The Board of Directors Report to the Congress of Colombia

July 2000

Banco de la República
(The Central Bank)

Contents

Santafé de Bogotá, C. D. July 31, 2000

Honorable Chairmen and Members
Third Standing Constitutional Committees of
The Senate and
The House of Representatives
Santafé de Bogotá

Dear Sirs,

The Board of Directors of the Banco de la República, pursuant to the provisions of article 5 of Law 31 of 1992, hereby submits to the Congress of the Republic a report setting forth the macroeconomic results during year 2000. Hereinafter the goals adopted by the Board of Directors are expressed for the current year and the perspectives of the various macroeconomic variables. In the ultimate section information is provided about the composition of international reserves and projections on the financial situation of the Bank for the year 2000.

Yours truly,

Miguel Urrutia

Miguel Urrutia Montoya
Governor

I

Introduction

Economic policy during 2000 faces one of the most difficult challenges of its history: attaining a firm and sustained recovery of Colombian economy, while consolidating the advances obtained in inflation. This requires an adequate combination of monetary, fiscal and financial policies to facilitate reactivation of the economy. It relates to a process that will take some time, since the macroeconomic unbalances that gave origin to the crisis began to generate slowly, hence, obtaining their correction cannot be expected to occur in just a few months.

The macroeconomic program being under way is confronting the challenge through every tool available. It is a responsible program inspired on a view of sustainable development taking advantage of the enormous potentiality of our economy. Monetary policy, as an essential component of the program plays a crucial role in guaranteeing such sustainability. The policy currently being implemented has contributed to reactivating, without intending to induce an unsustainable incentive on the economy through an unexpected monetary expansion. An incentive of such nature would be ephemeral and would lead to accelerated inflation. This would bear perverse consequences on income distribution and on growth itself beyond the very short term. Without structural amendments to correct macroeconomic unbalances a long-term sustainable growth cannot be attained.

The characteristics and objectives of the macroeconomic program mentioned were explained widely in the Report to Congress last March of this year. The quarterly performance goals laid down in the program have been met rigorously. In the first place, the monetary policy has been consolidating its own strategy of inflation reduction for which purpose the Board of Directors of the Banco de la República has developed a constant monitoring on inflation evolution and perspectives of ten per cent (10%) during the current year, and not higher than 8% in 2001. Similarly, the Board has made a permanent follow-up on the behavior of monetary aggregates, to ensure that their evolution is compatible with the target inflation and it meets the liquidity requirements of economy, in accordance with the growth rate projected within the macroeconomic program.

In so far as the exchange policy is concerned, the rules provided for preventing the exchange rate to become extremely volatile and monthly auction sales are performed for accumulating options for international reserves. In the matter of regulation the regime was rendered more flexible, by allowing participation of stock exchange broker entities acting as foreign exchange market intermediaries, and furtherance, was attained in the promotion of foreign exchange hedging mechanisms, by allowing the participation of a greater number of agents, both national as well as foreign and, additionally, new transactions were authorized.

The fiscal policy on its part, continues to advance in the difficult process of clearance of public finances. The goals of the adjustment program establishing a maximum limit for the quarterly accumulated deficit of the consolidated public sector have been met for the last quarters ended in December and March. In fact, the effort in the fiscal adjustment added to the good results of the hydrocarbons sector, due to the high international petroleum prices, have permitted that the fiscal goals be met and have made feasible a consolidated deficit not in excess of 3.6% of the GDP by the end of 2000, under 5.4% of the GDP observed during 1999. However, all this means an effort in the adjustment that will exhaust the maneuvering margin of the public sector under the applicability of current legal provisions. Consequently, the continuance of this procedure during the next few years shall depend upon Congress approving the required legal amendments leading to a structural correction and straightening of public expenditure.

In so far as it concerns the financial policy, during the first half of the year the restructuring program of the financial sector has continued, through capitalization of public and private financial entities for the purpose of improving their equity situation and reactivating their credit activity. This capitalization has been financed through the issue of Fogafin funds, from provisions through taxes on financial transactions and funds arising from the private sector. On its part, the relief to mortgage debtors, financed through the emission of TES, has contributed to detain the overdue mortgage portfolio deterioration, at the time as it as incremented the consumption capacity within the families.

During the month of June the yearly inflation rate reached 9.7%, a level which coincides with the inflation target set out for the present year. However, its evolution through the first semester has not been uniform. During the first few months of the year an improvement appeared in the inflation rate as a consequence of transitory phenomena relating to the foodstuff price cycle. Such behavior had been foreseen given the remarkable seasonality characterizing relevant basic goods for family household consumption, such as potatoes, vegetables, legume, dairy et al. During the months of May and June such tendency began to revert, having favored reduction in prices of food, which will facilitate maintaining inflation within the limits established for the year 2000.

The coordinated effort of economic policy has begun to render results. During the first quarter of 2000 the economy grew 2.2%, which constitutes the first positive annual growth that has been observed since the second quarter of 1998. As described below, the mentioned growth was led by the significant recovery of the industrial sector, stimulated by an increase in exports and improvement in other industries related to sectors with less transactions. Although the economic recovery still requires consolidation, the result obtained during the first quarter tends to generate positive dynamics, which being accompanied by a healthy and coherent macroeconomic policy shall lead to definite recovery.

It should be added that the consolidation of the economic recovery during the second half of the current year and during the year 2001 requires preventing that the financing of the fiscal deficit may put pressure to bear on interest rates at times when the aggregate demand has begun to recover. The fiscal sustainability will only be possible if the new legislation were to provide assistance in reducing pressures upon territorial and pension liability expenses, which will strengthen credibility in this process and facilitate governmental financing.

Regarding as international reserves and the Banco de la República situation are concerned, it the increase of the former through this point of the current year and a positive operational result a close to $500 thousand million (mm) during the first half of year 2000, are worth mentioning.

The report being hereby submitted to the Honorable Congress of the Republic is divided into five chapters. Chapter II describes the monetary, credit and foreign exchange policies; the balance of payments, the fiscal policy and the financial policy. In chapter III the inflation results and basic tendencies are discussed. Chapter IV describes the results of the economic activity and employment for the first quarter. Finally, chapter V presents the financial situation as well as the international reserves of the Banco de la República.

II

Macroeconomy policy

A. Monetary and foreign exchange policy

1. Main alignments of monetary policy

The long-term essential objective of the Colombian monetary policy is to maintain the purchasing power of money for attaining the greatest possible rates of economic growth and employment generation, in coordination with the general economic policy. To meet this target, and in compliance with legal provisions that regulate the Banco de la República's activity in the country, the Board of Directors of the Banco de la República has established during the latest eight years inflation goals in concurrence with the National Government. Decisions on matters relating to the monetary policy have been taken for the purpose of guaranteeing fulfillment of such goals and the achievement of growth rates contained in the relevant macroeconomic programs.

Through the elimination of the foreign exchange band the role that the monetary policy plays has become more direct. Under these new circumstances, the monetary regime towards which the Banco de la República moves currently is one of inflation target.

Given the projected economic growth and the degree of utilization of productive factors, this monetary strategy rests upon three basic elements. Firstly, upon the definition and explicit announcement of a quantitative inflation target. Secondly, upon the establishment of a series of policy strategies which depend upon the evaluation by the Banco de la República itself in connection with the inflation situation at a specified time and upon the likelihood of reaching the inflation target. And in the third place, upon the definition of mechanisms that grant transparence to the acts of the monetary authority and shed clarity upon the responsibility appertaining thereto in what concerns the fulfillment or otherwise of the inflation target.

The monetary strategy of the Banco de la República gathers the main elements characterizing a inflation target regime. The Board, in addition to defining a yearly inflation target, which is made known, regularly evaluates in detail the inflationary pressures and procures inflation forecasts. Such elements enable the monetary authority to obtain an idea as to how feasible is it to attain fulfillment of the inflation target and, on that basis, together with a general evaluation of economy, decided whether or not changes are required in the posture of monetary policy. Similarly, the Board counts on mechanisms to disclose its doings and the evaluation it procures in regards to the inflationary situation (Report on Inflation) which permit guaranteeing the transparence of the entire process.

The characterization of the monetary regime in force in Colombia concerning an inflation target does not prevent the Banco de la República from granting a very important role to monetary aggregates. In fact, the Board, in addition to defining a final inflation target, determines the reference values of the monetary aggregates, which it deems to be coherent with the inflation target. Deviations from the monetary growth with respect to the one implied in such values are normally interpreted by the monetary authority as a sign that inflation could detach from the quantitative goal previously defined.

The foregoing lay-out, which keeps a certain similarity towards the European Banco de la República (EBR), is justified in the Colombian case to the extent that behavior of money continues to be crucial for understanding the evolution of prices in the mid and long terms. Similarly, the major uncertainty associated with inflation predictions, due both to the recent swift in the foreign exchange regime as well as to the quick the turnpoint of inflation, at levels of from 20% to 10% yearly, render advisable the adoption of a pragmatic position to utilize the monetary aggregates as important indicators of the likelihood of attaining the inflation target.

The existence of a monetary reference value does not mean, however, that the Board acts mechanically for correcting any deviation in the long term of the monetary base with respect to such value. This explains why on several occasions through the year, the monetary base has been situated above the ceiling of the range or beneath its floor, without having moved a reaction of the Board as to change the posture of the monetary policy. In a similar manner, the existence of such an intermediate goal neither means that it is unchangeable. Monetary authorities may potentially adjust the range if the periodic evaluation by the Banco de la República concerning the behavior of the base and of the hypotheses whereupon the range was set to provide the grounds therefor. Under the foregoing layout, the Board established the goals of the monetary policy concurrent with its objectives relating to inflation and appropriate supply of liquidity for the year 2000.

The Board of Directors of the Banco de la República has been monitoring the behavior of the monetary base, of the aggregate M3 plus bonds, of the public and private credit growth, and of the observed and projected inflation tendencies. To the extent that deviations from the expected inflation occur, with respect to the target or to the factors affecting its accomplishment, the Bank may begin to modify its policy tools. Such handling adjusts to the criterion according whereto the monetary policy must react when, on the grounds of an analysis of economy may be concluded that there exist, or are expected, non-justifiable deviations from the monetary aggregates with respect to their reference values, or difficulties are foreseen to accomplish the inflation goal.

Particularly, during the first half year, the main challenge of the monetary policy has been the adequate supply of liquidity within an interbank market sufficiently peculiar. In front of access difficulties of some financial entities to the interbank market (especially public entities) the placement rate for the REPO registered great inconstancy, not having it reflected the true liquidity situation of economy. In such way, a fractioning situation was evidenced in the interbank market, where the majority of financial intermediaries presented excessive liquidity while a minority registered shortage. Such behavior generated a strong disparity between contraction and expansion rates of the Bank and consequently it also generated confusion on the part of some market operators and analysts. In front of access restrictions into the interbank market, the Banco de la República became the main source of funds for various financial entities, to which it provides with short-term liquidity; at the same time as it makes monetary contraction transactions with the rest of the financial system.

For confronting this fractioning situation without generating excessive inconstancy in the interbank interest rate, the Board of Directors of the Banco de la República adopted several measures. The first one, taken at the end of January when it re-established the OMA contraction auction sales[1] with one only term of 14 days and redesigned its mechanisms and operating rules. Initially, the Board established a maximum cut rate for contraction auction sales of 10%, two percentage points lower than the minimum expansion rate. On the other hand, the contraction

[1] Which existed solely for one day terms and had been suspended since August 5, 1999.

counter interest rate of 6% was maintained at the same level as that for December 1999, and the minimum cut rate of expansion auction sales and that for on the counter were maintained at 12% and 18%, respectively.

This lay-out of intervention was kept unchanged until June 19, 2000 when the Board of Directors decided to reduce the dispersion in such rates for more directly relating the relationship between the monetary policy and the intervention interest rates of the Bank. For such purpose, on the one part, it increased the contraction counter rate from 6% to 7%, and the maximum auction sale contraction rate to 14 days from 10% to 11% and, on the other part, it reduced the expansion counter rate from 18% to 17%. The minimum rate for expansion sale auctions was kept at 12%, which is the basic rate at which liquidity is provided into the financial system. Through that measure, the dispersion between the maximum expansion rate and the minimum contraction rate was reduced from 12 to 10 percent points, which will contribute to a greater stability of the interbank interest rate. Additionally, the right of subscription of the auction sales for contraction and expansion transactions has been adjusted in accordance with the monetary program and liquidity of the economic circumstantial needs. Lastly, and for the purpose of simplifying expansion and contraction transactions with respect to existing auction sales, the seven-day REPO auction sales were eliminated and the final purchase of TES was suspended temporarily.

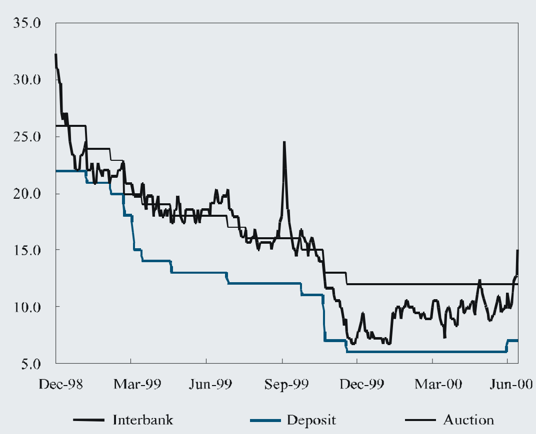
Another important measure taken on March 7Th consisted in temporary purchase of Fogafin-Public Banking certificates, for $499 mm in accordance with the program defined between the Banco de la República and Fogafin. In this manner, it was intended to facilitate the process of dismantling of the Banco Central Hipotecario (BCH) transactions, without affecting the owners of savings entrusted to such institution. Through the purchase of such certificates the temporary liquidity offer to public banks by a more permanent liquidity source, thus reducing in this manner the pressure upon market interest rates.

2. Interest rates

The performance of the average nominal interbank interest rate evidences that in January it was 7.3%, between February and April it became stable at around 9.4% and since May it has shown a mild upward tendency until it reached 10.9% in June (Figure 1).

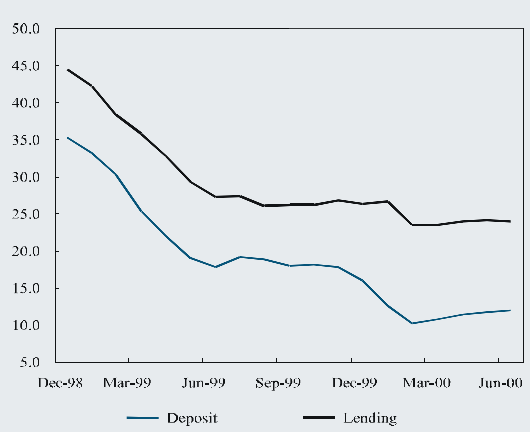
The nominal DTF deposit rate and the nominal lending rates reached average rates of 12% in June 2000 and

FIGURE 1
INTERBANK RATE AND INTERVENTION BAND
(31 DECEMBER 1998-30 JUNE 2000)
(PERCENTAGE)



Sources: Banking Superintendency and Banco de la República.

FIGURE 2
NOMINAL DEPOSIT AND LENDING INTEREST RATE
(PERCENTAGE)

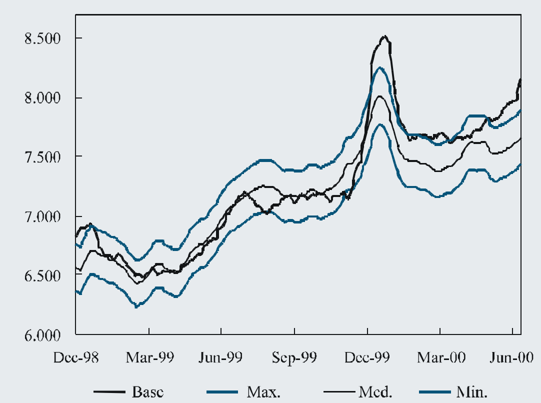


Sources: Banking Superintendency and Banco de la República.

Figure 3
Real deposit and lending rate
(Percentage)

Sources: Banking Superintendency and Banco de la República.

Figure 4
Monetary base
Daily average order 20
(30 December 1998-30 June 2000)
(Billions of pesos)



Source: Banco de la República.

24% respectively, showing reductions of 4.1 and 2.4 percent points vis-a-vis the levels for December 1999 (Figures 2 and 3).

3. Monetary aggregates

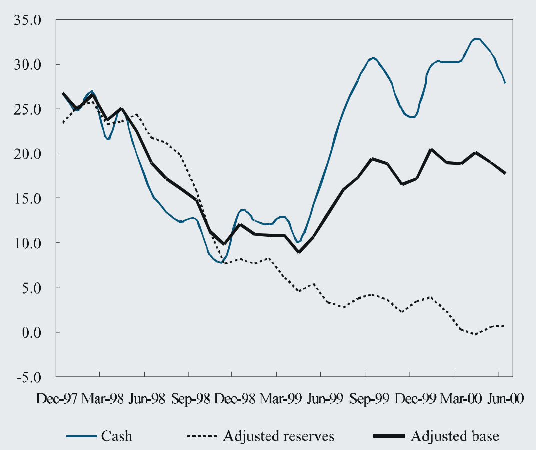
The objective of the monetary policy of allowing an adequate supply of liquidity in the economy was reflected in the behavior of monetary aggregates as will be described below.

a. Monetary base

During year 2000, the daily moving average of order 20 of the monetary base has been kept oscillating around the upper limit of its indicative range. The performance of the monetary base at the beginning of the year was preceded by the expectation created by the change of millenium. Thus, during the latest days of December, both the public and the financial system increase unusually their demands for cash and banking reserves, for which reason the daily moving of order 20 of the monetary base ended at 1.9% above the upper limit of the corridor (Figure 4). Notwithstanding, as it was foreseeable, such greater expansion reverted during the first, few days of January, as soon as fears ceased, which had been generated by the change of millenium. The latest figures available to June 30, placed the monetary base at $8.369 mm, with a yearly growth rate of 16.2%, and -14.1% for up to this part of the year. In front of the indicative corridor, its daily moving average of order 20 it placed itself at 3.4% above the upper limit.

Figure 5 shows the growth rate of the average balance of the adjusted Monetary base within which the demand for reserves was calculated utilizing the current structure of the average floating balance (supporting treasury requirements) (4.6%). Through this method it has been possible to avoid disturbances upon the base moved by changes in the floating balance policy such as the one occurred in December 1999, when the average floating balance was lowered temporarily and the reference period was extended for complying with the floating balance requirement from two to three weeks. As it may be observed through this first half year, the growth of the adjusted base has remained stable around 18%. From the point of view of its uses, such stableness in the growth of the adjusted base is explained since the greater growth of cash was compensated by the lesser growth of the adjusted Bank Reserve, which decreased from 3.9% in January to 0.7% in June, 2000. The slow growth of the adjusted reserve can be explained by the low dynamics of liabilities subject to floating

Figure 5
Ajusted monetary base and ist uses annual growth rate of the monthly average balance
(Percentage)



Source: Banco de la República.

balance cash position and as a consequence, of the normalization of the demand for reserves from the financial system, upon disappearance of fears relating to the change of millenium.

On its part, the growth of cash continued with its ascending tendency until April, when it reached 32.9%, having ended in June at 27.9%. Seemingly, the higher growth rate of cash is due, among other reasons, to the fact that the public is still adapting itself to the two per thousand levy tax on financial transactions, and to the considerable deduction in interest rates which has decreased the opportunity cost of maintaining cash. This growth in the demand for cash is one of the main reasons that explains why the moving average of order 20 of the monetary base has been systematically maintained on the upper edge of the respective corridor. This suggests that it is demand factors, probably permanent, more than factors of supply what explain such behavior. In this sense, it may be assured that the evolution of the monetary base around the ceiling of its corridor did not generate excesses of supply of cash which can be manifested in inflationary pressures. If the base tendency is maintained due to exogenous reasons that do not imply inflationary pressures the Board shall adjust its values of reference.

Since the beginning of the year, the two per thousand levy tax on financial transactions has induced an increase in preference for cash and deposits in current account on the part of agents of the economy. This change was not predicted during the preparation of the monetary programming for year 2000 and, consequently, the demand for cash has exceeded all through the year 2000 the initial estimate. The Board has acknowledged and quantified this effect and, it has decided to satisfy the new demand for cash, being conscious that such action bears no adverse effects on inflation, to the extent that the amount of additional cash shall not be utilized to exercise pressure upon the markets of goods and services, but maintained as an asset by the public.

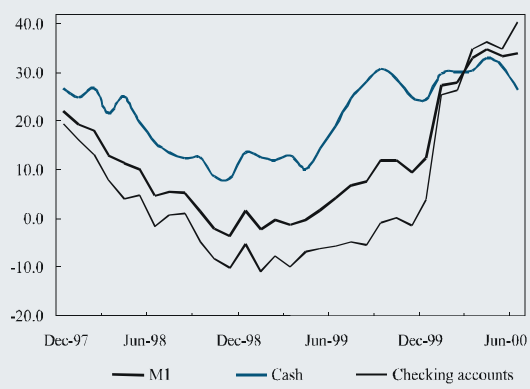
b. M1 money supply

The balance of M1 at June 30 closed at $12.766 mm with a variation with respect to the same date of the preceding year of 34.1%. The growth rate of its average balance rises from 12.5% to 35.6% between December 1999 and June 2000. Such behavior may be explained by faster growth in cash and current accounts. The latter changed from growing at an average rate of 3.9% at the end of 1999 to a rate of 42.2% in June. The greater preference for liquidity, as explained above, is due to reduction in interest rates and to effects upon the payment system generated by the two per thousand tax, which discourages especially savings accounts, which due to their low revenue and high rotation are not attractive, favoring thus a greater demand for current accounts (Figure 6).

c. M3 plus bonds

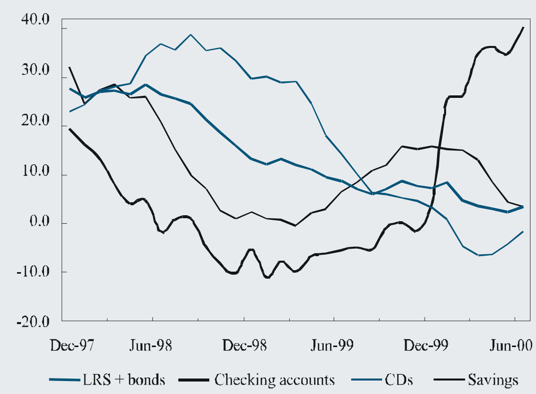
A broader measure of liquidity, the monetary aggregate M3 plus bonds, reached on June 30, $58.415 mm, with a annual growth rate of 1.4%. The rhythm of annual growth of its average balance has been diminishing through the current portion of the year, when passing from 5.6% in December 1999 to 2.6% in June 2000. In actual terms this aggregate showed a negative growth, and its average contraction rate accelerated when passing from 3.3% at the end of 1999, to 6.5% in June 2000 (Figure 7).

Figure 6
M1 and its components
(Annual percentage change in monthly average)



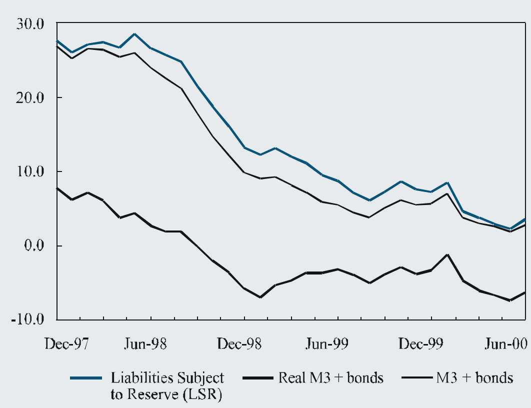
Source: Banco de la República.

Figure 8
Liabilities subject to reserve requirements (LSR) and their components
(Annual percentage change in monthly average balance)



Source: Banco de la República, SGEE.

Figure 7
M3+bonds and its components
(Annual growth rates of the monthly average balance)
(Percentage)



Source: Banco de la República.

During the current first half of the year an important re-composition in the structure of Liabilities Subject to Reserve LSR stands out, due to the greater rhythm in the growth of current accounts and to the lowering in the rate of growth of the savings accounts and Time Deposit Accounts as may be seen from Figure 8.

The greater rate of actual contraction of M3 plus bonds, in spite of the recovery of the economic activity, indicates that the economic agents continue substituting this aggregate for other assets, especially public debt certificates. The annual growth rate of the balance of securities placed by the public sector, without including the TES issued on account of the Housing Law and Fogafin certificates, is fairly high, when reaching 47.4% at the end of May. [2] Such certificates represent 47.6% of the M3B, while in December 1999 the proportion was 38.7% (Figure 1). In addition to this change in the portfolio of the private sector, the rate of growth of the aggregate M3 plus bonds has also been affected through the scarce dynamics of the banking portfolio, which has prevented secondary expansion, just as it has been evidenced by the fall in the amplified multiplier, as mentioned hereunder.

As a consequence of the strong increase of the demand for cash and bank reserves at the end of 1999, the average monetary multiplier of M3 plus bonds experimented a strong fall down to the level of 6,956. During the first quarter this phenomenon reversed partially upon the demand for cash gave in, as well as excess reserves, until reaching in March a

[2] When including the TES for Housing Law and Fogafin Securities, this yearly growth rate passes from 57.3% in December 1999 to 74.7% in May 2000.

Table 1
Participation of certificates from the public sector in M3B

Date		Balance (Million pesos)			As participation of M3B (%)	
		Monthly Average	Public Sector Securities		Public Sector Securities	
		Balance of M3B	Without Law 546 and Fogafin	With Law 546 and Fogafin	Without Law 546 and Fogafin	With Law 546 and Fogafin
1998	Dec.	56,381,852	16,496,773	17,027,473	29.3	30.2
1999	Jan.	56,211,806	16,918,574	17,509,274	30.1	31.1
	Feb.	56,740,261	17,967,645	18,631,145	31.7	32.8
	Mar.	56,513,590	18,019,785	18,019,785	31.9	31.9
	Apr.	56,911,464	18,534,809	18,901,309	32.6	33.2
	May.	57,482,217	18,931,156	19,411,656	32.9	33.8
	Jun.	57,370,073	19,150,443	19,800,443	33.4	34.5
	Jul.	57,494,318	19,732,430	20,746,075	34.3	36.1
	Aug.	57,152,795	20,118,182	22,632,153	35.2	39.6
	Sep.	57,016,054	21,009,192	24,322,373	36.8	42.7
	Oct.	57,222,598	21,187,692	24,582,826	37.0	43.0
	Nov.	57,534,550	22,137,549	25,648,621	38.5	44.6
	Dec.	59,563,457	23,055,121	26,790,266	38.7	45.0
2000	Jan.	60,134,664	24,132,111	28,141,146	40.1	46.8
	Feb.	58,887,837	24,906,725	29,576,619	42.3	50.2
	Mar.	58,240,327	26,354,011	31,038,913	45.3	53.3
	Apr.	58,430,066	27,230,004	32,144,743	46.6	55.0
	May.	58,588,703	27,911,595	32,946,874	47.6	56.2

Source: Banco de la República.

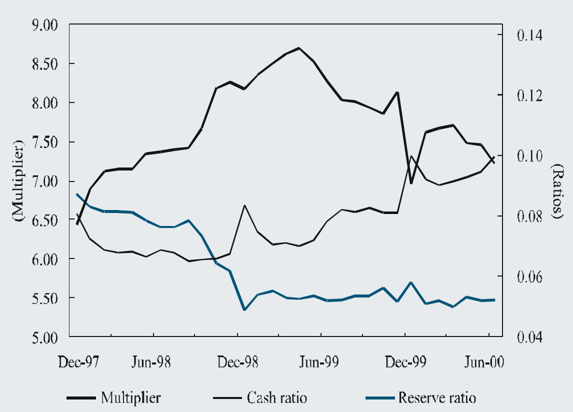
level of 7,708. However, the recuperation of the demand for cash during the last two months has again shown through a diminishing tendency of the multiplier until placing itself at the level of 7,221 by the end of June (Figure 9).

4. Behavior of credit

The net balance of local and foreing currency loans provided by the financial system excluding FEN (National Energy Finantial Corporation) was on June 30 to $47.682 mm, with a annual growth of -7.4%. Its local currency component decreased by 5.1%, while the foreign currency balance, measured in pesos, was reduced, by 25.8%, corresponding to a 39.7% drop in dollars. On its part the annual growth rate of the average balance of gross portfolio in local currency evidenced in June a fall of -3.5%, equivalent to -12% in real terms (Figures 10 and 11).

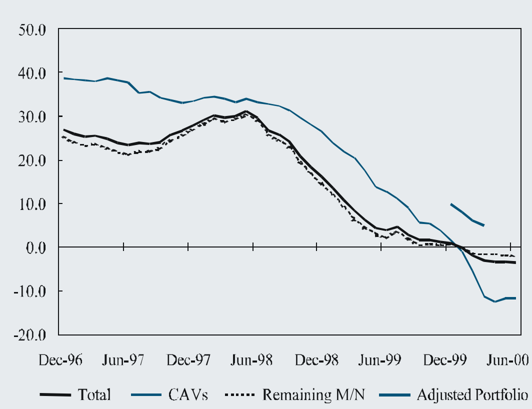
It is necessary to clarify that the fall of the portfolio is explained by the penalties on portfolio associated to the restructuring of the financial system encouraged by Fogafin since the middle of last year, and by relief to mortgage indebtedness in accordance with Law

FIGURE 9
M3-PLUS-BONDS MULTIPLIER



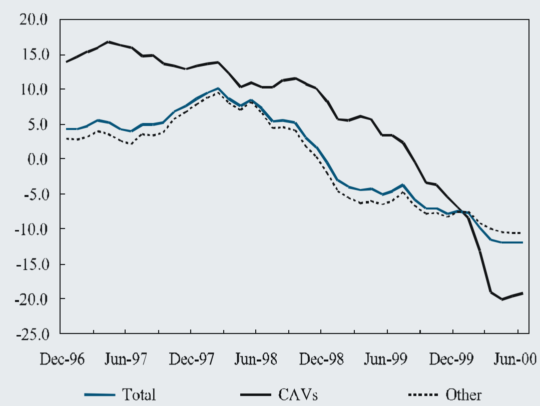
Source: Banco de la República.

FIGURE 10
GROSS NOMINAL LOCAL-CURRENCY PORTFOLIO
FINANCIAL SYSTEM EXCLUDING FEN
(ANNUAL PERCENTAGE CHANGE IN MONTHLY AVERAGE)



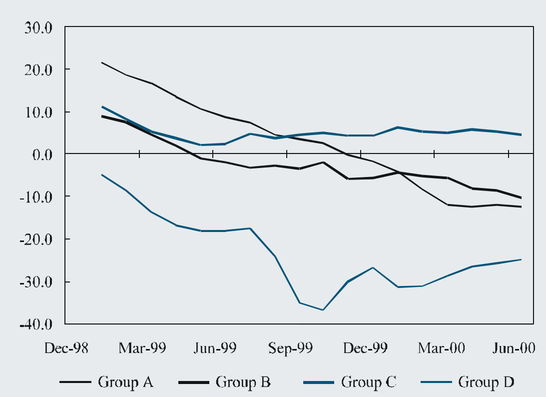
Source: Banco de la República.

FIGURE 11
GROSS REAL LOCAL-CURRENCY PORTFOLIO
FINANCIAL SYSTEM EXCLUDING FEN
(ANNUAL PERCENTAGE CHANGE IN MONTHLY AVERAGE)



Source: Banco de la República.

FIGURE 12
TOTAL DOMESTIC-CURRENCY PORTFOLIO
(ANNUAL PERCENTAGE CHANGE IN MONTHLY AVERAGE)



A: Private sector excl. private cavs, Davivienda & Colpatria. **B:** Public sector excl. mortgage banks. **C:** Private CAVs plus Davivienda and Colpatria. **D:** Public mortgage banks.
Sources: Banco de la República and Banking Superintendency.

546 on Housing, in force since this year. In fact, until March the financial system has had to eliminate from its balances portfolio amounting to $4.410 mm for the financial restructuring and $1.412 mm for reduction of mortgage indebtedness. Jointly, such transaction could have represented up to 11.6 percentage points of the yearly growth of net portfolio. Figure 10 shows the gross portfolio growth rate during the last months, pursuant to adjusted data from the Banking Superintendency, taking into account the amount of the clearing from encumbrances and penalties made effective. In all cases, the growth rate of the gross portfolio results being significantly higher than that reported but non-adjusted data.

For purposes of evaluating in more detail the behavior of net portfolio in local currency four groups have been conformed: 1) private mortgage banking; 2) public mortgage banking; 3) other private banks, and 4) other public banks. Figure 12 highlights that other private banks portfolio has been evidencing positive growth rates, which have remained at around 5% since mid 1999. However, the portfolio of the three remaining groups has shown negative growth rates. In the case of other public banks, this behavior has been associated with penalizations on portfolio through the capitalization programs, while for the public and private mortgage banking, negative growth is mainly attributable to reduction of mortgage indebtedness on account of the Housing Law.

5. Foreign exchange policy

The new pattern of a floating foreign exchange rate allows for a greater control of the monetary base, since one of the main sources of variability disappears when eliminating the need to intervene the exchange market through sale or purchase of foreign currency. The Board of Directors of the Banco de la República has established coherent and clear rules through the currently applicable floating regime agreed upon on September 25, 1999. Such rules do not seek defending a specific level of exchange rate, but rather attaining two well defined objectives: accumulation of international reserves and control to prevent exchange rates from being excessively volatile.[3]

As regards the mechanism for accumulating international reserves, the Board of Directors established, on auction rights system to sell foreign currency to the Banco de la República at the Market representative exchange rate (TRM), in accordance with the macroeconomic program which contemplates the accumulation of international reserves during the course of the current year. Just as it was explained in the Report for March, auction sales are made monthly and in those auction sales financial institutions operating as intermediaries in the exchange market may participate as well as the National Directorate of the Treasury of the Ministry of Finance and Public Credit. The price of the relevant right is determined in each of the auction sales and such right may be exercised during the month following the auction sale, always provided that the market representative exchange rate on the date when the right will be exercised shall be under the moving average of the latest twenty (20) working days. The right may be negotiated among the agents eligible to participate in the auction sale. Under such conditions it is guaranteed that the Banco de la República will purchase dollars solely when the TRM is lower than its tend.

Table 2 shows how the right of subscription in the auction sales was increased from US$ 80 million (m) monthly in force until February, to US$100 m monthly as from the March auction sale. Every month rights of subscription in auction sales have been approved completely except during the month of April, when only US$55 m of the established right of participation was approved. From the purchase option, thus auction sold, US$200 m were exercised in December 1999, US$12 m in January and US$74 m in March 2000.

On the other hand, to avoid excessive volatility in the exchange rate, the Board of Directors agreed that the Banco de la República carry out auction sales of rights of participation in purchase or sale of foreign currency, whenever during one single day the TRM deviates at least 5% from the moving average of the past 20 working days. Participants in auction sales may also be financial institutions operating as intermediaries in the exchange market and the General Directorate of the Treasury of the Ministry of Finance and Public Credit. The amount shall be US$120 m. The price of the right to participate shall be determined during each of the auction sales and such right shall only be exercised during the month following the auction sale on a day when the TRM is 5% below or above ist moving average for the latest 20 working days. The right may be negotiated among the agents eligible to participate in the auction sale. Up to this moment no auction sales of such type have been carried out, since no excessive variations have occurred, as implied in the regulation.

[3] Volatile refers to variation in the exchange rate.

Table 2
Auction Sale of Put Transactions for Accumulation of International Reserves

Date		Amount (Million dollars)				Premium (Pesos /Thousand dollars)		
Auction		Demanded	Quota	Approved	Exercised	Minimum	Maximum	Cut
1999	Nov. 30	924.50	200.00	200.00	200.00	3.00	8,000.00	4,000.00
	Dec. 27	430.20	80.00	80.00	0.00	210.00	8,100.00	4,500.00
2000	Jan. 27	204.00	80.00	80.00	12.00	10.00	3,020.00	210.00
	Feb. 28	368.00	80.00	80.00	0.00	130.00	4,100.00	1,600.00
	Mar. 28	607.50	100.00	100.00	74.00	101.00	4,800.00	3,000.00
	Apr. 28	394.00	100.00	55.00	0.00	230.00	5,000.00	600.00
	May. 29	493.00	100.00	100.00	0.00	50.00	4,500.00	2,250.00
	Jun. 28	474.00	100.00	100.00		50.00	5,100.00	3,000.00

Note: The amount approved for the auction sale of April 28 went from US$100 million to US$50 million, due to non-compliance on the part of an entity in the payment of the initial portion.
Source: Banco de la República, office of Monetary and Reserves Assistant Manager.

Additionally, in matters relating to regulations, the Board of Directors of the Banco de la República adopted during the first half of the current year measures intended to rendering the development of the exchange market flexible, and expeditious, by allowing the participation of a greater number of agents, both national and foreign, and extending the utilization of hedging transactions. In this respect, the former measure was adopted through the majority decision on April 28, 2000 through External Resolution No. 6, which reduced the deposit on external indebtedness to 0%.

Similarly, through the issue of External Resolution No. 8 of May 5, 2000, modifications to the international exchange regime were introduced relating to the development of the hedging market and with the authorization to stock exchange broker entities to act as intermediaries of the foreign exchange market. With regard to the hedging market, the previously existing regulations were amended for the purpose of encouraging its development. In this manner, residents in Colombia were authorized to carry out transactions of financial by-products peso-dollar, not only through foreign exchange market intermediaries but also through foreign entities able to participate professionally in international markets of by-products. Similarly, residents in Colombia were authorized to carry out transactions of financial by-products dollar-other currencies and on basic products prices even though no underlying risk would there exist. Additionally, in the case of by-products on prices of basic products, such transactions were allowed to be entered into with new agents. These measures were supplemented by allowing intermediaries of the exchange market to become indebted in dollars and utilize such funds in the local market for covering their future purchasing positions, without neither in this case requiring the establishment of the foreign indebtedness deposit.

External Resolution No. 8 authorized stock exchange broker entities to act as foreign exchange market intermediaries as from the first day of July. In such condition the stock exchange broker entities may carry out foreign exchange transactions such as remittances and negotiation of foreign exchange currency relating to exchange transactions of foreign trade, foreign investment and Colombian investments abroad, as well as remittances and negotiation of foreign currency from the free market. For the purpose of being able to act as intermediaries of the exchange market, the stock exchange broker entities must have equity amounting to, or higher than $3,500 millions and accredit before the Superintendency of Securities fulfillment of their technical and operating capacity. Through this measure, the Board of Directors of the Banco de la República continues with the task of introducing increased competence in the foreign exchange market by permitting the performance of new agents as intermediaries. It is specifically expected that given the nature of the transactions currently being carried out by stock exchange broker entities, these new intermediaries may facilitate transactions for small and medium sized industries.

Finally, amendments to the foreign exchange regime were introduce for the purpose of rendering it compatible with new customs provisions and facilitating some exchange transactions. In this respect, it should be emphasized, is the authorization for sending remittances or reimbursements of foreign currency relating to reimbursable transactions of foreign trade carried out between parent companies and branches as well as to residents in the country for purchasing and selling foreign currency in a professional manner without authorization from the Banking Superintendency.

B. Balance of payments

1. Balance of payments situation: end of 1999

In accordance with figures from the Banco de la República, at the end of 1999 the balance of payments current account showed a deficit of US$976 m (1.1% of the GDP), at the same time as the financial and capital balance showed a surplus of US$370 m (0.4% of the GDP) (Table 3). The lesser deficit in the current account, as compared to that observed in 1998, of US$5,270 m (5.3% of the GPD), is essentially explained by the surplus in the goods balance, of US$1,734 m, in comparison with the deficit shown in 1998 of US$2,511 for the same balance. The foregoing being the result of greater exports of goods, which increased 4.8% and located themselves at US$12,046 m, and of lesser imports, which descended to 26.4%[4] having reached the level of US$10,311 m. On its part, the nonfactor[5] services account showed a deficit of US$1,377 m and the factor income account a deficit of US$2,124 m, as a result of higher interest payments, dividends and profit-remittance payments relative to income. The financial and the capital account recorded a net long-term inflow of US$2,306 m from loans and direct foreign investment, mainly, and net short-term out flow of US$ 1,936 m. As in previous years, foreign financing of the balance of payments originated mainly from long-term funds.

In connection with the current account, the growth of exports of goods occurred due to greater income from oil and by-products, emeralds and ferronickel exports, (with annual growths of 61.3%, 35.8% and 28.8%, respectively). Additionally, coffee, non-monetary gold, coal and non-traditional exports fell in 1999 with respect to the prior year (30.1%, 45.6%, 9.4% and 2.5%, respectively). Imports of goods showed a fall of 27.3% where those of capital decreased 34.3%, consumption 29% and intermediate 20%.

On the other hand, the capital and financing account showed a net income of long-term funds considerably less than that observed in the previous year, US$2,306 m as compared to US$4,554 m for 1998, as a result of less income for funds originating from privatizations and from fewer net long-term loans.

[4] Imports of goods decreased 27.3% for the year. The reduction of 26.4% presented here includes the result of special trade transactions.

[5] Includes transportation, travel and other services different from revenues from factors.

Table 3
Colombia's balance of payments - Summary

	Millions of dollars			As percentage of GDP		
	1998 (pr)	**1999 (proj.)**	**2000**	**1998 (pr)**	**1999 (proj.)**	**2000**
I. CURRENT ACCOUNT	(5,270)	(976)	(846)	(5.32)	(1.13)	(1.01)
Income	15,077	15,725	17,753	15.22	18.17	21.09
Expenditure	20,347	16,701	18,599	20.54	19.30	22.10
A. Nonfactor goods and services	(3,979)	358	1,257	(4.02)	0.41	1.49
Income	13,560	13,958	15,977	13.69	16.13	18.98
Outlays	17,540	13,601	14,720	17.71	15.71	17.49
1. Goods	(2,511)	1,734	2,763	(2.54)	2.00	3.28
Income	11,494	12,046	14,004	11.60	13.92	16.64
Expenditure	14,006	10,311	11,241	14.14	11.91	13.36
2. Nonfactor services	(1,468)	(1,377)	(1,506)	(1.48)	(1.59)	(1.79)
Income	2,066	1,913	1,973	2.09	2.21	2.34
Expenditure	3,534	3,289	3,479	3.57	3.80	4.13
B. Factor income	(1,735)	(2,124)	(2,656)	(1.75)	(2.45)	(3.16)
Income	908	796	1,037	0.92	0.92	1.23
Expenditure	2,643	2,920	3,692	2.67	3.37	4.39
C. Transfers	444	790	553	0.45	0.91	0.66
Income	609	971	739	0.61	1.12	0.88
Expenditure	165	181	186	0.17	0.21	0.22
II. CAPITAL AND FINANCIAL ACCOUNT	4,529	370	878	4.57	0.43	1.04
A. Financial Account	4,529	370	878	4.57	0.43	1.04
1. Long-term financial flows	4,554	2,306	2,965	4.60	2.66	3.52
Assets	544	0	300	0.55	0.00	0.36
i. Colombian direct investment abroad	529	(6)	300	0.53	(0.01)	0.36
ii. Loans **1/**	15	0	0	0.02	0.00	0.00
iii. Financial leasing	0	6	0	0.00	0.01	0.00
iv. Other assets	0	0	0	0.00	0.00	0.00
Liabilities	5,112	2,306	3,265	5.16	2.66	3.88
i. Direct foreign investment in Colombia	2,961	1,006	1,753	2.99	1.16	2.08
ii. Loans **1/**	1,803	1,215	1,388	1.82	1.40	1.65
iii. Financial leasing	348	86	124	0.35	0.10	0.15
iv. Other liabilities	0	0	0	0.00	0.00	0.00
Other long-term financial movements	(15)	0	0	(0.01)	0.00	0.00
2. Short-term financial flows	(25)	(1,936)	(2,086)	(0.02)	(2.24)	(2.48)
Assets	(383)	1,452	1,850	(0.39)	1.68	2.20
i. Portfolio investment	(659)	1,378	1,745	(0.67)	1.59	2.07
ii. Loans **1/**	276	74	105	0.28	0.09	0.13
Liabilities	(407)	(484)	(236)	(0.41)	(0.56)	(0.28)
i. Portfolio investment	(265)	(27)	0	(0.27)	(0.03)	0.00
ii. Loans **1/**	(142)	(457)	(236)	(0.14)	(0.53)	(0.28)
B. Special capital flows	0	0	0	0.00	0.00	0.00
III. NET ERRORS AND OMISSIONS	(649)	286	382	(0.66)	0.33	0.45
IV. CHANGE IN GROSS INTERNATIONAL RESERVES 2/	(1,390)	(320)	413	(1.40)	(0.37)	0.49
V. BALANCE OF GROSS INTERNATIONAL RESERVES	8,740	8,103	8,567	8.82	9.36	10.18
VI. BALANCE OF NET INTERNATIONAL RESERVES	8,740	8,102	8,567	8.82	9.36	10.18
Months of imports of goods	7.5	9.4	9.1			
Months of imports of goods and services	5.2	5.9	5.6			
Nominal GDP in millions of dollars	99,045	86,551	84,157			
VII. CHANGE IN INTERNATIONAL RESERVES	(1,388)	(320)	413	(1.40)	(0.37)	0.49

Assumptions: Export prices: coffee US$1,06 /lb.; Oil US$25,9/barrel; Growth in goods imports 9,1%.
(pr) Preliminary estimate.
(proj.) Projection.
1/ Includes portfolio investment, direct loans and commercial credit.
2/ According to Balance of Payments methodology.
Source: Banco de la República.

On their part, the short-term net financial flows were negative by US$1,936 m, mainly as the result of outflow of foreign portfolio investments of foreigners resident in Colombia and net payment of credits for a total of US$484 m and from a positive portfolio investment of Colombians abroad in the amount of US$1,378 m. Concerning the latter figure, the increase in public foreign portfolio (US$566 m), stands out, which is explained by increases in the Central Government portfolio (US$425 m)[6], from decentralized entities (US$291 m) and from the Oil Stabilization and Savings Fund (FAEP) (US$277 m), partially compensated by the reduction of balances in foreign financing accounts of other public entities (US$415 m).[7]

Gross international reserves held by the Banco de la República were reduced by US$320 m. This explains that the balance of gross international reserves at the end of 1999 was US$8,103 m, equivalent to 9.4 months in terms of imports of goods and 5.9 months as payment of goods and services. Net international reserves represent 4.27 times the service for the next 12 months of the public debt and 1.81 times that of the public and the private debts.[8] These indicators evidence a sound position according to international parameters.

2. Behavior of the balance of payments during the first quarter of the year 2000

By the end of the first quarter, the balance of payments current account showed a deficit of US$185 m, which was US$501 m less than the deficit recorded during the same period during 1999. The capital account showed net capital outflows for US$60 m, contrasting with US$626 m of capital income received in 1999. As a result, the net international reserves increased by US$138 m, whereby its balance reached US$8,255 m (Table 4).

a. Current account

The reduction of the current account deficit during the first quarter of 2000 is explained mainly by the increase of the surplus of the commercial balance that reached US$ 569 m compared to US$100 m the previous year. The increase in the surplus of the commercial balance is due to the growth of 29.5% of exports of goods in dollars with respect to the same quarter in the previous year, while imports of goods in dollars grew 11.3%. Table 5 summarizes the behavior of product exports, during the first quarter of this year.

As it may be seen, exports of hydrocarbons amounted to US$1,153 m, which meant a yearly variation of 81.4%. The foregoing may be explained mainly by a significant increase in the international price of oil, which, from an average price of US$11.5 per barrel between January and March 1999, reached a price of US$28.1 per barrel in the same period in 2000. In contrast, external coffee income fell US$ 105 m, falling from US$339 m in the period January-March of 1999 to US$235 m in the corresponding period of 2000. This behavior may be explained by lower volumes of coffee exported, which reduced from 2.402 thousand 60 Kg sacks the first quarter of 1999 to 1.562 60-Kg sacks in the similar period in 2000. Additionally, the international price of the bean fell from US$1.24 average ex-dock per lb. in 1999 to US$1.20 in 2000. With respect to non-traditional exports, those of industrial origin showed greater dynamism growing 23.6% and representing 34% of total exports and 75% of non-traditional exports, while exports of the agricultural sector fell 12.5%.

Total exports dynamism to the United States and Venezuela stands out, growing 43.1% and 43.5%, respectively, as compared to the same period in the year 1999. As a proportion of total exports, those made to the United States represented 68.7%, while those to Venezuela represented 10.7% through the month of March.

6 This increase is explained by the placement of bonds made in November 1999 for US$500 m, which were mainly conformed the external portfolio.

7 This figure is explained mainly by the decapitalization of the Bogotá Electric Power Company. (Empresa de Energía de Bogotá).

8 The data on payments of the public and the private debt of the next 12 months correspond to the information of the month of March 2000.

Table 4
Quarterly Colombia's balance of payments
(Millions of dollars)

	1999					2000	Difference 1st Quar.
	1st Quar.	2nd Quar.	3rd Quar.	4th Quar.	Total	1st Quar.	2000-1999
I. CURRENT ACCOUNT	(685)	(181)	(28)	(82)	(976)	(185)	501
Income	3,391	3,833	4,095	4,405	15,725	4,140	749
Expenditure	4,076	4,015	4,124	4,487	16,701	4,324	249
A. Nonfactor goods and services	(241)	82	357	160	358	252	494
Exports	2,972	3,366	3,688	3,932	13,958	3,716	744
Imports	3,213	3,284	3,331	3,772	13,601	3,464	250
1. Goods	100	433	686	516	1,734	569	469
Exports	2,529	2,911	3,198	3,407	12,046	3,255	726
Imports	2,430	2,478	2,512	2,891	10,311	2,687	257
2. Nonfactor services	(341)	(351)	(328)	(356)	(1,377)	(316)	25
Exports	442	455	490	525	1,913	461	18
Imports	784	806	818	881	3,289	777	(7)
B. Factor income	(626)	(491)	(536)	(470)	(2,124)	(645)	(19)
Income	195	199	205	196	796	195	(1)
Expenditures	822	690	741	666	2,920	840	18
C. Transfers	183	228	151	229	790	208	26
Income	224	268	203	277	971	229	6
Expenditures	41	40	52	48	181	21	(20)
II. CAPITAL AND FINANCIAL ACCOUNT	626	128	(257)	(127)	370	(60)	(686)
A. Financial account	626	128	(257)	(127)	370	(60)	(686)
1. Long-term financial flows	972	850	(231)	716	2,306	239	(732)
a. Assets	14	(29)	31	(17)	0	9	(5)
i. Colombian direct investment abroad	12	(31)	30	(17)	(6)	9	(3)
ii. Loans	0	0	0	0	0	0	0
iii. Financial leasing	2	2	1	0	6	0	(2)
iv. Other liabilities	0	0	0	0	0	0	0
b. Liabilities	986	821	(199)	698	2,306	248	(738)
i. Direct foreign investment in Colombia	413	364	91	138	1,006	36	(376)
ii. Loans	513	363	(268)	606	1,215	260	(254)
iii. Financial leasing	60	93	(22)	(46)	86	(48)	(108)
iv. Other liabilities	0	0	0	0	0	0	0
c. Other long-term financial movements	0	0	0	0	0	0	0
2. Short-term financial flows	(346)	(721)	(27)	(843)	(1,936)	(299)	46
a. Assets	296	395	(201)	962	1,452	(79)	(375)
i. Portfolio investment	455	144	(56)	836	1,378	105	(350)
ii. Loans	(158)	252	(145)	126	74	(184)	(26)
b. Liabilities	(49)	(326)	(228)	119	(484)	(379)	(329)
i. Portfolio investment	(15)	(9)	(11)	8	(27)	23	38
ii. Loans	(35)	(317)	(217)	112	(457)	(402)	(367)
B. Special capital flows	0	0	0	0	0	0	0
III. NET ERRORS AND OMISSIONS	225	(160)	(181)	401	286	381	156
IV. CHANGE IN GROSS INTERNATIONAL RESERVES	166	(213)	(466)	192	(320)	137	(29)
V. BALANCE OF GROSS INTERNATIONAL RESERVES	8,752	8,393	8,008	8,103	8,103	8,257	(495)
VI. BALANCE OF NET INTERNATIONAL RESERVES	8,751	8,392	7,881	8,102	8,102	8,255	(495)
VII. CHANGE IN NET INTERNATIONAL RESERVES	165	(213)	(592)	318	(320)	138	(27)

Source: Banco de la República, office of Economical Studies.

Table 5
Exports according to main products and economic sectors (pr)
(Millions of dollars)

	January - March		Variation	
	1999	2000	Absolute	%
Total exports	2,421	3,136	715	30
Traditional exports	1,189	1,712	523	44
Coffee	339	235	(105)	(31)
Coal	159	239	81	51
Ferronickel	32	66	34	108
Oil and byproducts	636	1,153	518	81
Gold	1	0	(1)	-
Emeralds	23	19	(4)	(18)
Non-traditional exports	1,232	1,424	192	16
Agricultural products sector	353	309	(44)	(13)
Industrial sector	862	1,065	203	24
Mining sector	17	49	33	-

(pr) Preliminary estimate.
Source: National Administrative Department of Statistics (DANE).

Table 6
Imports according to use or economic destination (pr)
(Millions of dollars FOB)

	January - March		Variation	
	1999	2000	Absolute	%
Total imports	2,350	2,616	266	11.3
Consumption goods	428	451	23	5.4
Non-durable	309	315	6	2.1
Durable	119	136	17	14.0
Intermediate goods and raw materials	1,048	1,249	201	19.2
Fuel, lubricants and neighboring products	57	78	21	36.7
For agriculture	87	92	6	6.5
For industry	904	1,078	174	19.3
Capital goods	875	916	42	4.8
Construction Materials	39	40	1	3.0
For agriculture	7	5	(2)	(34.1)
For industry	603	555	(48)	(7.9)
Transportation equipment	226	317	91	40.3

(pr) Preliminary estimate.
Source: National Directorate of Customs and Taxes (DIAN).

Growth of imports during the first quarter of the year, originated from larger imports of intermediate goods and raw materials, whose value in dollars increased 19.2%, as a result of the increased imports of fuel, lubricants and neighboring products, and of those intended for industry. Imports of consumption goods increased 5.4%, being mainly concentrated on durable goods. Finally, imports of capital goods increased 4.8%, due to larger purchases of transportation equipment, which was partly compensated by fewer purchases of capital goods for the agricultural sector (Table 6).

The greater dynamism of exports as compared to imports, had its origin in the fair behavior of the terms of exchange which improved by 31.8%, as a consequence of the increase in unit values of exports (33.9%) compared to the observed value of imports (1.5%). The increase in prices of exports originated mainly from the increase in the international price of oil, and greater unit value of exports of industrial products and of ferronickel. The growth in the unit value of imports is explained by the increase in the import price of fuel, in spite of the fall in the implied prices of imports of industrial and agricultural goods (Table 7).

Finally, within other components of the balance of the current account it may be observed that the deficit of the balance of nonfactor services decreased by US$25 m locating itself at US$316 m. On the other hand, the net balance of the factor revenue showed a deficit of US$645 m, which explains the increased expenditures while income remained constant. Transfers showed an increase of US$ 26 m and reached US$208 m.

Cuadro 7
Prices of exports, imports and terms of exchange 1/
(Dollars per Kg or basic unit)

	Prices 1/		Percent
	1999	2000	Variation
A. Exports			33.9
Traditional			61.7
Coffee	1.24	1.20	(2.8)
Oil and byproducts	11.46	28.06	145.0
Coal	28.73	25.48	(11.3)
Ferronickel	0.87	1.83	109.4
Gold	286.97	290.88	1.4
Emeralds	12.76	10.00	(21.6)
Non-Traditional			7.1
Agricultural products	0.61	0.56	(7.2)
Industrial products	0.68	0.76	11.5
Mining sector	0.15	0.27	78.4
B. Imports			1.5
Fuel	12.34	21.95	77.9
Other products			(0.3)
Agricultural sector	0.20	0.19	(5.0)
Industrial sector	1.41	1.37	(2.5)
Mining sector	0.73	1.59	118.8
C. Terms of exchange (A / B)			31.8

1/ For non-traditional exports and imports different from fuel, reference is made to implied price in the exported or imported value.
Source: Banco de la República.

b. Capital account

During the first quarter of year 2000 the capital account showed a deficit of US$60 m as compared to a surplus in the same period in 1999 of US$626 m (Table 4). This deficit may be explained by a reduction in the long-term financial flows, which went from $972 m in 1999 to US$239 m in 2000, and the short-term outflow of capitals in the amount of US$299. The decrease in long term flows responds essentially to the drop in the net external indebtedness and to lesser direct investment flows. The decline in foreign indebtedness in the amount of US$254 m compared to the first quarter of 1999 derives mainly from the reduction of the private sector foreign indebtedness that was reduced by US$174 m, while only a reduction of US$80 m occurred for the public sector. Net revenues from direct foreign investment reached US$27 mm, with a fall of US$373 m, as a result mainly from capital reimbursements by the oil activity[9] (US$354 m), constituting a fact that contrasts net foreign investments in the remaining sectors, which reached US$391 m, standing out the capital contributions to the financial system and to mining and communications activities.

The net outflow of short-term capitals is explained mainly by the reduction of foreign indebtedness of the financial system, standing out the net payments made by public financial entities (US$349 m). During the first quarter of 2000, the net foreign assets movement showed a decrease of US$79 m, which is linked to the behavior of very short-term undebtedness transactions of the private sector which were reduced to US$262 m.

c. Variation of international reserves

As a result of the goods and services and capital movements, an accumulation of net international reserves of US$138 m occurred during the first quarter. With such accumulation at the close of the quarter, the balance became US$8,255 m, equivalent to 9.2 months of imports of goods, 5.8 months of imports of goods and services and 2.2 times the balance of the short-term foreign debt, pursuant to the original expiration term.

3. Projections of the balance of payments for 2000

Pursuant to the current projection of the balance of payments (Table 3), the deficit in current account would reach US$846 m (1% of the GDP). Financing of such deficit would be covered by capital revenues expected for US$878 m (1% of the GDP), which may be explained by net long-term capital inflows of US$2,965 partially compensated by short-term capital outflows for US$2,086 m.

In relation with the current account estimates, an annual growth of exports of goods of 16.3%,[10] is expected as a consequence of greater revenues from oil and byproducts, coal and non-traditional exports (which would increase 36.5%, 17.7% and 8% respectively, in comparison with 1999). On the other hand, the yearly growth of imports of goods is estimated at 9%.[11]

The projection of the capital and financial account assumes income of funds from the privatization of the Bogotá Telephone Enterprise (ETB), Carbocol and Isagen. Notwithstanding, a foreign exchange impact similar to the total value of such privatizations has not been contemplated within the year, due to the fact that an important portion of revenue from the sale of the ETB would constitute increases in the external portfolio of the country.

Additionally, foreign mid and long-term public financing planned for the year meets the goals set in the macroeconomic plan, not exceeding US$

[9] This behavior which started in 1998, may be explained since the major projects (Cusiana and Cupiagua) have moved from the exploration phase, where important investments were received, to the exploration and commercialization stages, when branches remit invested capitals in the initial phase to their parent companies.

[10] Including special transactions of foreign trade.

[11] Ibid.

Figure 13
Evolution of the Spread of Colombian and Latin American Bonds
(December 1997 - June 2000)

1/ 30 Year Colombian Bond.
2/ Index for Latin American Countries, includes sovereign and corporate debt.
Sources: Ministry of Finance, General Directorate of Public Credit and J. P. Morgan

3,871 m[12] in the accumulated flow since January 1999. It is worth mentioning the success attained by the Central National Government in securing funds in the international market, since the placement of foreign bonds up to the first week of June reached US$1,441 m, counting upon the issue in November of the prior year, of an amount of US$500 m corresponding to the exercise of year 2000.

The foregoing was possible despite the political uncertainty of recent months and of greater spread margins required in connection with the foreign Colombian public debt. As it may be seen from Figure 13, the spread on North American Treasury for Colombian bonds increased 60% between the last week of March and the first week of May, when moving from 561 basic points (bp) to 892 bp. During the same period Latin American countries, taken as a whole[13] experienced an increase of their spread margin close to 20%. However, during June the spread margins for the Colombian bonds decreased by 12% as compared to the maximum figure reached in May while the spread margin for Latin American countries remained a constant.

C. Fiscal policy

1. Results of the first quarter of year 2000

During the first quarter of the year finances of the public sector accounted for a surplus of $1,177 mm, which is equivalent to 0.7% of the annual GDP; this result must be analyzed with special care to the extent that there exists a seasonal effect in public accounts during the first quarter of the year. Such amount was obtained from a measurement exercise on the financing carried out by the Banco de la República which is based on the aggregate of various credit sources the value of privatizations, the variation of financial assets and the balances of Fogafin effective transactions and the central bank. From the sector point of view, the consolidated result for the first quarter comprises the aggregate of the Central National Government, the remainder of the non-financial public sector, Fogafin and the Banco de la República (See Box 1).

The fiscal performance of the first quarter of the year is shown in Table 8. Pursuant to the traditional methodology of the Confis, the quarterly deficit of the Central National Government reached $1,486 mm, equivalent to 0.9% of the yearly GDP. Compared to the first quarter of 1999, income from effective transactions experienced a growth of 22%, which may be attributable to a great extent to dynamism in tax collections, especially as the consequence of the performance of internal income and VAT taxes, whose growth reached 42% and 68%, respectively. Dynamism in collection of such taxes results from the modification in the tax calendar, from the reduction of the days when banks may maintain taxes

[12] The original target with the International Monetary Fund was US$3,200 m for this item. The difference as to US$3,871 m corresponds the greater foreign mid and long-term indebtedness permitted for the public sector, due to the shortage of US$1,342 m from privatizations estimated for the year.

[13] The index estimated by J. P. Morgan for Latin American Securities was utilized, where the sovereign and the corporations debt was included.

Table 8
Central National Government
Effective transactions first quarter
(Billions of pesos)

	1999	2000	Annual Growth %
I. Total revenues (A + B + C + D)	5,213.4	6,352.0	21.8
A. Tax revenues	3,516.5	5,240.0	49.0
Income tax	1,540.8	2,186.0	41.9
Internal VAT	1,004.6	1,689.0	68.1
External VAT	431.9	523.0	21.1
Customs	314.0	397.0	26.4
Gasoline	153.9	185.0	20.2
Other **1/**	71.3	260.0	264.7
B. Non-tax income	164.6	283.0	71.9
C. Special funds	65.3	83.0	27.1
D. Capital resources	1,467.0	746.0	(49.1)
Financial revenues	133.6	127.0	(4.9)
Financial surpluses	1,274.6	544.0	(57.3)
Other	58.8	75.0	27.6
II. Total expenditures (A + B + C + D)	6,434.4	7,838.0	21.8
A. Interest	1,461.5	1,867.0	27.7
External	397.0	557.0	40.3
Internal	1,064.5	1,310.0	23.1
B. Operating costs	4,411.9	5,351.0	21.3
Personal services	880.6	916.0	4.0
General expenditures	318.4	313.0	(1.7)
Transfers	3,212.9	4,122.0	28.3
C. Investment	472.4	475.0	0.6
D. Net loan	88.6	145.0	63.7
III. Deficit (-) or surplus (+) (I - II)	(1,221.0)	(1,486.0)	21.7
IV. Financing (A + B + C)	1,221.0	1,486.0	21.7
A. Net External credit	977.1	1,525.0	56.1
Disbursements	1,338.7	2,351.0	75.6
Repayments	361.6	826.0	128.4
B. Net Internal credit	1,368.7	2,098.0	53.3
Disbursements	2,920.1	3,916.0	34.1
Repayments	1,551.4	1,818.0	17.2
C. Other	(1,124.8)	(2,137.0)	90.0
V. Deficit as percentage of the GDP	(0.8)	(0.9)	6.6

1/ Includes the two per thousand tax.
Source: Higher Council of Fiscal Policy (Confis).

paid prior to transferring them to the account of the General Treasury of the Nation[14] and the upturn of the economic activity.

The National Government effective payments reached $7,838 mm and they represent an increase of 21.8% in front of the value for the same period of 1999. Per expenditure item, interest grew 27.7%, operating expenses 21.3% and investment 0.6%. Within operating expenditures general overhead decreased 1.7% and personal services and transfers increased 4.0% and 28.3%, respectively. The significant expansion of expenses relating to transfers reflects cancellation of a great portion of the budgetary lag on account of the transfer to Departments and Districts (Situado Fiscal) and assignment of current income to municipalities and the transfer to Fogafin of the balance of the tax collecting from financial transactions of 1999. The net loan, which reached $145 mm during the quarter, was utilized for payment of the loan secured by the Nation and to investment loans, with and without funds transfer.

With regard to the financing of the Central Government deficit, a net foreign indebtedness is observed for the amount of $1,525 mm and utilization of net internal credit funds for $2,098 mm. Foreign Disbursements amount to $2,351mm and proceed from a loan contracted with the Corporación Andina de Fomento (CAF) for US$100 m, placement of bonds for US$750 m and a credit from the multilateral banking for US$10 m. Internal disbursements amounted to $3,916 mm, of which $3,838 mm corresponds to placement of TES certificates $67,3 mm to certificates of debt reduction (CDR) and $10,5 mm to other sources.

2. Fiscal outlook for 2000

In accordance with the latest official estimates, the consolidated public sector finances will show, at the end of the year a deficit of 3.6% of the Gross Domestic Product, which is less by nearly two points than the corresponding GDP value observed in 1999. The fiscal performance of the public sector during the current year is associated to the behavior of the non financial public sector (NFPS), which reflects the adjustment process of the Central Government and a favorable evolution of oil international prices. In comparison with the results for 1999, the NFPS deficit decreased from 6.0% to 3.4% of the GDP, which shows an important change in the tendency of the fiscal performance of the latest years (Table 9).

Concerning the Central National Government finances, official projections estimate a deficit equivalent to 6.0% of the GDP, which represents a reduction of 1.5% of the GDP as compared to the value observed in 1999. In relation with income a growth of 17.8% is expected from tax collections, and 3.6% from other revenues (non-tax income, special funds and capital resources). Regarding tax revenues, it is important to highlight the dynamism in collections from customs tariffs (31.1%) and external VAT. (35.3%), which originates from upturn in the value of imports which is estimated to reach a yearly growth of 9.0%. The VAT on internal economic activity would only grow 9.8% due to the reduction in the general rate from 16% to 15% for such tax in November in the previous year. Regarding the non-tax revenues, it is important to highlight a lower transfer of financial surpluses by enterprises and national public establishments, which are foreseen to decrease 19.4% when diminishing from $1,420 mm in 1999 to $1,144 mm in 2000 (Table 10).This is explained by lower transfers foreseen by Cajanal and other public entities, and the lack of surpluses foreseen for ISA and Isagen, which is partially compensated by greater transfers done by Ecopetrol.

In connection with the Central Government expenses, a growth of 10.9% is estimated, which is slightly greater than the inflation goal foreseen for this year. This moderate growth in the expenditure is attained due to a strong austerity in the operational payments,

[14] The number of days during which commercial banks may maintain funds received was reduced from 21 to 14. The limits concerning VAT and income tax retention, declaration and payment of VAT and payments from major taxpayers were set for the first 15 days of each month.

Table 9
Consolidated public sector
Deficit (-) or surplus (+)

Entity/Sector	Billion of pesos		Percentage of GDP	
	1999	2000 (proj.)	1999	2000 (proj.)
Electricity	(437.0)	(306.0)	(0.3)	(0.2)
Carbocol (Coal Company)	266.0	233.0	0.2	0.1
F.A.E.P. (Oil stabilization fund)	533.0	1,347.0	0.4	0.8
Ecopetrol	933.0	1,506.0	0.6	0.9
Telecom	(70.0)	156.0	(0.0)	0.1
Other entities	160.0	818.0	0.1	0.5
Social security	1,515.0	1,743.0	1.0	1.0
Regional and local entities	(518.0)	(1,043.0)	(0.3)	(0.6)
National Coffee Fund	(43.0)	22.0	(0.0)	0.0
1. Subtotal decentralized sector	2,339.0	4,476.0	1.6	2.6
2. National Government	(11,339.0)	(10,332.0)	(7.5)	(6.0)
A. Total non-financial public sector (1 + 2) 1/	(9,000.0)	(5,856.0)	(6.0)	(3.4)
B. Cash profits and losses of the Banco de la República	608.0	800.0	0.4	0.5
C. Cash profits and losses of Fogafin	828.0	(168.0)	0.6	(0.1)
D. Financial sector restructuring cost	(10.0)	(986.0)	(0.0)	(0.6)
E. Adjustments	(496.5)	0.0	(0.3)	0.0
F. Total consolidated public sector (A + B + C + D)	(8,070.5)	(6,210.0)	(5.4)	(3.6)

(proj.) Projections.
1/ This calculations include the variation of the budgetary lag of the Central Government.
Source: Confis.

whose yearly growth of only 4.9% allows compensating grater dynamism in the items corresponding to interests (32.5%) and on investment (19.6%). Regarding operational expenses, a decrease of 3% is expected in general expenses, and an increase of 8.5% and of 4.6% in personal services and transfers, respectively.

The slow growth of transfers is partially a result of the adjustment made in the allocations for transfer for Departments and Districts (Situado Fiscal), due to the drop of the current income observed during 1999. The adjustment in this item of the expenditure is compensated partially through a greater allocation of resources for the Fund of Educational Credit (FEC), which reaches $820,1 mm during the year representing a higher increase than 90% as compared to the value in 1999. These greater resources are required for supplementing the funds of the transfer for Departments and Districts (Situado Fiscal) addressed to financing education. The item of pension payments will show expansion of 37.6% due to the growth of the number of pensioners originating from assumption of payments by Cajanal and pension payment liability of the Caja Agraria.

The Central Government investment foreseen for this year amounts to $2,696.5 mm and includes, among others, payments for social interest housing for $150,0 mm and the resources for the reconstruction

Table 10
Central National Government
(Billions of pesos)

		1999	2000 (proj.)	Annual Growth %
I.	**Total revenues (A + B + C + D)**	18,997.4	21,969.6	15.6
	A. Revenues tax	16,066.6	18,933.1	17.8
	Income tax	6,409.5	7,343.9	14.6
	Internal VAT	4,734.3	5,197.3	9.8
	External VAT	1,935.1	2,618.4	35.3
	Customs	1,372.6	1,798.8	31.1
	Gasoline	706.5	887.3	25.6
	Other **1/**	908.6	1,087.4	19.7
	B. Non-tax and other revenues	434.4	585.7	34.8
	C. Special funds	438.9	558.6	27.3
	D. Capital resources	2,057.5	1,892.2	(8.0)
	Financial revenues	477.6	529.7	10.9
	Financial surpluses	1,419.6	1,144.2	(19.4)
	Other	160.3	218.3	36.2
II.	**Total expenditures (A + B + C + D)**	29,404.6	32,596.2	10.9
	A. Interest	5,025.5	6,656.8	32.5
	External	1,559.2	2,287.4	46.7
	Internal	3,466.3	4,369.4	26.1
	B. Operating costs	21,254.6	22,286.0	4.9
	Personal services	4,106.2	4,453.8	8.5
	General expenditures	1,295.6	1,256.1	(3.0)
	Transfers	15,852.8	16,576.1	4.6
	To departments & districts (Situado Fiscal)	4,499.7	4,197.4	(6.7)
	Educational Credit Fund	425.6	820.1	92.7
	To municipalities	3,141.6	3,260.1	3.8
	Pension payments	3,063.4	4,216.2	37.6
	Financial sector	920.6	0.0	n.a.
	Other	3,801.9	4,082.3	7.4
	C. Investment	2,254.7	2,696.5	19.6
	Earthquake reconstruction	325.0	417.0	28.3
	Social interest housing	0.0	150.0	n.a.
	Other	1,929.7	2,129.5	10.4
	D. Net loan	869.8	956.9	10.0
III.	**Budget lag**	931.3	(295.1)	(131.7)
IV.	**Deficit (-) or surplus (+) (I - II - III)**	(11,338.5)	(10,331.5)	(8.9)
V.	**Financing (A + B + C)**	11,338.5	10,331.5	(8.9)
	A. Net External credit	3,244.0	3,350.5	3.3
	Disbursements	5,102.0	5,067.0	(0.7)
	Repayments	1,858.0	1,716.5	(7.6)
	B. Net Internal credit	5,713.0	5,743.5	0.5
	Disbursements	12,003.0	11,952.0	(0.4)
	Repayments	6,290.0	6,208.5	(1.3)
	C. Other	2,381.5	1,237.5	(48.0)
VI.	**Deficit as percentage of the GDP**	(7.5)	(6.0)	(20.2)

(proj.) Projected.
n.a. Not applicable.
1/ Includes the two per thousand tax.
Source: Higher Council of Fiscal Policy (Confis).

of the coffee growing region through the Fondo de Reconstrucción del Eje Cafetero (FOREC) for $417,0 mm. The item designated as net loan accounts for credits for service of the Carbocol debt amounting to $274 mm, Metro de Medellín for $178 mm, Urrá for $157 mm and Isagen for $47 mm.

In connection with financing, the Confis data show net utilization for $3,350.5 mm in foreign credit and $5,743.5 mm in internal credit. The TES placements will reach $11,426 mm of which $6,403.7 mm correspond to subscriptions agreed upon, $3,899.9 mm correspond to auction sales and $1,122.8 mm to forcible investments of public entities with liquidity surpluses. In connection with the privatizations programme and sales of assets, the Carbocol sale has been foreseen together with Isagen. The privatizations of ISA and of the financial entities were postponed for 2001.

During year 2000, the remaining portion the non financial public sector will show a surplus of 2.6 % of the GDP, which implies an increase of 1% of the GDP with respect to the value in 1999, (Table 9). At a sector level it is worth to point out a good performance of Ecopetrol's and FAEP finances, thanks to the favorable behavior of international oil prices. Compared to 1999, Ecopetrol's surplus will increase 0.3% of the GDP and FAEP surplus will increase, 0.4% of the GDP. The surplus for the "remaining entities" will also increase 0.4% especially because of including two new entities such as Fondo Nacional de Garantías (National Guarantee Fund) and Fondo de Reserva para la Estabilización de la Cartera Hipotecaria (Reserve Fund for Stabilization of Mortgage Portfolio), which are financed through contributions from the Central Government.

The possibility of maintaining at mid-term the fiscal clearing tendency depends essentially on approval of structural amendments submitted for review by the National Congress, since through the adjustment for year 2000, the government has exhausted its maneuvering margin currently allowed under applicable legal provisions. Continuing the fiscal clearing process, approval of the structural amendments will contribute in a critical manner to create a macroeconomical environment to allow the consolidation and sustainability of economic growth in the medium term.

D. Financial sector

By the end of 1997, just when the initial developments of the financial crisis were being faced there were 131 credit establishments, whose assets amounted to a figure equivalent to 66% of the GDP.[15] In April of the current year the number of establishments was 82 and their assets represented approximately 59.5% of the GDP.[16] This shows that the number of institutions fell by 38% and the share of the credit establishments in the GDP is similar to the share reached during 1995.[17]

The measures issued in 1999 for the strengthening of the financial sector were explained in the Report

[15] The assets of six special official entities are included, namely, FEN, Finagro, Bancoldex, Findeter, ICETEX and FONADE. By the end of 1997 such assets represented 5.55% of the GDP. The assets of the establishments of direct credit for the public, represented 61%.

[16] Pursuant balance sheet figures, assets in April would represent approximately 57% of the GDP. Assuming that the total portfolio that has left the balance sheets since 1999, the total assets of credit establishments would be 59.5% of the GDP, the figure quoted in the text. The figures quoted correspond strictly to credit establishment, namely to credit entities of direct credit to the public, to second floor banking and to other credit entities of the special regime. But they do not include other financial institutions such as financial services corporations (Trusts, pension payment funds, and bonded warehouses), insurance companies and stock broker entities. At the end of 1999 assets of the credit establishments represented 60% of the GDP, and of the latter entities mentioned, 9% respectively. Thus, total assets of the financial system represented 69% of the GDP in 1999.

[17] In terms of type of credit establishment, the reduction of the number of entities occurred thus: the number of banks was reduced from 32 to 24, the number of mortgage credit institutions from 9 to 6, the number of financial corporations from 22 to 10, that of traditional commercial financial companies from 30 to 20, and that of specialized leasing financial companies, from 32 to 16. In 1997, of the 125 entities 114 were of private origin and 11 of public origin, and in April 2000, of the 76 surviving institutions, 67 were of private origin and 9 of public origin.

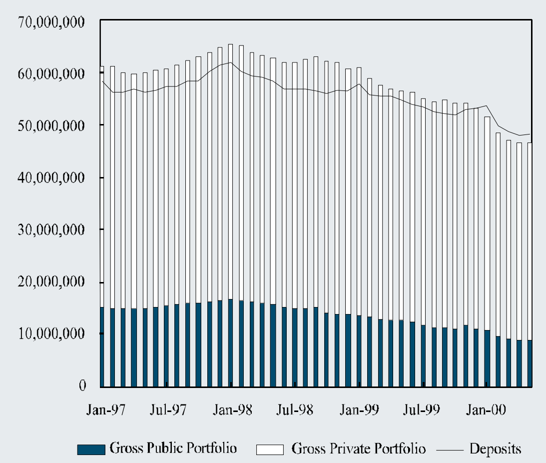
to the National Congress of March, 2000. On this occasion the development of the path followed by the financial sector during the last semester was informed indicators of profitability, solvency and portfolio quality and recent developments of some of the measures of the previous year are pointed out. As from this analysis we repeat that, without ignoring acknowledgment of the persistence of the financial crisis, indications of a favorable turn point in the solvency of the financial sector currently exist.

1. Recent evolution of financial intermediation

A consequence of the crisis of the latest years has been a lesser dynamism of financial intermediation. The joint declining behavior of both portfolio and deposits as from the end of 1997 of financial institutions can be seen in Figure 14. The real portfolio balances have been reduced faster than deposits up to a point that, during the last six months, the actual drop of portfolio has been sharper than the corresponding deposits from the public. The diminishing of real balances of portfolio since the end of 1997 is 28%, which indicates that more than one fourth of the funds intermediating capacity has vanished as a consequence of the financial crisis. The fall in portfolio balances is partially explained by the measures adopted for clearance of balance sheets and relief to debtors. If the effect of those measures were isolated, the fall of the real portfolio would be 18% instead of 28%. Between the sanctions to the public banking portfolio, and the withdrawal of portfolio from liquidated entities, likewise of public origin, the 7.5 difference mention is explained. The remaining is shared between debtors, and other transactions tending to clear balances, such as clearance from encumbrances offered to private banking, portfolio sales and management of portfolio transferred.

The decision from intermediaries of dedicating a major portion of their fund utilization to liquid and secured financial investments, that include public securities of the National Government, has also influenced the loss of relevance of portfolio as a portion of total assets. Figure 15 shows a contrast between the upward trend of the participation of this type of investment of total assets, and the graded decline of portfolio participation for the entirety of the financial system since the beginning of 1998.

FIGURE 14
FINANCIAL SYSTEM
EVOLUTION OF GROSS PORTFOLIO AND DEPOSITS
(JANUARY 1997 - MAY 2000 PRICES OF DECEMBER 1999)
(MILLIONS OF PESOS)



Source: Banco de la República.

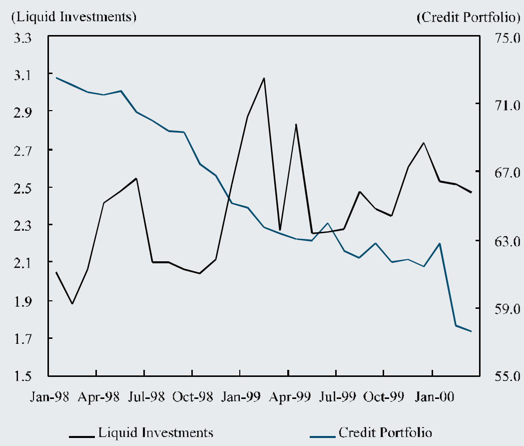
2. Solvency and credit risk

a. Evolution of banking solvency

The course of the relationship between solvency since mid 1997, measured as a ratio between the "Technical Capital"[T/N] and assets weighted by the risk level, is shown in Figure 16. It also shows how the indicator for the financial system as a whole has been maintained above the required minimum of 9% through the crisis, and how its lowest levels between December 1998 and June 1999 were determined by a weakening of the public banking. The rise of the solvency indicator of the public banking during the second half of 1999 was the result of a number of policy measures aimed at recapitalization which allowed, since the end of 1999, for its indicator to exceed the corresponding indicator of private banking and of the financial system as a whole.

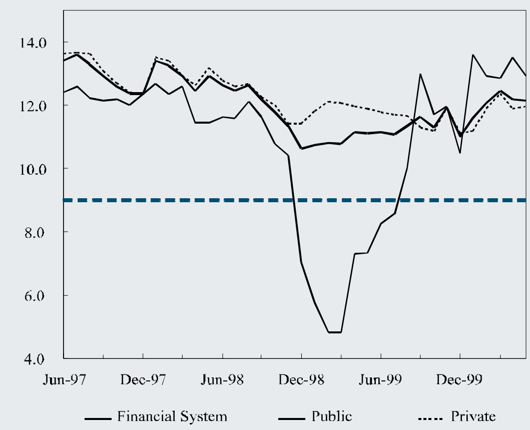
T/N The "Technical Capital" (Patrimonio Técnico) results from the aggregate of the following: primary and secondary capital amounts, namely the suscribed and paid capital, legal provision, lasted year undistributed earnings, current year capitalized profits, dividends payable in shares, statutory and occasional reserves, capital surplus, less: prior years losses and capitalization of the asset revaluation account.

FIGURE 15
FINANCIAL SYSTEM, SHARE OF LIQUID INVESTMENTS AND PORTFOLIO IN TOTAL ASSETS
(JANUARY 1998-MARCH 2000)



Source: Banco de la República.

FIGURE 16
SOLVENCY RATIOS, CREDIT INSTITUTIONS
(JUNE 1997-MAY 2000)
(PERCENTAGE)



Source: Banco de la República.

The referred behavior corresponded to the recent favorable evolution of non-productive assets, overdue portfolio and payment of assets in kind, as well as the limited credit activity evidenced by the public banking which allowed for a reduction in the burden of risk assets among total assets. The magnitude of the improvement in the evolution of non-productive assets may be evidenced by comparing the figures of mid 1999 with those of April this year. By the former date, non-productive assets of the public banking were 13.3% of its assets, while those of the private banking represented 5.2% and those of the system as a whole, were 6.9% on the former date, the relevant figures were 7%, 4% and 4.5%, respectively. Despite such achievements, non-productive public assets continue to be relatively high, which suggests that clearance from encumbrances and capitalization processes must be consolidated.

Concerning the evolution of the private banking solvency indicator, two groups may be identified. Institutions, which did not resort to Fogafin currently, enjoy solvency between 11% and 12%, which was reduced from around 14% prior to the crisis. Private banking which resorted to Fogafin credit has managed to return to levels compliant with the minimum solvency required, thanks to capitalization by their own shareholders and to assets-based credits received from Fogafin. However, the financial recovery of these entities has found some obstacles due to the low liquidity of Fogafin bonds within the limited capital market.

As it may be inferred from the foregoing the course of the solvency indicator provides reasonable optimism concerning its future behavior. Nonetheless, the reestablishment of the financial sector requires continuity of capitalization efforts, with the aid of the private sector. Advances achieved up to this time would not have been feasible without the equity reestablishment of public and private intermediaries. The resources contributed by Fogafin for capitalizing the public banking have been of the order of $4,3 billion pesos.[18] In turn, credits granted for capitalization of the private banking reached $0,8 billion, of which 70% was granted on a long-term basis, whereby up to 90% took care of the capital funds required for reestablishing the solvency ratio to 10%.[19]

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[18] The entities which benefited from contributions were BCH, Banestado, Bancafé Granahorrar and the Banco Agrario.

[19] The following private entities received credits from Fogafin: Megabanco, Banco Colpatria, Banco Superior, Banco de Crédito, Interbanco, Coltefinanciera, Corporación Financiera del Norte, Banco Unión, Multifinanciera and Credinver.

It should be reiterated that the private banking credits were granted at market rates and under adequate guaranties, in such a manner that the scheme of Fogafin did not imply any type of aid for shareholders. Additionally, it should be stressed that Fogafin intervention towards private entities, such as Granahorrar, FES, and more recently Interbanco, have been made with the explicit purpose of preserving for the public their savings and avoiding risks of financial contagion.

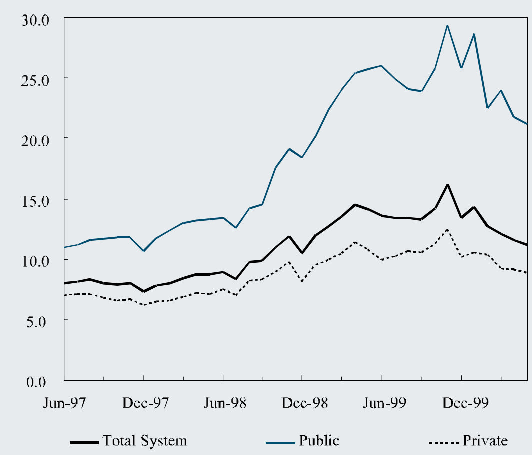
Through the foregoing, the amount of Fogafin credit exceeds $5,1 billion, approximately 3.0% of the GDP. Even though this represents an important effort, there still persist capitalization requirements, since, as may be seen below, the indicator of the portfolio deterioration is still considerable. Added to the official efforts, during the course of the last semester, considerable share issuances have been made for strengthening private banking equity.

b. Recovery tendency of portfolio quality

Figure 17 shows the course of overdue portfolio as a percentage of total portfolio. Since mid 1997 the indicator corresponding to public banking was already neighboring 14%, i.e. approximately double the indicator of private banking. Since then, the gap between the two indicators has been permanently widened. In its maximum point in November 1999, the indicator corresponding to the public sector reached 29%, and that of the private sector 13%. As from 1999, the growing tendency was suspended, of the indicator of overdue portfolio of the entire financial system. The public banking reflects the financial saving measures of Banestado and the BCH (Central Mortgage Bank). In the private banking the decline of the indicator began with the creation of Megabanco, whose tendency has been strengthening through improvement in portfolio recovery.

Alternative indicators coincide in setting out the favorable evolution of portfolio quality. As it may be seen from Table 11, overdue portfolio, as percentage of the total portfolio moved from 10.8% in May 1999,

FIGURE 17
CROSS OVERDUE LOANS AS PERCENTAGE OF GROSS OUTSTANDING LOANS
(JUNE 1997-MAY 2000)



Source: Banco de la República.

to 8.8%, in private institutions, in the same month of year 2000. Within this group an improvement in commercial financing companies stands out, since in the traditional ones the indicator fell from 20% to 14% between May 1999 and the same month of the year 2000 and in those specialized in leasing, it fell from 27% to 13%,[20] in the some period. In the public banking, same the relevant percentage declined from 27% to 21% during the same period. Similarly, an improvement may be observed in the indicator of defaultness which details the weighted overdue portfolio by length of term of delinquency, with gross portfolio, especially in the case of private banking and in the public banking as a whole.

In the private sector, the hedging indicator which reveals to what extent have institutions established provisions in connection with their overdue portfolio, became practically doubled, by raising from 28% to 50%, between May 1999 and May 2000. The case of financial corporations is outstanding, when reaching 85% in May 2000. In the public sector, the coverage also advanced, i. e. from 36% to 39%.

[20] The drop of the indicator of the commercial leasing companies has partially resulted from, the winding ups and mergers occurred as from 1998.

Table 11
Portfolio quality indicators
(Percentage)

	Relative Size of Overdue Portfolio May		Delinquency Indicator May		Hedging Indicator May		Hedging of Portfolio May	
	1999	2000	1999	2000	1999	2000	1999	2000
Private Sector								
Banks	10.8	9.1	5.0	3.7	27.8	48.3	32.0	73.8
Financial entities	5.5	4.8	1.9	1.9	46.1	85.2	62.7	101.7
Financial leasing entities								
Traditional	20.3	14.0	10.0	6.6	20.5	34.3	23.2	44.5
Specialized in leasing	26.6	12.8	9.9	5.2	24.4	35.4	34.4	58.0
Total private sector	10.8	8.8	4.8	4.8	28.1	49.4	33.2	54.2
First floor public sector								
Banks	29.7	24.8	15.7	16.9	35.7	37.7	37.2	51.6
Financial entities	11.9	4.3	6.6	0.8	44.2	34.8	47.5	33.7
Financial leasing entities								
Traditional	27.6	21.5	10.8	16.2	40.9	84.8	61.5	93.2
Specialized in leasing	28.3	17.7	16.1	10.8	16.0	32.0	20.4	40.2
Total first floor public sector	26.6	21.1	14.4	12.7	35.9	39.0	37.9	43.9

Notes:
Relative size of overdue portfolio (%) = [Overdue portfolio/Gross portfolio] * 100.
Hedging indicator (%) = [Provisions / Overdue portfolio] * 100.
Delinquency indicator (%) = [Weighted overdue portfolio-according to due date/ Gross portfolio] * 100.
Hedging indicator (%) [Portfolio provisions c, d, e / Overdue portfolio c, d, e] * 100.
Source: Banking Superintendency.

Particularly, provisions on lesser quality portfolio (C, D and E) rose from 33% to 54% in the private sector, and from 38% to 44% in the public sector.

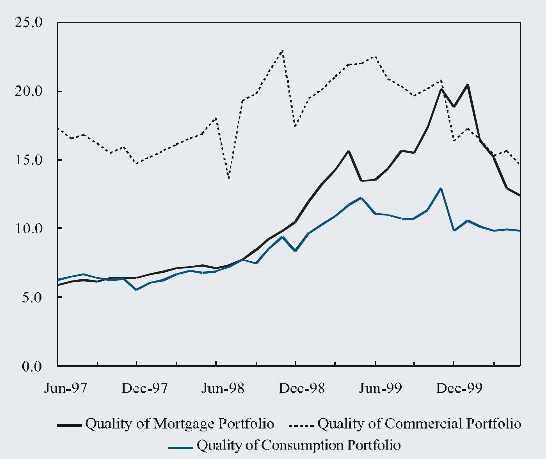
Even though the aforementioned indicators show the advances obtained in portfolio quality, during last year, the existence of an important heterogeneity should be stressed, both in the behavior of overdue portfolio as well as in the rest of the quality indicators thereof, according to the type of financial establishment and the main orientation of credit between mortgage, commercial and consumption financing (Figure18).

3. Policy measures

Various policy measures have been applied for confronting the financial crisis. The measures provided in the economic emergency decreed in 1998, have been supported through equity strengthening programs of the banking system under the leadership of Fogafin, through new legal guidelines for the financial sector, mortgage credit plans for housing projects, and entrepreneurial restructuring. The support granted in 1999 to mortgage debtors ($850,000 m) was supplemented by regulations authorized under Law 546 of 1999. Such reliquidations reached by March of this year $1,412 mm.

Among the novel legal frameworks conceived for managing the financial crisis is Law 510 of 1999 or financial amended regime, Law 546 of 1999 or housing mortgage amended regime, and Law 550 of 1999 or economic intervention law. The essential contents of these laws were duly explained in the Report to Congress of last March. On such occasion the initial developments of the Law on Economic Intervention were presented.

Figure 18
Financial system, gross overdue portfolio
(June 1997 - May 2000)
(Percentage of the gross portfolio by type of portfolio)



Source: Banco de la República.

Law 550 of 1999 was enacted for the purpose of creating a favorable framework to entrepreneurial restructuring, and to confront the growing number of cases of voluntary arrangement with creditors to avoid bankruptcy and liquidation of enterprises. Pursuant to the Superintendency of Corporations, the number of enterprises entering into arrangement with creditors which was 105 in 1998 rose to 198 in 1999, and liquidations increased from 77 to 162. Under the new regime, 140 enterprises have materialized restructuring agreements with the banking system during the firs half of 2000, and of those only two had to enter into the phase of voluntary arrangement with creditors to avoid bankruptcy. Pursuant to Table 12, at the end of the first quarter of the current year, the financial system had entered into restructuring agreements in the amount of $2,2 billion, a figure equivalent to 40% of the overdue portfolio of financial intermediaries by that date. Such figures include agreements entered into both under the regime of Circular letter No. 039 of 1999 from the Banking Superintendency, as well as under Law 550 of 1999.

Restructuring agreements have covered an ample range of sectors. Pursuant to statistics data from Confecamaras, 21% of the participating enterprises have originated from the commercial sector, 19% from the industrial sector, and 14% from the construction sector. Other sectors have also entered into in lower percentages, as may be seen from Table 13. It is estimated that the restructuring of liabilities belong to enterprises whose assets are within the order of $3 billion.[21] In accordance with the restructuring of liabilities, the textile, mining and services sectors had the greater share in the agreements reached (Table 14).

Pursuant to the foregoing, the Economic Intervention Law has begun to offer the expected results through its enactment. The geographical coverage has been quite wide. While approximately 56% of the restructuring agreements have been concentrated in the cities of Bogotá, Medellín and Cali, other 27 cities of various sizes have been included in the agreements with the financial system.

4. Situation and liquidity risk

The interbank market is segmented in Colombia. A wide group of intermediaries with excessive liquidity coexist systematically with a very restricted group with shortages. In this latter group, public financing intermediaries stand out. Pursuant to the remark in the monetary policy section hereof, the situation mentioned led the Banco de la República while providing liquidity resources, especially for the public banking system, it also has to gather the excess not being absorbed by the interbank market.

The fractioning of the interbank market reflects not only upon the distribution of liquidity by intermediaries, but also upon the behavior of the liquidity risk indicators. Figure 19 describes, with respect to the latest two and one half years, the course of liquidity risk, being it understood as the percentage that volatile liabilities represent within

21 Confecamaras, "La reestructuración económica se fortalece", Santafé de Bogotá, July 1, 2000.

Table 12
Financial system - Restructuring agreements
March, 2000
(Millions of pesos)

	Commercial	Consumption	Housing	Total
Banks	1,161,961	31,380	282,788	1,476,129
Financial corporations	582,898	2,082	0	584,980
Commercial leasing companies	145,423	6,501	0	151,924
Trust corporations	5,861	1,172	1,122	8,155
Total	1,896,142	41,135	283,911	2,221,188

Source: Banking Superintendency

Table 13
Businesses restructuring agreements, by sector, according to number of businesses - June 2000
(Percentage)

Commerce	21.0
Industry	19.0
Construction	14.0
Textile	8.0
Agriculture	6.0
Services	5.0
Health	5.0
Mechanical metallurgy	4.0
Telecommunications	3.0
Transportation	3.0
Metallurgical	2.0
Editorial	2.0
Education	1.0
Hotels	1.0
Ready made clothing	1.0
Footwear	1.0
Foodstuff	1.0
Pharmaceutical	1.0
Mining	1.0

Source: Confecámaras based on figures of the Superintendency of Corporations and Cambers of Commerce.

the total deposits in the financial system.[22] Two great complete cycles are shown in the figure. The first one goes from January 1998 to May 1999, and the second one between June 1999 and January 2000. These cycles suggest that the liquidity risk evolved in accordance with the manner in which the economic agents rearranged their portfolio in foreign exchange and financial unstability periods. Thus, foreign exchange pressures in 1998 and 1999 appeared in the growing phases of the liquidity risk cycles.

The indicator also illustrates the increase of the liquidity risk during the elapsed part of this year, and contrary to the two prior years, is not characteristic of the entire system, but that it rather originates in the public banking. The figure reveals how, during the first cycle the liquidity risk of those institutions; the indicator was greater than that of the entire system. Public banks sorted out their liquidity limitations through treasury transactions, where interbank sources and Banco de la República were combined together with a wise handling of portfolio and of liquid assets.

Subsequently, when the strategy of equity reestablishment of the public banking was implemented, its liquidity risk evolved in a similar manner as the entire system was doing. However, as from the fourth quarter of 1999, the liquidity risk of public institutions deviated again from the pattern adopted by the system. Their coefficients have reached levels higher than those of prior cycles, with unanticipated persistence. As compared to an

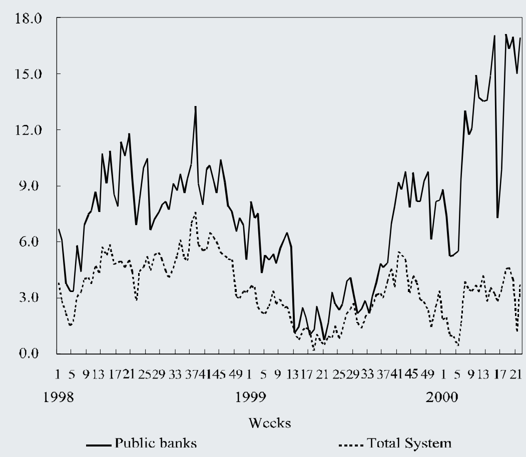
[22] The liquidity risk indicator compares the evolution of net volatile liabilities vs. the evolution of total deposits. The difference between the sum of resources obtained through interbank fixed term deposit saving certificates and liability REPO transactions, and the sum of the resources placed through interbanking transactions and active REPO transactions. The indicator measures the risk of liquidity of an entity concurrent with the fact that a higher share of very short-term liabilities would imply a higher unprotection of the total deposits.

Table 14
Businesses restructuring agreements, by sector, according to restructured liabilities - June 2000
(Percentage)

Ready made clothing and textiles	55.44
Mining	19.53
Services	8.98
Metallurgical and mechanical metallurgy	3.24
Construction	3.07
Industrial sector	2.90
Paper and graphic industry	2.24
Commerce	1.82
Transportation and telecommunications	1.37
Agricultural and agro-industrial sector	0.73
Chemical and pharmaceutical	0.44
Automotive	0.24

Source: Confecámaras based on figures of the Superintendency of Corporations and Cambers of Commerce.

Figure 19
Financial system
Share of volatile liabilities in total deposits
(Percentages)



Source: Banco de la República.

intermediate value of the indicator of 2% by mid 1999, that of the public banking reached 5% during the second half of 1999, and 8% during this part of the current year.[23]

E. Progress in the adjustment program

In the Report from the Board of Directors to Congress of March, a detailed strategy of adjustment and recovery of economy was included, which will continue during the next few years and which has been contemplated in the agreement with the International Monetary Fund (IMF). As mentioned therein, such strategy is based on maintaining the monetary discipline, restructuring the financial sector, reducing the fiscal deficit and developing the policy of foreign financing compatible with the macroeoconomical adjustment. For attaining macroeconomic coherence and guaranteeing fulfillment of the program, certain performance criteria were designed that establish limits as regards specified variables, in particular: i) net international reserves (NIR), ii) net domestic assets (NDA) of the Banco de la República,[24] iii) overall balance of the combined public sector[25] and iv) net disbursements of short medium and long-term external debt by the public sector and change in the outstanding shock of short-term external debt of the public sector. The program contemplates certain flexibility as regards limits of the mentioned variables, through adjustments potentially applicable under special circumstances. As expressed below, the macroeconomic policy described above in prior sections will be evaluated as having allowed fulfillment with performance criteria up to the development of the program through June.

23 The entities which benefited from support or Fogafin credits have faced liquidity difficulties greater than those faced by the system. Hence when the average indicator for the system has been 2%, for those entities it has been near 8%.

24 The domestic net assets are equivalent to the difference between the monetary base and the international net reserves,valued in pesos at an accountable exchange rate.

25 The general balance of the consolidated public sector is defined as the sum of the general balances of the nonfinancial public sector (NFPS), the result of effective transactions (quasi-fiscal balance) of the Banco de la República, the balance of the state deposit agency (Fogafin), and the net fiscal cost assured by the Central Government relating financial restrcturing.

Table 15 includes the quarterly performance criteria originally defined in the macroeconomic program, and the results observed as to available figures up to the month of June. As it may be appreciated, the minimum limit for the NIR, not having applied adjustments, was surmounted during the months of December and March, while for the month of June, the level of reserves surmounted the minimum limit, upon applying the adjustments. In so far as the criterion is concerned on the performance of NDA, which establishes a maximum limit therefor, on December 31, 1999, was surmounted by $752 mm. Such result can be explained by the greater demand of cash and of the reserve registered at the end of the year as a consequence of the change of millenium.

In the agreement with the IMF, this possibility was foreseen regarding the greater demand, for which reason the agreement included an exception in case of non-compliance with the mentioned maximum top limit. This phenomenon reverted on the first working day of the current year, in such a manner that on January 3rd, 2000 the value of the NDA raised to -$7,715 mm, lesser by $65 mm than the maximum limit established for December 31. In March 2000, the value of NDA was less than the established upper limit, without including adjustments, by $839 mm. Finally, in the month of June the NDA value became beneath the corresponding upper limit, upon having the adjustments been applied.

Regading the performance criteria on the overall balance of the combined public sector, which establishes a maximum upper limit for the accumulated deficit of each quarter, it may be observed that by December 31, 1999, its value was less than such upper limit, by $1,080 mm. The accumulated deficit for the month of March became again placed under the maximum upper limit by $4,657 mm. This result was possible thanks to the adjustment effort of public finances described in the section of fiscal policy and to the surplus of the hydrocarbons sector. Although such result was also influenced by the seasonal behavior of certain income and expenditures of the public sector which could provide a transitory character, the overfulfillment recorded ratifies the feasibility of meeting the fiscal goal for the year 2000 (3.6% of the GDP).

Lastly, net disbursements of the short, mid and long-term foreign debt, accumulated since the 1st. Day of January 1999, have been less than the upper limits established in the program during all quarters, even without including any of the adjustments that might be possible given the delay in the privatizations program.

[26] Corresponds to the foreign debt wich finances transactions other than foreign trade.

Table 15
Performance criterion of the macroeconomic program

	December 31, 1999			March 31, 2000			June 30, 2000		
	Planned IMF (a)	Obser-ved (b)	Diffe-rence (b) - (a)	Planned IMF (a)	Obser-ved (b)	Diffe-rence (b) - (a)	Planned IMF (a)	Obser-ved (b)	Diffe-rence (b) - (a)
Minimum level									
Net international reserves (NIR)									
(Millions of dollars)	7,850	8,116	266	8,150	8,254	104	8,350	8,335	(15) **(*)**
Adjusted minimum level									
Net international reserves (NIR)	7,850	8,116	266	7,550	8,254	704	7,650	8,335	685
(Millions of dollars) **1/**							to		to
							7,450 **2/**		885
Maximum level									
Net domestic assets (NDA)	(7,650)	(6,898)	752	(8,950)	(9,789)	(839)	(9,050)	(8,718)	332 **(*)**
(Billion of pesos)									
Adjusted maximum level									
Net domestic assets (NDA)	(7,650)	(6,898)	752	(7,720)	(9,789)	(2,069)	(7,615)	(8,718)	(1,103)
(Billion of pesos)							to		to
							(7,205) **2/**		(1,513)
Minimum level									
Overall balance of the combined public sector									
From January 1st, 1999									
(Billion of pesos)	(9,150)	(8,071)	1,080	(11,550)	(6,893)	4,657	(13,300)	n.a.	n.a.
Maximum level									
Net aggregate disbursements short term									
Public sector external debt									
From January 1st, 1999 (Millions of dollars)	382	368	(14)	70	56	(14)	70	n.a.	n.a.
Maximum level									
Net aggregate disbursements medium and long term									
Public sector external debt									
From January 1st, 1999 (Millions of dollars)	2,450	1,766	(684)	2,600	2,291	(309)	2,750	n.a.	n.a.
Adjusted maximum level									
Net aggregate disbursements medium and long term									
Public sector external debt									
From January 1st, 1999 (Millions of dollars)	2,450	1,766	(684)	2,793	2,291	(502)	3,383	n.a.	n.a.

(*) Shows non-compliance of the goal before accounting for technical exemptions. Once these are included all the performance criteria are met.
n.a. Not available.
1/ Does not include performance adjustment in 1999.
2/ Estimated value, since the information relating to public sector external debt and assets movement abroad is not yet available for closing in June. A missing figure of external public financing is estimated between US$700 m and US$ 900 m.
Sources: Banco de la República and Ministry of Finance and Public Credit, *Acuerdo Extendido de Colombia con el Fondo Monetario Internacional*, 1999.

Box 1

Methodology for calculating the financing of the public sector deficit

The fiscal balance of the public sector may be measured in two ways: by comparison between income and expenditures of the various public entities, or by identifying each one of the financing sources of the deficit as it is external and internal credit, the variation of financial assets and the value of privatizations. These two ways of measuring are equivalent, except when there exist coverage differences or methodological problems relating to the accounting recording of income and expenditure transactions and with the movements of financing accounts.

Financing of the consolidated public sector first semester, 2000

(Billion of pesos)

I.	**National Central Government**	1,306.9
	A. Net internal credit	(150.9)
	1. Banco de la República	(189.2)
	2. Financial system	(1,588.5)
	3. Others	1,626.8
	B. Net external credit	1,787.5
	1. Net indebtedness	1,535.3
	2. External portfolio movement	252.2
	C. Bond portfolio of public entities	(265.7)
	D. Privatizations and other	(64.0)
II.	**Territorial entities**	34.7
	A. Net internal credit	23.8
	B. Net external credit	10.9
	C. Privatizations	0.0
III.	**Remaining nonfinancial public sector**	(1,809.4)
	A. Net internal credit	(972.0)
	B. Net external credit	(830.5)
	C. Privatizations	(6.9)
IV.	**National Social Security**	(668.5)
V.	**Subtotal nonfinancial public sector (I + II + III + IV)**	(1,136.3)
VI.	**Fogafin**	172.4
VII.	**Banco de la República**	(213.2)
VIII.	**Total combined public sector (V + VI + VII)**	(1,177.1)
IX.	**Deficit (+) or surplus (-) percentage of GDP**	(0.7)

Source: Confis.

Some time ago the Banco de la República prepared a measurement of the deficit financing taking into account credit transactions and the variation of financial assets in the country and abroad. In this manner, the measurement has been perfected with the thought of finding an indicator of fiscal policy adequate for verifying timely the targets and policy commitments established by the National Government. Currently, the value of financing the public sector results from the aggregate of the Central National Government transactions, those of territorial entities, the national social security, the remainder of the non-financial public sector, and the balance sheets of Fogafin and the Banco de la República. For each one of those entities or sectors the net indebtedness is estimated as well as the value of privatizations.

In the case of internal credit, the indebtedness with the financial system is included, as well as the net issue of securities. For the Central Government and the rest of the non-financial public sector, additionally, the net indebtedness of the Banco de la República is estimated, the variation of the budgetary remainder, which is constituted by budgetary reserves and accounts payable) aliquots of cellular telephone concessions and oil securitizations. External credit includes net indebtedness of the portfolio movement. For didactic purposes, the attached Table presents a summary of the financing estimate of the consolidated deficit in the first quarter of the year, setting forth the transactions of the Central National Government, which are shown with a greater degree of disaggregation.

Box 2
Reduction of credit or slackening of demand? teachings from international experience

Reduction of credit in Colombian economy has led to an intense discussion on the origin of such situation. As shown in Figure 1, credit to the private sector began to decline severely since the second quarter of 1998 and such behavior has continued even after the economy initiated is recovery. Such behavior has occurred recently in other countries, for which reason, for the purpose of providing additional elements for the debate, it seems pertinent to review international experience.

The most important teachings from recent cycles of business in the so-called emerging markets, is the central role which commercial banks had in their diffusion. At the beginning of the decade of the nineties, the speedy economic growth and the stableness of foreign exchange rates in Asia and Latin America were associated to an unprecedented credit boom, reduction of intermediation spreads and to quick progression of enterprise and Household debts with banks.

Subsequently, massive devaluation and shock treatment of interest rates in 1994 and 1995 in some of Latin American countries, and during 1997-1998 in East Asia exacerbated the problems of adverse selection of bad credits, leading to erosion of bank deposits and increasingly overdue portfolio. The consequence thereof being the paralysis of internal credit. Months after the initial shock, banking credit continued depressed, even in spite of the fact that deposits, interest rates and foreign exchange rates had returned to the levels they had prior to the crisis.

The behavior of credit aggregates led analysts to consider the existence in the countries affected, of a credit crunch by way of reduction in the willingness of banks to lend which would not be reflected in high interest rates. Such diagnosis resulted quite admissible taking into account that an essential characteristic of those economies was the dominant role of the banks in providing working capital and financing for the enterprises project, as well as short and long-term credit for Household. Such feature of the financial systems reflected a relatively small development of the capability of enterprises, especially small and medium-sized ones, producers of exchangeable goods, for obtaining funds from third parties for financing themselves.[1] Within this context, where banks and bonds are imperfect substitutes on the liability side of the balance sheet of small enterprises, the shock of interest rates blast on the product was amplified by the interruption of the so-called credit channel.

Figures 2 to 6 of this Excerpt Box 1 show the behavior of real credit for the private sector and of economic activity in some of the countries more directly affected by the Tequila crisis (Mexico and Argentina) and of East Asia (Indonesia, Thailand and Korea).

The Mexican crisis began with the abandonment of its foreign exchange rate in December 1994, accompanied by a considerable increase in placement interest rates, followed by a restrictive monetary policy since the beginning of 1995. Figure 2 shows how a strong contraction of credit occurred as from such measures for the private sector. An important issue was that credit continued to grow at negative rates during many months after the initial impact, which behavior persisted when the recovery initiated by the end of 1995 and even two years later when economy registered yearly growth rates of the order of 7%.

In the Argentinean episode many elements occurred similar to those of the Mexican experience. Also in this case, high interest rates were followed by deceleration in real terms of credit to the private sector since the end of 1994. Subsequent to the peak reached by placement interest rates in March 1995 and with the hardening of monetary conditions due to the government purpose of maintaining convertibility, credit decreases in real terms during the major part of 1996, growing later on at moderate rates until much after recovery had been initiated (Figure 3).

Indonesia maintains a positive growth of credit in real terms since 1997. In 1998 a long and deep deceleration of credit occurred, which continued growing negatively in 1999. It must be pointed out that, as in the other cases, the recovery of economy in 1999 did not affect credit growth in that year (Figure 4). In the case of Thailand, a similar situation appeared. The economic deceleration that began in 1997, coincided after some months with a strong fall of real credit. However, the recovery that began to take place towards mid 1998 does not seem to be accompanied by an increase in the growth of real credit, which continued being negative despite the fact that the rate of growth of economy was approaching towards mid 1999 at 5% annual rate (Figure 5).

In Korea, the crisis started as a consequence of Thailand difficulties in July, 1997. The pressure against the won remained until December of that year, situation which brought as a consequence the central bank policy sought during the entire second half restricting monetary conditions, through a substantial increase in interest rates and a cut of the monetary base. This circumstance was followed by a cut in the liquidity of monetary markets and a fall in bank loans due to their desperate need of improving their anemic relationship capital/assets. The credit reduction conditions were maintained during two years after the initial impact, although it should be stated that solely during the first quarter of 1998 rates were under 5%. Such moderate growth of credit was kept during the remaining of year 1998, when the recovery of the economy became consolidated during the first quarter of the following year (Figure 6).

Soon afterwards, appreciations emerged underlining different aspects of the situations confronted by the countries. Initially, it was pointed out that it was difficult to detect pressures on credit channels leading towards tightening credit. In fact the credit flow is the result of factors that affect supply and demand. There exists, in other words, an identification problem: the fall in the credit volume may be the result of a decrease in the willingness to lend on the part of banks or of a weakening of demand for credit. Under such conditions, it is not adequate to base opinions exclusively on the examination of aggregates of credit so as to evidence the existence of an adverse displacement of credit supply. The behavior of credit variables might reflect on the contrary, a weakening or deceleration of demand.

Demand or supply?

That the diminished growth of credit originates from a reduction of the credit supply, or on a weak demand therefor, is a matter of great importance from the point of view of economic policy. If credit supply or willingness to lend play an important role, structural measures such as changes in regulations and interventions for strengthening the banking system, could be necessary for removing obstacles against growth. If, on the contrary, the problem is the weakening of demand, the effect of the same type of measures shall be innocuous in terms of growth.

Having the foregoing in mind, Ghosh and Ghosh (1999a, 1999b)[2] considered two models of unbalance for the purpose of finding the determinant factors of credit cycles in East Asia countries and which differ in the frequencies of data. In the general model, real credit supply depends positively upon the relationship existing between the real interest rate and that of deposits of the current product, which captures the payment capacity of enterprises, and such of the real capacity for granting loans on the part of banks. Credit demand, in itself, depends negatively upon the real interest rate, and positively upon the current product, from the difference between the current product and its potential (the product gap), price in the stock market (as a close variable of the expected product) and that of inflation.

The results of the estimated models, which as their authors pointed out, belong to the sphere of macroeconomy, evidence that the hypothesis of credit tightening -supply restriction- is not met in all the countries studied or, in come cases, is only proven at certain specific times within the entire period studied, since January 1996 until mid 1998.

In the estimate based on monthly data it is found that in Thailand a fall occurred simultaneously in real terms of supply and of the demand for credit, although the latter fell more rapidly. Only in January 1998, evidence of the existence of a credit tightening was observed, together with a demand that grows faster than supply. In Korea, excessive demand for credit occurred during the first half of 1997, just before the financial crisis unchained, which was being reduced at the time of appearing the former. In Indonesia evidences confirmed the hypothesis of excess of substantial demand or, in other words, of a tightening of credit in November and December 1977. On the contrary, during the following months, there is no evidence of a credit rationing.

The quarterly model is estimated solely for Indonesia and Korea with similar results to those found in the monthly version. For both countries evidence is obtained about rationing as to quantities in the quarters following the crisis (August and November 1997), respectively. At the end of the first quarter of 1998, in both countries a fall in credit demand was experienced which led to a collapse of credit volume. While credit supply is at this time at levels under those that were observed prior to the crisis, the truth is that the limiting factor is in this case demand.

A clear teaching from this type of exercise is that the fall of the real credit growth appearing after a financial crisis may be originated on three factors. Firstly, inability of banks for lending which may be reduced as a consequence of their seeking to improve their capital/assets relationships and as a result from the reduction of the ratio credit/deposits. This seems to be the mechanism that becomes unchained immediately after the crisis. Secondly, the banks willingness to lend diminishes as a consequence of the weakening of economic activity, which leads to deem that credit is extremely risky and that additionally, interest rates do not compensate such greater risk. Thirdly, both Household as well enterprises which have been affected by the crisis perceive that to a great extent it originated from their extremely high overindebtedness and consequently they adopted the decision to reduce their relationship debt-income.

The Colombian case follows closely the international experience. In papers such as those by Urrutia (1999)[3] and Echeverry and Salazar (1999)[4] the factors have been explained about supply which have led to stagnation of credit in Colombia at the end of the nineties. The initial need of financial intermediaries of improving the relationship capital/assets led them to restrict the credit offer. In the measure that the economic activity continued to weaken, hence also diminishing the demand for new credits, the overdue portfolio has grown as well as the assets received as payments in kind, and the price of collateral assets have decreased. For this reason, banks perceive greater risks when granting new credits, at the time that they confront possibilities of more secure investments, for instance in government bonds (TES), and more profitable, to the extent that the government, for financing its expenditures begins to compete for financial resources, decided to pay higher rates.

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[1] This matter has been commented by Ghosh, S. and Ghosh, A. (1999), "East Asia in the Aftermath- Was there a Crunch?", International Monetary Fund, Working Paper WP/99/38. For Mexico see Krueger, A. and Tornell, A. (1999), "The role of bank restructuring in recovering from crisis: Mexico 1995-1998", NBER, Working Paper, 7042.

[2] Gosh S. and Gosh A. (1999a), "East Asia in the Aftermath: Was there a Crunch" Draft. The monthly exercise was developed by the same authors in "Credit Crunch in East Asia: What do we know, what do we need to know", WP-IMF No. 38.

[3] Urrutia M. Miguel (1999), "Crédito y reactivación económica", Nota Editorial, Revista Banco de la República, No. 860, June.

[4] Echeverry, J. C. and Salazar, N. (1999), "Hay un estancamiento en la oferta de crédito", *Archivos de Macroeconomía*, Departamento Nacional de Planeación, No. 119.

Real credit growth to the private sector and of the GDP

Table 1
Colombia

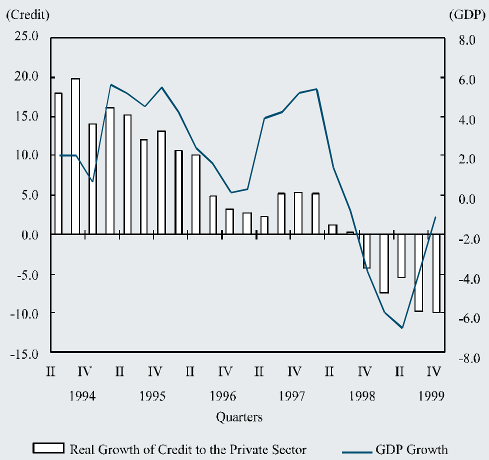


Table 2
Mexico

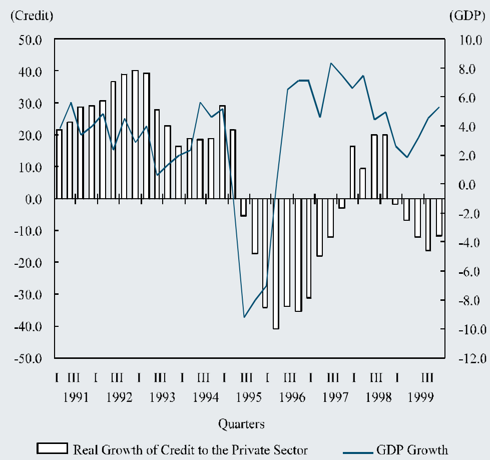


Table 3
Argentina

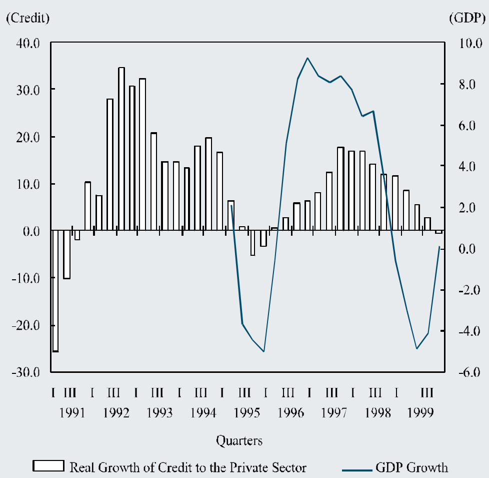


Table 4
Indonesia

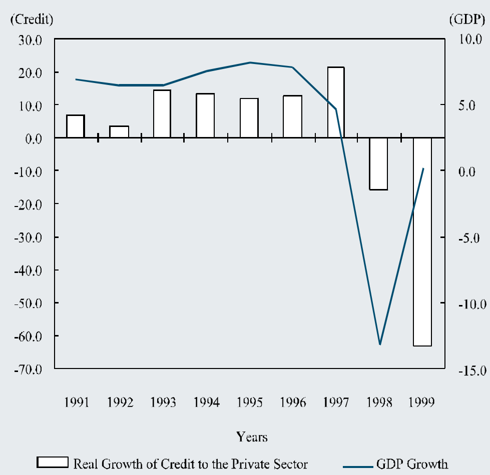


Table 5
Tailandia

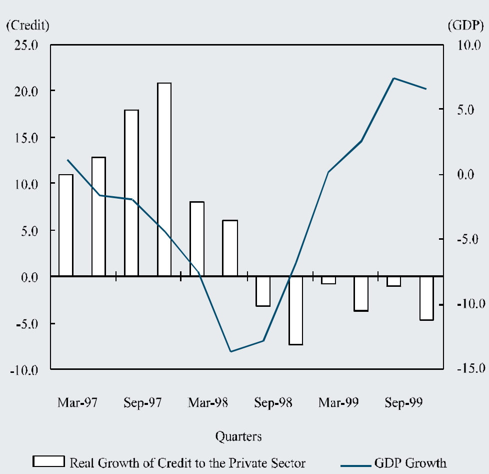
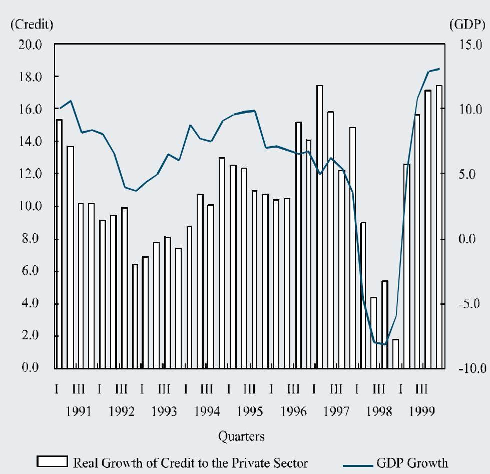


Table 6
Corea



III

Inflation results and basic trends

A. Consumer Price Index

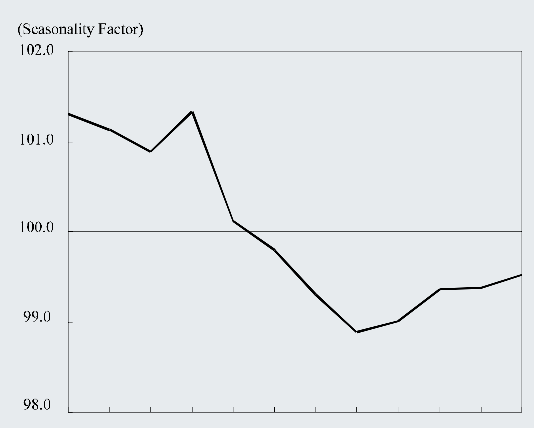
The average indicators of basic inflation measuring inflation of monetary origin remained stable through the first half of 2000. However, several supply shocks caused during such period an upturn in inflation measured by the Consumer Price Index (CPI), with respect to its levels by the end of 1999. Thus, in June the annual inflation as per such indicator was 9.7%, slightly higher than that for 1999 (9.2%).

Evolution of inflation has not been uniform during these six months. Until April 2000 higher inflation was basically explained by important adjustments in food prices, gasoline, utilities and financial services. As from such month and up until June, inflation stabilized around 10%, favored by a reduction in food prices and by a lower growth rhythm of financial services and fuel.

As the Banco de la República has on various occasions pointed out, inflation measured by the CPI was expected to accelerate during the initial months of 2000, as a consequence of transitory factors related especially to food cycle prices. In Colombia, food prices, particularly those for unprocessed foodstuffs and of short vegetative cycle (one semester), are subject to a marked seasonality through the year. Important goods of household consumption such as potatoes, vegetables, legumes and milk, generally show high prices during the first semester of each year, for whose reason their seasonal index price rises above the yearly average, and low prices occur during the second semester, when the index is below the average (Figure 20). Given the high share of those foodstuffs in the price of household consumption articles, seasonal fluctuations in their prices are reflected as important fluctuations in inflation measured by the CPI.

In the latest year and one half, an abnormal rain season accentuated seasonal variances in food prices. Thus during a good portion of 1999, prices for this type of goods were quite below usual prices, which discouraged planting during the second semester of the prior year and the result was a very low supply at the beginning of the current year. In turn, such weak supply led to substantial increases in the prices of several food items between January and April. The most outstanding case has been consumers price of potatoes, which increased 143.9%, explaining 1.5

Figure 20
Consumer price index
(Foodstuff seasonality - not including food outside of home)



Source: National Statistics Agency (DANE), calculations by Banco de la República - SGEE.

percent points of inflation during those months (6.4%). Something similar happened with the group of milk, eggs and fats, whose average prices increased 8.6%, explaining 0.4 percent points of inflation in the period (Table 16).

As from May, however, agricultural supply began to reacquire its normal levels and led to reductions in food prices. These latest two months the price of potatoes has been reduced by 20% with respect to its maximum level in April. Something similar may be said about fruits and vegetables. To the extent that prices of some of those products reached very high levels in front of their historical average -the increased potato prices to consumers during the first four months of this year has been higher for such period than was ever known-, it should be expected that important encouragement factors shall have been generated for planting during the first semester of the year that may yield additional reductions in the coming months.

In addition to food items, the price of fuel has also been another factor explaining the upturn of inflation during the first months of the year. Between January and June, the price thereof increase by 22%. As from the efforts for liberating the fuel market initiated by the Government, its price has been closely linked to the international price and to devaluation, but with a variable lag that has depended upon the price formula in force. In this manner, the price increase of fuel on the CPI is not direct, since expenditure on this item represents only 1% of the total consumer average. However, it has an indirect effect through the price of transportation services. In fact, during the first semester of this year, the urban public transportation increased 9.7%.

Lastly, some financial and public services prices also contributed to raising inflation above the levels shown by the end of the second semester of 1999. In the case of financial services (management of credit, debit cards and checkbook costs among others), their readjustment concentrated in the first three months

Table 16
Consumer price index
Contribution to inflation whole year

Description	Up to April 2000		Up to June 2000	
	Points	%	Points	%
Potato	1.5	22.9	1.0	14.0
Banking services	0.7	10.2	0.7	9.4
Residential	0.3	4.8	0.4	5.9
Dairy	0.3	4.3	0.3	4.4
Vehicles	0.3	3.9	0.3	4.2
Fuel	0.2	3.6	0.3	4.2
Bus	0.2	3.6	0.3	3.7
Electric power	0.2	2.5	0.3	3.6
Gas	0.1	2.1	0.1	1.9
Pensions	0.1	1.9	0.1	1.8
Entertainment services	0.1	1.9	0.1	1.9
Other	2.5	38.2	3.1	44.9
Total	6.4	100.0	7.0	100.0

Source: DANE. Calculations by Banco de la República.

of the year and by June it was 20.3%, contribution 0.7 percent points of inflation for the semester (Table 16). In public utilities (electric power, water supply and sewage), the price increases during the first six months were 15.3%. The reason for the increase in public utilities above the inflation target is explained by the gradual dismounting of consumption subsidies that have been in force for several years.

The three essential factors that explain the increase in inflation during the first semester -increase in food prices, fuel and public utilities and financial services- respond to what is technically known as supply shocks. Such shocks generally occur along short periods and bear a transitory impact upon the general price levels. In this sense, they are not due to demand factors originating from changes of posture in the monetary policy and, consequently they should not induce alterations in the long-term trend of inflation.

In spite of the transitory nature of supply shocks, a wrongly defined monetary policy may convert them into permanent. A slack and indulgent monetary posture towards transitory price increases may bear such effect by increasing inflation expectations and accelerating indexation practices. For the Colombian case, this risk is particularly real, since with a high and inertial inflation history, indexation mechanisms are very extended; expectations are generally very sensitive to temporary variations of the inflation rate. However, if it is perceived that supply shocks are of short duration and small magnitude, the monetary policy posture may be kept unaltered since shock impacts dilute quickly without significantly affecting inflation expectations. In such case, if monetary policy hardened, it could cause unnecessary product and employment volatility.

Reduction of inflation pressures in May and June, while in the context of reduced prices of agricultural origin, has been possible thanks to a coherent monetary policy with a 10% inflation target for the year. To the extent that the Board has reiterated its intention to reach the inflation target this year, and ensure inflation not to exceed 8% for 2001, it may be expected that the next few months monetary policy posture contributes to attain that transitory shock on prices, especially those originating from stationary agricultural supply will revert in great proportion during the rest of the year.

Other items of the household consumption articles basket different from the previously mentioned ones have shown yearly price variations lower than total inflation, contributing to reduce inflationary pressure (Table 17). For clothing the yearly price variation to June was only 2.8%, less than that for December 1999 (3.1%). Similarly, readjustments in Household occupancy (rent) have been to June 1.5% less than those for the entire second semester of the prior year. Doubtless, the deterioration of income and greater housing rental supply has combined to allow minimum rental readjustments during the last 12 months. Lastly, in education, yearly readjustments to June were 9.7%, less than those for the prior year. Within this group, tuition and fees price behavior stands out, whose yearly readjustments to June of 8.6% were less than those shown to June 1999. As well as in the case of rentals, the lower inflation in the education item originates from both a weak demand and official supervision on prices.

Upon observing an alternate classification of the goods that integrate the household consumption items of the CPI, it is found that prices of exchangeable goods (excluding fuels), which due to their own nature are more sensitive to international price variations and exchange rates, showed yearly variations under the total inflation rate. In this sense the greater nominal devaluation registered in the latest months seems not to have had great impact on consumer prices.

According to this classification, inflation acceleration to consumer during the first semester is due to the price behavior of flexible goods (tuberoses, vegetables, legumes and fruits) whose annual variation to June was 25.5%. Indexed good prices (rentals, fuel, education and public utilities) grew at a annual rate similar to that of total inflation (9.6%). At the

Table 17
Variations in the Consumer Price Index

Description	Year accumulated June		Annual June	
	1999	2000	1999	2000
Foodstuff	5.6	7.9	7.5	9.9
Meals out of home	6.6	3.6	7.2	4.1
Other	5.2	9.2	7.6	11.6
Housing	4.2	3.7	5.8	5.2
Maintenance expenditure	3.3	1.1	3.8	1.5
Utilities and other	6.9	11.1	12.0	16.4
Clothing	2.1	1.7	3.1	2.8
Health	11.0	7.3	15.3	11.5
Professional services	11.0	8.6	18.7	16.2
Medications and other	10.9	5.9	12.1	7.0
Education	10.6	7.9	12.4	9.7
Entertainment and cultural activities	5.4	6.0	2.4	3.0
Transportation and communications	11.0	10.7	18.7	18.4
Fuel	27.0	22.0	34.9	29.6
Other transportation costs	9.6	9.6	17.3	17.3
Other expenditures	11.2	12.4	16.1	17.4
Total	6.5	7.0	9.2	9.7

Source: DANE. Calculations by Banco de la República.

other end there were prices of the cyclical group (meat and by-products), which increased in June only 4.2%, with respect to the prior year June level. This is explained by the good behavior of meat price the latest 12 months, which coincided with a high level of cattle slaughtering and a feeble demand (Figure 21).

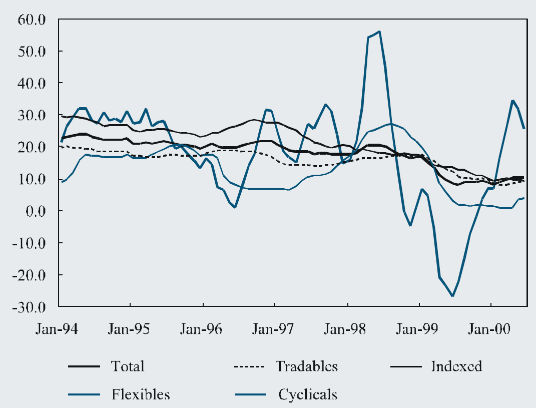
B. Core inflation indicators

The average of basic inflation indicators, after showing a marked lowering tendency during 1999, kept stable at 8% and 10% levels through the first semester of 2000. To June 2000 no growing tendency is seen in these indicators that may be deemed worrisome, average basic inflation being measured per the four indicators calculated by the Banco de la República of 9% (Figure 22). As it is known, basic inflation measures inflation with a monetary origin, discarding those price movements originating from supply shocks. The stability registered by those indicators in the first months of the year, albeit the inflation upturn measured by the CIP, confirms that such upturn originated from transitory factors non-attributable to monetary policy posture changes that jeopardize the accomplishment of the inflation target for this year. In fact, yearly basic inflation was in June below the inflation target for 2000.

C. Producer Price Index

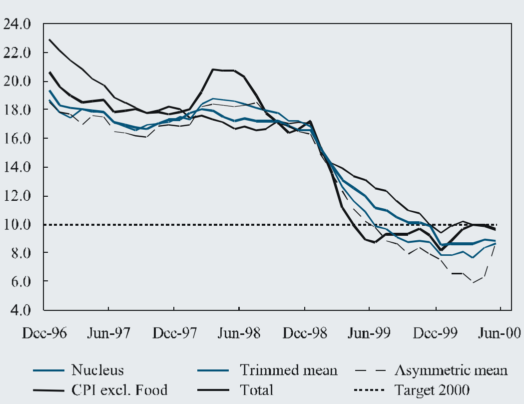
In June the year annual inflation measured by the Producer Price Index (PPI) was 15.6%, 2.9 percent points higher than the figure registered in December

Figure 21
Evolution of inflation,
Tradable and nontradable
(January 1994-June 2000)
(Annual percentage change)



Sources: DANE; calculations by the Banco de la República.

Figure 22
Evolution of total and core inflation
December 1996-June 2000
(Annual percentage change)

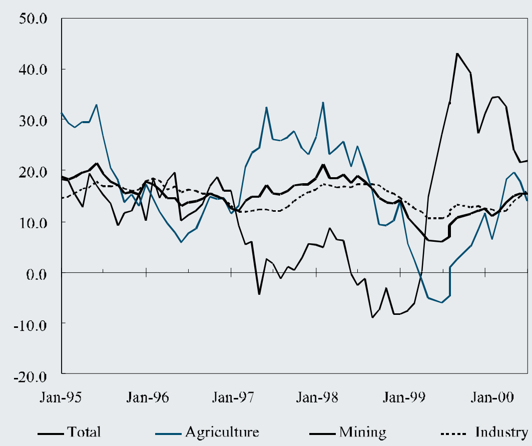


Sources: DANE; calculations by Banco de la República.

(12.7%) and 9.6% higher than that for June, 1999 (Table 18). In the second semester of 1999, PPI inflation had registered an important upturn, which was due principally to a price increase of agricultural goods due to supply problems, to the fuels price increase and to the nominal devaluation.

During the first semester of this year such factors have continued to be present with a different intensity. The diminishing of agricultural goods supply,

Figure 23
Producer Price Index
January 1995 - June 2000
(Annual percentage variation)



Source: Banco de la República, SGEE.

particularly of food items became accentuated during this period, which raised the yearly inflation of this group to 11.7% in December up to a maximum of 19.6% in April. In May and June these pressures have begun to cease and when the first semester concluded yearly annual inflation for these goods was 13.9%. Devaluation through the whole semester, together with additional international fuel price increases, has made that mining origin goods (22.9%) showed a yearly inflation higher than the total. Devaluation has induced a slight price increase of industrial goods, especially as from March (Figure 23).

The effect of devaluation may be more clearly observed as from the behavior of imported goods prices. During last year these prices followed closely devaluation behavior. In the second semester of 1999 acceleration thereof occurred having coincided with foreign exchange unstability at the time. Nominal revaluation of the first three months of this year allowed inflationary pressures originated from such sector to diminish; however, with a new devaluation observed during March and April, these pressures returned again. In the second quarter, the annual inflation of this group of goods accelerated by 2.7 percent points, and in June its level was 21.4%, significantly higher than the total PPI inflation (Figure 24).

TABLE 18
PRODUCER PRICE INDEX VARIATIONS

Description	Year accumulated			Annual	
	June 1999	June 2000	June 1999	December 1999	June 2000
PPI	4.9	7.6	6.1	12.7	15.6
By economic use or destination					
Intermediate consumption	4.1	6.7	6.6	12.4	15.2
Final consumption	5.6	8.4	3.5	12.4	15.4
Capital formation	5.5	9.5	12.1	15.8	20.2
Construction materials	7.3	6.3	16.7	14.3	13.3
By origin					
Domestic production and consumption	4.9	7.1	5.4	11.6	13.8
Imports	4.5	9.4	11.4	16.1	21.4
Exports	7.7	11.4	12.7	26.7	31.1
By ISIC industrial origin					
Agriculture, forestry & fishing	3.6	5.6	(6.0)	11.7	13.9
Mining	25.2	16.4	27.1	31.1	22.0
Manufacturing industry	4.9	7.9	10.6	12.7	15.9

Source: Banco de la República.

FIGURE 24
PRODUCER PRICE INDEX
JANUARY 1995-JUNE 2000
(ANNUAL PERCENTAGE VARIATION)

Source: Banco de la República, SGEE.

As it has been mentioned in various documents of the Banco de la República, there is no close relationship between inflation measured by the PPI and that measured by the CPI.[27] Thus, the greater increase of PPI inflation during the first semester of 2000 does not necessarily anticipate a greater inflation to the consumer in the coming months. Currently, the discrepancy between both inflation indicators is explained by two basic reasons. In the first place, by the fact that the PPI does not include services such as housing rent, recreation and education, whose prices have had favorable repercussions upon the evolution of the CPI. Secondly, because imported goods and fuels, two of the greater accelerators of inflation in the first semester, bear a greater share in the household consumption articles of the PPI than in that of the CPI.

[27] Urrutia M. Miguel (1999) "Relación entre el Índice de Precios del Productor (IPP) y el Índice de Precios al Consumidor (IPC)", editorial article. *Revista del Banco de la República* No. 865 November, 1999 and Carlos Huertas and Munir Jalil (2000), "Relación entre el Índice de Precios del Productor (IPP) y el Índice de Precios al Consumidor (IPC)", mimeo, Economic Studies Division, Banco de la República.

D. Outlook for 2000 and 2001

The behavior of key variables in the process of price formation, as well as the results of diverse inflation projection exercises for the year 2000, allow being optimistic with respect to the possibility of meeting the 10% target. A monetary policy according to such purpose has been maintained, and in so far as costs pressures are concerned, it is observed that in the case of salaries, the latest figures on readjustments agreed upon for this year show that for the bulk of collective bargaining agreements, readjustments very close to or under 10% were defined, which contrasts with the prior year when the majority of such contracts were agreed upon at rates higher than 15%. Similarly, it is known that nominal salaries of sectors as important as commerce were readjusted at the end of 1999 at average rates of 0%, and while salaries plus social benefits of the industrial sector continue being readjusted at rates higher than that of the observed inflation, such rate has decelerated throughout the year.

Similarly, with respect to supply shocks, during the second semester, food prices must have not exercised additional inflationary pressures, and, could have inclusively contributed to decelerating the inflation measured by the CPI, if a better availability of such products occurred, just as it happened during the month of June. Likewise, for the second semester increase in fuels prices are expected at lower levels than those of the first half of the year, in view of the fact that additional increases in international prices are not expected. Lastly, there is no reason for the increases observed at the beginning of the year in financial services, and which affected considerably the upturn of inflation, to occur again in the second semester with similar intensity.

It is expected that for 2001 certain inflationary pressures may occur. The first one, originating from the greater rhythm of devaluation observed during the last year, which albeit until this time has not had effects on the inflation rate, might begin to bear pressure during the next year through raises in the price of imported items. The expected increase in final demand, which shall consolidate during the next year, augments the possibilities of occurrence of such fact, to the extent that it facilitates the readjustment of prices on the part of producers. One second potential inflationary pressure could come from the readjustments of prices of public utility services as a result of the continuation of the policy of dismounting consumption subsidies that has been implemented gradually.

To prevent inflationary pressures that may come from the factors described, or from others not foreseen, the monetary policy shall maintain a permanent follow-up system on the evolution of prices and it shall at all times prepared to utilize the tools available for ensuring the achievement of the inflation target for 2001.

IV

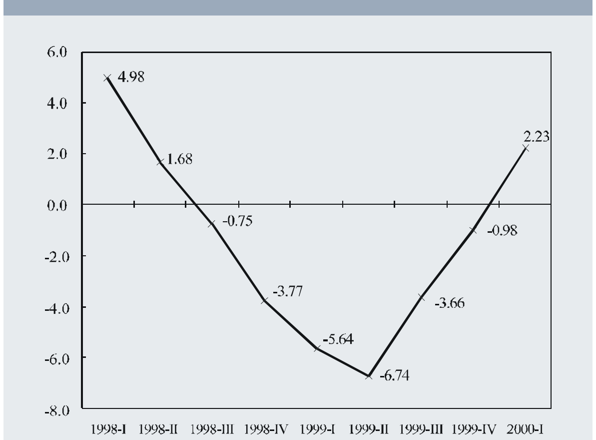
Economic activity and employment

A. Situation during the first quarter of 2000 and revision of 1999 figures

1. Economic activity

Pursuant to the latest figures revised by the DANE, the value of the GDP at constant prices presented a fall of 4.29% in 1999. Particularly, economy during 1999 decreased 5.64% during the first quarter, 6.74% during the second, 3.66% in the third and 0.98% during the fourth quarter, with respect to each one of the quarters of the previous year (Figure 25). In 1999, the most affected sector was the construction sector (-24.3%), followed by the manufacturing industry (-12.4%), commerce (-8.9%) and the financial sector (-6.1%). The mining and quarrying sector, whose growth was 4.9% and personal services with 4.0%, were the only sectors that showed positive growth during the year (Table 19). Concerning expenditures, the final internal demand decreased significantly (-7.6%) as a consequence of the drop in total consumption (-3.1%) and the reduction in the gross capital formation (-27.2%) (Table 20). In the Report from the Board of Directors of the Banco de la República to the National Congress of March 2000 the main causes of the 1999 recession were discussed in detail, among which the strong contraction of the aggregate demand and the international financial crisis are pointed out.

Figure 25
Gross domestic product
(Annual percentage change in quarterly growth)



Sources: Ministry of Finance and Public Credit and National Planning Agency (DNP)-Umacro.

In accordance with DANE estimates, the productive activity growth during the first quarter of year 2000 was 2.23%, as compared to the same quarter of 1999.[28] This is the first positive annual growth observed since the second quarter of 1998 (Figure 25). According to Table 19, this growth was led by the manufacturing industry (8.9%), electricity sector, gas and water supply (4.1%), commerce (2.9%), transportation and communications (2.9%) and, to a lesser degree, by the agricultural sector, forestry, hunting and fishing industries (1.4%), community social services (1.4%) and the sector of mines and gravel pit mining exploitation. On the contrary, the sector of construction continues dropping close to 6.0% and production of the financial sector also did so by 1.0%.

[28] In March 2000, economy grew 0.99% with respect to the fourth quarter of 1999, being the third consecutive quarter where positive variations appeared as compared to the immediately prior period. In fact, being compared with the quarter that preceded, economy grew 0.59% and 1.73% during the third and fourth quarters, respectively.

TABLE 19
GROSS DOMESTIC PRODUCT, BY SECTOR (1994 = 100)
ANNUAL PERCENTAGE GROWTH
(SERIES WITHOUT SEASONALITY)

Economic sector	1999 (e)					2000 (e)
	I	II	III	IV	Total	I
Agriculture, livestock, forestry, hunting & fishing	3.5	(3.0)	0.7	(1.9)	(0.2)	1.5
Mining and quarrying	10.2	4.5	5.3	(0.1)	4.9	1.4
Electricity, gas & water	(6.2)	(5.2)	(2.8)	0.4	(3.5)	4.1
Manufacturing	(18.4)	(16.8)	(10.2)	(3.3)	(12.4)	8.9
Construction	(24.2)	(30.2)	(23.5)	(18.2)	(24.3)	(6.1)
Commerce, repair, restaurants and hotels	(11.5)	(12.5)	(8.2)	(3.1)	(8.9)	2.9
Transportation, storage and communication	(4.4)	(4.1)	(2.1)	(0.7)	(2.9)	2.9
Financial, insurance, real estate & business services	(6.2)	(5.6)	(7.3)	(5.5)	(6.1)	(1.0)
Social, community and personal services	4.3	4.4	3.6	3.7	4.0	1.4
Gross Domestic Product	(5.6)	(6.7)	(3.7)	(1.0)	(4.3)	2.2

(e) Estimated.
Source: DANE.

TABLE 20
GROSS DOMESTIC PRODUCT, BY TYPE OF EXPENDITURE (1994 = 100)
ANNUAL GROWTH

	1999 (e)					2000 (e)
	I	II	III	IV	Total	I
Total consumption	(4.4)	(4.5)	(3.0)	(0.5)	(3.1)	2.3
Capital gross formation	(34.9)	(37.3)	(25.4)	(4.5)	(27.2)	10.7
Final domestic demand	(10.7)	(11.0)	(7.1)	(1.1)	(7.6)	3.5
Exports	8.9	4.3	4.0	2.0	4.7	1.5
Imports	(19.3)	(19.0)	(14.4)	1.1	(13.5)	8.5
Gross Domestic Product	(5.6)	(6.7)	(3.7)	(1.0)	(4.3)	2.2

(e) Estimated.
Source: DANE.

The significant recovery of the industrial sector, that has been observed since the last quarter of 1999, is explained by the growth of exports and the recovery of certain industries associated with the sector of non-tradable goods. During the first quarter of the current year, non-traditional exports in dollars showed a growth of 15.6% obtained from the dynamism of industrial origin exports of goods in dollars, whose growth was of 23.6%. Among such exports, the items of transportation material and chemical industry products and ready made clothing presented higher rates of yearly growth. In actual fact, rubber and plastic product exports grew 44.8%, and leather byproducts 33%, with respect to the same quarter of 1999. Industries related to less tradable sectors, such as common metal and manufactured metal products (30%), and glass products (11.5%), also evidenced significant growth during the first quarter of the year.

The increase in the aggregate value of the electricity sector, gas and water supply responded to the increased electricity production (0.6%) and gas (28%) and to the decline by 0.7% in water production.

Commerce, for the first time since 1998, showed a positive yearly growth rate as a consequence of the increase in sale services (14.7%) and in repair services (0.6%). In spite of the drop in the aggregate value of coffee (-16.8%)[29] and export of bananas production decreased (-9.6%) and of flowers (-13.9%), the agricultural production registered a positive growth rate. This result is obtained thanks to the favorable behavior of other agricultural products (3.5%)[30] and to the increase in livestock production (5.5%). The growth of pit coal (53.2%) and of natural gas (27.4%) explains the positive behavior of the mine and quarry exploitation sector. However, oil production had a drop of 12.8%.

In connection with less dynamic sectors, the positive behavior in the production of cement in March[31] suggests a better performance in the construction sector, whose drop decelerated during the first quarter of the year 2000.[32] Lastly, the contraction of the GDP of the financial sector is explained by a reduction of 7.1% in the financial intermediation and neighboring services.

The recovery of the GDP according to the distribution of the expense is explained by the annual increase in total consumption (2.3%) and by the gross capital formation growth (10.7%).[33] The growth of total consumption is a consequence of the strengthening of Household consumption (2.8%) and of the growth in public administration consumption of 0.8%, which is reflected in the fair behavior of commerce. The fixed gross capital formation (FGCF) in transportation equipment increased 21.7%, in machinery and equipment 11.5%, while a decrease occurs in the FGCF in construction (-10.1%). The greater FGCF in sectors other than construction begins to evidence signs of improvement as a response to the reactivation of the internal demand and lower interest rates.

Exports of goods and services grew in real terms 1.5% with respect to the first quarter of 1999, continuing the positive trend registered in the prior quarters, 2.0%, 4.0% and 4.3%, during the fourth, third, and second quarters of 1999, respectively. Real imports of goods and services presented a

[29] The drop of coffee during the first quarter of 2000 is explained by a contraction in exports (-35%), and by the decline in production (-9%).

[30] According to DANE, agricultural products with greater yearly growth are barley (38%), yucca (15%), wheat (10%), beans (5.1%) and rice (3.4%). Production dropped for sorghum (-25%), cotton (-1.7%) and potatoes (-14%), among other.

[31] Cement production in the first quarter of 2000 grew 4.7% with respect to the prior quarter.

[32] The construction sector had registered yearly grown rates of -18%, -23%, -30% and of -24% during the fourth, third, second and first quarters of 1999, respectively.

[33] The growth for total consumption items and gross capital formation corresponding to the first quarter of 2000 as compared to the last quarter of 1999 was 0.8% and 8%, respectively.

yearly growth of 8.5% during the first quarter of year 2000, whose result evidences the presence of clear recovery signs.

In summary, the recovery of the economic activity has been explained by a growth in the industrial sector production originated by reactivation of external and internal demand. Industrial product exports continue encouraging production in that sector, and as well as total exports, they have responded to the evolution of the real exchange rate and to the greater demand of global economy. Particularly, as a consequence of the real exchange rate devaluation, the relevant prices have resulted favorable for tradable goods. The greater growth of the global demand has been reflected in growth of exports to Venezuela, of 43.5%, to the United States of 43.1%, and to the Andean Community countries of 31.8%, during the first quarter of the year (Table 21).

2. Employment and wages

According to DANE, in March of 2000 the unemployment rate (ratio between the number of unemployed and the economically active population (EAP) in the seven main metropolitan areas continued to be high (20.2%), despite the creation of 265,000 new employments during last year (Table 22). The creation of these new employments was insufficient for reducing the unemployment rate as a consequence of the increase in labor supply. By cities, Medellín, Cali and Manizales continue to report the highest unemployment rates, over 20%. The remaining cities, Barranquilla, Bogotá, Bucaramanga and Pasto, show rates between 16.9% and 19.6%. The larger increase in the unemployment rate is in Barranquilla, which between December, 1999 and March 2000 increased from a rate of under 15% to one neighboring 19% (Table 23).

The DANE recently reported that the unemployment rate at the close of June 2000 was 20.4% in the main cities of the country, almost equal to the 20.2% rate at the close of March this year, and higher than the 19.9% registered a year ago. In spite of the creation of new jobs, during this first semester, such open unemployment rate, has evidenced inflexibility as to lowering due to the greater rate of labor share originating from students and housewives.

TABLE 21
GROWTH OF EXPORTS ACCORDING TO MAIN DESTINATIONS
(FIRST QUARTER OF 2000)

Destination	Growth (%)
Venezuela	43.5
United States	43.1
ALADI	38.1
Andean Group	31.8
Other	26.4
European Community	(3.5)
Japan	(26.0)
Total	29.5

Source: DANE.

TABLE 22
AVERAGE QUARTERLY UNEMPLOYMENT RATE
(TOTAL SEVEN METROPOLITAN AREAS)
(PERCENTAGE)

Quarter		Unemployment rate
1997	I	12.3
	II	13.3
	III	12.1
	IV	12.0
1998	I	14.4
	II	15.9
	III	15.0
	IV	18.0
1999	I	19.5
	II	19.9
	III	20.1
	IV	18.0
2000 **(p)**	I	20.2
	II	20.4

(p) Provisional.
Source: DANE, National Household Survey.

Table 23
Unemployment rate by cities
Quarterly average
(Percentage)

Quarter		Barranquilla	Bucaramanga	Bogotá	Manizales	Medellín	Cali	Pasto
1997	I	12.8	12.7	8.5	13.8	16.3	17.2	14.9
	II	11.4	11.5	11.4	12.0	15.3	18.4	15.1
	III	12.1	9.6	9.9	12.1	13.8	17.0	15.8
	IV	10.6	11.4	10.6	11.9	12.4	16.6	14.2
1998	I	13.0	14.5	12.7	14.5	16.3	17.9	14.5
	II	13.0	15.9	14.8	16.6	16.7	19.7	17.0
	III	11.6	14.0	13.3	17.4	15.8	20.6	16.6
	IV	10.4	15.0	15.3	16.5	15.8	19.6	16.1
1999	I	16.7	19.6	18.0	21.1	23.1	21.2	18.6
	II	16.3	21.1	19.1	21.3	21.7	21.5	19.2
	III	16.5	18.7	19.3	20.8	22.4	21.9	21.0
	IV	14.3	17.4	16.9	21.1	20.1	20.5	18.4
2000 (p)	I	18.7	19.8	19.6	20.6	22.2	21.6	16.9
	II	18.1	19.0	20.6	22.2	20.8	21.4	18.7

(p) Provisional.
Source: DANE, National Household Survey.

It is clear that one of the requirements for attaining a reduction of unemployment rates to their historical levels is to consolidate the economic growth through the reestablishment of macroeconomic equilibrium, both in the external as well as in the fiscal sectors. As we have seen, the adjustment in the external sector is ongoing. In the fiscal area, we have pointed out the relevance of structural amendments for attaining such long-term equilibrium and the need of a greater short-term effort in that area.

The usual indicator of employment supply, the global participation rate (EAP/total population) was 63.9% and 63.8% in the seven metropolitan areas during the first and second quarters of 2000, respectively. These figures are greater than those for March and June, 1999, for which reason the increased unemployment is due in part to an increase in labor supply (Table 24). The employment rate (employed population/total population) reached 51.0% and 50.7%, respectively during March and June 2000, higher than the figures registered for like period of 1999. As mentioned previously, this result is explained by the creation of new jobs during the last year[34] (Table 25).

The declining tendency of the adjustments in wages observed more than a year ago was seen interrupted during the first quarter of 2000. As an example the salary readjustment in the industrial sector in March 2000, was 16.6% for employees, and over 14.9 for manual workers (Figure 26). This adjustment in nominal salaries is high, taking into account the high unemployment rate and the inflation expectations among the public, which have turned around the inflation target of the Banco de la República (10%). When taking into account the total remuneration

[34] The March 2000 occupation rate is lower than that for December 1999. This is explained basically for seasonal factors, since the number of temporary workers increased in December.

Table 24
Global participation rate (GPR)
(Seven metropolitan areas)
(Percentage)

	Quarter	GPR
1997	I	58.3
	II	59.9
	III	59.9
	IV	61.5
1998	I	62.3
	II	62.7
	III	61.0
	IV	62.7
1999	I	62.3
	II	62.9
	III	63.3
	IV	63.8
2000 **(p)**	I	63.9
	II	63.8

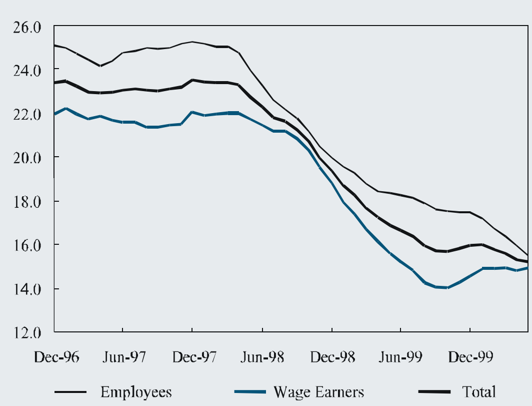
(p) Provisional.
Source: DANE, National Household Survey.

Table 25
Occupation rate
(Seven metropolitan areas)
(Percentage)

	Quarter	Employment rate
1997	I	51.2
	II	51.9
	III	52.9
	IV	54.1
1998	I	53.3
	II	52.8
	III	51.8
	IV	52.9
1999	I	50.1
	II	50.4
	III	50.6
	IV	52.3
2000 **(p)**	I	51.0
	II	50.7

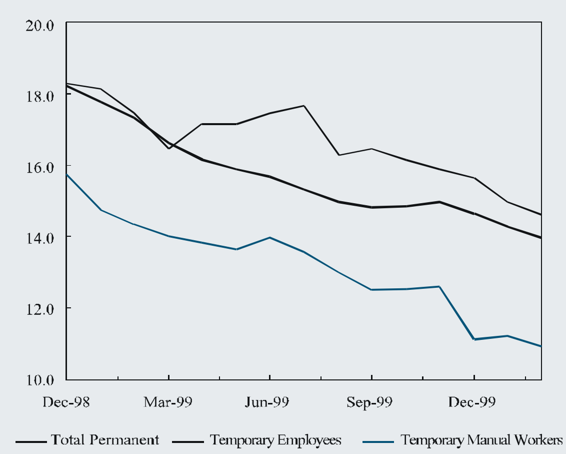
(p) Provisional.
Source: DANE, National Household Survey.

Figure 26
Nominal Industrial Salary-Manufacturing industry
(Percentage variations whole year)
(Data to May 2000)



Source: DANE, Monthly Manufacturing Sample.

Figure 27
Nominal remuneration
Manufacturing industry
(Percentage variations whole year)



Source: DANE, Monthly Manufacturing Sample.

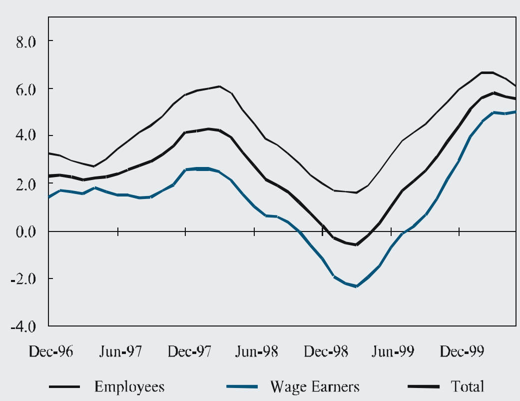
(salary plus social benefits) readjustments result smaller. As seen from Figure 27, permanent workers remuneration was adjusted in nominal terms 14.0%, a lower figure than that for end of 1999, and which is more in accordance with the current conditions of the labor market.

The reduction of inflation has permitted real salaries to gain ground for all the workers groups. The growth of real salary to March 2000 was 6.6% for employees and close to 5.0 for manual workers. (Figure 28). Real remuneration is also gaining ground since mid 1999. Particularly, the real remuneration readjustment of the total permanent workers to March 2000 was close to 4.0% (Figure29).

B. Outlook for year 2000

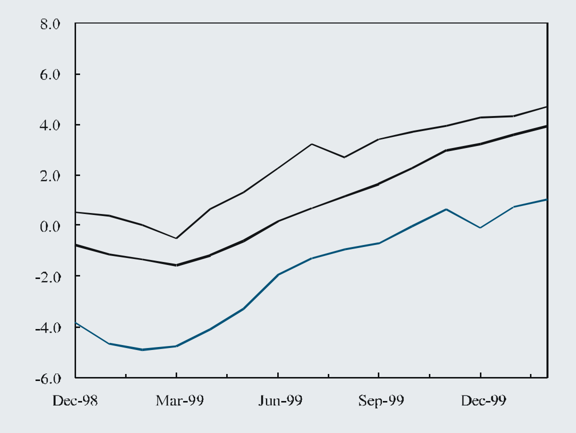
Advances have been attained in the macroeconomic field, allowing the start of recovery in the economic activity. Inflation has fallen at one-digit levels and it is expected that by the end of the year it shall not exceed the target established by the Board of Directors of the Banco de la República. Similarly, the current account deficit of the balance of payments has been reduced to sums close to US$900 m; interest rates continue presenting levels historically low; expectations concerning prices of exportable products, such as oil, continue being favorable; and the real exchange rate will be maintained at a competitive level. As pointed out previously, adjustments foreseen in the macroeconomic program will continue advancing for the purpose of creating the required conditions for a higher and long-term sustainable economic growth.

Figure 28
Real Salary - Manufacturing industry
(Percentage variations whole year)



Source: DANE, Monthly Manufacturing Sample.

Figure 29
Real remuneration
Manufacturing industry
(Percentage variations whole year)



Source: DANE, Monthly Manufacture Sector sample.

External demand, within the international economic sphere will continue being positive. For example, it is expected that in the year 2000 the economy of our main commercial partners will show significant growth rates. Thus, the economic growth expectation for the United States is of 4.4%, for Latin America 4.0% and Europe 3.2% (Table 26).

Recent statistics, other than those relating to national accounts, confirm the trend towards recovery of economic activity. For example, the monthly consumption of electric power continues showing positive signs during the first quarter of year 2000. Particularly, during the first months of the year the indicator has, for the first time since mid 1998, shown annual positive growth rates. If the annual natural gas consumption is added to this indicator, the indications as to recovery are even greater (Figure 30). Another indicator which continues to show recovery signs is the retail sales index. As it may be seen from Figure 31, since end of past year, retail sales have shown a positive growth nearing during the first months of the year a rate close to 5%. The behavior of this indicator is relevant due to the fact that it reflects internal consumption recovery. Additionally, May is the seventh consecutive month during which a positive growth is observed in sales financed through credit cards (Figure 32). Similarly, automobile sales have shown positive annual increases during the first months of 2000, after one and one half year of contraction (Figure 33). Lastly, the results of the

Table 26
Worldwide economy growth in year 2000

Region	Growth (%)
United States	4.4
Latin America	4.0
Europe	3.2
Japan	0.9
World	4.2

Source: International Monetary Fund (IMF).

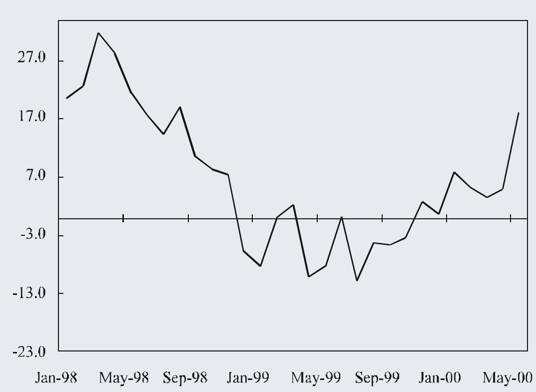
Figure 31
Annual growth of the retail sales index, excluding fuel
(Percentage)

Source: DANE.

Figure 30
Annual growth of monthly electric power and gas consumption (Industrial and residential) in MUTB / Day
(Percentage)

Source: Interconexión Eléctrica S.A. (ISA)

Figure 32
Total credit card sales Manufacturing industry
(Nominal annual percentage variations)



Sources: Visa - Colombia.

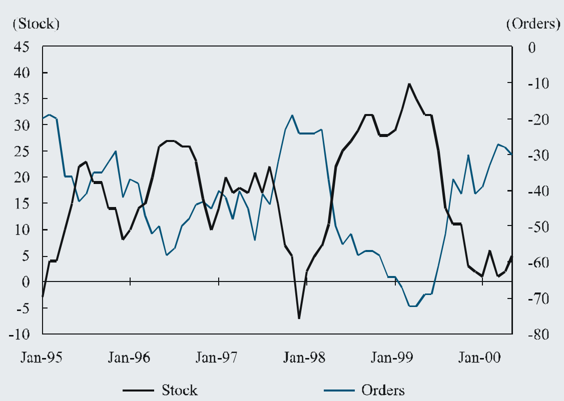
Fedesarrollo Survey on Entrepreneurial Opinion (Encuesta de Opinión Empresarial de Fedesarrollo) point out that during the first quarter of the year, favorable conditions were offered for reactivation of the industrial sector. For example, the indicator on stocks continues decreasing, while that for orders continues increasing (Figure 34).

As illustrated by a consistency exercise on the projected economic growth made by the General Directorate of Macroeconomic Policy (GDMP) of the Ministry of Finance and Public Credit, expectations are that, given the behavior of the various indicators in the first quarter, the growth goal of 3.0% for year 2000 will be met. According to Table 27, to reach such goal, the economy would have to grow during each of the remainder quarters, close to 0.63%, with respect to the immediately preceding quarter. Given the good perspectives in the economic area for the remainder of the year, this behavior results admissible.

Figure 33
Annual variation of automobile sales Aggregate for automotive industry
(Percentage)

Source: DNP and Colmotores.

Figure 34
Survey on business opinion
(Balances - Figures at May 2000)



Source: Banco de la República, SGEE, based on figures resulting from the businesses opinion Survey (EOE) from Fedesarrollo.

Table 27
Consistency of the economy's growth projection

Period		**Real quarterly GDP**		
		Thousand million pesos 1994	**Previous period growth (%)**	**Growth of like period in previous year (%)**
1998	I	19,072		
	II	19,087		
	III	18,797		
	IV	18,396		
1999	I	17,995	(2.18)	(5.65)
	II	17,801	(1.08)	(6.74)
	III	18,109	1.73	(3.66)
	IV	18,216	0.59	(0.98)
2000	I	18,396	0.99	2.23
	II	18,512	0.63	3.99
	III	18,629	0.63	2.87
	IV	18,746	0.63	2.91

	Real annual GDP	
	Thousand million pesos 1994	**Previous period growth (%)**
1998	75,352	
1999	72,121	(4.29)
2000	74,282	3.00

Source: Ministry of Finance and Public Credit, General Directorate of Politics and Macroeconomy.

V

International reserves and financial situation Of the Banco de la República

A. International reserves

1. Balance of international reserves

On June 30, 2000, net international reserves[35] registered a total of US$8,355.1 m; a balance higher by US$253.1 m than that of the closing of the prior year. The main component of reserves corresponds to financial investments, represented by foreign deposits for US$7,407.3 m, 88.7% of the total reserves. The remaining items are constituted in their order by: the reserve position the IMF, US$517.8 m, 6.2% of the total; availability with the Latin American Reserve Fund, US$270 m, 3.2%; tenancy in gold US$94.9 m, 1.1% cash, US$ 61.6 m 0.7%. Short-term liabilities were recorded for US$0.3 m, which affect negatively the reserves (Table 28).

2. Administration criteria

International reserves are administred by the Banco de la República under safety, liquidity and profitability criteria. In fulfillment of these criteria and for the purpose of securing fulfillment in payment of external obligations of the country, the reserves have been invested in financial assets with a wide secondary market and part thereof are maintained as a working capital guaranteeing its immediate availability.

[35] Are equal to the total of international reserve or gross reserves minus short-term liabilities of Banco de la República. The latter are constituted by sight liabilities in foreign currency.

From the amount of the financial investments, the Banco de la República arranged, directly through the specialized firms of Barclays, Goldman Sachs Asset Management and J. P. Morgan Investment Management, US$2,781.2 m. For the purpose of keeping portfolio in agreement with external transactions of the country, the distribution by currencies to June 30, 2000 was the following: North American dollars 82%, Euro dollars 14%, and Japanese yens 4%. It should be noted that in the short-term, this investment policy may generate extraordinary income or expenses, being the product of variations in exchange rates; however it allows equilibrium between international reserves and the structure of external payments.

3. Safety, liquidity and portfolio yields

Portfolio investments, including the direct negotiation and the portfolio handed over in trust, is being placed 76% in sovereign government securities, 23% in banking institutions, 1% in corporate institutions. The credit risk of investments is distributed in accordance with the qualifications granted by the specialized agencies, [36] as follows: 85% "AAA", 4% "AA+", 7% "AA", 3% "AA-"and 1% "A+".

The working capital to ensure the immediate availability of foreign currency was, to June 30, 2000, US$868.5 m, which is equivalent to approximately 0.6 months imports of goods and services. These funds are maintained in financial assets of immediate liquidity.

[36] Standard & Poor's, Moody's and IBCA.

Table 28
International reserves by main components 1/
(Millions of dollars)

Components	December 1998 1/	Share %	June 1999	Share %	December 1999	Share %	June 2000 (p)	Share %
Cash	80.5	0.9	35.6	0.4	91.2	1.1	61.6	0.7
Vault Cash	79.9	0.9	34.9	0.4	90.2	1.1	60.4	0.7
Deposits on demand	0.6	0.0	0.7	0.0	1.0	0.0	1.2	0.0
Investments	7,524.1	86.1	7,400.9	88.2	7,122.0	87.9	7,407.3	88.7
Directly managed	5,300.5	60.6	5,208.0	62.1	4,395.9	54.3	4,626.1	55.4
Delegated management	2,223.6	25.4	2,192.9	26.1	2,726.1	33.6	2,781.2	33.3
Gold	103.0	1.2	93.4	1.1	95.4	1.2	94.9	1.1
In vault	1.2	0.0	0.9	0.0	0.0	0.0	0.0	0.0
Custody	101.8	1.2	92.5	1.1	95.4	1.2	94.9	1.1
International Monetary Fund	771.3	8.8	604.4	7.2	523.0	6.5	517.8	6.2
Special drawing rights	196.4	2.2	123.5	1.5	131.2	1.6	135.5	1.6
Reserve position	574.9	6.6	480.9	5.7	391.8	4.8	382.2	4.6
Latin American Reserve Fund	255.0	2.9	255.0	3.0	270.0	3.3	270.0	3.2
Contributions	235.0	2.7	235.0	2.8	250.0	3.1	250.0	3.0
Andean pesos	20.0	0.2	20.0	0.2	20.0	0.2	20.0	0.2
International Agreements	6.5	0.1	3.6	0.0	1.8	0.0	3.8	0.0
Total gross reserves	8,740.5	100.0	8,392.9	100.0	8,103.4	100.0	8,355.4	100.0
Short term liabilities	0.7	0.0	1.0	0.0	1.4	0.0	0.3	0.0
International agencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding balance international agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding payment orders	0.7	0.0	1.0	0.0	1.4	0.0	0.3	0.0
Total net reserves	8,739.8	100.0	8,391.9	100.0	8,102.0	100.0	8,355.1	100.0

1/ Restated figures. The methodology for calculating international reserves was modified as of January 1999 to align it with the IMF's Balance of Payments Manual. The definition of short-term liabilities was restricted to obligations under-one-year to non-residents, so that the Banco de la República's obligations to the Treasury and other entities are no longer considered short-term liabilities. Likewise the liabilities to international agencies such as the Inter-American Development Bank and the Caribbean Development Bank were excluded, because they are considered to be long-term obligations. Investment accounts payable have been reclassified under assets but with the opposite sign. And the outstanding balance of restructured agreements with Cuba and Honduras, US$ 55.7 m was deducted from the Net valuation and provision item.
Source: Banco de la República.

The yield of investment of reserves portfolio in the first semester of 2000, without including the working capital, was US$152.4 m, as a result of income for US$175.5 m as compared to disbursements for US$23.1 m. Revenues originate essentially from the interest rates turnovers while, expenditures originate mainly from dollar revaluation in front of other currencies. Through management programs having been delegated, the portfolio turnover has improved and advantages have been obtained in training and technological transfer, which has strengthened the internal management of reserves.

B. Financial situation

Results in the year 2000

In the first semester of this year, the assets of Banco de la República were increased by $1,497 mm, with a 6.1% growth with respect to the balance registered in December, 1999 (Table 29). This increase is explained by the augmented value in pesos of international reserves, $2,650 mm, and the acquisition of Fogafin bonds for $ 515.4 mm; those factors were partially counteracted by the decrease in the balance of the REPO and the liquidity subscription rights, US$ 1,552.1 mm.

The Bank liabilities grew in like date to $12,161.2 mm, with a decrease of $609.2 mm, -4.8%, with respect to the December balance, while equity reached $13,865.3 mm, with an increase of $2,106.2 mm, 17.9%. Variation of liabilities is explained by the seasonal decrease of the monetary base of $1,370.6 mm and for the increase in the REPO contraction balance for $673.2 mm. The variation in equity originated from the foreign exchange adjustment of international reserves, $2,090.4 mm, for the effects of the peso devaluation in front of the dollar.

Between January and June, the Bank transactions showed profits for $533.0 mm (Table 30.) On the income side, the revenues from international reserves stand out, $325.0 mm, and the turnover of TES certificates acquired for monetary expansion transactions, $146.0 mm. The main outlays were represented by personnel expenditures, $74.1 mm (with an annual increase of 3.8%) and the remuneration of deposit accounts floating balance to cover treasury requirements for $66.3 mm.

For the entire year, it is expected that profits will reach an approximate amount of $849.7 mm (Table 30). Such result responds to income from interest from international reserves, $670.0 mm and from revenues for liquidity transactions $262.4 mm. On the expenditure side, these are projected for personnel $151.0 mm (with an annual increase of 6.0%) remuneration from floating deposits required for meeting treasury obligations for $143.9 mm and other expenses for $171.4 mm. It should be noted that these projections do not include potential effects for variation of exchange rates and interest from reserves portfolio. Consequently, the projected statement on results of the Bank is subject to uncertainty on the future evolution of these variables.

Table 29
General balance Sheet of the banco de la República, 1999-2000 Results
(Billions of pesos)

	December, 1998		December, 1999		June, 2000 (*)	
	Balance	Share %	Balance	Share %	Balance	Share %
Assets	18,117.6	100.0	24,529.5	100.0	26,026.5	100.0
Gross international reserves	13,206.8	72.9	15,170.5	61.8	17,820.5	68.5
Contributions to international agencies	967.2	5.3	2,059.6	8.4	2,223.0	8.5
Investments	942.8	5.2	2,395.5	9.8	2,530.3	9.7
Consolidated public sector debt	453.8	2.5	390.0	1.6	336.8	1.3
Public-sector securities for liquidity regulations	489.0	2.7	2,005.5	8.2	1,678.1	6.4
Private sector					515.4	2.0
Loan portfolio	454.9	2.5	379.8	1.5	407.9	1.6
National Government	4.4	0.0	4.0	0.0	3.9	0.0
Commercial banks 1/	442.9	2.4	396.6	1.6	310.9	1.2
Finance corporations	76.5	0.4	79.0	0.3	185.0	0.7
Savings and loans corporations	34.5	0.2	3.5	0.0	1.5	0.0
Remaining financial system	103.4	0.6	103.3	0.4	93.5	0.4
Repurchase agreements & access to discount counter	1,140.1	6.3	2,892.3	11.8	1,340.2	5.1
Accounts receivable	34.5	0.2	55.8	0.2	62.2	0.2
Other net assets	1,371.3	7.6	1,576.0	6.4	1,642.5	6.3
Liabilities and net worth	18,117.6	100.0	24,529.5	100.0	26,026.5	100.0
Liabilities	8,746.8	48.3	12,770.4	52.1	12,161.2	46.7
Foreign currency liabilities affecting international reserves	1.1	0.0	4.3	0.0	5.7	0.0
Monetary base	6,923.1	38.2	9,739.6	39.7	8,369.0	32.2
Notes in circulation	5,623.0	31.0	7,457.6	30.4	6,530.5	25.1
Treasury Coins	317.1	1.8	319.4	1.3	321.6	1.2
Bank's reserve requirement float deposits 1/	918.6	5.1	1,780.0	7.3	1,355.2	5.2
Current Account deposits financial sector	64.4	0.4	182.6	0.7	161.7	0.6
Other deposits	133.7	0.7	142.7	0.6	33.6	0.1
National Government Treasury	70.7	0.4	83.4	0.3	310.5	1.2
International agencies liabilities	759.9	4.2	1,779.9	7.3	1,839.5	7.1
External credit liabilities	198.7	1.1	218.0	0.9	223.4	0.9
Securities for regulating domestic & foreign exchange liquidity	149.5	0.8	147.4	0.6	737.8	2.8
Reverse REPOs & central bank securities	25.8	0.1	46.1	0.2	719.3	2.8
Foreign currency funding certificates 7 Board Res. 5/97 Dep.	120.0	0.7	100.6	0.4	17.7	0.1
Other	3.8	0.0	0.7	0.0	0.8	0.0
Accounts payable	31.7	0.2	38.7	0.2	34.7	0.1
Other liabilities	478.3	2.6	616.4	2.5	607.1	2.3
Total net worth	9,370.7	51.7	11,759.1	47.9	13,865.3	53.3
Capital	12.7	0.1	12.7	0.1	12.7	0.0
Reserves	114.4	0.6	360.1	1.5	345.9	1.3
Capital surplus	7,492.3	41.4	10,557.7	43.0	12,653.7	48.6
Liquidation of special exchange account	453.5	2.5	453.5	1.8	453.5	1.7
Exchange adjustment since 1993 & surplus	7,029.3	38.8	10,088.2	41.1	12,178.6	46.8
Other	9.6	0.1	16.0	0.1	21.7	0.1
Valuations	254.8	1.4	320.9	1.3	320.0	1.2
Results	1,496.5	8.3	507.8	2.1	533.0	2.0
Profit or loss from previous year	0.0	0.0	0.0	0.0	0.0	0.0
Profit or loss for fiscal year	1,496.5	8.3	507.8	2.1	533.0	2.0

(*) Figures subject to review.
1/ Includes Mortgage Banks.
Source: Banco de la República.

Table 30
Profit and Loss Statement-Banco de la República, 1999-2000
(Billions of pesos)

	Jan-Jun 1999		Jan-Dec 1999		Jan-Jun 2000 1/		Jan-Dec 2000 2/	
	Flow	Share %	Flow	Share %	Flow	Share %	Flow	Share %
I. Total revenues	353.0	100.0	1,219.6	100.0	877.5	100.0	1,521.7	100.0
1. Operating income	348.7	98.8	1,200.8	98.5	854.6	97.4	1,491.6	98.0
Interest and turnover	176.1	49.9	878.0	72.0	640.4	73.0	1,247.1	82.0
Net international reserves	(160.9)	(45.6)	187.1	15.3	325.0	37.0	670.0	44.0
External credit lines	9.2	2.6	14.1	1.2	12.0	1.4	25.9	1.7
Valuation TES “A” & “B” at market prices	99.3	28.1	166.8	13.7	13.3	1.5	22.2	1.5
Valuation TES for monetary expansion transactions	72.5	20.5	189.3	15.5	146.0	16.6	262.4	17.2
Valuation capitalization bonds public banking					16.6	1.9	43.0	2.8
Transitory purchase of securities & access to discount counter	91.6	26.0	201.5	16.5	81.1	9.2	122.5	8.0
Other	64.3	18.2	119.2	9.8	46.3	5.3	101.1	6.6
Commissions	27.5	7.8	58.3	4.8	34.8	4.0	67.8	4.5
Banking services	22.3	6.3	50.2	4.1	29.2	3.3	57.6	3.8
Foreign currency purchase & sale	5.1	1.4	7.5	0.6	4.9	0.6	10.3	0.7
Other	0.1	0.0	0.5	0.0	0.7	0.1	0.0	0.0
Exchange differences	108.8	30.8	164.5	13.5	130.4	14.9	128.6	8.5
Coin issuance & precious metals	0.0	0.0	7.4	0.6	1.6	0.2	1.9	0.1
Securities redemption in advance	31.1	8.8	73.2	6.0	21.7	2.5	22.1	1.4
Other	5.2	1.5	19.4	1.6	25.7	2.9	24.1	1.6
2. Non operating income	4.2	1.2	18.8	1.5	22.9	2.6	30.1	2.0
II. Total disbursements	384.3	100.0	711.9	100.0	344.5	100.0	672.0	100.0
1. Operational disbursements	383.0	99.7	706.8	99.3	333.5	96.8	669.5	99.6
Interest and turnover	127.2	33.1	243.7	34.2	109.2	31.7	176.9	26.3
Float deposit accounts	96.7	25.2	194.9	27.4	66.3	19.2	143.9	21.4
Transitory securities sale	24.3	6.3	32.5	4.6	35.4	10.3	18.3	2.7
External credit lines and exchangeable securities	6.3	1.6	16.3	2.3	7.5	2.2	14.7	2.2
Commissions and fees	11.7	3.0	20.1	2.8	9.6	2.8	21.0	3.1
Exchange differences	62.5	16.3	97.3	13.7	63.0	18.3	70.7	10.5
International agencies	16.7	4.3	29.7	4.2	20.7	6.0	23.7	3.5
External lines	29.5	7.7	45.6	6.4	28.9	8.4	28.0	4.2
Oher	16.3	4.2	22.0	3.1	13.3	3.9	19.0	2.8
Cost of issuing bills and coins	7.9	2.1	28.6	4.0	2.8	0.8	25.9	3.9
Personnel expenses	71.4	18.6	142.5	20.0	74.1	21.5	151.0	22.5
Retirement pensions	55.4	14.4	56.5	7.9	19.6	5.7	52.5	7.8
Other	46.9	12.2	118.1	16.6	55.3	16.1	171.4	25.5
2. Non operating disbursements	1.3	0.3	5.1	0.7	11.0	3.2	2.5	0.4
III. Fiscal year's profit or loss including depreciation	(31.4)	(8.2)	507.8	71.3	533.0	154.7	849.7	126.5

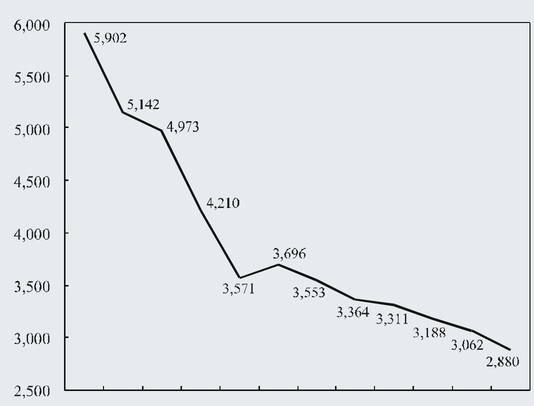
1/ Figures subject to review.
2/ Projections.
Source: Banco de la República.

Reduction of the payroll of the Banco de la República

The National Constituent Assembly of 1991 introduced important modifications to the functions that the Banco de la República had been exercising. The new Constitution not only declared that the Bank would be organized as a public law legal person, with administrative, economic and technical autonomy, but it also limited some of its functions. As from the new Constitution the Bank activities were focused on complying with the basic functions to regulate currency, international exchange and credit, issue legal currency, administer international reserves, be a last-instance lender and banker for banks and serve as fiscal agent of the Government. Especially, the prohibition of establishing credit subscription rights, or granting guaranties in favor of private persons, except when external facilities are intervened, rendered it impossible for the Bank to continue its development credit activity. Additionally, the law created a series of specialized public financial institutions for granting credit such as Finagro, Bancoldex, Findeter and FEN which replaced the activities that the Bank carried out in this respect. Similarly, by operation of Law 9 of 1991 a new foreign exchange regime was established and the foreign exchange control was dismounted, supervision whereof having been essentially carried out by the Office of Foreign Exchange, administered by the Banco de la República.

As a consequence of the foregoing, and of the modernization of the Bank's procedures, since the end of 1990, its personnel payroll has been reduced by 48%, from 5,902 workers in December of that year, to 3,062 in June this year. A payroll of 2,880 employees has been projected for the end of year 2000, which will result in a reduction of 51% during the term of the Board of Directors.

Banco de la República
Evolution of Personnel
1990-2000



1/ Personnel - June 30, 2000.
2/ Personnel projected to December 31, 2000.

The payroll reduction has allowed the Bank to assume, without growth of its global expenditure, among others, greater staff expenditures originating from increased items such as employer contributions (Law 100/93), provisions, (bonus for transfer to severance pay regime of (Law 50/90) and coverage of 100% of actuarial estimates. Similarly, the coverage of investment expenses incurred for personnel training programs, and on development and implementation of information technology applications. In this respect, it should be pointed out what has been done in the subject matter of electronic transaction systems, which has permitted the improvement of efficiency and safety of the payments system.

The foregoing, added to a strict austerity policy in corporate expenses, rendered possible that expense during the first semester of 2000 decreased in real terms, by 4.4% as compared to that for the same period of 1999.

With respect to the pension payment liability topic it is relevant to comment that the employees of the Banco de la República have been included in the pension regime established by Law 100 of 1993. Consequently, the Bank and all its workers make contributions as provided by such Law, either to the Social Security Institute or to private pension funds. Notwithstanding, by virtue of an applicable legal provision in force since 1971, some pension payments granted to Bank workers could exceed the ceiling of twenty (20) minimum legal monthly salaries established by Law. As from last April, such prerogative was eliminated by the Administrative Council of the Bank.

The Banco de la República has provided for 100% of its actuarial liability. Those liquid funds are administered by several specialized trust entities and revenues have been devoted to assuming the pension payment liabilities. It should be worth mentioning that the members of the Board of Directors of the Banco de la República do not enjoy benefits from any pension regime whatsoever, other than that established by Law 100 of 1993.

Corporate Expenditures
January-June 1999 v. January-June 2000
At constant prices
(Millions of pesos)

Account	Execution January-June 1999	2000	Variation %
Personnel expenses	78,961	74,613	(5.51)
Retirement expenses	28,266	21,613	(23.54)
Operating expenses	23,992	25,384	5.80
Cultural expenses	1,676	1,759	4.95
Depreciation and other expenses	9,867	13,065	32.41
Total	142,762	136,434	(4.43)

Conversion factor: 1,0968.

Abbreviations and information

ANDI: *Asociación Nacional de Industriales*.
(Mayor bussiness association).

Bancafé: Nationalized bank.

Bancoldex: *Banco de Comercio Exterior de Colombia*.
(The foreign trade bank).

Banestado: Nationalized bank.

Carbocol: *Carbones de Colombia S. A.*
(State coal company).

CAV: *Corporaciones de ahorro y vivienda.*
(Savings and loan assotiation).

Colpatria: Former CAVs turned into multibank.

Confis: *Consejo Superior de Política Fiscal*.
(Fiscal policy council).

Davivienda: Former CAVs turned into multibank.

DIAN: *Dirección de Impuestos y Aduanas Nacionales*.
(National tax and customs administration).

DNP: *Departamento Nacional de Planeación*.
(State planning entity).

DTF: *Depósito a Término Fijo.*
(The DTF rate is the weekly average of the financial system's deposit rates for 90-day certificates of deposit. This indicator is calculated by the Banco de la República).

Ecopetrol: *Empresa Colombiana de Petróleos*.
(State oil company).

Fedesarrollo: *Fundación para la Educación Superior y el Desarrollo*.
(Private research institution).

FEN:	*Financiera Eléctrica Nacional S. A.* (National energy financing corporation).
Finagro:	*Fondo para el Financiamiento del Sector Agropecuario.* (Public institutions funding the agricultural sector).
Findeter:	*Financiera de Desarrollo Territorial S. A.* (a territorial development financial public institution).
Fogafin:	*Fondo de Garantías de Instituciones Financieras.* (State finantial institutions guarantee fund).
ISA:	*Interconexión Eléctrica S. A.* (State energy company).
ISAGEN:	*Generadora y comercializadora de energía eléctrica.* (State energy generating company).
OMA:	*Operaciones de mercado abierto.* (Open marker operation).
REPO:	*Pacto de recompra de títulos.* (Repurchase agreements).
SGEE:	*Subgerencia de Estudios Económicos.* (Economic studies division of the Banco de la República).
TBS:	*Tasa Básica de la Superintendencia Bancaria.* (The TBS (Banking Superintendency Basic Rate) is the average deposit rate for term certificates of deposit and term savings certificates, of different maturities, in the whole financial system, as reported by the Banking Superintendency).
TES:	*Títulos de Tesorería (deuda pública).* (Treasury paper).

This report has been prepared
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