.3	677.0[c]
Exchange rate											
Market rate	Q:$	5.88	5.82	5.81	5.72	5.81	5.65	5.71	5.76	5.92	5.98
EL SALVADOR											
Production	Annual totals										
Coffee	’000 tons	(165)		(143[a])				(n/a)			
Prices	Monthly av										
Consumer prices:	1990=100	155	157	162	165	169	172	175	180	188	191[d]
change year on year	%	19.6	12.3	12.4	11.6	9.2	9.3	8.3	9.0	11.3	n/a
Wholesale:											
coffee price[e]	US cents/lb	76.0	77.4	81.7	117.9	212.0	182.6	173.1	164.6	142.4	125.4[d]
Money	End-Qtr										
M1, seasonally adj:	c m	6,291	6,621	6,872	7,076	7,483	6,968	7,672	7,880	7,997[f]	n/a
change year on year	%	14.5	17.3	17.6	15.7	18.9	5.2	11.6	11.4	n/a	n/a
Foreign trade	Qtrly totals										
Exports fob	$ m	202.5	145.3	185.1	200.5	238.0	191.3	284.3	249.1	246.6	n/a
Imports cif	“	455.1	495.5	455.8	594.8	589.9	610.6	668.9	749.8	715.0	n/a
Exchange holdings	End-Qtr										
Central Reserve Bank:											
gold[b]	$ m	132.0	131.6	135.3	134.2	135.8	135.3	133.3	136.5	123.7	134.7[c]
foreign exchange	“	507.8	536.2	579.7	634.3	624.9	649.3	629.8	655.6	656.2	601.8[c]
Exchange rate											
Market rate	c:$	8.67	8.67	8.72	8.72	8.76	8.75	8.75	8.76	8.76	8.76[c]

Note. Annual figures of most of the series shown above will be found in the Country Profile.

[a] Estimate. [b] End-quarter holdings at quarter’s average of London daily price less 25%. [c] End-October. [d] October only. [e] ICO indicator. [f] End-August.

Appendix 2

US trade with Guatemala and El Salvador

($ m)

	Guatemala			El Salvador		
	Jan-Dec 1992	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1992	Jan-Dec 1993	Jan-Dec 1994
Imports cif						
Meat & preparations	18.7	24.2	15.5	0.0	0.0	0.0
Fish & preparations	15.9	23.9	29.5	17.8	22.4	25.0
Fruit, vegetables & preparations	232.5	470.9	251.8	8.8	7.9	7.8
Sugar & products	117.5	111.6	70.9	27.9	24.3	20.3
Coffee	156.9	162.2	232.3	103.0	105.8	62.8
Tobacco & manufactures	26.9	35.0	10.7	0.4	0.2	0.0
Petroleum & products	17.2	25.4	18.8	0.0	0.0	0.0
Machinery & transport equipment	0.9	0.6	2.3	29.9	32.3	35.0
Clothing	477.9	573.9	623.6	171.7	259.7	411.8
Total incl others	1,182.1	1,301.1	1,386.1	409.3	512.9	634.6
% share of USA in each country's exports[a]	35[b]	38[b]	–	34[c]	34[c]	–
Exports fob						
Food & live animals	86.9	131.7	126.5	81.1	92.2	74.8
of which:						
cereals & preparations	37.4	70.9	67.3	31.0	37.3	44.1
Petroleum & products	151.7	115.5	95.6	36.5	20.6	31.4
Animal & vegetable oils & fats	15.1	24.2	34.4	27.5	33.6	31.9
Chemicals	162.1	142.2	164.5	70.3	69.4	82.5
Paper & manufactures	49.6	53.0	61.6	29.8	30.1	36.1
Textile yarn, cloth & manufactures	41.5	49.5	40.1	19.3	25.9	28.0
Iron & steel	13.2	11.1	11.9	4.7	6.8	6.7
Non-ferrous metals	2.8	2.7	3.1	3.8	7.6	11.5
Metal manufactures	22.2	20.9	26.1	14.1	11.4	13.5
Machinery incl electric	202.7	271.5	259.6	171.9	174.3	173.6
Road vehicles	43.2	61.8	73.6	16.1	27.0	31.7
Aircraft	28.4	10.2	6.6	64.1	130.9	90.7
Scientific instruments etc	15.3	15.1	17.5	13.7	15.3	18.1
Total incl others	1,167.4	1,267.6	1,304.0	727.2	847.1	910.8
% share of USA in each country's imports[a]	44[b]	45[b]	–	40[c]	40[c]	–

	Imports cif				Exports fas[d]			
	Jan-Dec 1993	Jan-Dec 1994	Jan-Sep 1994	Jan-Sep 1995	Jan-Dec 1993	Jan-Dec 1994	Jan-Sep 1994	Jan-Sep 1995
Guatemala	1,301.0	1,386.1	1,008.2	1,265.3	1,312.3	1,354.6	969.7	1,232.9
El Salvador	512.9	634.6	460.0	623.6	873.3	932.1	608.0	808.1

[a] Calculated from each country's trade statistics. [b] 1992 and 1993. [c] 1991 and 1992. [d] Including re-exports.

Appendix 3

German trade with Guatemala and El Salvador

($ '000)

	Guatemala		El Salvador	
	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994
Imports cif				
Fruit & vegetables	9,316	13,938	221	236
Coffee	48,793	72,468	66,062	188,054
Oilseeds	2,860	3,595	960	259
Total incl others	81,482	118,900	70,512	217,593
% share of Germany in each country's exports[a]	3[b]	4[b]	13[c]	6[c]
Exports fob				
Food	1,062	2,378	598	976
Petroleum products	2,258	3,114	411	441
Chemicals	31,430	34,355	17,765	20,969
Textile yarn, cloth & manufactures	1,054	1,817	58	135
Non-metallic mineral manufactures	2,122	1,948	1,037	721
Iron & steel	5,530	5,971	3,674	2,366
Non-ferrous metals	1,171	1,398	1,864	1,893
Metal manufactures	2,962	5,416	1,847	1,762
Machinery incl electric	31,411	41,642	17,907	18,262
Road vehicles	7,327	3,555	3,156	5,243
Scientific instruments etc	1,966	1,754	3,263	2,938
Total incl others	94,310	109,864	55,248	59,017
% share of Germany in each country's imports[a]	4[b]	4[b]	4[c]	5[c]

[a] Calculated from each country's trade statistics. [b] 1992 and 1993. [c] 1991 and 1992.

Appendix 4

UK trade with Guatemala and El Salvador

(£ '000)

	Guatemala		El Salvador	
	Jan-Sep 1994	Jan-Sep 1995	Jan-Sep 1994	Jan-Sep 1995
Imports cif				
Fruit, vegetables & preparations	4,416	4,302	169	124
Sugar & preparations	1,589	1,737	26	454
Coffee, cocoa, tea & spices	1,713	704	608	775
Oilseeds	2,204	2,342	0	125
Textile yarn & manufactures	6	12	429	355
Non-ferrous metals	6	0	4,218	0
Machinery & transport equipment	15	76	738	455
Total incl others	11,381	10,125	6,598	2,892
Exports fob				
Food	4,216	3,471	3,681	3,325
Beverages	1,213	3,254	465	471
Chemicals	4,261	9,391	4,490	5,695
Textile yarn & manufactures	103	164	84	78
Metals & manufactures	577	204	464	428
Machinery incl electric	3,011	3,461	3,130	4,583
Transport equipment	1,563	2,640	374	892
Total incl others	16,533	24,165	14,234	16,044

Appendix 5

Japanese trade with Guatemala and El Salvador

(¥ m)

	Imports cif					Exports fob				
	Jan-Dec 1992	Jan-Dec 1993	Jan-Dec 1994	Jan-Sep 1994	Jan-Sep 1995	Jan-Dec 1992	Jan-Dec 1993	Jan-Dec 1994	Jan-Sep 1994	Jan-Sep 1995
Guatemala	4,650	4,124	7,397	6,105	7,061	16,557	15,688	10,801	7,952	8,848
El Salvador	726	1,066	910	751	1,380	11,029	12,293	10,979	8,720	9,786