COLOMBIA

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The Colombian economy has lost all luster over the past few years. Considered an example of economic stability among regional economies during the 80's, its growth rate began slowing down below Latin American averages during the mid-90s. Quarterly GDP growth —which had become negative in September 1998 (-0.96 percent) and reached its lowest level in June 1999 (-6.60 percent), finally became positive again (2.49 percent) by March 2000. For the year 2000, the Colombian economy expanded by an estimated 2.05 percent.

Macroeconomic Situation and Outlook

Sectors leading the recovery in 2000 included manufacturing (10.8 percent), agriculture (5.1 percent), commerce (4.1 percent) and transportation (4.1 percent). By contrast, mining (-3.5 percent) and the financial sector (-1.5 percent) registered large reductions. The apparent reversal in the business cycle was not enough to curb unemployment however. The rate of unemployment climbed from 18.1 percent in 1999 to 20.2 percent in 2000 -the highest unemployment rate registered in the Latin American region.

Other gains were achieved under the current stabilization effort. The non-financial public sector deficit reached 3.5 percent, slightly lower than the 3.6 percent goal set under the IMF macroeconomic stabilization program, and substantially lower than the 6.4 percent registered in 1999. Government expenditures decreased slightly as a percentage of GDP from 20 percent in 1999 to 19 percent in 2000.

Consumer prices increased by 8.8 percent in 2000 compared with 9.2 percent in 1999, and reflecting a significant adjustment from the 32.4 percent price increase in 1990. Interest rates also were reduced. Lending rates came down to 25 percent in 2000, compared to 42.2 percent in 1998 and 30.4 percent in 1999. In 2000 the current account deficit came down to 0.6 percent of GDP, from the 1.3 percent registered in 1999.

In 2000 the rate of devaluation accelerated to 18.2 percent. The currency devaluation promoted exports and shielded agriculture from food imports from the United States and neighboring Ecuador and Venezuela. Devaluation also induced domestic planting of commercial crops like rice, corn, soy and sorghum. Depreciation of the Peso has been slower in 2001, and competitive gains are being maintained through less inflation.

Forecasts for 2001 indicate a positive growth rate of 2 percent, albeit still below regional standards. Policy management is not expected to change abruptly as the country recently negotiated a macroeconomic adjustment program with the IMF and presidential elections are scheduled for 2002. Inflation is estimated at 8.5 percent during 2001. The fiscal deficit is expected to rise to 3.5 percent of GDP under the terms of the IMF agreement. Exports are expected to remain constant as world oil and coffee prices remain low. Non traditional exports (excluding oil, coal, coffee and ferronickel) are expected to grow by 16 percent.

Economic performance in the years ahead will depend on the result of a negotiated peace process between two guerrilla groups, a paramilitary right wing group and the government. Political violence in Colombia has a fifty-year history, but it has escalated substantially over the past three years as kidnappings, armed assaults and terrorism have increased. More recent changes in world policy towards terrorism could affect the outcome of this negotiation since all three illegal armed groups are included on an international terrorist list. Pressure from developed countries could end this internal war sooner than expected, but this is unlikely to occur before 2003.

Food Prices and Consumption

El Niño had triggered significant price increases for agricultural products in 1998 but the return of normal weather patterns, increased credit availability for selected commodities, and the currency devaluation in 2000 led to increased agricultural supply and lower commodity prices. The current economic recession has led to lower food demand and induced price reductions for various processed foods such as vegetable oils and fats, sugar and chocolate.

The increase in the Consumer Price Index (CPI) for food was 7.4 percent during 2000, a significant reduction from the 17.6 percent in 1999. As of August 2001, foodstuff prices rose 10.28 percent. The most significant increase has been for meat prices. In 2001 the average meat price per kilogram is $1, up from $0.75 in 1999.

When consumer prices are compared to producer prices, it is clear that marketing margins for agriculture have decreased over the past two years. Recession has made it difficult to transfer higher producer costs to consumers. The Producer Price Index (PPI) increased 11.7 percent in 1999, 5.8 percent in 2000 and 8.7 percent through August 2001. The spread between CPI and PPI has been severely reduced from 5.9 percent in 1999 to 1.6 percent in 2000 and in 2001. Margins have been slashed more seriously in export products.

Inflation for producers of goods made and traded domestically went from 11.6 percent in 1999, to 5.4 percent in 2000 and rose to 8.8 percent by August 2001. The producer price index (PPI) for exported goods came down dramatically from 25 percent in 1999 to 7.8 percent in 2000 and just 3.4 percent in August 2001, reflecting a drastic reduction in coffee prices.

A recent study shows a marked decline in per capita consumption of fruits and vegetables in major cities. While the population in the five largest cities has increased 32 percent over the past ten years, total consumption decreased by 30 percent in fruits and 11 percent in vegetables. Price increases and income loss due to unemployment have been some of the factors explaining reduced consumption.

Food Processing and Marketing

Traditional distributions channels are still common in food markets in Colombia, however recent changes and innovations are modifying the way food is traded in the country. The National Agricultural and Livestock Exchange (BNA), created in the early 1990s increased its operations notably in 2000 and 2001. The value of transactions increased 24 percent from August 2000 to August 2001. These transactions account for 2 percent of the GDP. To expand its market coverage, the BNA is also trading commodity futures and financial assets that are used to finance agricultural activities; for instance, it has promoted the issuance of cattle-backed securities.

Over the past few years international investment funds have provided new capital to the food industry as well as new distribution technologies. The retail food industry has seen the entry of several international supermarket chains (Casino, Carrefour). Carulla, a traditional local supermarket chain, leads the market. Recently bought by a smaller regional chain (Vivero) and a US-based investment fund Newbridge, Carulla has engaged in an acquisition program to become partners with world giant Wal-Mart. The new structure has led to fierce competition in prices and quality between Carulla, Carrefour and the Colombian mega-store Exito.

The dairy products sectors appears to be another good candidate for consolidation in a manner similar to retail chains. There are close to 100 milk processing plants in the country, and production has been growing at a 6.5 percent annual rate since 1975. Potential markets include Ecuador and Venezuela, where demand for milk and dairy products is high and under-supplied by local production.

The livestock industry has also seen changes. To provide transparency to price formation traditional cattle markets have introduced an auction mechanism. Currently, a significant portion of all cattle being traded in the country is being sold at auctions. The anonymity of auctions proves very atractive to ranchers concerned with security issues. The use of videos to showcase cattle to be sold eliminates the risk in transporting the cattle. It also reduces the risk to agents wanting to avoid travel to remote countryside locations where confiscation of products and transport vehicles by armed guerrillas has become more common.

Agricultural markets have been adjusting to international market standards. In the case of milk, there has been a change in the price fixing mechanism in place since the 80`s. For years, farmers received 70 percent of the final price charged to consumers; currently two markets have been designed to follow international conditions much closer. At one of the markets, farm prices are set by adding to the world price a protection band mark-up. At the second market, all surplus milk is sold to processors at a New Zealand's reference price (determined to be the most competitive market) for processing and export. Currently the only other domestic pricing scheme to recognize the impact of international conditions include palm oil and cotton.

The pricing mechanism for coffee, the leading agricultural export, has also changed substantially to incorporate new information-gathering and risk-managing techniques to benefit both farmers and domestic buyers. Prior to 2000, domestic coffee prices were set once a day and were referenced to the closing prices in the New York exchange. Since 2001 coffee prices have been allowed to fluctuate throughout the day still referenced to the closing prices in the New York exchange. Corporación Colombia Internacional is improving price information on commercial crops, particularly for fruits and vegetables, through an Internet site and a monthly magazine.

Agricultural Production and Trade

Agricultural production declined in real terms by 0.19 percent in 1999, but had a surprising 4.2 percent recovery in 2000. The recovery was attributable mainly to a 16.5 percent increase in coffee production. Permanent crops increased by 3.6 percent and livestock by 3.1 percent. Short-term crops increased by 1 percent.

The government had forecasted a 3.5 percent growth in production in 2001 but, given the persistence of weak demand, expected growth for the year is likely to be much lower. Agro-industry production (excluding coffee milling) fell by 6.7 percent in 1999 and had a short-lived 0.03 percent increase in 2000 before experiencing a 4.1 percent decline by June 2001.

The dramatic reduction in coffee production –from a high 16.1 million bags in 1992 to 8.5 million bags in 2001 is attributed to lower international prices, loss of competitiveness, and greater competition from other producers, namely Vietnam and Brazil. Reduced profitability has led to a reduction in area planted to coffee. The National Federation of Coffee Growers has traditionally purchased most of domestic production through its National Coffee Fund. The Coffee Fund is financed with coffee exports revenue and also provides commercial and research support to coffee producers. Most recently, the Coffee Federation started a program to increase production efficiency. The main objective is to reduce production costs to $0.60 per pound so that coffee producers can compete in a world market facing prices of $0.70 per pound. The government is also refinancing past-due loans for coffee growers to make them eligible for new production loans.

The Peso revaluation led to a sharp reduction in area planted to agricultural crops during the 1991-99 period. Cotton experienced the most drastic reduction from 34,000 hectares in 1992 down to only 9,300 hectares planted to cotton by 1999. Rice maintained its share of area planted, but total area planted to corn has come down 280,000 hectares to 154,000 hectares, and sorghum from 109,000 to 39,000. With the devaluation of the Peso, some area has been gained back for crops. Current forecasts are for increases in area planted to cotton, corn, soy, cocoa, potatoes, fruits and vegetables in 2001-2002. Milk production is also forecasted to increase in the near term.

The share of agriculture in total exports has remained relatively stable since the mid 1990's. In 2000 Colombia sold $1.174 million in agricultural commodities representing 9 percent of total exports. Coffee exports however, have not fared so well as its share in total exports has fallen from 14.8 percent in 1996, to 8.2 percent in 2000 and and estimated 5.8 percent in 2001. On a positive side, Colombia was declared FMD free in October 2000 which would allow for meat exports to the Caribbean region and Venezuela. FEDEGAN, the National Cattle Ranchers Federation estimates that the current capacity is for 50,000 tons to be sold overseas.

Food and agricultural policy

Domestic agricultural policy in Colombia is contained in the new "Productive Chains" framework. Under this concept, the government encourages the creation of efficient crop clusters by promoting interaction between agricultural input suppliers, producers, manufacturers and distributors. This approach represents a radical change from the policy that offered incentives for farm production only. The government offers now incentives along the chain, for instance subsidies for rice storage, the use of certified seeds, or forestry projects. Currently there are agreements for cotton-textiles, dairy products, palm oil, poultry products, potato, chocolate, fruits and vegetables, and wood.

Two policy instruments support the Productive Chains program: PROAGRO and PRAN. PROAGRO focuses on food commodities for domestic consumption or products that show potential for being competitive in foreign markets. PROAGRO includes assistance for the purchase of agricultural machinery. The palm oil sector has been a major beneficiary of this policy as reflected in the increase in area planted to palm oil to more than 40,000 hectares in 2001. PRAN, on the other hand, was designed to refinance delinquent agricultural producer loans. The state-owned bank FINAGRO (Fondo para la Financiación Agraria) purchases delinquent loans from commercial banks and refinances them through the Agriculture Guarantee Fund. Under PRAN, agricultural investment loans increased 86 percent between 1999 and 2000 and loans for small farmers increased by 277 percent during the same period.

Colombia has been active in trade negotiations in the Western Hemisphere region which aim at establishing a free trade area by 2005. Colombia is a beneficiary of trade preferences from the European Community and the United States. The Andean Trade Preference Act (ATPA) which grants preferential access to Colombian products into the United States has been extended through 2005.

Water Resources and Management

According to FAO statistics, Colombia has over 850,000 hectares of irrigated land. The share of cropland irrigated is 24 percent. Since 1960, irrigated area has been growing at a rate of 3.4 percent per year, a more rapid growth than the 2.5 percent annual increase in agricultural output.

The National Office of Land Adequation (INAT, by its Spanish acronym), has been in charge of building and maintaining public irrigation works since its creation in 1963. INAT's performance has not been without criticism, particularly because very often costs of public irrigation projects surpass costs of private sector projects.

In 2001, INAT completed the Rancheria Reservoir Project on 19,000 hectares at a total cost of US$121.7 million. The reservoir was designed to hold 198 million cubic meters of water, mostly for irrigation agricultural and human consumption.

Two other projects are being currently implemented: the Santo Tomás Reservoir to be built on 4,200 hectares at a cost of US$20.3 million. This reservoir has been designed to support a 63,000 ton increase in agricultural production. Construction of the reservoir is to be financed by the Interamerican Development Bank (IDB) and it has been estimated that it will provide employment to more than 1,500 people on a permanent basis. A second project, the Ariari Reservoir will be located in the Eastern part of the country (the Llanos Orientales). This project will permit the development of 35,140 hectares, mostly for rice. As a result, the value of agricultural production in the region is expected to rise from US$28.4 million to US$58.4 million per year. The project, estimated to cost over US$100 million, will be financed by the Japan Bank For International Cooperation (JBIC).

Colombia also has a vast number of small-scale projects to renovate existing irrigation districts. These small-scale projects cover 1,890 hectares at a total cost of US$400.000. Flood control programs and water conservation projects are somewhat scarce in Colombia.

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	Units	1997	1998	1999	2000	2001E	2002F
FOOD CONSUMPTION PATTERNS							
Per capita caloric intake	Cal/day	na	2,777	na	na	na	na
From animal products	Cal/day	na	439	na	na	na	na
From vegetable products	Cal/day	na	2,338	na	na	na	na
Protein (% of calories)	%	na	8.7	na	na	na	na
Fat (% of calories)	%	na	29.0	na	na	na	na
Carbohydrates (% of calories)	%	na	62.8	na	na	na	na
INCOME AND FOOD PRICES							
Per capita income	US$/capita	2,279	2,256	2,261	2,306	2,090	na
% of disposable income spent on food	%	32.8	31.0	28.0	28.0	30.0	na
% spent eating out	%	1.6	2.5	6.0	6.0	6.0	na
Food price index	1990=100	389.0	450.1	508.6	559.4	609.7	na
General price index (CPI)	1990=100	429.3	501.0	576.1	633.8	696.9	na
POPULATION							
Total population	Million	40.1	40.7	42.8	43.6	43.6	na
Urban	Million	30.7	31.2	33.3	33.8	33.8	na
Nonurban	Million	9.4	9.5	9.5	9.8	9.8	na
Share of population in the following age groups							
0–4 years	%	11.8	na	11.8	na	11.1	na
5–14 years	%	21.1	na	21.1	na	21.7	na
15–19 years	%	11.6	na	11.6	na	12.0	na
20–44 years	%	36.2	na	36.2	na	36.9	na
45–64 years	%	14.8	na	14.8	na	14.6	na
65–79 years	%	3.3	na	3.3	na	3.2	na
80–over years	%	1.2	na	1.2	na	1.0	na
Median age of population	Years	22.0	na	22.0	na	23.1	na
Female labor force participation	%	22.3	22.3	22.5	23	25.0	na
LIFE EXPECTANCY							
Males	Years	70.1	70.3	70.7	70.9	68.6	na
Females	Years	73.2	73.5	73.7	73.9	74.9	na
FOOD INFRASTRUCTURE							
Trade capacity							
Grain imports	1,000 Tons	2,903	1,841	1,951	2,049	1,800	na
Total food and agricultural trade	Million US$	6,260	6,040	6,240	6,511	6,600	na
Total food and agricultural exports	Million US$	4,239	3,992	4,152	4,318	4,400	na
Perishable products	Million US$	917	986	1,035	1,139	1,120	na
Fishery exports	Million US$	140	151	175	210	230	na
Total food and agricultural imports	Million US$	2,021	2,048	2,089	2,193	na	na
Perishable products	Million US$	757	720	795	875	na	na
Fishery imports	Million US$	30	29	32	36	na	na
Port capacity	1,000 Tons	66	74	82	na	na	na
Road access	Kms/mil. People	363	363	399	na	na	na
Rail access	Kms	3,395	3,395	3,395	na	na	na
Power generation	Million Kwh	na	na	na	na	na	na
Percent of population with refrigerators	%	54.4	na	na	na	na	na
FOREIGN INVESTMENT IN THE FOOD SECTOR							
Inward FDI in the food sector, total	Million US$	178	200	240	na	na	na
From other PECC economies	Million US$	160	185	200	na	na	na
Outward FDI in the food sector, total	Million US$	10.0	32.0	30.0	na	na	na
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY							
Agriculture as a share of GDP	%	18.3	16.5	14.0	15.0	15.0	na
Self sufficiency in grains	%	70.0	70.0	73.0	76.0	76.0	na
MACROECONOMICS INDICATORS							
GDP growth	%	3.1	0.6	–4.4	4.0	4.0	na
Interest rate	%	34.3	42.2	30.0	14.0	16.0	na
Exchange rate	Col/US	1,140.00	1,536.00	1,782.00	1,874.00	2,160.00	na

na = not available   E = estimate   F = forecast

Sources:
FAO.
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