

## INTRODUCTION

During 2000 Colombian economy began a process of economic recovery recording a Gross Domestic Product (GDP) growth rate of 2,81% within a framework of inflation rate drop. Although it represents an average growth under the historical average, the sources of this growth lay down the bases for recovery of the economic activity, which started during 2000, and strengthens and consolidates towards the future. The macroeconomic handling and its adequate coordination bear the responsibility of ensuring that this be attained, through coherent monetary, fiscal and external policies, which deepen the progress obtained and guarantee growth sustainability and the reduction of unemployment rate in the near future.

A careful analysis of the economic results for year 2000 allow identifying the bases upon which the economic recovery could be accelerated and to consolidate price stability. This is the core topic of this Board of Directors Report to the Honorable Congress of Colombia.

The second section of this Report examines the results of the economic activity during 2000 and the perspectives for 2001. Sources of growth are discussed in this section, both from the supply and demand points of view, and an evaluation of unemployment is performed, as the main problem affecting Colombian economy. It is worth highlighting the fact that economic recovery is being generated by a greater dynamics of private productive activity. As pointed out by DANE (National Administrative Department of Statistics), the private sector GDP grew 3,58% during 2000, while the public sector GDP showed a contraction of 1,16%. Industry, agriculture and commerce were the main productive sectors responsible for the recovery. On their part, private consumption, none traditional exports and private investment accounted for the origin of a greater demand. This is the profile of an economy undergoing recovery as responding to correct policies and incentives. On one hand, it reflects the effects of the fiscal adjustment effort that allowed reducing the public non-financial sector deficit from 6,1% of the GDP in 1999 to 3,6% of GDP in 2000. On the other hand, it shows that reduction of real interest rates and an attainable competitive real exchange rate have been successful to stimulate private initiative, encourage household consumption and strengthen exports. Recovery based on these characteristics has the advantage of being sustainable, while progressing towards fiscal clearance and provides appropriate incentives so that the private incentive becomes the growth propeller.

Identification of the positive aspects of the growth origin is in contrast with the unemployment rate, which undoubtedly constitutes the most serious problem of Colombian economy. Current unemployment is linked to the lower growth of economic activity during the latest years. However, the determining factors of unemployment are far more complex than the mere economic deceleration.

Inflexibility of the labor market is related to, among others, increased real labor costs, an addition of an important number of women and youngsters to the labor market searching for a supplement to family income, the low educational level of the population and the weakening of intensive hand labor sectors, such as the construction sector. The foregoing and other aspects of unemployment origin are studied later, in an effort to present a more comprehensive context for evaluating macroeconomic policy. From such analysis it may be concluded that only if the ongoing recovery of economic activity is supplemented with policies tending to improve the operation of the labor market, it will be possible to observe important reductions in the unemployment rate during the next few years.

The third section of the Report examines different aspects of macroeconomic policy in year 2000 and perspectives for 2001. The section relating to economic policy explains the new strategy adopted by the Board and describes the actions undertaken through the year. The process of monetary intervention through open market transactions (OMA) is analyzed in detail. The difficulties for providing liquidity to a fragmented financial market can then be clearly observed, being such market subject to substantial changes in connection with the public, induced by the tax upon financial transactions and by the drop in interest rates. The description of the monetary events during 2000 allows an adequate understanding of the policy decisions and of the advantages of the new monetary strategy. By allowing more flexibility in the handling of monetary aggregates, the new strategy pursues a greater stability in the interbank interest rate, without compromising the achievement of the inflation target.

The report continues to review the financial system situation. This is one of the sectors where the cycle of recovery of Colombian economy is best observed. Various indicators show improvement in the public financial sector as well as in the private financial sector. In fact, the current solvency of the system is at the same level it was before the crisis, the percentage of unproductive assets decreased, the level of coverage protects half of the overdue portfolio and the assets profitability shows a significant improvement as compared to 1999. Even though such profitability is still negative due to the effort of portfolio procurement, the banking private sector recovery is evident.

A description of the foreign exchange policy is shown, examining the market foreign currency purchase options by the Banco de la República and the behavior of the relevant premiums and amounts. Similarly, the main decisions are explained regarding foreign exchange regulation adopted by the Board during 2000.

The result of the balance of payments during 2000 is of relevant importance as the basis for recovery, since the balance of trade represented surplus and the balance of current account presented equilibrium. This section examines the main determinant factors for attaining this result, were the good performance of exports stands out, which reached a growth rate of 12,7% Dollars and a share of 15,8% of the GDP, the highest ever since 1970. Not only the oil exports were responsible for this result, but the non-traditional exports also contributed, - including industrial exports - which showed growth rates of 17% and 21% respectively, thus stimulating the industrial activity recovery.

Progress in public finances clearance in 2000 and its improvement during the current year, constitute essential requirements for the sustainability of economic recovery. The Report examines progress attained in the fiscal aspect, which allowed reducing the national government deficit from 7,5% of the GDP in 1999 to 6,0% of the GDP in 2000. Similarly, it analyzes the factors that made it possible to increase the surplus for the rest of the public sector from 1,4% to 2,4% of the GDP during the same period. The main legal amendments have also been commented upon, which were enacted during 2000, and which will provide continuity to the fiscal adjustment and perspectives for the year 2001 are submitted to discussion. This section concludes with a reflection on the matter of territorial finances unbalances, based on the result of research carried out within the Banco de la República.

The fourth section of the Report presents the results of inflation and its basic trends. In this regard, the Board stresses the fact that through achieving the inflation target in 2000, Colombian economy is firmly positioned among the group of countries with one digit inflation rate. The inflation rate reduction from 9,2% in 1999 to 8,7% in 2000 was achieved in the context of an economy under recovery, thus weakening the announcements of those who expected that the reestablishment of growth would revive inflation. The results achieved during 2000, and the favorable performance continued to be shown by inflation during 2001, and confirm the confidence of the monetary authority on the fulfillment of the 8,0% target set for the present year and 6% for 2002.

The Report concludes with the presentation of the financial situation of the Banco de la República. It highlights the profits obtained during 2000, amounting to \$ 1,45 billion, which, according to governing law will be delivered to the Government prior to the end of the month of March 2001. The profit will contribute substantially for financing the National Government activities during the current year.