COLOMBIA

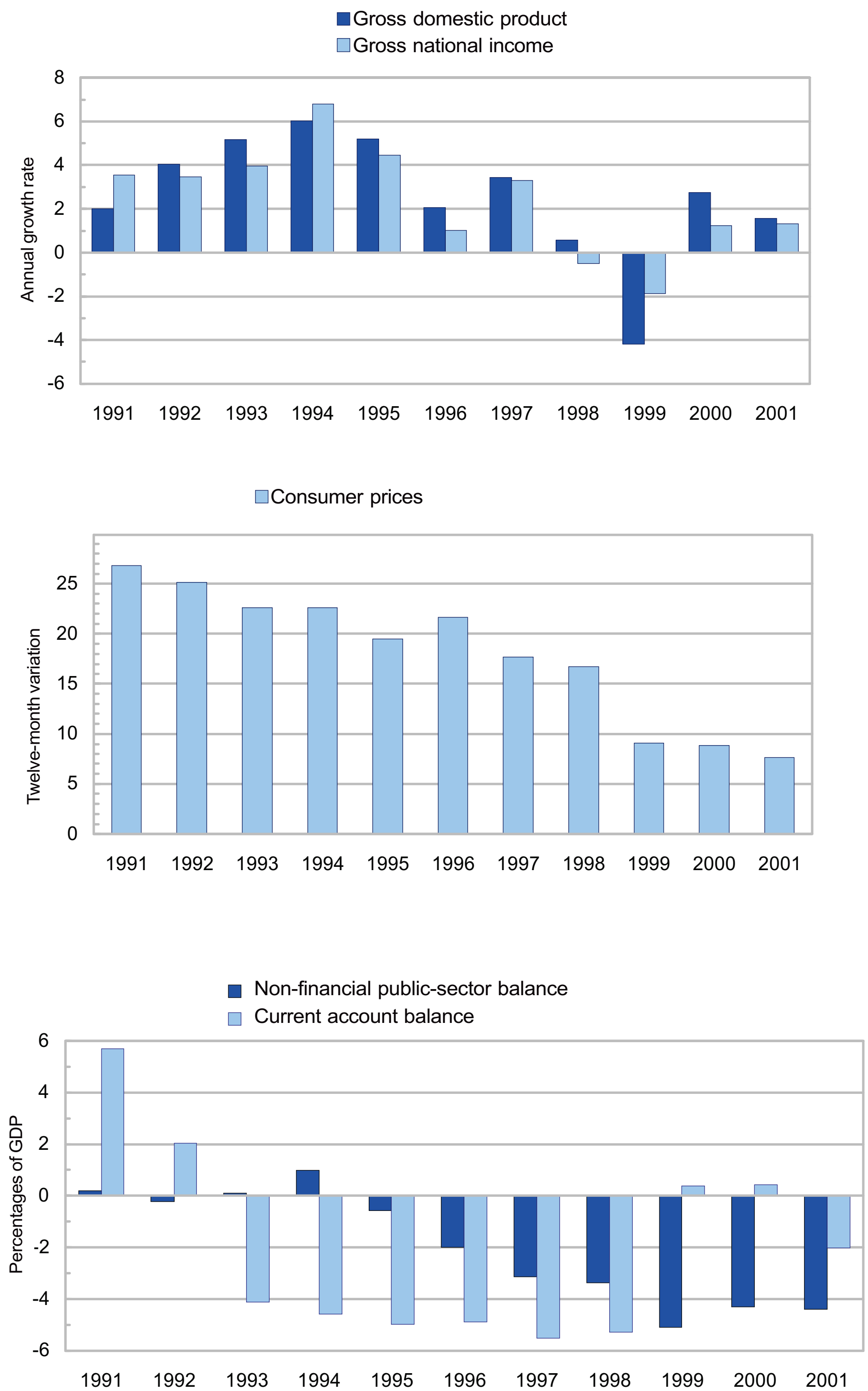
1. General trends

The Colombian economy lost momentum, growing by only 1.6% in 2001, which was lower than the rate of population growth. Thus, the preceding year's recovery ground almost to a halt, with the result that growth over the past biennium barely made up for the loss of output suffered in the 1999 recession. This lacklustre performance kept unemployment and the fiscal deficit at virtually the same levels recorded in 2000. Despite the additional revenues generated by the tax reform that took effect in 2001, the fiscal deficit reached 3.3% of GDP. The current account of the balance of payments, after two years in surplus, recorded a deficit equivalent to 2% of GDP because of the erosion of the terms of trade and a volume decrease in traditional exports. Inflation continued to trend downward, reaching 7.65%, which was below the official target.

THE ECONOMY turned in a mediocre performance, stubbornly resisting the authorities' attempts to create an environment more conducive to growth. Domestic demand remained slack, owing primarily to the listlessness of private consumption. Unemployment and underemployment, which affect half of the economically active population; the heavy debt burden accumulated during the expansion that preceded the 1999 crisis; and the increase in the tax burden under successive tax reforms were some of the domestic economic factors that eroded the consumption capacity of Colombian households. These factors were compounded by the non-economic effects of the complicated domestic security situation and the external shocks triggered by the worldwide economic slump. Particularly damaging were the effects of the slowdown in the United States, to which half of Colombia's exports are sold, and the deterioration in the terms of trade. Though investment dipped in comparison to its 2000 level, it was the fastest-growing component of demand.

The commitments undertaken in the agreement signed with the International Monetary Fund (IMF) were fulfilled without undue difficulty. Inflation continued to slide, in the absence of pressure from the demand side, and international reserves showed a higher-than-expected increase. Interest rates edged downward as a result of a looser monetary policy and slack demand for credit. The fiscal results met a less demanding target agreed upon in the course of the year between the government and IMF. With respect to structural reforms, two laws were adopted to place public finances on a sustainable footing, and further efforts were made to rehabilitate the financial system. However, the authorities' plans to liquidate and/or privatize State-owned banks and electric power distributors proved impossible to put into practice.

Figure 1
COLOMBIA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

The forecasts for 2002 reflect the country's current domestic situation, in which, in an election year, public order has deteriorated further as a result of the breakdown of peace talks with the guerrilla forces early in the year. The economy's performance in the first quarter of 2002 was disappointing, as growth reached barely 0.5%. Demand remains weak, unemployment is still high and industry continues to falter. The government is projecting economic growth of close to 1.5%, with a current-account deficit of 3.1% of GDP, a fiscal deficit of 2.6% and an inflation rate of 6%. On the external front, the performance of the United States and Venezuelan economies will have a direct impact on growth and the balance of payments. One positive development was the decision of the United States Congress to extend the Andean Trade Preference Act (ATPA). The Act had expired on 4 December 2001 after 10 years in force, during which there had been a 100% jump in the Colombian exports covered by the Act, a similar upswing in output by the relevant sectors and a 54% increase in the number of jobs.

2. Macroeconomic policy

Macroeconomic policy in 2001 had two opposing aims. One was to boost production after the recession in 1999 and the incipient recovery in 2000 and the other was to continue the process of macroeconomic stabilization. Both aims were determined by the strict targets laid down in the agreement signed with IMF, such as the reduction of inflation and of the fiscal deficit. Whereas inflation behaved according to plan, fiscal performance did not, and a less demanding target had to be negotiated. To cover the deficit, the fiscal authorities made greater use of external resources than in 2000, thereby alleviating pressure on the domestic market and encouraging interest rates to fall. External financing was also obtained for much of 2002, as borrowing conditions were expected to be less favourable in an election year. The unexpected downside of this, however, was the appreciation of the exchange rate.

(a) Fiscal policy

The aim of fiscal policy in 2001 was to reduce the consolidated fiscal deficit from its 2000 level of 3.4% to 2.9% of GDP. However, as income and expenditure failed to reach their projected levels, the fiscal target had to be corrected in the second half of the year. Whereas income was lower than expected owing to the slowdown in economic activity, some items of expenditure were higher than expected, bringing the consolidated deficit to 3.3% of GDP.

The non-financial public sector failed to achieve the result forecast at the beginning of the year (2.6%) and accumulated a deficit of 3.8% of GDP, compared to 3.7% of GDP in 2000. This outcome reflected a slight dip in the central government's deficit and a decline in the decentralized sector's surplus.

The decentralized sector recorded a surplus equivalent to 1.9% of GDP, compared to 2.1% in 2000, primarily because smaller surpluses were achieved by both the Empresa Colombiana de Petróleos and the Petroleum Saving and Stabilization Fund owing to the combined effects of lower external sale prices, a slump in national output and weaker domestic demand for fuels.

The central government's finances posted a deficit equivalent to 5.8% of GDP, compared to 5.9% in 2000. Total income rose to 14.7% of GDP, from 13.4% the year before, and tax revenues, which were 26% higher than in 2000, were equivalent to 13.2% of GDP. The tax reform adopted in late 2000 resulted in the expansion, by more than a third, of revenues from taxes on financial transactions, gasoline and income, yet receipts fell short of the government's initial target because of the sluggishness of economic activity.

Government spending rose by 17%, reaching the equivalent of 20% of GDP. Higher interest payments reflected the increase in interest on external credits (36%), bringing the government's debt interest burden to 4% of GDP. Operating expenses rose by 19%, driven by general expenses (particularly military procurement) and transfers to local governments, while investment expanded by only 8% in nominal terms. The government's deficit was financed from credit resources, both domestic (40%) and external (60%), and from the transfer of profits from the Banco de la República.

The government covered its financing needs for much of 2002 in advance to avoid paying the risk premium applied during election periods. It also pursued its efforts to diversify its sources of financing and restructured its domestic debt, increasing the average maturity of its debt portfolio from 3.4 years to 4.5 years.

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	1993	1994	1995	1996	1997	1998	1999	2000	2001[a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	5.2	6.0	5.2	2.1	3.4	0.6	-4.2	2.7	1.6
Per capita gross domestic product	3.2	4.0	3.2	0.1	1.5	-1.3	-6.0	0.9	-0.2
Gross domestic product, by sector									
Goods	1.7	3.9	5.0	-2.6	1.2	0.4	-4.9	3.5	0.1
Agriculture	2.1	2.1	3.7	-1.2	0.7	0.0	0.0	5.0	1.5
Mining	-4.0	4.1	14.6	7.3	3.7	15.6	18.5	-10.0	-4.0
Manufacturing	1.8	1.4	5.5	-1.4	0.5	-0.2	-8.6	9.7	-0.8
Construction	6.0	33.0	1.9	-12.9	2.2	-7.2	-27.0	-2.8	3.2
Basic services	4.3	6.9	5.3	4.1	4.4	2.3	-2.6	1.8	3.0
Electricity, gas and water	11.0	9.1	2.6	4.9	1.0	1.8	-4.2	0.7	1.9
Transport, storage and communications	3.5	6.7	6.5	3.8	5.8	2.5	-1.9	2.2	3.5
Other services	6.7	6.2	7.4	7.5	5.0	-0.1	-4.1	2.2	1.1
Commerce, restaurants and hotels	7.4	7.8	3.8	-0.9	1.7	-1.6	-15.4	10.5	2.0
Financial establishments, insurance, real estate and business service	8.2	9.9	8.6	5.2	4.9	-1.3	-4.9	1.1	0.2
Consumption	7.6	5.4	5.8	5.2	5.3	-0.1	-3.2	2.5	1.3
General government	7.3	11.1	7.3	23.9	15.8	...	...	...	...
Private	7.7	4.4	5.4	1.0	2.4	30.8	-3.2	2.5	1.3
Gross domestic investment	30.7	34.0	6.1	-12.0	-0.6	-6.3	-38.6	11.8	9.6
Exports of goods and services	6.6	-0.3	3.6	9.6	3.2	7.4	5.9	2.9	5.3
Imports of goods and services	38.7	22.8	7.3	2.3	6.2	-3.9	-24.7	8.6	10.9
	Percentages of GDP [c]								
Gross national income	98.7	99.5	99.1	98.2	98.2	97.0	98.9	97.9	97.7
Gross domestic investment	21.6	25.5	25.8	22.3	21.4	20.8	13.2	14.5	15.6
National saving	18.2	19.3	18.5	15.0	13.6	13.7	13.6	13.8	13.0
External saving	3.4	6.3	7.3	7.2	7.8	7.1	-0.3	0.7	2.6
	Percentages								
Employment and wages									
Labour force participation rate [d]	60.1	60.0	59.9	59.7	59.9	62.2	63.1	63.6	63.6
Open unemployment rate [e]	8.6	8.9	8.8	11.2	12.4	15.3	19.4	17.2	18.2
Real average wage (index: 1995=100) [f]	97.9	98.8	100.0	101.5	104.2	102.8	105.9	110.0	109.7
	Growth rates								
Prices (December-December)									
Consumer prices	22.6	22.6	19.5	21.6	17.7	16.7	9.1	8.8	7.7
Producer prices	13.2	20.7	15.4	14.5	17.5	13.5	12.7	11.0	6.9
External sector									
Terms of trade (index: 1995=100)	91.0	104.9	100.0	103.8	104.4	95.8	102.6	115.8	109.2
Nominal exchange rate (pesos per dollar)	863	845	913	1 037	1 141	1 426	1 756	2 088	2 300
Real effective exchange rate for imports (index: 1995=100)	125.3	101.9	100.0	92.6	87.2	93.8	106.5	116.9	119.6
	Millions of dollars								
Balance of payments									
Current account	-2,102	-3,673	-4,596	-4,754	-5,885	-5,228	324	355	-1 693
Trade balance (goods and services)	-1,458	-3,283	-3,725	-3,283	-4,141	-3,915	508	1,282	- 850
Exports	9,948	10,630	12,294	13,158	14,217	13,429	13,907	15,674	14,958
Imports	11,406	13,913	16,019	16,441	18,357	17,344	13,399	14,392	15,808
Capital and financial accounts [g]	2,567	3,855	4,591	6,483	6,163	3,830	- 636	507	2,918
Overall balance	...	182	- 5	1,729	278	-1,398	- 312	862	1,225
Variation in reserve assets (- indicates an increase)	...	- 182	5	-1,729	- 278	1,398	312	- 862	-1,224

Table 1 (concluded)

	1993	1994	1995	1996	1997	1998	1999	2000	2001[a]
					Percentages				
External debt									
Gross debt (as a percentage of GDP)	37.2	27.3	28.5	32.0	32.3	37.0	42.3	43.9	47.8
Net interest (as a percentage of exports) [h]	7.4	10.1	10.0	10.7	12.4	13.1	13.2	12.0	12.8
					Percentages of GDP				
Central government									
Current income	10.3	10.2	9.9	10.4	11.2	10.8	10.8	11.8	13.4
Current expenditure	9.9	10.6	11.3	12.9	13.5	15.0	17.0	18.1	18.5
Saving	0.4	-0.4	-1.4	-2.5	-2.2	-4.3	-6.2	-6.3	-5.1
Capital expenditure (net)	1.7	2.0	2.0	2.2	2.4	1.5	1.3	1.6	1.6
Financial balance	-0.7	-1.4	-2.3	-3.7	-3.7	-4.9	-5.8	-5.9	-5.8
Non-financial public sector balance	0.1	1.0	-0.6	-2.0	-3.1	-3.4	-5.1	-3.7	-3.8
					Growth rates				
Money and credit									
Monetary balance of banking system									
Net international reserves	-2.1	-5.6	18.5	18.6	24.8	10.1	41.0	28.9	18.1
Net domestic credit	84.2	25.4	29.6	32.6	24.4	10.3	8.2	11.8	13.9
To public sector	27.2	-18.0	-25.4	2.3	82.2	292.5	23.7	42.9	26.6
To private sector	57.8	35.9	35.8	25.3	25.0	12.8	-5.5	3.6	10.8
Money (M1) [i]	32.8	22.9	19.5	16.0	22.2	1.9	21.7	30.5	12.1
Local currency savings and time deposits	45.8	50.0	29.9	21.8	26.1	16.9	7.4	-3.4	10.1
M2	41.7	42.0	27.2	20.4	25.2	13.5	10.5	4.7	10.7
					Annual rates				
Real interest rate (annualized, %)									
Deposit rate	2.8	5.0	9.6	8.8	4.8	11.7	9.2	2.7	4.3
Lending rate	10.9	14.2	17.4	17.8	13.3	20.3	17.1	10.0	13.7
Equivalent interest rate in foreign currency [j]	25.7	28.8	31.0	31.1	24.7	31.9	21.0	12.0	11.9

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Up to 1994, based on constant 1975 pesos; from 1995 on, based on constant 1994 pesos. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population in seven metropolitan areas. [e] Percentages of the economically active population in seven metropolitan areas. [f] Workers in manufacturing. [g] Includes errors and omissions. [h] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [i] In the private sector. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

In 2001 the government passed a reform of territorial transfers and a law governing expenditure by territorial entities, with a view to enhancing efficiency in the allocation and execution of public expenditure, correcting the overlapping of responsibilities among different levels of government and developing simpler and more flexible rules for resource distribution. These laws made structural changes in the behaviour of public finances which will have an impact on national finances and on regional and local public-sector finances in the coming years.

(b) Monetary policy

The Banco de la República, taking advantage of the leeway provided by the behaviour of inflation, cut its intervention interest rates for open-market operations seven times in 2001, for a cumulative decline of 350 basis points. Other measures taken during the year included the purchase of foreign exchange and the final purchase of public debt instruments to create a permanent increase in liquidity. The financial system thus maintained a satisfactory level of liquidity, as shown by the fact that, in 2001, there was often little demand for the temporary expansion of liquidity through repo operations.

The intervention rate cuts and expanded liquidity drove market interest rates down as well, though to a lesser degree. The deposit rate (for 90-day fixed-term deposits) was 11.4% at the end of December, or 1.7 percentage points below the rate observed a year earlier,

Table 2
COLOMBIA: MAIN QUARTERLY INDICATORS

	1999				2000				2001 [a]				2002 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)	-6.7	-7.0	-3.5	0.7	2.3	3.6	3.3	1.8	1.6	1.7	0.9	1.4	0.5
Consumer prices (nationwide) (12-month variation, %)	13.6	9.0	9.4	9.1	9.7	9.7	9.2	8.8	7.8	7.9	8.0	7.7	5.9
Exports (millions of dollars)	2,421	2,797	3,081	3,277	3,122	3,184	3,412	3,302	2,978	3,141	3,239	2,931	2,747
Imports (millions of dollars)	2,506	2,557	2,594	3,001	2,789	2,887	2,880	2,983	3,176	3,358	3,188	3,113	2,754
International reserves (millions of dollars)	8,751	8,392	7,881	8,102	8,257	8,355	8,595	9,004	9,283	9,270	9,765	10,192	10,229
Real effective exchange rate [b] (index: 1995=100)	96.9	98.6	113.7	116.6	112.1	114.0	121.8	119.5	120.8	120.0	119.1	118.8	110.8
M1 (change from same quarter of preceding year)	-13.5	-2.5	4.1	11.6	22.9	21.9	23.1	19.9	9.1	2.7	-0.2	4.1	6.8
Real interest rates (annualized, %)													
Deposit rate	12.3	8.7	8.7	7.3	2.1	1.7	3.1	3.9	4.8	4.4	3.9	3.4	-3.9
Lending rate	19.8	17.9	17.0	13.7	8.5	8.3	11.1	12.0	13.6	14.4	13.3	11.4	2.7

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

which is equivalent to only half of the reduction in the monetary authority's intervention rate. Since the entire interest rate structure follows the same pattern, it is clear that the financial system passed on only part of the interest rate cut to its customers, thereby detracting from the effectiveness of monetary policy.

Monetary aggregates expanded at a steadily quickening pace throughout the year, with the exception of the money supply (M1), which adhered to the downward trend observed since the end of 2000 and finished the year with a 12.1% expansion, in which cash grew by 14.8% and current accounts, by 10%, in response to the changes made in the regulations governing the tax on financial transactions (3 per thousand). Conversely, M2 grew by 10.7% and the broad monetary aggregate (M3) rebounded significantly, rising from an annual rate of 2.8% at the end of 2000 to 9.9% a year later, primarily because of the brisk growth in savings accounts.

Notwithstanding the interest rate cut, total lending rose by just 1% in nominal terms, meaning that it continued to contract in real terms, though at a slackening pace. The persistent downturn in credit reflected a number of factors. The intervention rate cuts made by the Banco de la República were not passed on in full to the financial system's lending rates because the system is still weak, though its condition has improved since 2000, and bank directors still perceive a high level of risk in the current economic conditions.

Even so, the financial system showed signs of recovery in the course of the year. The clean-up of assets by some entities and the improved performance of loan portfolios, particularly business loans, led to an improvement in the quality indicator, as non-performing loans fell from 10.7% in December 2000 to 9.3% a year later.

(c) Foreign exchange policy

The nominal exchange rate followed two opposite trends in 2001. In the first half of the year the peso's value depreciated, while in the second half it reversed course and began to appreciate in real terms. The latter trend largely reflected the Treasury's strategy of pre-financing government expenditure, which, though it yielded obvious benefits in terms of external borrowing, had an adverse impact on the peso's competitiveness.

As a result of these two trends, the exchange rate closed in December at 2,291 pesos to the dollar, which represented a nominal devaluation of 2.8%. This was below initial market expectations, even though the corresponding annual average was 10.2%. The real exchange rate stood at 115.8 in December, with an annual appreciation of 3.3%.

3. The main variables

Macroeconomic policy was hampered both by its limited room for manoeuvre under the framework agreed upon with IMF and by a decline in its effectiveness, especially in the area of monetary policy. As a result, in the atmosphere of uncertainty generated by the disruption of public order and the slackening of external demand, the real sector performed very poorly.

(a) Economic activity

Economic activity was sluggish throughout the year, resulting in GDP growth of only 1.6%, compared to 2.7% in 2000. The rate reached 1.8% in the first two quarters, slowed to 1.0% in the third quarter and picked up again, to 1.7%, in the fourth quarter.

Domestic demand was up by just 2.5%, as final consumption, especially that of households, grew very slowly (1.3%). The growth in investment was brisk (9.6%), but slower than it had been in 2000 (11.8%). Nonetheless, this increase is still making up for what was lost in the 1999 recession, and thus does not represent a new expansionary cycle. Export volume rose by 5.3%, despite the slowdown in demand from the United States, which was partially offset by the robust growth in the Ecuadorian and Venezuelan economies throughout the year. While imports posted a large increase (11%), they have not yet returned to the level they had reached before the 1999 crisis.

In terms of sectors, manufacturing took the steepest plunge, falling by 0.8% after having risen by 10% the year before. Mining and quarrying contracted again (-4.8%), but to a lesser degree than in 2000, when these activities shrank by 10%. This poor performance reflects the drop in petroleum output as a result of the depletion of existing deposits, which was partially offset by a volume increase in coal production. Agriculture (1.5%) and commerce (2.0%) showed meagre results, after having racked up much higher growth rates the preceding year. Construction, on the other hand, stopped contracting and ended the year with a 3.2% expansion (in 2000 it had slipped by 2.8%), confirming that the sector had begun to recover. Transport, storage and communications was the most dynamic sector, with a growth rate of 3.5%.

(b) Prices, wages and employment

Inflation, measured by the variation in the consumer price index (CPI), came in below the target announced by the Banco de la República (8.0%). At the close of 2001, the CPI showed an annual variation of 7.65%, which was 1.1 percentage points below its 2000 rate. This outcome was fostered by weak domestic demand and slower increases in rent, clothing and transport costs. On the other hand, food items, especially meat, as well as health services and some utilities, experienced above-average price hikes. The producer price index (PPI) rose by 6.9% in 2001, which was four points lower than its 2000 rate. This downward trend, which began in May 2001 after the index's growth had reached 11.1%, held steady until the end of the year.

Labour market conditions were still harsh. In December 2001 the unemployment rate was 16.4% in the country's 13 largest cities, which was similar to the rate observed in December 2000 (16.5%). Average unemployment, however, was 18.2%, compared to 17.2% in 2000. The sluggish economic growth over the past four years led to both an increase in the labour supply, owing to the drop in household income, and a decrease in demand for labour on the part of employers. The rise in unemployment in 2001 was accompanied by a rise in underemployment, while the employment rate remained stable. The overall participation rate rose to 64.2%, from 63.5% in 2000, as more women and young people joined the economically active population. Underemployment edged upward from 29% in 2000 to 29.9% in 2001. Real pay levels in industry, for both salaried employees and wage earners, deteriorated by nearly 0.3% in 2001, after having risen for two years running.

(c) The external sector

On the external front, 2001 saw an upturn in imports (9.8%) and a downturn in total exports (-4.6%). These trends upset the balance of trade, whose 2000 surplus of US$ 1.28 billion turned into a deficit of US$ 850 million in the space of a year. This, together with a deterioration in the factor income account and an improvement in the balance of transfers, resulted in a current-account deficit of US$ 1.69 billion, equivalent to 2.0% of GDP, for the year as a whole, which contrasted with the US$ 350 million surplus (0.4% of GDP) observed in 2000. The financial account posted net capital inflows equivalent to 3% of GDP, which exceeded those received in 2000 by US$ 1.9 billion. International reserves climbed by US$ 1.225 billion, closing the year with a balance of US$ 10.245 billion, equivalent to 10 months' worth of merchandise imports.

As external demand weakened and international petroleum and coffee prices slumped, the value of exports of these products plunged by 33% and 28%, respectively, with the result that traditional exports receded by 22% in the course of the year. In the case of petroleum, exports also fell in terms of volume owing to production and extraction problems caused by the guerrilla forces' acts of sabotage and the gradual depletion of existing wells. Non-traditional exports, on the other hand, continued to climb (10%); the best-performing products in this area were manufactures, particularly machinery and equipment; chemicals; food; textiles; and paper and paper products. The strong performance of non-traditional exports in 2001 was buoyed largely by the increased demand for Colombian products on the part of its Andean Community trading partners, especially Venezuela and Ecuador. Sales to these two countries grew by more than 30% and 50%, respectively, thus helping to offset the decline in sales to the United States, which fell off by a fifth.

Merchandise imports expanded by 11% in 2001, with the fastest growth seen in purchases of capital goods (especially industrial machinery and transport equipment), which were up by one third. A less dramatic increase was observed in imports of consumer goods (15%). Imports of intermediate goods, however, dipped by 2%.

The balance of the capital and financial account swelled from US$ 500 million in 2000 to US$ 2.9 billion in 2001. This increase primarily reflected the upswing in external borrowing, since net foreign direct investment (FDI) rose very little (totalling US$ 2.074 billion, compared to US$ 2.051 billion in 2000).

The increase in external borrowing was attributable to the higher level of government financing through bond issues (US$ 2.5 billion), which, after amortizations are deducted (US$ 430 million), showed a net variation of US$ 2.070 billion. The larger inflows received from bond issues reflected the government's strategy of alleviating pressure on the domestic market and of pre-financing, in 2001, the amounts that would be needed the following year.

Colombia's total external debt rose from US$ 36.39 billion in 2000 (44% of its GDP and 2.3 times its annual export earnings) to US$ 39.88 billion in 2001 (48% of its GDP and 2.7 times its annual export earnings), largely because the public sector stepped up its external borrowing, which amounted to US$ 23.54 billion in December 2001 (28% of GDP), or US$ 2.84 billion more than the 2000 level. Private external debt reversed the declining trend it had shown between 1998 and 2000, climbing to US$ 16.35 billion (20% of GDP), with an annual increase of US$ 650 million over its 2000 value. This increase reflects the additional external obligations incurred by non-financial firms. The financial system, meanwhile, reduced its commitments by US$ 167 million.