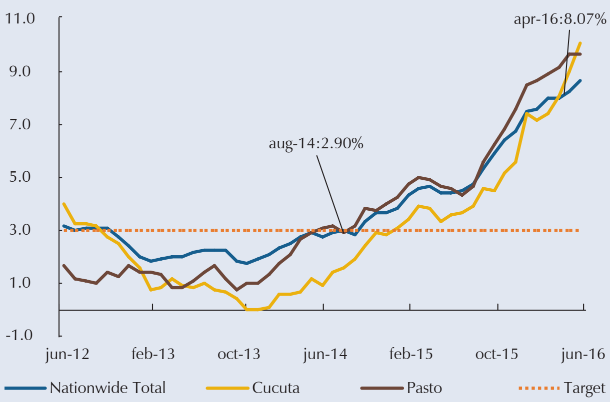
Box 2
CONSUMER INFLATION IN COLOMBIA'S BORDER CITIES

Edgar Caicedo G.
Daniel Leonardo Rojas A.
Juan David Torres R. *

Consumer prices in Colombia trended upward in the past two years. This section is an attempt to show to what extent this performance is explained by the price hikes in the border cities of Cucuta and Pasto. The annual price increases in those cities have exceeded the national average for months (Graph B2.1).

Graph R2.1
Yearly National Inflation for Cúcuta and Pasto



Source: DANE.

1. Cúcuta

The economy in the metropolitan area of Cucuta is going through a difficult and complex period, aggravated by the fact that Venezuela closed its border with Colombia on August 19 2015 and there is no clarity as to when it will reopen once and for all. The Cucuta Chamber of Commerce says a number of economic sectors have been hard hit by the border closure, particularly hotels and tourism, agribusiness, coal and currency-exchange agencies. [2] Therefore, the economy in Norte de Santander, and especially in its capital city, being cut off from the Venezuelan economy, has been forced to adapt to the pace of the Colombian economy, which is confronted, in turn, with macroeconomic imbalances (see Chapter V) that also affect the region's economic performance.

Despite the fragile economic situation in Cucuta, the city's inflation rate has been above the headline inflation (nationwide) since April 2016, ending the first half of the year at 10.06%, which is 146 basis points (bp) above nationwide inflation rate (Table B2.1). According to the region's economic analysts, the reasons for this increase are associated mainly with El Niño weather, a stronger dollar and, more recently, the temporary reopening of the border with Venezuela and the agricultural and truckers' strikes.

The agricultural strike occurred in late May and lasted about two weeks. It was almost parallel to the truckers' strike in early June, which lasted 46 days. These strikes seriously affected the food supply in many Colombian cities, and Cucuta was no exception. The shortages in Venezuela also exerted pressure on prices in Cucuta. The Colombian-Venezuelan border was opened temporarily on July 10 and July 16, attracting thousands of Venezuelans looking to purchase massive amounts of staple goods such as food, medicine, fuel and personal hygiene items.[3]

As illustrated in Graph B2.1, annual inflation in Cucuta during the last three months began to surpass inflation nationwide. Table B2.2 shows the price hikes were concentrated mainly in food (which accounts for 35.4% of the CPI in Cucuta). In fact, the percent contribution of food to consumer inflation came to 45.1% between April and June 2016. The annual change in food prices in Cucuta was 18.8% in June 2016. This is far higher than the June 2015 figure, which was 5.5%. Housing and transportation also fueled the rise in inflation in Cucuta during the second quarter of this year, although to a lesser extent. In this case, the increase is related to indexation and the depreciation of the peso.

* Mr. Caicedo is a senior expert with the Programming and Inflation Department at Banco de la República. Mr. Rojas and Mr. Torres are assigned to the same department as student interns. The opinions expressed in this section are those of the authors and imply no commitment on the part of Banco de la República or its Board of Directors.

2 See Cámara de Comercio de Cúcuta, Informe de Gestión, 2015.

3 It is worth mentioning that the temporary reopening of the bo 0re in Cucuta during July.

Table B2.1
Headline Inflation With and Without the Border Cities

Data at June	Quarterly Inflation to Date	Year to Date Inflation	Annual Inflation
Total CPI	1.49	5.10	8.60
CPI Cúcuta	3.15	6.83	10.06
CPI Pasto	1.26	4.83	9.60
CPI Cúcuta & Pasto	2.50	6.14	9.90
Without Cucuta	1.45	5.06	8.56
Without Pasto	1.50	5.10	8.59
Without Cucuta & Pasto	1.45	5.06	8.55

Source: DANE; Banco de la República's calculations

Table B2.2
Contribution to Inflation in the Border Cities
(Percentage)

CPI Items	Cucuta		Pasto	
	Weight	Aug.16/Jun.16	Weight	Aug.14/Jun.16
Food	35.04	45.12	31.32	54.83
Housing	30.53	20.85	26.22	16.66
Transportation	10.42	12.83	13.05	10.09
Other expenses	6.78	7.59	7.19	6.45
All Others	17.22	13.61	22.22	11.97

Source: DANE; Banco de la República's calculations

2 Pasto

This city has experienced price hikes above the national average since August 2014 (Graph B2.1). Consumer inflation in Pasto received a strong push from the tradable component of the consumer basket of goods and services. This was felt as soon as the peso began to depreciate against the dollar in the third quarter of 2014, which not only raised costs but also meant a significant increase in the flow of buyers from Ecuador to the border area, including Pasto. Ecuadorians are taking advantage of the higher value of the dollar to shop in Colombia. On the other hand, although the added influx of buyers from Ecuador stimulates Pasto's economy, it also has pushed up domestic prices, particularly when combined with El Niño weather and the truckers' strike in June. According to regional analysts, food prices were affected not only by El Niño, but also by peso depreciation, which has made fertilizers and farm machinery more expensive.

As a reflection of this situation, nearly 55.0% of the increase in consumer inflation in Pasto between August 2014 and June 2016 was due to hikes in food prices. The contribution to accumulated inflation between August 2014 and June 2016 from the other CPI groups was not unusually high.

The border cities clearly were hit with higher price hikes than the other Colombian cities in the CPI sample. While some indexation mechanisms, El Niño weather, the exchange rate, the truckers' strike and the agricultural strike boosted consumer prices in general, the CPI in the border cities was affected by other shocks as well, such as the dramatic shortage of basic essentials in Venezuela (in the case of Cucuta) and the massive influx of buyers from Ecuador (in the case of Pasto).

Even so, the combined impact of both these cities on headline inflation (nationwide) is minimal. As shown in Table B2.1, annual inflation was 8.60% in June. Excluding the impact of prices in the border areas, annual inflation nationwide would have been 8.55%. In other words, the contribution from these two cities comes to only 5 bp: 4 bp from Cucuta and 1 bp from Pasto. Headline inflation is 5.10% for the year to date; without Pasto and Cucuta, it would be only 4 bp less (5.06%). This is not surprising, since the weight assigned to these cities in the national CPI basket is relatively low: 2.53% in the case of Cucuta and 1.35% for Pasto.