12-13-2001

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LADB Article Id: 53246
ISSN: 1089-1560

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by LADB Staff
Category/Department: El Salvador
Published: 2001-12-13

El Salvador's dollarization law (Ley de Integracion Monetaria) has passed the test of constitutionality, and government officials and some business leaders say it has saved the economy. The orthodox faction of the Farabundo Marti para la Liberacion Nacional (FMLN) and other opponents of the law are still critical. They say it has only helped the banks.

In January, El Salvador adopted the US dollar as a legal currency set in a narrow range against the national currency, the colon (see NotiCen, 2000-12-14). After the first six months, government officials said the experiment was successful as banks, businesses, and consumers adopted the dollar, though reluctantly. Central bank (Banco Central de Reserva de El Salvador, BCR) figures showed that interest rates had fallen by as much as four percentage points since January and remittances from abroad had risen (see NotiCen, 2001-07-26).

BCR president Rafael Barraza says that 46% of the currency in circulation is the now the dollar. Some observers expect the colon eventually to go out of circulation. Ever since the adoption of the dollar, opponents have claimed the monetary law was unconstitutional. The opposition FMLN and Centro Democratico Unido (CDU) parties, as well as the Fundacion de Estudios para la Aplicacion del Derecho (FESPAD), brought separate suits of unconstitutionality.

The suits argued that the law deprived the central bank of its authority to control monetary policy. Plaintiffs also argued that, in its haste to pass the law, the Legislative Assembly violated normal legislative procedures. The constitutional-review section (Sala de lo Constitucional) of the Corte Suprema de Justicia (CSJ) agreed to hear the case in January and began reviewing 10 articles in the law that had been challenged in the suits.

On Nov. 14, the court found all parts of the law constitutional. In its ruling, the court said that the government could manage monetary policy even if it emitted no currency of its own and that the legislative procedures used in adopting the dollar were constitutional.

FMLN split over ruling

The FMLN has said all along that adoption of the dollar would help banks but hurt consumers and small businesses. However, the Economy Ministry's Comision Nacional de la Micro y Pequena Empresa (CONAMYPE) said a survey showed that 80% of businesses had no problems with the dual-currency system. At the same time, 74% of respondents to the survey said dollarization had not brought them any benefits either. FMLN Deputy Jorge Schafik Handal said the ruling was political, inconsistent, and could not withstand serious examination. But the party, torn by factionalism (see NotiCen, 2001-12-06), is not unified on the ruling or on the dollar issue.

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Francisco Jovel, a leader of the reformist (renovador) faction, said Schafik Handal's views were not representative even of his own orthodox faction. "We respect the court's ruling," said Jovel. Shortly after the court handed down its ruling, CSJ Magistrate Mario Solano modified its implications to protect the national currency. Solano said that, if the government took the colon out of circulation, use of the dollar could fall into unconstitutionality, and those opposed to the dollar could file another suit.

Ruling welcomed by government, business associations

President Francisco Flores said the ruling shored up confidence in the economy. "The key word in economics for investors is confidence clear rules of the game," he said. Luis Mario Rodriguez, president of the Asociacion Nacional de la Empresa Privada (ANEP), said the ruling allowed banks to go on reducing the cost of borrowing, which would stimulate the economy. And some economists and bank officials said the dollar had kept the economy afloat in a year troubled by earthquakes, drought, and the aftereffects of the Sept. 11 attacks in the US.

In October, the Salvadoran Foundation for Economic and Social Development (Fundacion Salvadorena para el Desarrollo Economico y Social, FUSADES) said dollarization had stabilized prices and eliminated risks associated with exchange rates. A FUSADES economist said that the cost of defending the colon against the dollar in previous administrations was as much as US$110 million per year.

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