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Agricultural Situation

EL SALVADOR AGRICULTURAL SITUATION REPORT 1998

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Report Highlights:

Macroeconomic Situation

After almost two years of a major slowdown, in 1997, El Salvador's macroeconomic situation showed signs of recovery. Real GDP growth reached a reasonable 4.0 percent. In addition, the Salvadoran Central Bank (BCR) continued implementing a tight monetary policy which managed to lower the inflation rate to less than 2.0 percent. The financial sector led economic growth in 1997 with 14.3 percent, followed by manufacturing 8.2 percent, agricultural sector posted a n

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San Salvador, El Salvador

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EL SALVADOR

Macroeconomic Situation

After almost two years of a major slowdown, in 1997, El Salvador's macroeconomic situation showed signs of recovery. Real GDP growth reached a reasonable 4.0 percent. In addition, the Salvadoran Central Bank (BCR) continued implementing a tight monetary policy which managed to lower the inflation rate to less than 2.0 percent. The financial sector led economic growth in 1997 with 14.3 percent, followed by manufacturing 8.2 percent, retail 7.2 percent and construction 6.0 percent. The agricultural sector posted a negative growth rate of 0.3 percent mainly caused by the "El Nino" phenomenon and continued lack of assistance from the government.

The Government of El Salvador (GOES) is forecasting a 4.0 to 5.0 percent growth in 1998. Inflation is expected to stay below 5.0 percent, due to a continued tight monetary policy. According to the BCR, the economy will get a boost from growth in non-traditional exports including maquila operations.

The colon has remained stable for the past couple of years. It maintains a free convertibility and stands at 8.75 per dollar. An estimated inflow of approximately 1.2 billion dollars in family remittances has offset an otherwise large deficit in the country's balance of trade in 1997.

The GOES continues to implement a trade liberalization program which has lowered import tariff rates to a range of 0 to 17 percent. Local authorities recently initiated a tariff reduction schedule which is expected to lower import tariffs for final products by 1 percent per semester until they reach 15 percent by the end of 1999. Tariffs for raw materials and capital goods were reduced to 0 percent as part of a GOES effort to boost local productivity.

Per capita income increased by approximately 7.8 percent in 1997 compared to 1996. The minimum wage in urban areas is 144.0 U.S. dollars per month. The official unemployment rate in 1997 was 7.7 percent, unofficial rates and under employment rates are considerably higher.

According to the GOES, the privatization of state-owned telecommunications, electrical, and port facilities should boost the economy in the medium term. The recent forgiveness of the agrarian debt is also expected to be major factor in the development of the economy in the near future. In addition, GOES officials also believe that the economy has absorbed the negative effects of the value-added tax increase. They considered this to be a necessary measure to strengthen much needed tax revenues.

Outlook for 1998:

The Monetary Program for 1998 envisions an increase in the global production levels measured by a 4.0 percent increase in GDP (Base year-1990) and single-digit inflation. Projections for the external and fiscal sector point towards a trade gap and a central government budget deficit with a similar magnitude as 1997. Exports are expected to continue strong, aided by increasing maquila exports as well as growth of non-traditional exports. Imports are projected to increase in 1998, mainly due to rising investment in the manufacturing and service sectors. The flow of remittances is expected to continue at a similar level for the next 3 to 5 years. Thus, the balance of payments for 1998 is expected to remain positive, with an estimated increase of \$250.0 million in international reserves. The GOES continues to work hard to attract foreign investment and the successful privatization of the state-owned telephone and energy distribution companies has been the first significant test of El Salvador's commitment to privatization and modernization of the economy. In addition, the creation of a private pension fund system should boost internal savings, which in turn will provide sufficient funds for local investment.

Agriculture, the third largest sector of the economy, is projected to increase 4.1 percent in 1998. However, this rate of growth will ultimately depend on the GOES' ability to resolve structural problems that plague the sector and overcome the negative impact of "El Niño" on traditional export crops.

Agricultural Sector

There are two distinct climatic seasons in El Salvador. Winter or the rainy season, runs from May to October and summer or the dry season is typically from November-April. El Salvador's agricultural sector like many other underdeveloped countries in the world, is comprised of two economies. One is characterized by a large number of small subsistence farmers who primarily produce corn and beans. The other consists of larger commercial production operations and their associated agro-industries. The agricultural sector plays a dominant role in the Salvadoran economy. In 1997, agriculture represented 13.0 percent of total GDP, employed approximately 40.0 percent of the labor force, and accounted for about 31.5 percent of total exports. El Salvador's traditional exports of coffee and sugar remained the predominant force behind agricultural foreign exchange earnings. El Salvador's non-traditional agricultural export sector continues to show solid growth. Melons, shrimp, and sesame seeds are products of particular interest to the U.S. market, along with exports of fresh vegetables, other fruits and cut flowers.

In 1997, the agricultural sector, according to the Economic and Monetary Program of the BCR, showed a negative 0.3 percent real economic growth. This negative growth was a reflection of erratic weather caused by the "El Niño" phenomenon. The agricultural sector's overall decline was determined by negative growth in the livestock and basic grain subsectors. The sub-sectors which posted positive levels of growth in 1997 were poultry and non-traditional products. Although coffee production was down, high international prices allowed the sector to post increase in export value.

According to a multi-purpose survey conducted by the Ministry of Agriculture, basic grain production for the 1997/98 crop reached approximately 841,120 MT , an 8.0 percent decrease compared to production in 1996/97. Some factors that still negatively affect this sector's sustained growth are the overvalued exchange rate which inhibits exports of agricultural goods and the high cost of money. The forecast for 1998 looks promising for the agricultural sector, mainly due to increased area planted to sugar and basic grains; and to an apparently beneficial winter season.

Prices for traditional exports were favorable in 1997. Coffee prices were high in 1997, boosting revenues to the sector despite the lower production. Average prices paid to producers for basic grains were lower across the board with respect to 1996, with the exception of corn which increased 1.0 percent in real terms. Corn area planted increased by 9.7 percent, however due to a drought situation brought about by "El Niño", yields dropped by 25.4 percent in the 1997/98 crop. The rice crop reached 66,070 MT (rough production), 21.1 percent higher than the previous year. Beans also had a 15.3 percent increase in production in 1997. Basically, El Salvador is not self sufficient in basic grains. Imports are necessary to fulfill local demand. The Ministry of Agriculture (MAG) is working hard to bring back into production large areas of idle land in the eastern region of the country.

In 1994, the GOES decided to abolish the use of price bands as a mechanism to regulate imports of basic grains. Instead, a price activation mechanism has been designed for yellow corn, white corn and sorghum. A fixed 15.0 percent tariff for yellow corn has been approved. However, this tariff can decrease to 1.0 percent when international prices for yellow corn surpass the activation price set at \$ 156.00 per MT CIF during the harvest period that runs from August to January. In the case of white corn and sorghum, the mechanism will be applied year round. Rough rice has been assessed a 20.0 percent tariff and paddy a 35.0 percent tariff.

Recognizing the need to diversify the agricultural economy, development planners have focused on non-traditional agricultural exports, such as fresh fruits, and sesame seeds. Many private investors are moving into production of non-traditional crops. However, this sector is still in the beginning stages and its full potential has not yet been reached. The Foundation for Salvadoran Economic Development (FUSADES), is actively working with the private export sector to diversify the country's non-traditional exports. Some examples of their success are the recent exports of Jalapeno peppers, "jet fresh" pineapples and marigold flowers to the U.S., honeydews and cantaloupes to Europe, and organic coffee to various markets.

Outlook for 1998:

In line with the Monetary Program of the BCR, the agricultural sector is expected to grow by 4.1 percent in 1998. Given normal climatological conditions, basic grain production is expected to surpass the 1997/98 harvest. Area once devoted to cotton production is being absorbed by sugarcane farmers, thus sugar production is projected to rise. The livestock sector is expected to continue suffering from lack of genetic technology and adequate financing. Unless non-traditional agricultural exports are boosted by appropriate GOES actions, the agricultural sector will continue to depend on coffee for hard currency earnings.

STATISTICAL DATA

TABLE 1

EL SALVADOR: NATIONAL POPULATION AND INCOME DATA

	1994	1995	1996	1997
Population (millions)	5.28	5.38	5.47	5.58
Population Growth Rate	1.7	1.8	1.8	1.8
Urban Population (% total)	46.5	47.0	48.0	48.5
Unemployment Rate (%)	7.7	7.5	7.7	7.7
GDP 1/	46,262.0	49,063.0	50,596.2	52,281.8
GDP, Real (% Growth)	6.0	6.3	2.1	4.0
GDP (Current U.S. Dollars)	8,100.0	9,660.0	10,577.5	11,394.2
Per Capita GDP (Current \$)	1,534.0	1,767.3	1,902.0	2,050.0
Consumer Price Index, % change	8.9	11.4	7.4	1.9
Fiscal Deficit as % of GDP	2.5	0.4	1.1	1.8
Foreign Debt (US\$)	1,872.0	2,192.0	2,540.8	2,700.0
Net Foreign Exch. Reserves (US\$)	788.2	934.6	1,099.5	1,325.0

1/ million, constant 1990 Colones

Exchange rate 1997 \$1.00=8.75 Colones

Source: Central Bank; Compiled by office of Agricultural Affairs

TABLE 2

GDP Growth by Sector (percent increase)

	1995	1996	1997
Agriculture	6.1	2.0	-0.3
Manufacturing	5.1	1.6	8.2
Construction	6.0	2.4	6.0
Transport, Storage, Communications	5.6	1.1	3.6
Finance	16.1	7.5	14.3
Public Administration	3.5	0.4	1.1
Retail	7.2	2.1	7.2
Overall Growth	6.0	2.1	4.0

Source: Central Bank Quarterly Magazine (1st Qtr. 1998)

TABLE 3

EL SALVADOR: BALANCE OF PAYMENTS
(Million \$U.S.)

	1994	1995	1996	1997
EXPORT OF GOODS				
(FOB)	831.2	1,661.3	1,813.5	2,415.9
Coffee	273.2	361.8	332.3	517.8
Sugar	33.1	37.8	36.7	56.1
Shrimp	24.9	26.0	38.8	29.7
Non-Trdnal				
to the CACM	339.1	426.6	454.8	576.1
Non-Trad. to				
Rest.of Wrld	160.9	152.4	185.6	179.4
Maquila	n/a	656.7	765.3	1,056.8
IMPORT OF GOODS				
(CIF)	2,241.6	3,352.4	3,256.0	3,739.1
From the CACM	448.3	491.5	507.5	578.5
From the Rest				
of World	1,793.3	2,361.9	2,163.7	2,394.9
Maquila	n/a	499.0	584.8	765.7
BALANCE OF TRADE	-1,410.4	-1,691.1	-1,442.5	-1,323.2
NET SERVICES	97.3	26.0	9.8	55.7
NET TRANSFERS	1,224.2	1,389.5	1,254.5	1,363.4
CURRENT ACCOUNT	-88.9	-275.6	-178.2	95.9
CAPITAL ACCOUNT	223.9	422.2	343.1	266.7
BALANCE OF PAYMENTS	135.0	146.6	164.9	362.6

Source: Central Bank & FUSADES Quarterly Magazine (4th Quarter 1997)

TABLE 4

EL SALVADOR: AGRICULTURAL EXPORTS, 1997

COMMODITY	VOLUME (MT)	VALUE (\$ Millions)	U.S. SHARE (%)
Coffee	165,620.0	517.8	14.0
Sugar	174,011.0	56.1	78.2
Shrimp	3,406.0	29.7	98.0
Sesame Seed	7,207.0	5.1	29.5
Honey	2,153.0	3.9	0.0
Melons	3,926.3	1.5	99.8
Balsam	381.0	2.1	25.6
Lemons	633.3	0.7	4.2
Pineapples	1,897.1	0.8	100.0
Others not listed	243,932.3	142.9	n/a
TOTAL AGRICULTURAL EXPORTS	603,167.0	760.6	19.7

Source: Ministry of Agriculture / Central Bank (Quarterly Magazine)

TABLE 5

EL SALVADOR: AGRICULTURAL IMPORTS, 1997

COMMODITY	VOLUME (MT)	VALUE (\$MILLIONS)	U.S. SHARE (%)
Wheat	173,164.0	33.6	85.4
Vegetable Oils	75,671.0	51.0	37.3
Non-Fat Dry Milk	15,238.0	37.6	3.2
Cotton	25,542.0	45.9	76.9
Tallow	35,449.0	18.5	78.9
Corn	325,936.0	55.7	72.7
Soybean Meal	106,529.0	36.3	97.5
Fresh Vegetables	28,216.0	9.6	2.1
Rice	34,277.0	11.3	87.6
Others Not Listed	280,879.0	255.2	n/a
TOTAL AGRICULTURAL IMPORTS	1,100,901.0	554.7	41.1

Source: Ministry of Agriculture / Central Bank (Quarterly Magazine)

TABLE 6

EL SALVADOR: CONSUMER PRICE INDEX BY SECTOR,
1994 - 1997
(ANNUAL VARIATION PERCENTAGE, DEC. 1978=100)

SECTOR	1994	1995	1996	1997
FOOD	10.9	5.8	11.8	0.37
CLOTHING	8.5	4.8	1.5	- 0.04
HOUSING	10.2	22.3	4.8	4.73
MISCELLANEOUS	5.1	13.0	5.1	2.38
GENERAL INDEX	8.9	11.4	7.4	1.93

Source: Central Bank & FUSADES Quarterly Magazine (4th Quarter 1997)

TABLE 7

EL SALVADOR: GENERAL MACRO ECONOMIC DATA,

1995 - 1998

	1995	1996	1997	1998 1/
REAL GNP GROWTH % 2/	6.3	2.1	4.0	4.0
FOREIGN EXCHANGE RESERVES(MIL.\$)	934.6	1,099.5	1,325.0	1,575.0
INCOME SPENT ON FOOD % 3/	42.0	42.5	43.0	43.0

1/ Forecast

2/ Base year-1990

3/ Estimate

Source: Central Bank Quarterly Magazine