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COLOMBIA
RECENT ECONOMIC AND POLITICAL TRENDS

An exclusive report for Eximbank

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I. RECENT ECONOMIC TRENDS

Fedesarrollo's initial projection of economic growth for 1996, before the political situation deteriorated in late January, was 4.4%. The new events in the political front, and their possible effects on economic performance led us at the time to revise our economic projections. The new estimate of economic growth for 1996 was then 3.8%, meaning that the political situation would cost the country, 0.6 points in economic growth. This rate of growth, however, implied that the political crisis would be over by April this year, and that the United Stated would certify Colombia's effort in the fight against drug trafficking[1].

None of these happened. On March 1, the United States decertified Colombia's efforts in the fight against drugs, and the political crisis is not yet over. Furthermore, the country is now under the permanent threat of economic sanctions by the US. All this combined, has affected economic activity. In fact, most economic indicators deteriorated during the first half of 1996. In July, under this new set of circumstances we revised our economic projections for the year once again, and our new estimate of economic growth for 1996 is 3.1%[2]. The Government acted in the same way. Just recently the official estimate of economic growth for the year was adjusted from 4% to 3.5%.

A. Real Sector

1. Economic Growth

According to the latest official estimate, economic growth in 1995 was 5.3% boosted by very high growth in the mining sector (17.8%), and the services' sector (5.4%). Other sectors such as industry and construction (housing) contracted drastically last year.

On the demand side, total consumption in 1995 increased by 5.9%, with an increase of 5.5% in public consumption and of 6% in private consumption. Total investment grew 9% during the year, far below investment growth in 1994, which reached 13.6%. The decrease in investment was prompted mainly by the cancellation, in some cases, and the postponement in others, of private investment projects due to the political crisis and to the uncertainty it generated.

In the first quarter of 1996, GDP growth was 3.9%, as compared to 7.8% in the same period last year. During this quarter, contraction was especially noticeable in industry and construction. In the second quarter, the slowdown continued, as economic growth dropped from 4.7% in the second quarter of 1995 to 2.2% in the same period this year. The average growth rate for the first semester was 3%.

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[1] Every year, on March 1, the President of the Unites States has to decide whether or not to certify a country's efforts in its fight against drugs. He then has to notify Congress of his decision, and Congress has 45 days to back or reject the president's decision. If a country is not certified, the President may apply economic sanction to that country.

[2] Fedesarrollo's economic projections are carried out twice a year, in January and July. Projections are based on a general equilibrium model which includes the detail of economic activities of firms, families, government and the foreign sector, taking into account the sources of their income, the amount and composition of their outlays, as well as their saving decisions.

1.1 Industry

Performance in the industrial sector in the first five months of 1996 was rather poor, showing a minimum growth rate of 0.1% in the five-month period. The drop in domestic demand has led to the accumulation of stocks in this sector, and thus to the reduction of productive activity.

Production of consumer goods has been led by the foodstuffs industry (9.1% growth in the five-month period), where activity is still showing some dynamism. Also, the textiles industry, and the clothing industry which had been depressed for the past four years, grew at very high rates between January and May, 14.2% and 7%, respectively. Production increases in these two sectors were induced by extremely high sales to the Venezuelan market, as increasing inflation in that country along with a fixed exchange rate increased competitivity of Colombia' s products in that market. As these two sectors are highly dependent on this market, the devaluation of the bolivar last April will surely affect their activity in the near future, especially now that the Colombian peso is showing a strong revaluating trend[3].

The beverage industry which together with the foodstuffs industry make-up for almost 23% of total industrial GDP, after registering growth rates above 15% in 1995, slowed down drastically in 1996. In the first five months, production growth in this sector was a negative 10.9% as compared to 18% in the same period of 1995. An over increase in investment in this sector in past years induced by very strong competition in the domestic market, as well as the reduction in demand explain deceleration in this sector.

In the first five months of 1996, with the exception of oil products and chemicals, growth rates in practically all industries producing intermediate goods were negative. Industries producing goods for the construction sector have been severely affected by the negative cycle in this sector, mainly in housing. Production of iron and steel decreased by 6.6% between January and May 1996, while contraction in the glass and cement industries was 13.3%, and 11.3%, respectively.

Production of capital goods has slowed down, as private investment has weakened. Contraction in the automobile industry has been very strong, showing a negative growth rate of 7.2% in the first months of 1996. In this sector the demand has weakened thoroughly, following a period of very strong demand, stimulated by the opening of the economy in the early nineties, and the spending boom experienced by the Colombian economy in the years after.

1.1.1 Opinion Indicators

Opinion indicators derived from Fedesarrollo's monthly survey to industrialists which seemed to have improved in July, deteriorated again in August. In fact during this month, there was a marked increase

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[3] The foreign exchange market in Venezuela was liberalized on April 16, 1996. The exchange rate to the dollar which had been fixed since June 1994 at Bs.170/US$1 until December 1995, and at Bs. 290/US$ until its liberalization in April, immediately moved to Bs. 470/US$1, implying a devaluation of 62%. Since Venezuela is Colombia's second most important market for non-traditional exports, the change in relative prices resulting from the devaluation, strongly affects competititvy of these exports in that market.

in guerrilla activity along with a deterioration of public order in the major cities which undoubtedly affected economic performance. These new factors have to be added to the already disturbed climate caused by the political crisis, and the threat of economic sanctions by the US.

1.2 Retail Sales

Retail sales registered very high increases between 1992 and 1994, resulting from very low interest rates, and very lax credit conditions. As of 1995, as demand weakened in response to a very harsh monetary stance adopted by the Central Bank in an effort to cool down the economy, sales slowed down considerably. Retail sales in real terms decreased 3.6% in the first five months of 1996, as compared to a positive growth rate of 3.6% in the same period last year.

Excluding sales of foodstuffs, beverages, clothing and drugs, which increased at a moderate growth rate of 2% between January and May, all other sales have dropped considerably. Auto sales decreased by 19.9% in the five-month period.

1.3 Construction

Following a period of great expansion during 1991 and 1994, the construction sector (excluding public works) is now going through a strong recession. Although deceleration in this, and other cyclical sectors was expected, the incidence of very high interest rates, the weakening of demand, as well as economic uncertainty contributed to an even deeper deceleration in this sector. In the first semester of 1996, construction permits (number of sq.ft. approved) which are used as an indicator of performance in this sector, decreased by 23.3%, as compared to the same semester of 1995. In Bogotá, which concentrates 45% of all construction activity, permits dropped by 24.5% in the six-month period.

In this same period, the amount of credit disbursed to builders dropped by 14.4%, while total dispatches of cement, also used as an indicator, decreased by 7.9% during the first six months of 1996, compared to an increase of 9.5% in the same period last year.

1.4 Mining

In 1995, growth of the mining sector was 17.8%, thanks to the expansion of the oil sector which grew 30% last year. During 1995, average oil production was 584,858 barrels per day (0.96% of total world production), allowing for an increase of 64.3% in oil exports. Growth of production in 1996 will be a moderate 4.3%, since the construction works necessary for the expansion of production are still under way.

The international price of oil has been very good this year, surpassing all estimates, averaging US$20/B. However, the average price used in all projection is US$16.6/B.

1.5 Agriculture

The latest estimate for the coffee harvest in 1996 is 12.7 million 60 kilo-bags, 7.3% lower than last year's crop, mainly because of adverse weather conditions, and poor harvesting practices by coffee growers, due to a drop in real coffee incomes. The incidence of coffee in economic performance is large, since it participates with approximately 4% of total GDP, and coffee income highly affects demand.

Coffee exports in 1995 amounted to 9.85 million 60 kilo-bags, far lower than the original projection due to Colombia's participation in the ACPC since June 1995. Exports in 1996 are estimated at 10.5 million bags.

1.6 Economic Forecasts

As mentioned before, poor performance during the first six months of 1996, as well as a set of other circumstances[4] led both Fedesarrollo and the Government to revise downward their projections of economic growth for the year. The Government is projecting a growth rate of 3.5%, far lower than the 4.9% growth rate initially projected, with the following breakdown: agriculture 2.8%, manufacturing industry 0.7%, mining 11.5%, construction 4.4%, and services 4.5%.

Fedesarrollo's latest projections (July) are based on the assumption that the possibility of the US applying economic sanctions are a permanent threat, which contributes to deteriorate even further the already disturbed investment climate. Our estimate of economic growth for 1996 was revised to 3.1%. Economic growth is practically the same with or without the oil production, since growth in this sector will not be outstanding this year. On the contrary, if government services are excluded, economic growth falls to 2.6%, reflecting the major role played by public expenditure this year. In fact, public expenditure pressures demand, and thus economic growth. Public expenditure in infrastructure and mining this year is increasing at a much higher rate than nominal GDP, clearly contributing to economic growth.

On the demand side, following last year's trend, the decrease in private consumption (estimated at 1.4%) will act as the main constraint for growth in 1996. The main restrains on spending come from high interest rates, lower purchases of capital goods, lower coffee producer's income, higher contributions to Social Security, and higher taxes from the December's fiscal reform. More recently, remarkable increases in the tariffs of public services have been added to the list. Total investment which increased by 13.6% during 1995, is expected to grow by 2.3% only, due to the plummeting of private investment.

Finally, to conclude this section we would like to point out Colombia's present strengths and weaknesses. On the positive side, the country has the potential for achieving growth rates above 5% in the future. In fact, during the early nineties private investment increased considerably, and is expected to continue within this trend, as the private sector is becoming increasingly involved in projects of infrastructure. Also, despite the oil boom and its tendency towards stimulating growth of sectors which produce non-tradable goods -construction and services-, the economy has grown

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[4] The drop in private investment, the continuation of the political crisis, and the threat of economic sanctions by the US Government.

soundly, maintaining a sectorial balance. Performance of manufacturing production and agriculture have been quite good, the latter far better than expected by official estimates.

Sound external financing is an outstanding characteristic of Colombia's economic situation. The country was always serviced its foreign debt promptly, and thus has been able to maintain continued access to foreign indebtedness under the best of conditions. Furthermore, due to the growing strength of its foreign sector, the country has shown a constant improvement of its foreign debt indicators over the past years. Foreign debt as a percentage of GDP went down from 40.8% of GDP in 1985, to 30.4% of GDP in 1995. In 1996, despite the growing fiscal deficit at the government level, and the effects of the political crisis, the government was able to place all the bonds it planned in foreign markets.

Oil production consistent with present investment is expected to peak in 1998. However, new oil fields have been discovered recently, which could extend the oil boom for many years. Notwithstanding, this possibility is limited to the amount of investment the government and its foreign partners are willing to undertake.

The last of Colombia's present strengths is its level of international reserves, which at the end of 1995 amounted to US$8.3 bn., equivalent to 8.8 months of imports. In 1996, despite all problems, the year will end with a level of international reserves of US$7.9 bn., equivalent to 7.4 months of imports.

On the weaknesses' side, the low level of domestic saving is perhaps Colombia's most fragile spot. The country cannot continue depending on foreign saving. A great effort must be made to increase the present level of saving in order to increase investment, and assure high rates of economic growth in the future. As a matter of fact, the country should set as a national goal the increase in investment rates to 25% of GDP (from today's 20%). This would require an even larger increase in national savings which are on the order of 15% of GDP. The international experience leaves no doubts on the need to invest in order to grow, and to save in order to invest. A current account deficit of the size we are expecting this year is not sustainable, and makes the economy more vulnerable to external shocks.

Although a great effort has been made by the monetary authorities to reduce inflation, success in this front has been modest. The Social Pact has not been able to eliminate the indexation of the economy. In fact, rises in prices of most services included in the pact have surpassed the inflation rate. As a result, core inflation is increasing this year.

The last of the country's weak spots is the fragility of the fiscal accounts, and the difficulty in the short term to act on this front. However, the fiscal situation as it is today is not sustainable and important measures need to be taken. In a country with already high rates of taxation, it is clear that much has to be done in the front of current expenditures by the Central Government. The country is trapped in a bad equilibrium of political decentralisation while much of the budget is still managed by the Central Government. The country has to choose which way to go.

2. Inflation

One of the main achievements of Colombia's new Constitution in 1991 was the independence of the Central Bank in the management of credit, monetary and exchange policy. Since then, one of the

Central Bank's main objectives has been to reduce inflation. Until 1994, average inflation in the last twenty five-year period was 22%.

In December 1994, the new Government which had come into office in August signed a tripartite price and wage pact, known as the "Social Pact" in order to bring down inflation. The Pact included an inflation target of 18% for 1995. Although, the 18% target was not reached, inflation at the end of 1995 was 19.5%, 3.1 points lower than in 1994. However, increases in prices of some services, such as education, housing and health care surpassed not only the 18% target, but were beyond 22%. That year, the main contribution to the reduction of inflation came from foodstuffs, and public services. However, the later at the cost of postponing necessary increases in tariffs.

In December 1995, the Government engaged once more in a Social Pact for 1996, aiming at reducing inflation to 17% this time. However, by the end of August it was quite obvious that the 17% goal would not be achieved, since inflation that month had already reached 17%, and 21.06% for the last twelve-month period.

A breakdown of the CPI up to August, shows that the Government is to blame for the failure in achieving the inflation target this year. In fact, increases in the prices of most government controlled prices have surpassed the 17% target. In the first eight-month period, education -tuition- increased by 46%, transportation 18%, and health care 26%. It is obvious that unless all parties involved in the Pact are fully committed to the cause of reducing inflation, the pact will not work. And in 1996, the government has pressured inflation both by increasing prices beyond the 17% limit, and by insisting on a fiscal expansionary policy which pressures demand.

Fedesarrollo's original projection for inflation in 1996 was 19.5%. Taking into account the increases in government controlled prices, as well as the recent increases in the prices of foodstuffs[5], Fedesarrollo is now projecting an inflation rate between 20-22% in 1996.

3. Employment

Following a sharp increase in 1994, the rural unemployment rate stabilised during 1995. Indeed, this rate had increased from 4.4% in September 1993 to 5.5% in September 1994, and remained almost at this same level through the following year, reaching 5.4% in September 1995. This improvement in rural employment conditions resulted from the recovery of the agricultural sector after the acute crisis of 1992 and 1993. On the contrary, the urban unemployment rate rose sharply from 8.1% in September 1994 to 9.3% in the same month of 1995. This was the combined effect of an increase in the participation rate and a stagnation of the occupation rate.

The increase in unemployment intensified in 1995. In December of 1995, for the seven major urban centres, the rate of growth of employment fell from 3.52% in 1994 to 1.95% in 1995, resulting in an

[5] Foodstuffs make up for 35% of the total CPI.

increase of the unemployment rate from 7.9% to 9.5%. Only 98,007 new jobs were created, as compared to the 170,000 new jobs generated in 1994. Deterioration in the labor market continued in 1996. The unemployment rate in March 1996 reached 10.4%, 2.4 points higher than the 8% rate of March 1995, consistent with the very low increase of 0.9% in employment in the twelve-month period. By June 1996, conditions in this market had worsened. The unemployment rate increased from 9% in June 1995 to 11.7% in June 1996.

Two factors explain the deterioration of the labor market in the past year. The slowdown of economic activity, specially of retail trade and housing construction, which generate more than one third of all jobs. Employment in these sectors grew -1.33% and 0.7%, respectively (in 1994 this growth rates were 4.23% and 9.21%). The marginal contribution of these two sectors to the new jobs generated was -15.2% in 1995, while this contribution was 41% in 1994.

The second factor affecting the labor market was the movement in manufacturing sector towards more capital intensive and skilled labor intensive technologies versus unskilled labor technologies. This change which took place between 1991 and 1995 was the result of the structural reforms, which lowered the relative price of capital. The decline in the demand for unskilled labor and the increase in the demand for skilled labor increased the wage differentials by 20% in this period. In the early nineties, the reduction in the demand for unskilled labor was no problem since it was absorbed by the construction sector which at the time was going through a boom. However, when this boom ended, many of the unskilled workers were released from their jobs, and have either entered the informal sector or are unemployed.

The rate of underemployment grew from 12.2% in 1994 to 13.2% in 1995. The National Household Surveys show that between September 1994 and September 1995, the only type of employment that increased was self-employment, of which 92% is informal. The Manufacturing sector which showed high growth rates during the first three years of the decade, and then a sharp drop in 1994, recovered slightly in 1995, mainly in the last quarter. This has helped to lower the growth of the underemployment rate.

B. External Sector

1. Trade

In 1995, trade deficit reached US$2.5 bn. (3.2% of GDP). Total imports amounted to US$13.9 bn., showing a 17% increase over the previous the year, while total exports reached US$10.4 bn., 15.5% higher than in 1994. Throughout most of 1995, for the first time in many years, imports increased at a lower rate than exports.

Non-traditional exports expanded rapidly during 1995, increasing by 17.3%. Exports to the Andean Group Region, mainly Venezuela, account for the good performance of foreign sales last year. In fact, despite adverse economic conditions in Venezuela, sales to that market increased by 76.3% in 1995.

In the first five months of 1996, total exports amounted to US$4.2 bn., 10.4% higher than last year's growth in this same period. Imports were US$ 5.5bn., registering a growth rate of only 1.9% between January and May of 1996.

Contrary to 1995's performance, exports of non-traditional goods up to May 1996 had practically stagnated, registering a negative growth rate of -0.1% in the first five months of 1996. However when exports of emeralds are excluded from the total, exports of other non traditional goods increased by 5.7% in the five-month period. The slowdown in exports of non-traditional goods is caused mainly by a decrease of the devaluation of the Venezuelan currency last April which affected Colombia´s competitiveness in that market.

Total imports between January and May 1996, reached US$5.5 bn. barely 1.7% higher than in the same period last year. This year, there has been an outstanding decrease in imports of consumer goods, which dropped by 27.3% in the five-month period. Imports of capital goods in the first five months of 1996 were slow, increasing by 2.6%, as compared to 10.8% during 1995.

2. External Accounts

According to the latest official estimates, the current account deficit in 1995 reached US$4.3 bn. (5.4% of GDP), attributable both to the trade deficit and the deficit of the service account. In fact, the service account deficit increased from US$1.6 bn. to US$2.4 bn., in the back of larger interest payments, resulting from a higher level of indebtedness both from the private and the public sectors. Also, the repatriation of profits by the large foreign corporations of the mining sector has contributed to the expansion of this deficit.

In 1996, as a result of economic contraction, total imports in 1996 will remain at their 1995-level, US$12.9 bn., while total exports will reach US$10.7 bn., 2.6% over last year's figure. Therefore, trade balance at year-end is estimated at US$2.2 bn.

The service balance in 1996 will be negative by US$2.6 bn., showing an increase in the servicing of the total debt, and in profit remittances by foreign companies. This year we are estimating a low level of net transfers, US$200 m, basically because under the present circumstances their is not much interest in bringing capital into the country through this account.

The result will be a total current account deficit of US$4.7 bn. (5.6% of GDP) in 1996, which in its most part will be financed with foreign direct investment, and long-term indebtedness. The remainder, around US$ 400 m., will have to be financed through international reserves. The year will close with a net level of international reserves of US$7.9 bn, equivalent to 7.4 months of imports. Deterioration of the capital account results from a lower net flow of short term credit and from a higher outflow of capital. Additionally, foreign investment will be lower by US$55m than initially estimated.

In the future, the capacity of Colombia to maintain the current account deficit with foreign direct investment and medium to long term debt is expected to continue. Even though it is generally accepted, that given the excellent growth perspectives for the next ten years, Colombia can continue to obtain the financing required, the Central Bank is following a cautious monetary policy.

The general perception in the world financial market about the sustainability of the current account imbalance, makes more relevant the position of the Central Bank- Colombia's political crisis is testing the level of independence of the Central Bank. So long as a cautious monetary policy is continued, and the unavoidable fiscal adjustment package is put in place by 1998, financing of the balance of payments will be assured.

On the other hand, the deterioration of Colombia's fiscal situation could hinder Colombia's access to foreign credit only if the fiscal deficit at the government level continues to increase in such a way that it affects the consolidated deficit. If this deficit is kept around 2-3% of GDP, there will be no problems. The consolidated deficit expected by the Government for 1996 is 0.7% of GDP.

3. Foreign Exchange Market

Colombia's foreign exchange policy consists of a band system which was introduced in January 1994. The midpoint of the band was set at the market rate prevailing at that moment, while the width of the band was set at +/- 7%. That year the exchange rate continued to crawl at 11% per year. In the first half of 1994, the exchange rate remained in the middle of the band, but later moved to the lower part, reaching the bottom in late 1994. In December 1994, the Central Bank revalued the band by 7%, making the new parity equal to the previous lower margin. However, the crawl was increased from 11 to 13.5%.

During the first semester of 1995, as the revaluating trend persisted, hardly anyone believed that the 13.5% target would be attained. (nominal devaluation in 1994 had been 3.2%). In fact, interest rates were extremely high, thus stimulating capital inflows, and foreign private indebtedness continued to grow, despite the deposit requirements for loans with maturities below five years. Nominal devaluation in the first half of 1995, was 5.5%, against an inflation rate of 10.8% in the six-month period. In the second semester, things changed drastically in the foreign exchange market. The inquiries into the funding sources of the presidential campaign of 1994, and all the political unrest it generated, reversed the 5-year appreciating of the peso. From August 1995, until June 1996, the foreign exchange rate depreciated amidst a higher volatility. During this period, the exchange rate remained very close to the upper level of the exchange band, requiring the intervention of the Central Bank on several occasions. Most of the time, interventions of the Central Bank coincided with the development of some new political event driving the rate to the ceiling of the band. During this period, however, despite increasing pressure in the foreign exchange market, and growing expectations that the Central Bank would be forced to devalue sometime in the near future, the Central Bank remained firm in its decision to keep the present exchange band, crawling at a rate of 13.5% in 1996.

As of June this year, there has been a complete change of trend in this market. Both in July and in August, the currency appreciated in nominal terms. In fact, the average exchange rate moved from \$1072/1US\$ in June to \$1045/1US\$ in August. The appreciation of the Colombian peso in the past months results from increased capital inflows since April, due to the relaxation of restrictions on foreign indebtedness, and to large capital movements by the public sector.

4. Foreign debt

Colombia has been characterized with a prudent management of its debt obligations. However the process of total debt reduction, in terms of GDP, that took place in the past years, will not continue.

The increase in demand for financing resources of the Central Government will increase Colombia's indebtedness in 1996. Also, the major financing needed to develop the oil infrastructure will require important resources. In all there is an expected increase of total debt to GDP, but within reasonable bounds. Equally the debt-service ratio will remain stable, around 31%.

For 1997, and according to our projection that the Government will not be able to put in place a comprehensive fiscal adjustment plan (see fiscal section), the financing requirement of the Central Government implies a major effort to place bonds in the international market. For 1996, the net placement effort is US$1bn. while for 1997, a double of this amount will be needed, US$2.2bn.. However, given Colombia's medium term outlook, specially in the oil sector, it will be possible to place that amount of bonds in the international market. Nevertheless, this level is not sustainable in the future, since there is a limit to the amount of resources the Government can find in the rest of the world. Hence, the Government will have to adjust.

Decertification of Colombia's drug policy by the United States affects some operations with American government agencies. Although, the private financial system stepped in to cover, implications are higher debt-service ratios for 1996. The possibility of economic sanctions, and of decertification in 1997, increase the country risk.

C. Monetary Situation

1. Money supply and interest rates

In early 1995, the Central Bank announced that it would limit annual growth of M1 to 24.5%. At the time, the target seemed easily attainable given that capital inflows were expected to decrease due to the Mexican crisis. However, throughout 1995, growth of M1 averaged 14%, below the lower level of the monetary corridor. It was only in the last week of December that the monetary authority was able to place growth of M1 within the monetary corridor, reaching 19.7% at the end of the year[6].

Following last year's trend, monetary policy has been extremely tight in 1996. In the year ending August 27, annual growth of M1 was 9.9%, below the monetary corridor, and far lower than expected nominal GDP growth. Other money aggregates show a similar contraction. At first, this very austere stance of the monetary policy was intended to compensate for the extremely high levels of public expenditure. Later, as political developments pressured the exchange rate, it was used as a means to offset speculative attacks against the currency. In fact, the Central Bank in order to lower the pressure on the foreign exchange rate, both intervened in this market and limited growth of monetary supply. More recently, the low growth of monetary aggregates, results from a very weak demand.

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[6] Legal reserve requirements were modified twice during 1995. In May marginal reserve requirements on current accounts were reduced, while marginal reserve requirements on short term deposits were increased. The reason for this measure was to stimulate the funding of banks through current accounts. Later in July, marginal and legal reserve requirements on bank deposit were reduced in order to increase liquidity. In March 1996, once again and for the same reason, the Central Bank reduced from 40% to 36% the reserve requirements on short term deposits.

The combination of very austere monetary policy and expansionary fiscal policy resulted in extremely high interest rate during the first half of 1995 -the deposit rate increased to 14% in real terms-. Following an agreement between the Central Bank and the Government on the "optimal level" of public spending, interest rates fell around four points in average. This trend lasted until the end of November, when once again the Central Bank, in response to speculative attacks against the peso, restricted liquidity. Immediately interest rates increased to the June-level. This time however, despite all efforts by the Central Bank to induce a reduction in interest rates[7], they only decreased, when as a result of increasing capital inflows, devaluation expectations turned into revaluation expectations. As a matter of fact, in August, deposit interest rates fell from 32.5% to 29.5%. Lending rates have dropped too, although not as fast as deposit rates.

2. Credit Supply

In 1995, annual growth of total credit provided by the financial system fell from 45% in the previous year to 38%. This reduction was achieved partly because of the very high interest rates effective especially in the first semester of 1995, which curtailed demand both for consumption and investment. Also, given the slowdown in economic activity, and thus the deterioration of the loan portfolio, the financial institutions have become very cautious on to whom they lend their money.

For 1996, the Central Bank announced that it would limit growth of credit to 29%, as part of its strategy to reduce inflation. However, contraction in most sectors has reduced demand for credit resources, and thus total credit disbursed has grown at a lower rate of 28% this year.

D. Fiscal Situation

The development plan of the Samper administration (El Salto Social), although approved in full by Congress in June 1995, it has been severely criticized not only because its financing was not feasible, but because the plan itself seemed impossible to be carried out in full. As time has gone by, all doubts regarding the plan have proven to be true. The plan has not been executed as projected, and the fiscal accounts, are already out of control. Indeed, according to the Plan, the public sector as a whole was expected to post a surplus of 0.7% of GDP in 1995, and to stay basically in balance between 1996 and 1998. Instead, the deficit ran by the Central Government in 1994 was 1.1% GDP and 2.7% in 1995. Last year, total current expenditures amounted to 13.4% of GDP, while current revenues were equivalent to 13.3% of GDP. In 1995, for the first time in many years, Colombia registered negative savings at the central government level (0.3% of GDP). Investment which reached 2.4% of GDP in 1995, had to be financed through public debt.

In 1995, the rest of the public sector ran a budget surplus of 2.07% of GDP, which was used to finance the Central Government. At the end of the year the deficit of the consolidated public sector

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[7] Legal reserve requirements have been reduced three times this year, the minimum interest rate for Central Bank's bonds (OMAS), which acts as a floor for all interest rates was reduced from 30% to 28%, and the interbank interest rate was fit into a 25%-35% band.

was 0.9% of GDP, after privatization, far away from the 0.7% surplus estimated in the plan for that year. For 1996, the government is estimating a consolidated deficit of 2.16% of GDP (excluding privatizations), with a deficit of the Central Government reaching 4% of GDP. However, the IMF in its latest report announced that the deficit this year would be more around 4.1% of GDP, because of lower tax receipts. Also, this year, despite the tax reform approved in December 1995, which is supposed to increase fiscal revenue by 1% of GDP, the Central Government will show negative current savings of around 1% of GDP. The increase in the service of the debt will take most of the proceeds of the fiscal reform.

The factors that have led to the deterioration of the fiscal accounts are two-fold. On the one hand, revenues have been lower than estimated, the privatization process has been slow, and above everything the Central Government has been spending too much. On the other, there are some structural factors which have also contributed to expansion in public spending in the last years; the increasing share of transfer payments to municipalities, from 4.9% of GDP in 1991 to 8.9% of GDP in 1996, and the rise in social security transfers.

In fact, the Constitution of 1991 in an effort to de-centralize the administration established that an increase share of current government revenues should go to local and regional governments. The transfers are tied to investment, particularly in education and health care. However as the Government has been increasing these payments, it has not abandoned its spending attributions. This has led to a situation in which the Government continues to spend in projects for which it has no assigned revenue and which should be taken up by Municipal Governments. One way out of this situation of overspending is to reduce the size of the transfers. However, under the present political situation this is no easy task, since it requires that the Constitution be amended. Since the fiscal situation is not sustainable in the near future, the Central Government will have to cut down on spending. In fact this is exactly what it has announced it will do. Just recently the government submitted to Congress a project of fiscal adjustment which aims at reducing total public expenditure in 1997 by US$2 bn. (see the section on economic policies).

E. Foreign Trade Policy

A review of the documents presented at the meetings of the Council for Trade Policy (the highest decision making authority on trade policy), as well as the reports of its deliberations between August 1994 and July 1995, shows that integration issues have received very low priority during this administration[8]. The issues that have concentrated the attention of policy makers involve the fine tuning of trade policy, especially regarding competition in some sectors[9]. Also, the agenda has been

[8] Discussions have been limited to negotiations towards the Andean Common External Tariff; the convenience and the strategy for negotiating BITs (in general) and an intellectual property rights (IPR) agreement with the US. Other related issues were the approval of the preferences granted to Panama in a bilateral agreement that had been negotiated and signed at the end of the Gaviria administration and the extension of the bilateral agreement with Perú, in view of the continued postponement of this country's return to the Andean Pact.

[9] Safeguards against textiles, clothing and shoes from China, rice from Vietnam and Venezuela, polypropylene sacks from Ecuador, and corrective tariffs on sugar and corn products imports from Venezuela.

busy with measures oriented toward reinforcing local customs procedures in order to deal with contraband[10] and increasing subsidies to export sectors facing 'critical' situations. Particular attention has been placed on trade policy measures that define the new orientation of agricultural policy[11].

This review is not, however, comprehensive of all the activities of the trade authorities in terms of integration. There have been other developments, such as the meetings with Mercosur, which have been discussed at the Andean level and therefore do not have to be discussed before the Trade Policy Council.

The main advances in integration during the present administration include the conclusion of negotiations towards a common external tariff for the Andean Group, the initiation of conversations with Mercosur, and some progress towards institutional reform and strengthening of the Andean Pact. There have also been some pre-scheduled meetings to deal with unresolved issues in the G-3 agreement, particularly in the areas of services, sugar trade —both with modest results—, and meetings of the Administrative Commission of the Chile-Colombia agreement. The negotiations with Central America have not been resumed.

II. ECONOMIC POLICIES

According to the Constitution enacted in 1991, economic policy in Colombia is the joint responsibility of the independent Central Bank and the Executive. For all practical purposes, monetary and exchange rate policies are confined to the realm of the Central Bank. The Minister of Finance is one of the seven members of the board (and acts as its president) but has no veto power. The government's role in economic management is, therefore, restricted to fiscal policy and other sectorial policies, especially foreign trade policy. This section reviews the main policies implemented in the 1996.

Capital Controls. As it was mentioned in our past reports, in September 1993, the Central Bank adopted a one year 47% (non-remunerated) reserve requirement on all foreign credits with maturities inferior to 18 months[12]. As pressure toward the appreciation of the currency continued this measure was considered insufficient. The requirement was extended in March 1994 to loans with maturities below 36 months[13]. However, in this case the reserve requirement was set in proportion to the holding

[10] Decision to use foreign companies to certify price, quantity, origin and condition of imports of products where under-invoicing and tariff fraud were a common occurrence (it was recently approved for approximately 25% of imports); new and more strict requirements for custom agents and deposits; special customs controls on the border with Venezuela.

[11] A prior approval of imports is now required in the case of those crops where purchase agreements have been designed (tariff reductions for imports complementary to these crops have also been implemented).

[12] The mechanism is based on certificates issued by the monetary authority, denominated in foreign exchange and redeemable in domestic currency after a 12 month holding period. Resolution 21 (1994). Paradoxically, in other aspects this resolution liberalized capital flows. Colombian nationals were allowed to hold financial assets abroad and the issuing of ADR's and GDR's was made more flexible.

[13] Resolution 7 (1994).

period of the deposits at the Central Bank: 93% for 12 month deposits, 64% for 18 month deposits, and 50% for 24 months deposits (regardless of the maturity of the loan). The borrower was given the option to choose the desired holding period. In August 1994, under a new presidency, the board of the Central Bank extended non-remunerated deposits to all foreign loans of less than 5 years. A decreasing reserve ratio was adopted (140% for loans of less than 1 month; 42.8% for those with maturities between 59 and 60 months) with a holding period identical to the maturity of the loan (although redemptions are allowed with a high discount). However, in all resolutions a large number of exemptions has been granted[14].

However, no matter how restrictive all this might have seemed, private sector's medium and long term indebtedness is estimated to have doubled in 1994. In fact, borrowers were not willing to lose the opportunity of taking advantage of the large interest rate differentials, and therefore moved to longer maturities, eluding the controls. During 1995, as the controls came into effect, net private inflows became negative. This together with the weakening of capital inflows which resulted from the political crisis led the authorities to loosen the controls on March 1996. Maturities over 3 years do not require deposits now. At the same time, commercial banks have been allowed to borrow abroad and lend in domestic currency.

Interbank interest rate. In May, the interbank interest rate which to a certain extent reflects the economy's liquidity was limited to a range between 25% and 35%. In fact, at the end of 1995, this rate was allowed to increase to 55%, with very harmful effects on deposit rates. In fact, it has been proven that increases in the interbank rate are followed by increases in deposit rates some three weeks later.

Fiscal adjustment. The Government submitted just recently for approval by Congress a project which aims at reducing public expenditure by US$2 bn. in 1997. Without this adjustment in Government expending the deficit of the Central Government in 1997 is estimated at 4.5% of GDP.

The outlook for 1997 is that without the adjustment, the overall fiscal balance can reach a minus 2.3% of GDP. With the adjustment, this deficit will come down to 1.4% of GDP. The project includes the following items:

On the expenditure side: wage increase of 7.5% for civil servants; reduction of the growth rate of transfers to local governments; elimination of a matching grant fund for the pension and health system. On the income side, redirect income from other government agencies to the Central Government.

There is strong opposition to each of the proposals, Given the track record of the administration in negotiating wage settlements with public service unions, it is highly unlikely that the wage increase can be negotiated below the inflation rate. The reduction of the transfers to local governments is rejected by some of the most prominent members of Congress. The adjustment to the social security

[14] Related to import and export financing, capital used in privatizations and concessions, loans contracted by Colombian nationals to finance investments in other countries plus previously registered loans. See Bernal (1995) for details.

and health system is to be accompanied by a long term reform, however, the Government has not made clear its proposal.

To finance the fiscal imbalance in 1997, the government is counting on the acceleration of the privatization plan. Carbocol was additioned to the list of government assets to be auctioned off next year, at an expected price of $740 millions. No approval of the fiscal adjustment plan by Congress implies an additional need of resources for US$3 billion. This will put additional pressure on the domestic interest rate and exchange rate.

Since at the present time, the fiscal adjustment plan is being studied by Congress it is hard to tell whether it will be approved or not. Notwithstanding if it is not approved, and the government is not able to finance its expenditure, investment will most likely be affected.

Privatization Program 1996 - 1997. The latest official fiscal projections estimates privatizations at US$625m for 1996, and at US$800m for 1997 (see annex 2). At the time, these privatization processes are under way, and the government expects to carry them completely within 1996.

III. RECENT POLITICAL EVENTS

In December 1995, the special Committee which had been appointed by Congress to investigate the possible involvement of president Samper in the financing of his presidential campaign by drug-traffickers, found no grounds on which to judge him, and dismissed the case. The new year began with renewed optimism as it was thought the political crisis was over. However, in late January, former finance Minister, Fernando Botero, who had been in prison for five months, turned against Samper, and came up with new evidence which incriminated him. The Committee of Investigations was then forced to re-open the case against the president.

In the mean time the United States[15], through its Ambassador in Bogota, advised the Colombian Government that it was highly possible that his country would not certify Colombia's effort in the fight against drugs. Although, great efforts were made in order to avoid decertification nothing worked, and indeed Colombia was decertified on March 1, 1996. This increased the pressure on the president to resign. However, not only he did not resign, but he repeatedly reassured the country that he was innocent.

In May 1996, the Committee of investigations once again found no grounds on which to involve the president in the Proceso 8000[16]. However, according to the Constitution, the final decision regarding the president's responsibility in this affair had be made by the Lower House. In this sense, the decision made by the Committee was just a recommendation.

[15] The Government of this country is convinced that Samper has been involved with druf-traffickers for many years.

[16] This was the name given to the porcess which investigates the proceeds of the financing of the liberal presidential Campaign of 1994.

Following this procedure, the Lower House began the debate in the last week of May. This House is made up by 93 members of the Liberal Party; 58 of the Conservative Party; 2 former guerrilla members, 2 representatives of the black people, 2 Christians, and 5 independents. The House had to weeks to come up with a decision.

As expected, two weeks later, the House announced that they had finally made a decision, and that they found the president innocent of everything he had been charged of. This immediately prompted a response from Washington. This time the United States was officially demanding the extradition of 4 Colombian drug-traffickers. Also, the threat of economic sanctions by the United States became once again part of the agenda. The Samper's Government reacted this time by enticing nationalism. In July, the United States removed President Samper's visa into the United States.

Despite this new strategy, increasing pressure by the United States has continued to govern the political climate. Extradition which was thought something of the past, is now being discussed by all political groups, and Congress will have to make a decision on this subject during the present Legislature of Congress which began on July 20. That day in its inaugural session President Samper announced that his Government would submit for approval by Congress, a project of Constitutional reform. Indeed in the following days the projected was submitted.

In August, the Minister of Foreign Affairs, Rodrigo Pardo, and the Minister of Communications, Juan Manual Turbay resigned. They are both good friends of the President. They were respectively replaced by María Emma Mejía, former Minister of Education, and by Saulo Arboleda. Since the Ministry of Education was vacant, the President appointed Olga Duque as the new Minister of Education. Some months earlier, in May, Guillermo Perry had resigned as Minister of Finance. He was replaced by José Antonio Ocampo who was Head of the National Planning. Department

Increasing pressure from the United States has intensified the Government's effort in the fight against drugs within the country, concentrating in the eradication of cocaine plants. The result has been a great confrontation with the cocaine growers who are not willing to see their income reduced. In fact, the Government can not match what growers make from selling their cocaine to drug traffickers.

The second week in September, Vice-president Humberto de la Calle resigned in order to lead the opposition against the government. His resignation was long due, since he has never been in agreement with this Government. He will be replaced by Carlos Lemos Simmonds, another liberal who has always been loyal to Samper, and who is highly respected by most political groups. He is the present Ambassador of Colombia in Great Britain.

Miscellaneous. According to the Constitution enacted in 1991, economic policy is the joint responsibility of the independent Central Bank and the Executive. For all practical purposes, monetary and exchange rate policies are confined to the realm of the Central Bank. The Minister of Finance is one of the seven members of the board (and acts as its president) but has no veto power. The government's role in economic management is, therefore, restricted to fiscal policy and other sectorial policies, especially foreign trade policy.

So far, things have operated in exactly this way. The Central Bank's main objective has been to reduce inflation, and thus has kept a very austere monetary policy, while the Government has insisted on an extremely lax fiscal stance. The result has been an increase in interest rates. Notwithstanding, the higher credit costs are attributable too to expectations of a higher inflation rate this year, and to uncertainty in the foreign exchange market, specially during the first semester.

In the past weeks, interest rates have decreased slightly mainly due to the reduction in legal reserve requirements, and to renewed revaluation expectations. However, a definite solution towards the reduction of interest rates can only come from a radical fiscal adjustment.

Indeed, an increase in liquidity would only hamper all efforts of reducing inflation. Nevertheless, despite very tight monetary policy the Central Bank has not been successful in reaching the inflation targets set each year, and for this reason the Bank is now being seriously questioned. The government will most probably take advantage of this situation, and will try to convince the Central Bank, the private sector, and the public opinion of the benefits of increasing liquidity. And, from the government's point of view this would be its best option. Not only they could postpone the fiscal adjustment, but the economy would recover, this being a big asset in a pre-electoral year.

However, at Fedesarrollo we consider this strategy to be totally mistaken. The fiscal adjustment would in fact be postponed but at the cost of an even deeper fiscal problem in the future, and this for sure would hinder investment in Colombia.

IV. CHRONOLOGY OF MAJOR POLITICAL AND ECONOMIC EVENTS

Second Agreement on Prices and Wages "Pacto Social"	Signed in December,1995
Former Defense Minister involves the President in the Proceso 8000.	January, 1996.
The Committee of Investigations of the Lower House re-opens the case against the President.	January, 1996.
Colombia's drug policy is decertified by the President of the United States.	March 1, 1996.
US Congress ratifies Clinton's decision to decertify Colombia.	April 15, 1996
Restrictions on foreign indebtedness are relaxed.	April, 1996.
Legal Reserve Reduction.	April, 1996
Interbank interest rate is limited to a 25% - 35% range.	April, 1996
Finance Minister resigns.	May, 1996
The Lower House opens an investigation against President Samper.	May, 1996
The lower House finds no grounds on wich to judge the President.	June, 1996
The United States removes Samper's visa.	July, 1996
Congress starts its second Legislature	July 20, 1996
A fiscal adjustment project is submitted to Congress by the Government.	July 20, 1996
The Ministers of Communications and Foreign Affairs resign.	August, 1996
The Government confronts cocaine growers.	August, 1996
The Government reaches an agreement with cocaine growers.	September, 1996
Vice-president Humberto de la Calle resigned and Carlos Lemos Simmonds was appointed Vice-president.	September, 1996

V. DATA ON ECONOMIC INDICATORS

Table 1. ANNUAL ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996 Projection official	Projection Fedesarrollo	Source
Production and employment								
Nominal GDP in national currency units	26106698	33515046	42455915	56896565	72407014	89271598	89355387	Dane, DNP
Nominal GDP in US$	41628	49280	53974	68839	79316	82506	83517	Dane, DNP
Real GDP at constant market prices in national currency	749976	780312	820724	867916	913263	913263	941574	Dane, DNP
Real GDP growth. % change	2.0	4.0	5.3	5.7	5.2	3.5	3.1	Dane, DNP
Real Agricultural growth. % change	4.2	-1.9	2.1	2.0	5.2	2.9	1.7	Dane, DNP
Real Industrial Manufacturing growth. % change	0.8	4.5	2.3	2.8	1.0	0.7	1.1	Dane, DNP
Real Construction growth. % change	0.2	7.2	7.0	11.8	3.8	4.4	5.3	Dane, DNP
Real Services growth. % change	0.9	8.5	4.4	9.6	5.5	3.6	3.6	Dane, DNP
Petroleum Production in thousand barrels/day	509	525	543	454	579	603	603	Dane, DNP
Unemployment Rate. %	9.4	9.8	7.8	7.9	9.5	n.a	n.a	Dane
National account								
Consumption as a percentage of current GDP	76.6	80.9	83.4	82.7	81.7	84.3	83.8	Dane
Public Consumption	10.3	11.8	12.9	13.9	13.1	14.1	14.7	Dane
Private Consumption	66.3	69.0	70.5	68.8	68.6	70.3	0.0	Dane
National Savings as a percentage of GDP	22.7	18.5	15.5	15.0	n.a	n.a	n.a	Dane
Public Savings	9.7	8.6	8.3	8.8	n.a	n.a	n.a	Dane
Private Savings	12.9	10.1	7.2	6.2	n.a	n.a	n.a	Dane
Fixed Investment as a percentage of current GDP	16.0	17.2	20.4	19.4	21.3	22.6	0.0	Dane
Public Investment	7.3	8.1	8.0	6.3	7.9	9.0	0.0	Dane
Private Investment	8.7	9.0	12.2	13.1	13.4	13.7	0.0	Dane
Stock building as a percentage of GDP	1.4	1.6	1.5	1.3	8.5	8.7	n.a	Dane
Foreing Savings as apercentage of GDP	-6.7	-1.5	4.9	5.6	n.a	n.a	n.a	Dane
Prices and wages								
CPI, % change of 12 month average	30.4	27.0	22.4	22.8	20.9	18.2		Dane
CPI, % change at Dec/Dec	26.8	25.1	22.6	22.6	19.5	17.0	19.9	Dane
WPI, % change of 12 month average	27.6	20.1	14.2	17.2	18.1	16.5		B.R
WPI, % change at Dec/Dec	23.1	17.8	13.2	20.7	15.4	17		B.R
Wage rates or earnings. % change[1]	-0.9	4.3	8.2	5.5	3.6	n.a	n.a	Dane

[1] Wages Real Employment Index

Dane: National Statistic Department

DNP: National Planning Department

BR: republic Bank

Table 2. ANNUAL ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996 Projection official	Source
Goverment finance							
Central Goverment Revenue as a percentage of GDP	12.1	12.6	13.9	16.0	13.2	14.0	Confis
Central goverment Expenditures as a percentage of GDP	11.7	12.4	14.2	14.9	15.8	17.4	Confis
Central goverment Deficer (Surplus) as a percentage of G	0.4	0.2	-0.3	1.1	-2.7	-3.3	Confis
Net lending to other Goverment Institution	0.7	2.1	0.6	0.2	0.3	0.3	Confis
External Financing	0.2	0.5	-0.6	0.2	0.4	0.9	Confis
Domestic Bank Financing	0.0	-0.8	1.0	0.4	2.4	1.1	Confis
Domestic Non-bank Financing	0.1	2.3	0.5	-1.5	0.1	1.6	Confis
PSBR as a percentage of GDP	0.1	-0.1	0.1	0.2	-0.9	-1.6	Confis
Monetary sector							
Reserve Money, % change over a year ago	53.3	44.7	33.4	27.5	12.2		BR
Broad Money, % change over a year ago	33.6	38.7	40.9	38.0	29.0		BR
Domestic Credit to Central Goverment, % change	37.7	-17.7	33.9	18.8	n.a		BR
Domestic Credit to other public Sector, % change	31.7	-5.6	62.6	91.5	n.a		BR
Domestic Credit to private sector, % change	10.7	40.8	62.7	36.6	n.a		BR
Discount Rate / Bank Rate, % at end of period 2	41.5	22.6	25.1	27.8	30.0		BR
Money Market Rate / Treasury Bill Rate, % at end of peri	36.4	27.0	26.4	37.9	29.0		BR
Deposit Rate, % at end of period	37	27.5	26.9	38.9	33.2		BR
Lending Rate, % at end of period	46.8	35.3	37.1	46.6	38.9		BR
Equity Price Index, % change at Dec/Dec.	n.a	61:6	50.7	19.5	-14.3		BSE
External debt							
Total External Debt. in millions of US$	17312	16862	18370	21280	24606	27044.2	BR
Public and publicly guranteed medium -and long -	14464	13487	13164	12974	13616.4	15061.8	BR
Non-publicly guranteed medium -and long-term deb	958	1001	1806	4381	5349.7	6280.7	BR
Short-term debt	1890	2374	3400	3925	5639.9	5701.7	BR
IMFI (Organismos internacionales)	6174	5886	5728	5519	n.a	n.a	BR
Debt Service Ratio, % exports	23.1	23.2	24.7	24.3	23.6	23.7	BR
Total External Debt, as a percentage of GDP	41.6	34.2	34.0	30.9	31.0	32.8	BR

Confis: Consejo Nacional de Política Fiscal
BR: Republic Bank
BSE: Bogotá Stock Exchange

Table 3. ANNUAL ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996 Projection official	Projection Fedesarrollo	Source
Balance of payments								
Merchandise Exports. in millions of US$	7507	7263	7428	8756	10418	11404	10664	BR. DNP
Merchandise Imports. In millions of US$	4548	6029	9087	11043	12922	14215	12908	BR. DNP
Trade Balance. in millions of US$	2959	1234	-1659	-2287	-2504	-2810	-2244	BR. DNP
Balance on Services and Transfers. In millions of US$	-2310	-2052	-1571	-756	-1753	-1950	-2444	BR. DNP
Current Account Balance. in millions of US$	2347	916	-2090	-3043	-4257	-4760	-4688	BR. DNP
Capital Account Balance. in millions of US$	-782	7	2001	3012	4955	5306	4283	BR. DNP
MLT Debt Flows (net)	-369	-635	-187	2081	695	432	1509	BR. DNP
Foreing Direct Investment (net)	433	679	710	1515	2131	3515	2691	BR. DNP
Overall Balance. in millions of US$	1565	923	-89	-31	698	547	-405	BR. DNP
Change in reserves. In millions of US$	1919	1293	156	133	323	128	-406	BR. DNP
Amount rescheduled. in millions of US$.	0	0	0	0	0	0	0	BR. DNP
Accumulation of arrears. in millions of US$	0	0	0	0	0	0	0	BR. DNP
Trade Balance. as a percentage of GDP	7.1	2.5	-3.1	-3.3	-3.2	-3.4	-2.7	BR. DNP
Merchandise Exports Nominal Growth Rate. %	6.0	-3.3	2.3	17.9	19.0	9.5	21.8	BR. DNP
Merchandise Exports Real Growth Rate. %	4.4	-15.9	-3.8	1.0	10.0	10.9	0.1	BR. DNP
Merchandise Imports Nominal Growth Rate. %	-11.0	32.6	50.7	21.5	17.0	10.0	-1.9	BR. DNP
Merchandise Imports Real Growth Rate. %	-12.3	14.9	42.2	4.2	8.2	12.2	-2.4	BR. DNP
Average Oil Exports Price in US$ per Barrel	18.4	17.8	15.8	14.7	16.7	11.4	16.6	BR. DNP
Internationa Reserves minus Gold. in millions of US$	6096	7541	7750	7890	n.a	n.a		BR. DNP
Gold Holding (National Valuation) in millions of US$	324	172	119	112	n.a	n.a		BR. DNP
International Reserves including gold. in millions of US$	6420	7713	7869	8002	8325	8453	7919	BR. DNP
International Reserves including Gold. in months of merchandise imports	16.9	15.4	10.4	8.7	7.7	7.1	7.4	BR. DNP
Average Exchange Rate. in national currency per US$	627	680	787	827	913	1082	1069.9	BR. DNP
End-period Exchange Rate. in national currency per US$	639	738	804	831	988	1156	1125.9	BR. DNP

BR: Republic Bank

DNP: National Planning Department

Table 4. QUARTELY ECONOMIC INDICATORS

	1Q	2Q	3Q	4Q	1Q	2Q	Source
Nominal GDP, in national currency units	11033157	11889306	11607776	12266026	11467421		DNP
Real GDP, al constante market prices in national currenc	215702	232440	226936	239805	224192		DNP
Real GDP growth, % change from a year ago	7.4	4.7	3.4	5.8	3.9		DNP
Industrial Production index, % change from a year ago	6.7	2.1	0.9	4.7	0.0		Dane
Period average CPI, % change from a year ago	21.0	21.4	21.1	20.0	20.4	19.8	Dane
Period average CPI, % change from previous period	6.5	6.8	2.9	2.5	6.9	6.2	Dane
Period average WPI, % change from a year ago	18.6	20.4	18.1	15.6	17.1	14.1	Dane
Period average WPI, % change from previous period	4.7	6.5	2.1	1.5	6.1	3.7	Dane
Reserve Money, % change over a year ago	15.9	22.6	20.1	11.2	22.5	6.6	BR
Broad Money, % change over a year ago	39.4	37.2	32.7	25.0	18.4	15.9	BR
Domestic Credit to Central Goverment, % change over a year ago							BR
Domestic Credit in other Public Sector, % change over a year ago							BR
Domestic Credit to Private Sector, % change over a year ago							BR
Discount Rate/Bank Rate, % at end of period	32.4	29.2	0.0	30.0	30.0	0.0	BR
Money Market Rate/Treasury Bill Rate, % at end of period	36.9	31.1	30.2	33.3	33.5	32.1	BR
Deposit Rate, % at end of period	35.2	34.0	30.0	33.2	33.4	32.1	BR
Lending Rate, % at end of period	45.2	43.2	40.4	38.9	45.3	43.2	BR
End-period Equity Price Index, % change from previous pe	-1.4	-20.1	-13.7	-20.8	-14.3	5.6	BSE
Merchandise Exports, in millions of US$	2347	2516	2388	2610	2400		BR
Merchandise Imports, in millions of US$	3148	3541	3553	3611	3246		BR
Trade Balance, in millions of US$	-801	-1025	-1165	-1001	-846		BR
Change in reserves, in millions of US$	312	353	-215	5	-465	45	BR
Merchandise Exports, % change over a year ago	38.4	28.7	3.7	8.2	2.3		BR
Merchandise Imports, % change over a year ago	27.6	21.3	8.4	11.8	3.1		BR
International reserves minus gold, in millions of US$	8206	8568	8354	8354	7903	7953	BR
Gold Holding (National Valuation) in millions of US$.	108	99	99	103	90	85	BR
International Reserves including Gold, in millions of US	8314	8667	8453	8457	7993	8038	BR
Average Exchange Rate, In national currency per US$	854	875	931	991	1029	1063	BR
End-period Exchange Rate, In national currency per US$.	880	881	967	994	1046	1069	BR

DNP: National Planning Department
Dane: National statistic Department
BSE: Bogotá Stock Exchange
BR: Republic Bank

Table 5. MONTHLY ECONOMIC INDICATORS

	1996							
	January	February	Marcch	april	May	June	July	Source
Industrial Production Index, % change from a year ago	-1,4	2,9	-2,7	3,5	-1,3			Dane
Period-average CPI, % change from a year ago	20,2	20,8	20,2	19,9	19,8	19,7	20,6	Dane
Period-average CPI, % change previous month	2,5	4,0	2,1	2,0	1,6	1,1	1,5	Dane
Period-average WPI, % change from a year ago	17,7	17,4	16,3	14,6	14,6	13,0	13,8	Dane
Period-average WPI, % change from previous month	3,0	2,3	1,7	0,9	1,3	0,1	1,0	Dane
Reserve Money, % change over a year ago	9,6	8,8	22,5	8,6	5,6	6,6	5,3	BR
Broad Money, % change over a year ago	26,2	22,7	19,5	18,8	17,9	15,9	15,7	BR
Discount Rate / Bank Rate, % at end of period	30,0	30,0	30,0	30,0	30,0	0,0	28,0	BR
Money Market Rate / Treasury Bill Rate, % at end of per	32,5	33,1	33,4	33,5	31,8	32,1	32,4	BR
Deposit Rate, % at end of period	32,5	33,1	33,5	33,6	32,1	32,1	32,4	BR
Lending Rate, % at end of period	43,6	43,8	44,3	44,5	43,0	43,2	43,0	BR
End-period Equity price Index, % change from previous mo	4,7	8,6	-4,5	3,2	9,1	-0,5	-2,58	SE
Merchandise exports, in millions of US$	672	810	918	951	940			BR
Merchandise Imports , in millions of US$	1075	1084	1087	1084	1218			BR
Trade Balance in millions of US$	-403	-274	-169	-133	-278			BR
Change in Reserves, In millions of US$	109	-412	-162	116	-93	22	480	BR
Merchandise Exports, % change over a year ago	-1,1	8,4	-0,2	24,5	11,7			BR
Merchandise Imports, % change over a year ago	14,9	9,4	-11,1	4,8	-3,9			BR
International Reserves minus gold, in millions of US$	8466	8058	7903	8017	7923	7953	8431	BR
Gold Holding (National Valuation) In millions of US$	100	96	90	91	93	85	87	BR
International Reserves including Gold, in millions of US	8566	8154	7993	8109	8016	8038	8518	BR
Average Exchange Rate, in national currency per US$	1045	1051	1066	1072	1064	1072	1064	BR
End-period Exchange Rate, In national currency per US$	1028	1040	1046	1062	1073	1069	1057	BR

Dane: National Statistic department
BR: Republic Bank
BSE: Bogotá Stock Exchange

VI. ANNEX 2

Table 1. Privatization revenue - CENTRAL GOVERNMENT (US$ Million)

	1996	1997
Financial Sector	710	600
Banco Popular	310	
Electric and Mining	410	600
Generating ass	310	
Betania	265	
Termocartagena	15	
Termotasajero	30	
Cerromatoso	100	
Carbocol	800	
Communications Sector	0	125
Long distance	125	
Concession	100	
Gross Income (2%)	25	

Source: Confis

Table 2. Privatization Revenue - DESCENTRALIZED SECTOR (US$ Million)

Main sectors	1996	1997
Electric Sector	180	420
Chivor	180	420
Ecopetrol	176,5	48
Promigas	95	
Terpel Antioquia	10	
Gas natural	38	
Invercolsa	24	
Surtigas	3,5	
Termigas	54	
Carbocol	3,4	0
Cerrejon zona central	1,6	
Other assets	1,8	
Telecom	4,5	0
Associates Participation		
Other assets	4,5	
Social Security Institute	0	161,1
Banco Central Hipotecario	161,1	
National Coffee Fund	4	56
Banco Cafetero	28	
Other assets	4	
Concasa	28	
Other	0,9	0
IFI	0,9	0
Quibi	0,6	
Agrocal	0,3	
Cerromatoso	73,5	
Corporación Nacional de Turismo	0	0
Ruiz	0	

Source: Confis