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INFLATION REPORT  
SEPTEMBER 1999

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BANCO DE LA REPÚBLICA

## PRESENTATION, SUMMARY AND CONCLUSIONS

✚ Annual consumer inflation rate for September 1999 was 9.3%, 0.3 percentage points higher than at the end of the second quarter (9.0%) but 8.5 percentage points lower than in September 1998. The annual producer inflation rate was 10.9%, about five percentage points higher than at the end of the second quarter.

✚ Since February 1999, inflation has presented a significant decline of 8.5 percentage points, bringing the annual rate down to one-digit levels for five consecutive months. This reduction was the outcome of lower price increases across all groups in the CPI basket of goods and services. The largest declines were in food (with the annual rate of price increase falling from 20.3% in September 1998 to 4.2% a year later), education (from 18.4% to 8.9%), and housing (from 15.6% to 8.6%). As in the previous quarter, all groups of the alternate classification (tradable, indexed, flexible and cyclical items) contributed to lower inflation. The greatest downward pressure on prices came from nontradable component's, accounting for 70% of the fall. This performance resulted from slower growth in demand, a favorable cycle of meat prices, lower dwelling rents, and an abundant supply of root crops.

✚ On an annual basis, higher-than-average price increases were registered in sundry expenditures (18.9%), transport (18.9%), and health care (15.7%). These groups were particularly affected by the imposition of VAT, in the case of sundry expenditures (toiletries); higher world oil prices, in the case of transport; and devaluation, in the case of health care (drugs). Lower-than-average growth was seen in food (4.2%), clothing (4.4%), housing (8.6%), and education (8.9%). In the alternate Consumer Price Index classification, higher-than-average inflation was displayed only by tradables (10.2%) and indexed items (11.7%).

✚ According to the recent performance of core-inflation indicators, the small increase in headline inflation since the beginning of the third quarter (from 8.8% in July to 9.3% in September) was not the result of demand pressures. In fact, the average of the four underlying-inflation indicators continued to fall, from 11.5% in June to 10.0% in September.

✚ Industrial-wage increases averaged 16.3% in July, slightly under the average registered three months earlier (17.2%) and nearly three percentage points lower than in December 1998. It should be pointed out, however, that in the past two months the rate of wage increases has

remained steady at around 15.5%, not far from the rates set in collective bargaining agreements at the end of 1998. This is likely due to the relative downward inflexibility of industrial-pay adjustments in Colombia in the medium term, a factor that has resulted in considerable growth in real wages during 1999.

✚ According to Banco de la República's expectations survey, inflationary expectations continued to decline over the past quarter, following the trend started at the beginning of the year. Expectations for December were 1.3 percentage points lower than in June. Agents currently expect an average inflation of 12.2% by the end of 1999. For December 2000 they expect an inflation of 11.3%, in contrast to the March survey's figure of 12.2%. It is necessary to bear in mind, however, that the Banco de la República's expectations surveys have systematically overestimated future inflation by about 2 percentage points.

✚ Indicators such as electricity consumption (to September), the financial sector's nominal and real portfolio performance (to September), and credit cards sales (to August) show no clear reversal in the economy's declining trends. Moreover, uncertainty in recent months about the legal basis of housing financing schemes is likely to delay recovery in the critical construction sector.

✚ However, some signs of potential recovery continue to surface, such as increased orders in industry and reductions in stocks of finished goods. In addition, there have been indications lately, particularly in July and August, that nontraditional exports might present a more promising performance towards the end of the year, benefiting especially from the peso's real devaluation in recent years and from faster growth in external demand. Based on this evidence, the economy should show some signs of recovery by the end of the year. Never the less, demand is hardly likely to cause any serious inflationary pressures.

✚ Forecasts derived from ARIMA models indicate that by December 1999 inflation will be between 8.1% and 12%. The point forecast made with figures to September is lower than the one registered a month earlier (10.8%). In addition, underlying inflation is expected to run between 8.2% and 10.2% in December, below the 1999 inflation target.

✚ Forecasts derived from structural models confirm that inflation will remain at low levels until the end of the year. The combination of forecasts yields an inflation of 9.8% for 1999, 10.4% for June 2000, and 9.8% for September 2000. These results bear out the conclusions of a projection-run based on the historical behavior of food prices, which predicts an inflation range of 7.3% to 10.7% by the end of 1999.

✚ The money supply's 20-month moving average remained close to the midpoint of its corridor, whereas M3 continued below its lower limit. In addition, nominal and real loan portfolios displayed a new decline. Lastly, the real deposit rate in September was almost one percentage point lower than in August, while the lending rate fell by 0.5 percentage points.

✚ The inflation results and trends discussed in this report have led the Bank's Board of Directors to conclude that inflation for 1999 will not surpass 11% and that the 10% target for the year 2000 will be met. Moreover, since the money supply remains within its corridor, the Board has decided that there is scope for reducing the Bank's intervention rates by 100 basis points. Accordingly, the basic rate for REPO auctions now stands at 15%, and the Lombard rate (the rate for the unlimited REPO window) at 21%. The reverse REPO rate stays at 11%.

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INFLATION REPORT  
SEPTEMBER 1999

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## PRICE PERFORMANCE IN SEPTEMBER

### A. CONSUMER PRICE INDEX

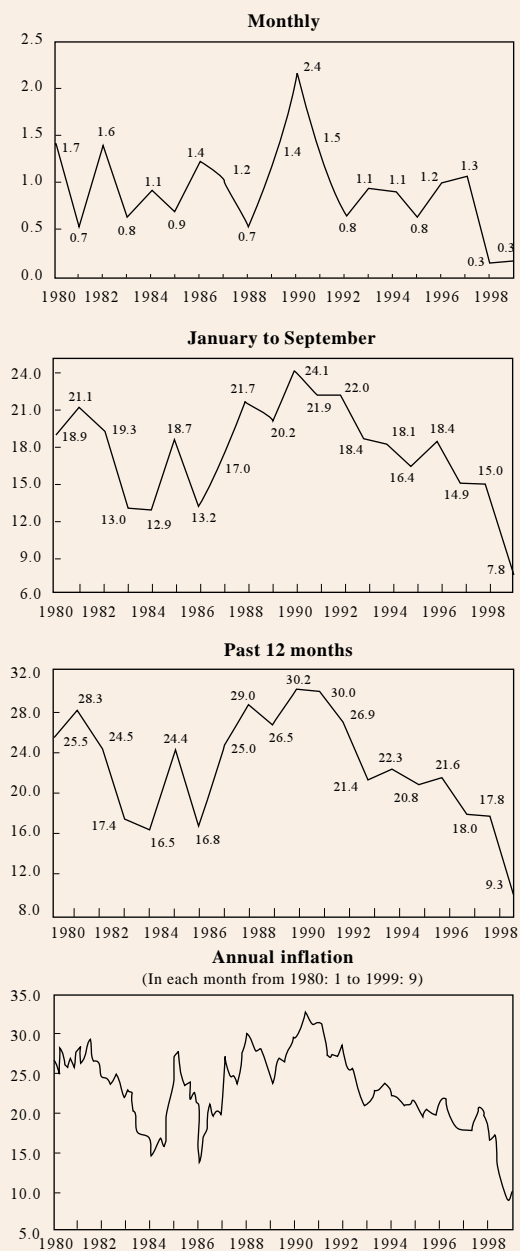
#### Overall performance

The annual consumer inflation rate in September was 9.3%, similar to the rate the end of the second quarter (9.0%) but more than eight percentage points lower than in September 1998. During the first nine months of 1999 consumer prices grew by 7.8%, down by 7.2 percentage points compared with the same period last year. The monthly inflation rate of 0.3% registered in September was identical to that of September 1998 and the lowest September rate since 1978 (Figure 1 and Table 1). Low monthly price increases since February 1999 have yielded one-digit annual inflation rate for the past five months.

All the measures of core inflation (CPI excluding food, core inflation, trimmed mean, and asymmetric mean)<sup>1</sup> (Table 1 and Figure 2) have continued to show a significant decline in their annual variations, a trend observed all this year. It should be pointed out that, judging by the recent evolution of the different indicators, the small pick-up in inflation in the past two months was not caused by demand pressures. In the third quarter, underlying inflation as an average

<sup>1</sup> From June 1999 three of the four indicators of underlying inflation were changed. The change involved introduction of core 20, trimmed mean 10, and asymmetric mean, and exclusion of CPI excluding food, services and transport, trimmed mean 20, and the median. This decision was in line with the conclusions and recommendations of a recent study conducted by the Economic Studies Division entitled «Evaluación de indicadores de inflación básica en Colombia: 1989-1999,» Banco de la República, 1999. The median and CPI excluding food, services and transport are given at the bottom of Table 1, by way of information.

FIGURE 1  
CONSUMER PRICE INDEX  
(PERCENTAJE CHANGE TO SEPTEMBER)



Sources: National Statistics Agency, calculations by Banco de la República.



TABLE 1  
INFLATION INDICATORS  
(PERCENTAGE CHANGE TO SEPTEMBER 1999)

	Monthly			Year to Sept.			Annual		
	1997	1998	1999	1997	1998	1999	1997	1998	1999
<b>I. CPI</b>	1.3	0.3	0.3	14.9	15.0	7.8	18.0	17.8	9.3
Food	1.8	(1.5)	0.1	13.7	17.6	6.0	17.8	20.3	4.2
Housing	0.9	1.2	0.2	14.3	12.4	4.7	17.9	15.6	8.6
Clothing	0.6	0.4	0.2	7.2	6.1	2.7	9.2	8.3	4.4
Health care	0.8	0.7	1.3	19.9	18.8	13.9	21.9	20.4	15.7
Education 1/	1.8	1.7	0.0	22.5	18.2	9.7	22.7	18.4	8.9
Transport	0.6	0.3	1.6	17.2	17.0	15.7	18.1	21.0	18.9
Sundry expenditures	1.2	1.3	0.5	14.0	15.7	14.4	18.1	19.9	18.9
<b>II. Core Inflation 2/</b>	1.0	1.1	0.4	15.4	13.9	8.5	16.9	17.4	10.0
CPI excluding food 3/	1.0	1.1	0.4	15.4	13.9	8.5	18.1	16.7	11.6
Core 4/							16.8	17.2	10.5
Trimmed mean 5/							16.6	17.9	9.1
Asymmetric mean 6/							16.2	17.7	8.7
<b>III. PPI</b>	1.3	0.0	1.5	13.5	12.5	10.0	16.1	16.5	10.9
By economic use or destination									
Final consumption	1.1	0.1	1.3	12.2	10.5	8.9	14.7	14.9	10.6
Intermediate consumption	1.8	(0.5)	1.1	16.2	15.8	9.7	19.5	18.9	9.1
Capital goods	1.2	1.8	3.8	8.3	10.9	16.2	8.9	16.0	20.1
Building materials	0.1	2.3	1.2	13.0	9.1	10.9	13.2	13.4	14.3
By provenance									
Domestically produced and consumed	1.1	(0.3)	0.7	14.1	13.1	7.8	17.1	16.7	8.3
Imported	3.1	2.9	3.8	9.6	8.5	16.7	8.4	14.7	21.2
Exported 7/	2.9	3.8	2.7	25.1	(2.9)	21.0	23.5	5.9	30.0
By industrial origin									
Farming, forestry & fishing	1.9	(1.9)	(0.4)	21.3	14.2	6.4	26.7	16.1	2.5
Mining	1.1	(6.8)	0.3	(4.4)	(17.5)	28.6	1.1	(8.9)	43.1
Manufacturing	1.1	1.0	2.0	11.4	12.8	10.6	12.9	17.3	13.2
<b>IV. Other core inflation indicators</b>									
CPI excl. food, services and transport 8/	1.1	1.0	0.2	14.8	13.2	6.7	17.5	15.4	9.0
Median 9/							16.8	14.5	5.6

1/ Starting in January 1999, application of a new CPI methodology divided this group into education, and culture and recreation. For purposes of price monitoring, it was decided to leave them together in a single group.

2/ This is the average of the four underlying-inflation indicators calculated by the Banco de la República.

3/ CPI excluding all items of the food group.

4/ CPI excluding 20% of the weighting with those items that showed the greatest price volatility between January 1990 and April 1999.

5/ The weighted mean trimmed by 5% in each tail, calculated by the CPI-60 methodology. In this connection, see Luis Fernando Melo et al. Un análisis de las medidas de inflación básica para Colombia, mimeo 1997, Banco de la República.

6/ The asymmetric mean trimmed by 15% in the left tail and 13% in the right tail, calculated by the CPI-60 methodology.

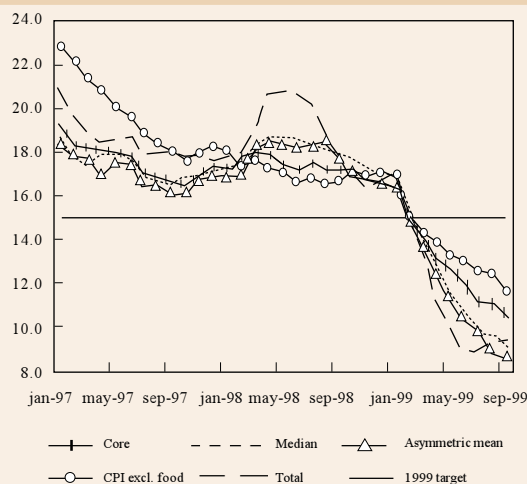
7/ The total PPI does not include exported goods. It is calculated from the weighted sum of domestically produced and consumed goods and imported goods.

8/ The total CPI does not include primary foodstuffs, state services (utilities in general), and transport.

9/ The weighted median of the entire CPI basket, calculated by the CPI-60 methodology. In this connection, see Melo (1997).

Sources: Banco de la República, Economic Studies Division, PPI and CPI Listings, and National Statistics Agency.

**FIGURE 2**  
EVOLUTION OF TOTAL AND UNDERLYING INFLATION  
1997: 1 — 1999: 9  
(ANNUAL PERCENTAGE CHANGE)



Source: National Statistics Agency; calculations by Banco de la República.

of all the indicators was 10.0%, down by 1.5 percentage points on the second quarter. The lowest growth rate was shown by the asymmetric mean (8.7%) and the highest by the CPI excluding food (11.6%)

September's inflation was low (0.3%) due to favourable price behavior in education, culture and recreation (0.0%) and food (0.1%). In education this positive result is explained by a 12.5% fall in the CPI of recreation services, which include cinemas and discotheques<sup>2</sup>, while the food group benefitted from a decline of almost 2.5% in vegetables.

Analyzing the evolution of inflation in the past 12 months by CPI group, three different patterns are observed. First is the behaviour of the groups leading the drop in annual inflation: food and clothing, with annual price increases of 4.2% and 4.4%, respectively. Second, the behavior of the groups showing a price increase close to average inflation: housing (8.5%) and education (8.9%). And third, the behavior of the

<sup>2</sup> This atypical behaviour results from a substantial decrease (25.1%) in this item's price in Bogotá. According to information from the National Statistics Agency, cinemas reduced their prices significantly.

groups displaying a price increase far above average inflation: health care (15.7%), sundry expenditures (18.9%), and transport (18.9%).

The groups displaying this third pattern have been especially affected in 1999 by devaluation, in the case of health care, with drug prices rising by over 18%; by the imposition of VAT on sundry expenditures, such as toothpaste (18.9% price increase) and toilet soap (14.7% price increase); and by the substantial rise in gasoline prices, in the case of transport, with consequent fare increases for urban buses (32.8%), taxis (25.0%), and planes (27.6%). It is also important to point out that the gradual dismantling of utilities subsidies has led to considerable price increases in telephones (36.3%) and water, sewage and waste collection (23.0%).

#### **Alternate classification: tradables and nontradables**

Figure 3 shows annual price evolution under an alternate classification that divides the CPI basket into tradables<sup>3</sup>, and nontradables (indexed<sup>4</sup>, flexible<sup>5</sup>, and cyclical<sup>6</sup> items). Two types of behavior can be discerned from this figure. One is the behaviour of flexible goods (unprocessed farm produce), which began to rebound in the past three months after their sharp fall in early 1999. The other is a declining price-growth tendency in 1999 shown by indexed tradables and even more strongly by cyclical tradables.

Although the prices of all groups in this classification partly reflect the reduction in demand, they have at the same time been favourably affected by other factors. An abundant supply of food products, particularly root crops, has benefitted flexible food prices. Low international prices have amply

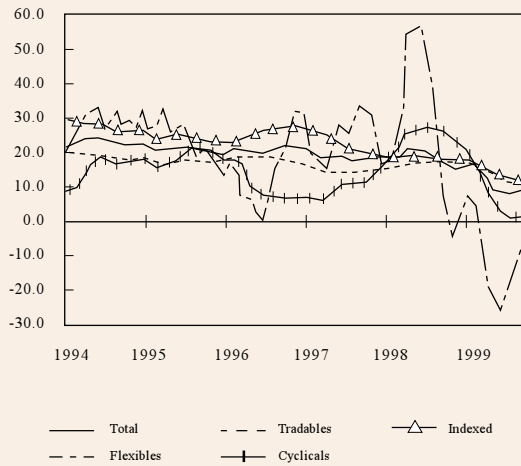
<sup>3</sup> Tradables: textiles, footwear, tobacco, beverages, cereals, dairy produce, cooking fats, drugs, vehicles, electrical appliances, etc.

<sup>4</sup> Indexed items: rent, fuel and utilities, education, transport, and other items.

<sup>5</sup> Flexible items: root crops, plantains, vegetables, legumes, and fruit.

<sup>6</sup> Cyclical items: meat and its byproducts.

**FIGURE 3**  
**EVOLUTION OF INFLATION: TRADABLE**  
**AND NONTRADABLE ITEMS**  
**1994: 1 — 1999: 9**  
**(ANNUAL PERCENTAGE CHANGE)**



Source: National Statistics Agency; calculations by Banco de la República.

compensated for the effects of devaluation all this year, while indexed items have benefitted from lower dwelling rents, and cyclical items from a downward phase in livestock prices.

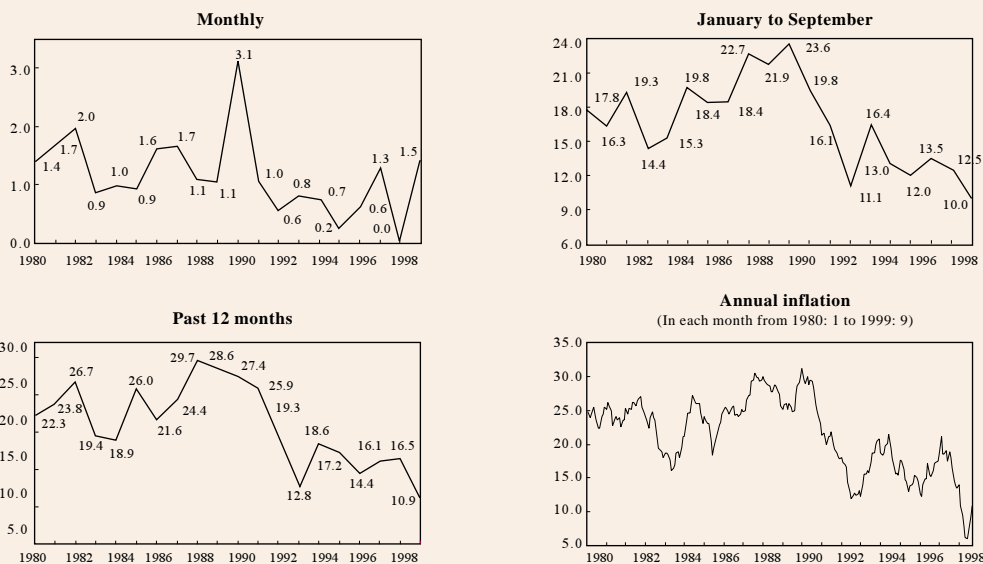
## B. PRODUCER PRICE INDEX

### Overall performance

Annual producer inflation was 10.9%, down by 5.6 percentage points from its level in September 1998. However, it is 5 percentage points higher than at the end of the second quarter of 1999 (Figure 1). In the year to September, the Producer Price Index (PPI) showed a variation of 10.0%, down by 2.5 percentage points on the same period last year (Figure 4). Monthly growth in the PPI was 1.5%, the highest rate for September since 1991.

Classification by origin shows an upturn in the prices of *imported goods*, which grew by 3.8% in September and by 21.2% in the 12 months to September. Their 12-month rise by far exceeds the 8.3% increase in the prices of domestically produced and consumed goods. Classification by industrial sector shows *mining* as the worst performer, with a 12-month variation of 43.1%, reflecting currently high oil prices. Producer prices rose by 13.2% in manufacturing and by 2.5% in farming over the past twelve months.

**FIGURE 4**  
**PRODUCER PRICE INDEX**  
**(PERCENTAGE CHANGE TO SEPTEMBER)**



Source: Banco de la República, Economic Studies Division.

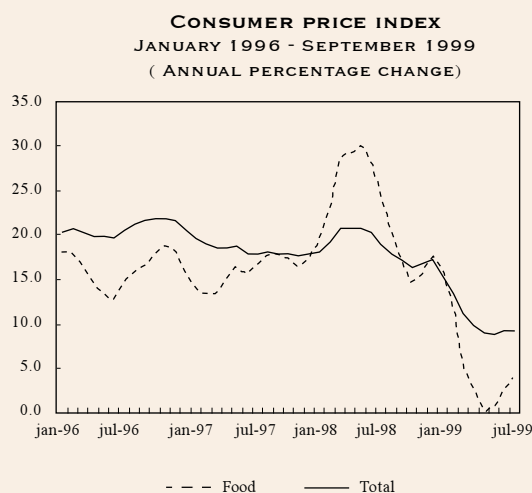
## FOOD AND INFLATION IN 2000

Though inflation is a monetary phenomenon in the medium and long term, in the short term it can be strongly affected by variations in food supply.

Thus an abundant food supply in 1999 has helped to consolidate the considerable drop in inflation registered this year. Once the hardships caused by the El Niño weather phenomenon in 1998 were overcome, agricultural supply responded well, to the point that food-price growth fell by 25 percentage points between June 1998 and mid-1999 (see Figure).

What can be expected for 2000? Will food prices climb because of a cyclical contraction in supply and greater devaluation? How will these affect inflation?

To reply to the above questions it is necessary to analyze the performance of food inflation during 1999. As the Figure below shows, the growth in food prices slowed down from above-average inflation all through 1998, to historically low rates under 5% early in the second half of 1999.



What explains this favorable performance of food prices in 1999? It is explained by a strong unexpected increase in supply, resulting from good rainfall all this year. The production of milk, meat, vegetables, and root crops has been particularly abundant throughout 1999, thanks to higher rainfall.

Traditionally, after a phase of abundant agricultural supply, with several months of low prices, farmers tend to reduce their crops or switch land use to other activities such as cattle raising. As a result, agricultural supply decreases and prices begin to rise again. If farmers were to react in this traditional way, food prices during 2000 could be expected to display an upward trend, possibly starting at the end of 1999.

How would a possible pick-up in agricultural prices affect inflation? A practical way of simulating food-price increases and their effect on inflation is to analyze the relative prices of food and nonfood products. Analysis of a CPI series from 1954 has shown that a sharp fall in these relative prices tends to be followed by an average increase in them of 4.9 percentage points over the next twelve months. If we assume this pattern for 2000, with a nonfood CPI inflation of 9%, then food prices should grow at a rate of 14.3%, on the basis of the CPI weightings in force up to 1998 (i.e. CPI-60). Accordingly, by the end of 2000 inflation would be 10.9% and the food-price increase would be responsible for 2.9 additional percentage points in inflation.

However, the impetus to inflation that food products may cause in 2000 will be smaller than in previous years for several reasons. The first has to do with the smaller share of food products in the CPI basket. As shown in the Table below, Colombian households reduced their food purchase as a share of total expenditure from 34.9%, according to findings of the 1984-1985 Income and Expenditure Survey, used as the basis for determining the weighting structure of CPI-60, to 29.5%, according to the 1994-1995 Income and Expenditure Survey. The difference widens if we exclude services (eating out) from the food group: the drop is then from 33.5% in 1984-1985 to 22.8% in 1994-1995. This smaller share of food products in the CPI implies that oscillations in food prices will have a smaller effect on overall inflation than in the past.

#### COMPARISON OF CPI WEIGHTS

Items	CPI-60	CPI-98
Food	34.8	29.5
Food excluding meals away from home	33.5	22.8
Cereals and bakery products	4.9	3.3
Tubers and plantains	2.6	1.8
Vegetables and legumes	3.0	1.9
Fruit	1.9	1.3
Meat and meat by products	8.9	6.1
Fish and other seafood	0.8	0.6
Milk, eggs and fats	6.5	4.6
Sundry foodstuffs	4.8	3.4
Meals away from home	1.4	6.7
All other items	65.2	70.5

Source: National Statistics Agency.

If in the example given above we correct for changes in weights by using the new CPI basket (CPI-98), overall inflation for 2000 will be lower by 0.3 percentage points (10.6%).

The second reason has to do with changes introduced by the National Statistics Agency (DANE) for calculating the CPI from December 1998. Whereas CPI-60 used to be calculated with a Laspeyres index, the new regimen, CPI-98, is constructed by using both the Laspeyres formula, for high-level aggregation, and the geometric mean, for aggregating the prices that make up the basic expenditure prices<sup>1</sup>. This innovation in the methodology means that a surge in food prices will have a smaller effect than in the past, because a geometric mean is less sensitive to extreme variations.

Lastly, we have to consider the effect of devaluation on food prices. Various analyses carried out by Banco de la República show that no significant relationship exists between the evolution of the exchange rate and consumer food prices. This is essentially because most of these food products are not internationally tradable and their pricing results therefore from the interplay of domestic supply and demand.

To sum up, no substantial increase need be expected to occur in next year's inflation from a possible rise in food prices. To judge by the historical behaviour of food prices, the rise will be concentrated especially in the first half 2000 and should subside before the end of the year.

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<sup>1</sup> In this connection, see the National Statistics Agency's (DANE) *Metodología del CPI-98*, 1998 (Mimeo).

## II

### DETERMINANTS OF INFLATION

#### A. MONETARY AGGREGATES, INTEREST RATES, AND EXCHANGE RATE

This section discusses developments in the economy's monetary and exchange variables and supply and demand situation.

##### 1. Monetary aggregates

The behavior of the monetary aggregates is analyzed by examining the evolution of the monetary base, M1, the broader measure M3-plus-bonds, and the financial system's loan balance.

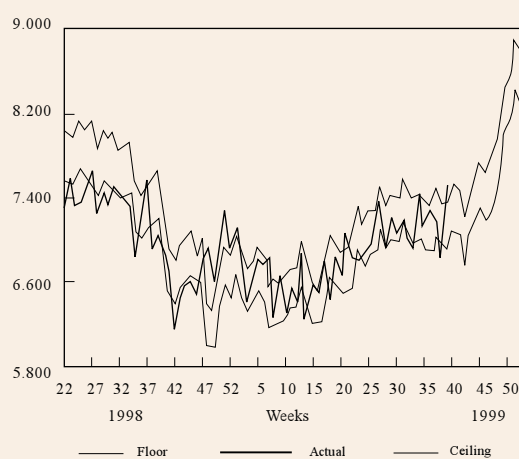
##### Monetary base

An October 1st the monetary base amounted to 7.498 billion pesos, with a 12-month growth rate of 6.3%, exceeding the indicative corridor's ceiling by 1.7% (Figure 5).

In September the monetary base's average balance showed an annual growth rate of 1.5%, up by 7.5 percentage points with respect to June. Analyzing the uses of the monetary base, this behavior is explained by increased annual growth in both cash (from 19.0% to 30.8%) and reserves (from -28.6% to -24.7%) (Figure 6).

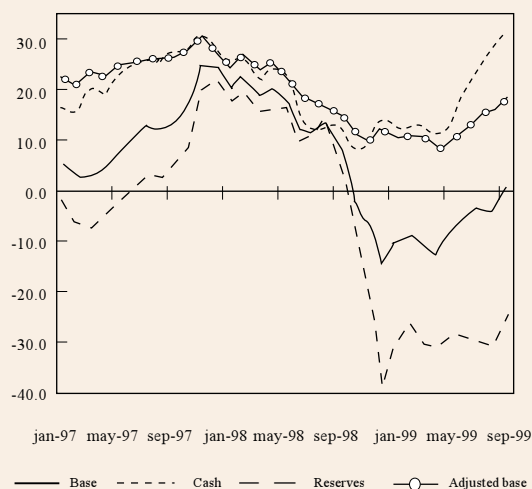
The monetary base, adjusted for liabilities subject to reserve requirements, registered an average annual growth of 18.0% at the end of September, up by 5.6 percentage points on the rate at the end of June. To adjust the monetary base, reserve demand is corrected by applying the current average rate of reserve requirement (5.7%) to the liabilities subject to such requirements.

FIGURE 5  
MONETARY BASE  
WEEKLY MONETARY CORRIDOR  
(BILLIONS OF PESOS)



Source: Banco de la República, Economic Studies Division.

FIGURE 6  
MONETARY BASE AND ITS USES  
(ANNUAL PERCENTAGE CHANGE IN MONTHLY AVERAGE)



Source: Banco de la República, Economic Studies Division.

### M1 money supply

The M1 balance at October 1st was 9.420 billion pesos, with a 12-month variation of 11.4%. Its average annual growth rose in September to 11.9%, up from 4.3% in June. This behavior is explained by faster growth in cash, as indicated above, and in checking accounts (from -5.5% to -0.8%) (Figure 7).

### M3-plus-bonds

The broader monetary aggregate of liquidity, M3-plus-bonds, was 56,810 billion pesos at October 1st, growing 4.6% this level is 11.3% below the floor of the indicative corridor (Figure 8).

The average balance of M3-plus-bonds registered a lower annual growth rate in September (5.0%) than in June (5.3%). This decline resulted from slower growth both in liabilities subject to reserve requirements, and in bonds (Figure 9).

Annual growth in the average balance of liabilities subject to reserve requirements dropped from 8.5% in June to 7.2% in September. This is largely explained by a fall in the rate of growth of Certificates of Deposit (CDs) (from 14.2% to 6.0%), which was not offset by the stronger growth in checking accounts (as indicated above) and in savings accounts (from 6.7% to 12.0%) (Figure 10).

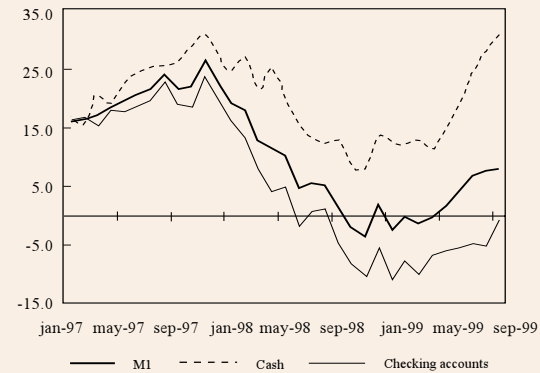
The average monetary multiplier declined between June and September, from 8.260 to 7.933. This behaviour is associated with a rise in both the cash ratio (from 0.079 to 0.083) and the reserve ratio (from 0.052 to 0.054) (Figure 11).

The average monetary multiplier of the adjusted monetary base also decreased between June and September, from 7.971 to 7.748.

### Credit

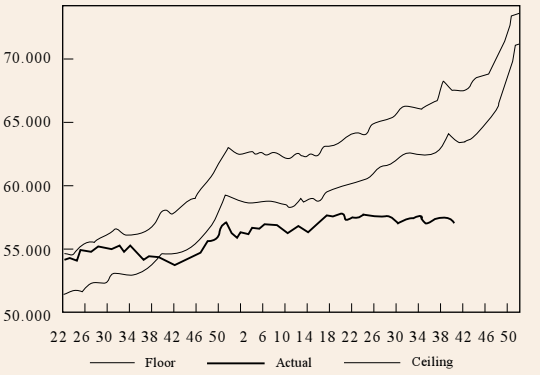
The overall balance of local and foreign currency loans by the financial system (excluding FEN - National Energy Financing Corporation) amounted to 49.627 billion pesos on October 1st, with an annual

FIGURE 7  
M1 AND ITS COMPONENTS  
(ANNUAL PERCENTAGE CHANGE IN MONTHLY AVERAGE)



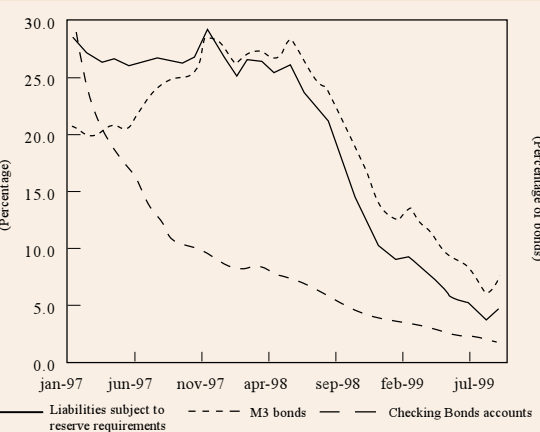
Source: Banco de la República, Economic Studies Division.

FIGURE 8  
M3-PLUS-BONDS  
WEEKLY MONETARY CORRIDOR  
(BILLIONS OF PESOS)



Source: Banco de la República, Economic Studies Division.

FIGURE 9  
M3-PLUS-BONDS AND ITS COMPONENTS  
(ANNUAL PERCENTAGE CHANGE IN MONTHLY AVERAGE)



Source: Banco de la República, Economic Studies Division.



growth rate of -1.5%. In domestic currency the annual growth rate was 0.7%, in foreign currency -16.9%, and in the latter's dollar equivalent -35.1%.

Annual growth in the portfolio's average balance fell from 0.6% in June to -1.4% in September (Figure 12).

Annual growth in the financial system's gross real balance of local-currency loans also declined in September relative to June, falling from -0.4% to -6.5% (Figure 13).

## 2. Interest rates

The average deposit rate, as measured by the DTF rate, stood at 18.1% at the end of September, and the average lending rate at 25.6%. The difference was 7.6 percentage points, down by 1.9 points on the previous quarter (Figures 14 and 15). The interbank rate averaged 17.0% during September (Figure 16).

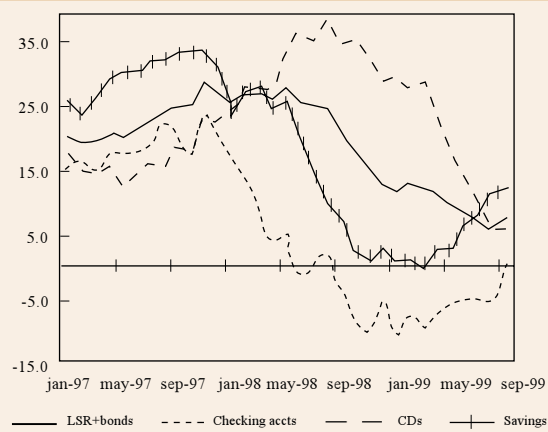
The real (*ex-post*) deposit rate edged down from 8.2% at the end of June 1999 to 8.0% at the end of September, while the real lending rate fell from 16.9% to 14.9% over the same period (Figure 17).

Figure 18 shows how the interbank rate has evolved for different maturities over the past nine months. Its downward trend since November 1998 for all maturities was interrupted in June of this year. And from July the level of long-term interbank rates has remained fairly stable around 18%, with an upward trend for the longer maturities.

The behavior of spot and forward curves over the past eight months can be seen from Figure 19. The spot curve (thick broken line) shows that the downward trend followed by 90-day interest rates since the beginning of the year has levelled off at around 18% for the past three months.

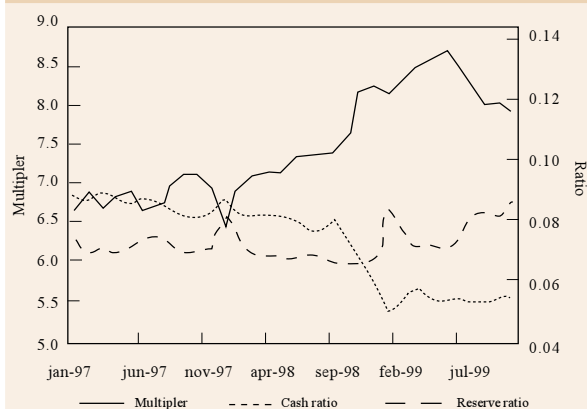
Each one of the points on the forward curves (thin lines) shows the expectations of agents about the 90-day rate at the present time (the first point), in 30 days (second point), and so on up to 360 days. From June of this year the forward curves have flattened out, reflecting

FIGURE 10  
LIABILITIES SUBJECT TO RESERVE REQUIREMENTS  
(LSR) AND THEIR COMPONENTS  
(ANNUAL PERCENTAGE CHANGE IN MONTHLY AVERAGE)



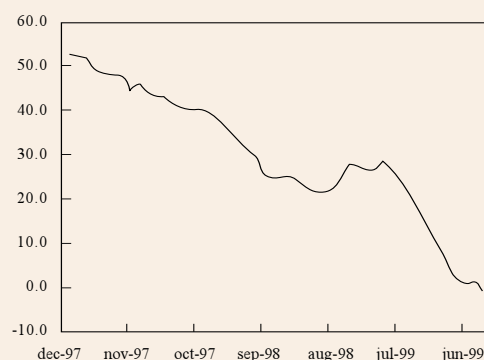
Source: Banco de la República, Economic Studies Division.

FIGURE 11  
M3-PLUS-BONDS MULTIPLIER



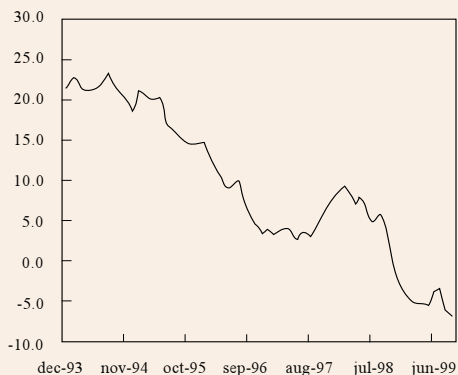
Source: Banco de la República, Economic Studies Division.

FIGURE 12  
TOTAL LOAN PORTFOLIO OF FINANCIAL SYSTEM  
EXCLUDING FEN<sup>1</sup>  
(ANNUAL PERCENTAGE CHANGE IN MONTHLY AVERAGE)



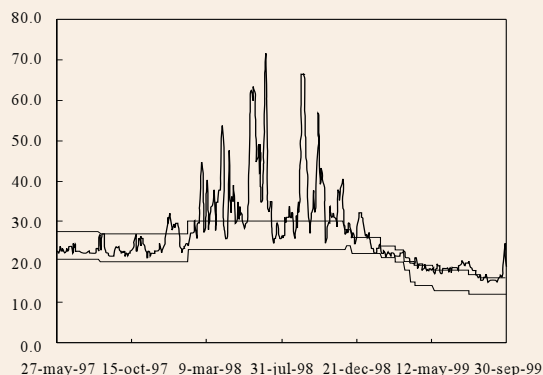
<sup>1</sup> National Energy Financing Corporation  
Sources: Banco de la República and Superintendency of Banks.

**FIGURE 13**  
GROSS REAL LOCAL-CURRENCY PORTFOLIO OF  
FINANCIAL SYSTEM EXCLUDING FEN  
(ANNUAL PERCENTAGE CHANGE)



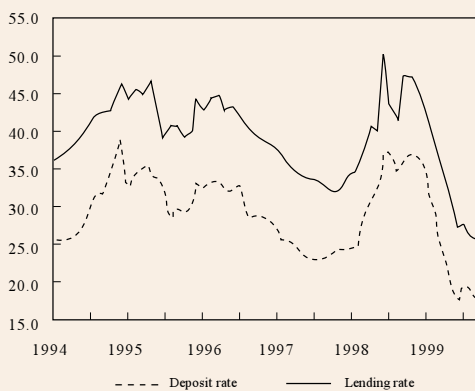
<sup>1</sup> National Energy Financing Corporation  
Sources: Banco de la República, Superintendency of Banks.

**FIGURE 16**  
INTERVENTION BAND AND INTERBANK INTEREST  
RATE 1997: 5 – 1999: 9  
(PERCENTAGE)



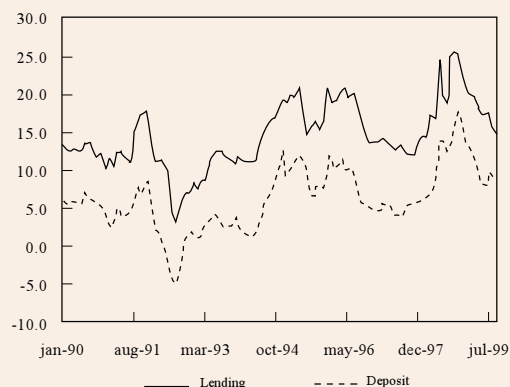
Sources: Banco de la República and Superintendency of Banks.

**FIGURE 14**  
LENDING AND DEPOSIT RATES  
(ANNUAL EFFECTIVE RATE)



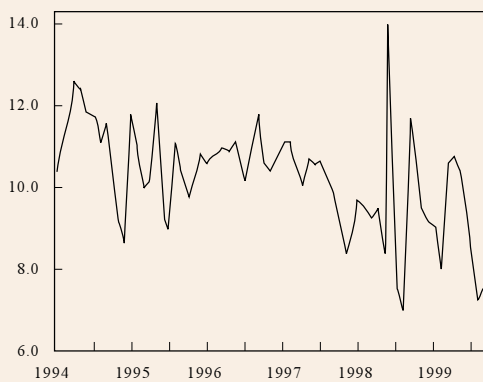
Sources: Banco de la República and Superintendency of Banks.

**FIGURE 17**  
REAL DEPOSIT LENDING RATES  
(PERCENTAGE)



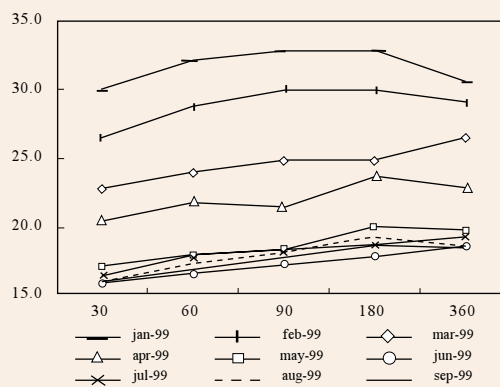
Sources: Banco de la República and Superintendency of Banks.

**FIGURE 15**  
LENDING AND DEPOSIT  
RATE DIFFERENTIAL  
(PERCENTAGE)



Sources: Banco de la República and Superintendency of Banks.

**FIGURE 18**  
INTEREST RATE (TBS) FOR DIFFERENT MATURITIES  
(PERCENTAGE)



Source: Superintendency of Banks.

the fact that the market expects no big changes in the yields of 90-day CDs in the longer run.

### 3. Yield differentials

As the exchange rate band has been eliminated, this report proposes a new indicator of domestic and foreign yield differentials. This indicator has been constructed on the basis of the implicit devaluations contained in the financial system's forward (80 to 100 days) dollar purchase contracts. The external deposit rate of reference is the 90 day libor rate and the DTF rate is the domestic deposit rate of reference.

Figure 20 compares the expected external yield, the return on domestic investments (as measured by the DTF rate), and actual external yield with a lag of three months. Expected external yield has run above internal yield all this year except in September, when the two were equal.

### 4. Exchange rate

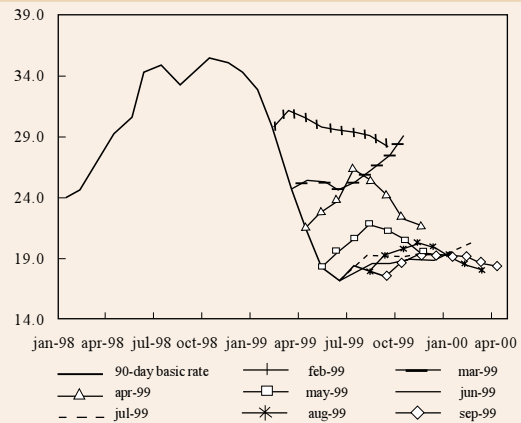
The nominal exchange rate at the end of September was 2.017 pesos to the dollar, with a devaluation of 30.8% in the year to September and an annual devaluation of 29.6% (Figures 21 and 22).

Before the exchange rate band was eliminated on September 25 of this year, the exchange rate fluctuated within the upper half of the exchange rate band defined on June 28, 1999. Between the 1st and 25th of September, the representative market exchange rate stood at an average 19 pesos below the band's ceiling, 161 pesos above its midpoint, and 342 pesos above its floor.

### 5. Real exchange rate

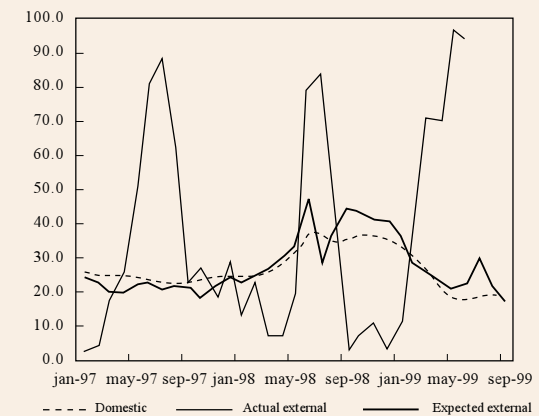
The real exchange rate, as measured by the real exchange rate index RERI-1 (1994 = 100), which uses Colombia's producer price index and those of its 20 trading partners, averaged 118.1 in September, with a devaluation of 14.0% in the year to September, and a 12-month devaluation of 15.0% (Figures 23 and 24).

FIGURE 19  
90-DAY TBS RATE PROJECTION  
(PERCENTAGE)



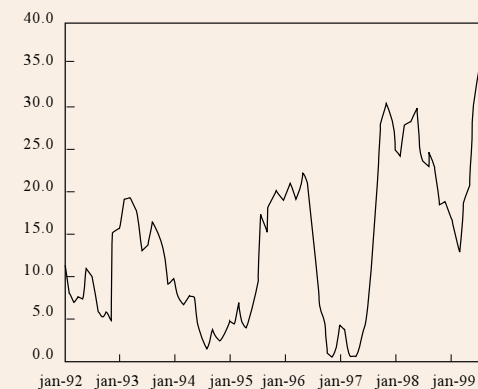
Source: Superintendency of Banks.

FIGURE 20  
EXTERNAL AND DOMESTIC ANNUAL  
YIELDS: ACTUAL VS EXPECTED  
(PERCENTAGE)



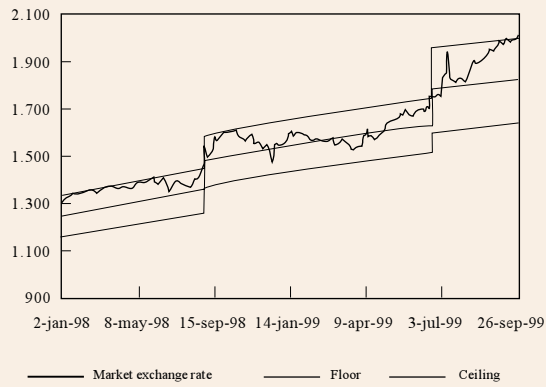
Source: Banco de la República.

FIGURE 21  
ANNUAL DEVALUATION  
(PERCENTAGE)



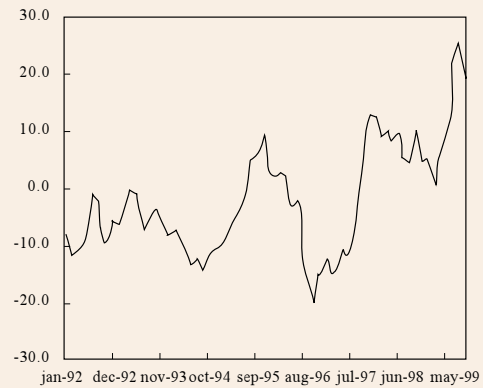
Sources: Banco de la República and Superintendency of Banks.

**FIGURE 22**  
**REPRESENTATIVE MARKET EXCHANGE RATE, AND**  
**EXCHANGE BAND, 1998: 1 – 1999: 9**  
 (PESOS OF DOLLAR)



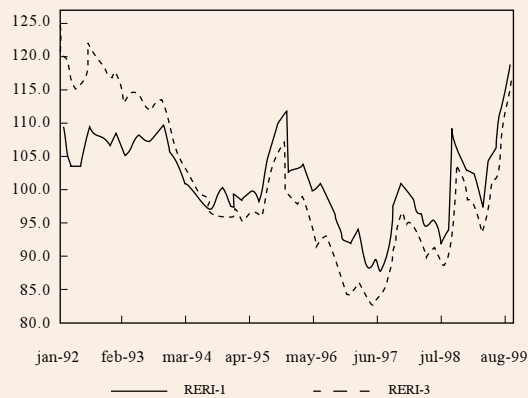
Sources: Banco de la República and Superintendency of Banks.

**FIGURE 25**  
**ANNUAL REAL DEVALUATION, RERI-3 (1994 = 100)**  
**1992: 1 – 1999: 9**  
 (PERCENTAGE)



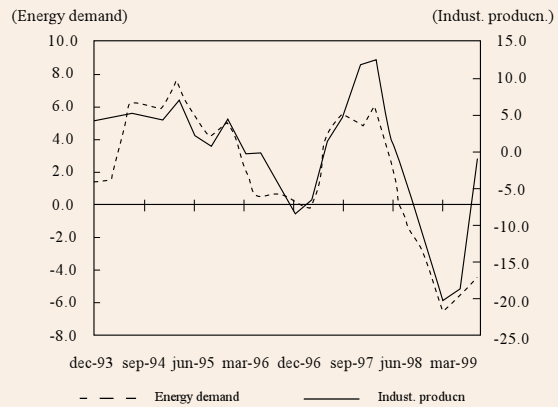
Source: Banco de la República, Economic Studies Division.

**FIGURE 23**  
**REAL EXCHANGE RATE INDICES: RERI-1 AND RERI-3**  
**1994 = 100**  
**1992: 1 – 1999: 9**



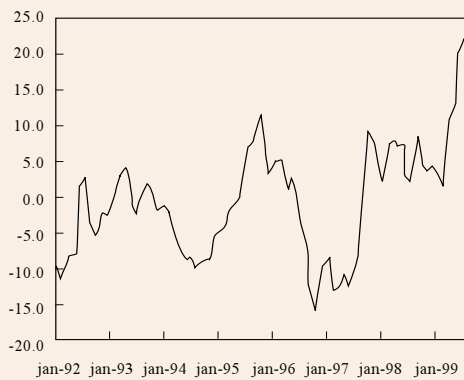
Source: Banco de la República, Economic Studies Division.

**FIGURE 26**  
**ENERGY DEMAND VS INDUSTRIAL PRODUCTION**  
**QUARTERLY FIGURES**  
 (ANNUAL PERCENTAGE CHANGE)



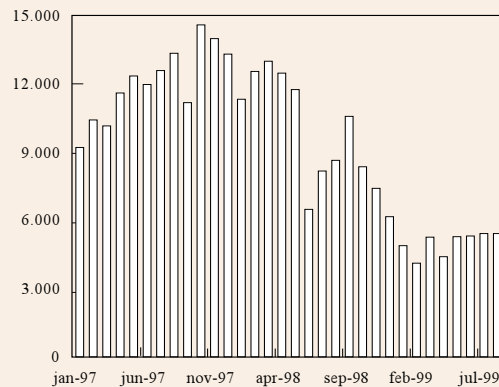
Sources: Interconexión Eléctrica S.A. and National Statistics Agency.

**FIGURE 24**  
**ANNUAL REAL DEVALUATION, RERI-1 (1994 = 100)**  
**1992: 1 – 1999: 9**  
 (PERCENTAGE)



Source: Banco de la República, Economic Studies Division.

**FIGURE 27**  
**MONTHLY CAR SALES**  
 (UNITS SOLD)



Source: National Planning Department.

If the rate is measured by the RERI-3 index (1994 = 100), which uses consumer price indexes, the devaluation for the year to September is 17.4% and the 12-month devaluation is 19.0% (Figure 25).

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## B. SUPPLY AND DEMAND

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Different indicators of economic activity for the third quarter of 1999 suggest that the Colombian economy continued to contract during this period.

Power consumption, traditionally a good indicator of urban economic activity, declined at an annual average rate of 4.4%. All the same, this was a slower decline than in the first and second quarters of this year (-6.7% and -5.5% respectively) (Figure 26).

Much the same happened with car sales, which shrank at an annual rate of 53% between January and August.

In August some 5.330 units were sold, slightly more than in the first four months of the year, but far below average historical levels for the nineties (Figure 27).

The above indicators, together with figures on industrial performance in July and August, and various indicators of the financial system's credit performance, do not offer a promising outlook for third-quarter growth this year. Figures on GDP growth for the period are expected to be negative, making it the fifth quarter in a row display a contraction in output.

Last month the National Planning Department revised downward the figures on expected growth for 1999. It now expects a contraction of 3.5% for this year, a poorer performance than projected three months ago (Table 2).

Although third-quarter interest rates remained relatively low, which should have helped to expand demand, several of the factors detrimental to growth

TABLE 2  
QUARTERLY GROSS DOMESTIC PRODUCT BY SPENDING ITEMS FOR 1999  
(ANNUAL PERCENTAGE CHANGE)

	Actual		Projected in	
	First quarter	Second quarter	June	September
<b>GDP</b>	(5.8)	(7.6)	1.3	(3.5)
Imports	(12.1)	(18.4)	(2.3)	(19.9)
<b>Final consumption</b>	(2.3)	(2.8)	(1.2)	(3.7)
Households	n.a.	n.a.	(0.9)	(5.2)
Public sector	n.a.	n.a.	(2.5)	2.0
<b>Gross domestic capital formation</b>	(38.0)	(46.6)	2.3	(29.0)
Gross fixed capital formation	n.a.	n.a.	(4.5)	(27.5)
Private sector	n.a.	n.a.	(5.3)	(53.7)
Public sector	n.a.	n.a.	(3.5)	2.6
Change in stocks	n.a.	n.a.	35.0	(50.8)
<b>Subtotal: Final domestic demand</b>	(9.5)	(11.5)	(0.5)	(8.5)
Exports	10.5	3.1	6.6	5.7

n.a. Not available

Sources: National Statistics Agency, for actual data; National Planning Department, for projections.

that had emerged last year failed to disappear during the September quarter.

First, external conditions continued to impair Colombia's export performance. Prices for several of our export products, notably coffee, stayed low or fell even lower. Similarly, various of our export markets are going through a deep recession, which reduces chances of growth for our exports (see Section IV, International Context).

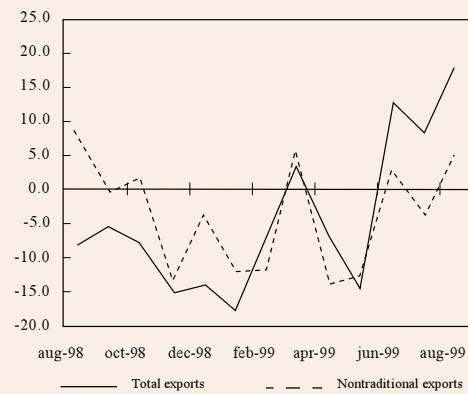
Second, the financial system's frailty since last year has prevented it from having sufficient fresh funds available for resuming its credit activity quickly and widely. One factor likely to have contributed to this situation was the liquidity drain produced in the past two months by exchange-rate uncertainty. This uncertainty also led to a further shortage of savings, which, moreover, curbed the decline in interest rates.

Third, uncertainty in recent months about the legal framework underpinning home financing schemes has affected early recovery not just in the construction sector but also in the economy at large, given this sector's powerful multiplier effect.

Despite the negative factors described above, several signs of reactivation did appear during the third quarter. The first was a better performance in exports, including nontraditional exports. In July and August total monthly exports registered an annual average growth of 13%, largely accounted for by oil exports (Figure 28).

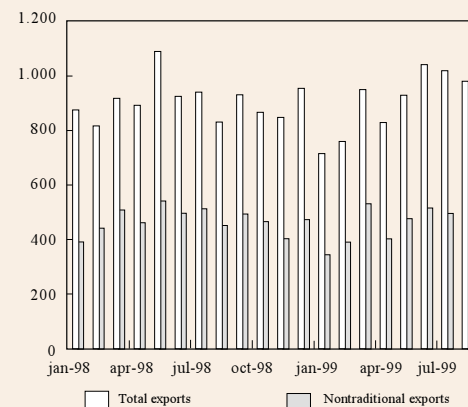
Nontraditional exports, too, contributed to the better performance of total exports. Average growth in monthly nontraditional exports in July and August was 1%, an improvement on the -7% average rate registered in the first half of the year. Higher growth rates for exports have resulted not only from the statistical effect of comparison with a much lower base in the second half of 1998. In recent months the value of exports has also risen: by 10% relative to levels in the first six months of the year (Figure 29).

FIGURE 28  
ANNUAL GROWTH IN MONTHLY EXPORTS  
(PERCENTAGE)



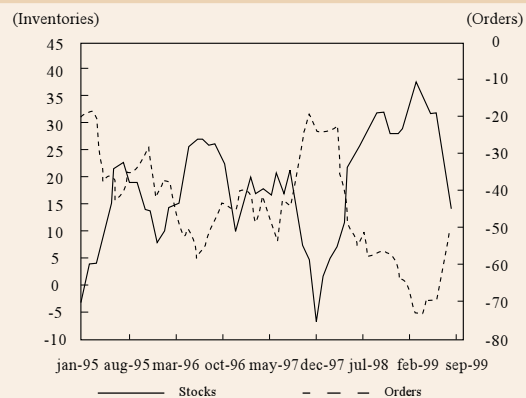
Source: National Statistics Agency.

FIGURE 29  
VALUE OF MONTHLY EXPORTS  
(MILLIONS OF DOLLARS)



Source: DIAN.

FIGURE 30  
BUSINESS OPINION SURVEY  
(BALANCES TO AUGUST 1999)



Source: Economic Studies Division, using figures from the Business Opinion Survey by Fedesarrollo ( a research institution).

The recovery in total exports during the third quarter was closely connected with better oil prices. But faster real devaluation must also have played a part. This factor has begun to compensate in some measure for slacker external demand and lower world prices.

Another positive sign was a reduction in inventories of finished products accompanied by a pick-up in orders (Figure 30). According to Fedesarrollo's Business Opinion Survey, inventories have been decreasing steadily since March and by August (the last month for which data are available) had dropped to levels not seen since April 1998, when the economy started its current phase of contraction. Orders show a continuous recovery since May, with a large leap in August. Both the falling trend in stocks and the rising trend in orders are reported by companies of all sizes (large, medium, and small); this was not the case in earlier months. Lastly, progress in negotiations with the International Monetary Fund, and expectations of obtaining fresh funds from abroad are factors that may reduce uncertainty and facilitate an early solution to the crisis.

## 1. Gross Domestic Product (GDP)

The latest data available on GDP growth are for the second quarter of 1999. According to the National Statistics Agency, GDP in the second quarter contracted by 7.6% relative to the same period in 1998 (Table 3). This contraction rate was greater than in the first quarter and indicated a deepening of the recession to record levels since quarterly GDP figures began to be recorded.

By expenditure category, only demand for exports expanded. Real exports measured in pesos grew by 3.1% in the second quarter, compared with the same period in 1998.

By sector, the greatest contraction was in construction, particularly private-sector building, which fell by 40.6% relative to the second quarter of 1998.

In fact, private construction declined much faster in the second quarter of this year than in the first

(27.4%) or in 1998 (16.0%). Furthermore the greater rate of contraction of overall GDP during the second quarter was largely a result of the poor performance of this sector.

Other sectors that shrank significantly in the second quarter in terms of annual percentage change were manufacturing (17.0%), commerce (9.5%), and the financial sector (7.0%). In all these cases, however, the rate of contraction was much the same as in the first quarter.

The only sectors with positive annual growth were mining and quarrying (8.8%) and communal, social and personal services (2.1%), including public administration services (3.1%).

## 2. Industry

According to the National Statistics Agency's monthly manufacturing sample, industrial production in the year to July fell in real terms by 19% with respect to the same period last year. This

TABLE 3  
REAL GROSS DOMESTIC PRODUCT  
BY SECTOR 1999  
(ANNUAL PERCENTAGE CHANGE)

	Actual	
	First quarter	Second quarter
<b>GDP</b>	(5.8)	(7.6)
Agriculture	1.2	(4.9)
Green coffee	3.1	(4.9)
Manufacturing	(18.6)	(17.0)
Construction	(14.7)	(24.0)
Buildings and other	(27.4)	(40.6)
Public works	(1.7)	(4.6)
Commerce, restaurants & hotels	(8.6)	(9.5)
Financial sector	(7.5)	(7.0)
Communal, social and personal services	2.2	2.1
Public administration services	3.5	3.1
Mining and quarrying	12.8	8.8

Source: National Statistics Agency.

contraction was the same as in June and slightly less than the average for the first six months of 1999. With the information available to date, therefore, a change in the industrial sector's downward trend is not yet noticeable (Figure 31).

A similar conclusion can be drawn from the Joint Industrial Opinion Survey put out by ANDI, a major business association. The survey shows the industrial sector to have contracted in the year to August at a slightly slower rate (11.6%) than in the previous two months. Significant improvements are not expected for the rest of the third quarter, in view of the poor performance of indicators such as electricity consumption, referred to earlier.

The prospects for fourth-quarter growth may be better, to judge by the recent increase in orders reported by business establishments, and the progressive reduction in inventories.

A similar conclusion may be drawn from business expectations in this sector. In fact, expectations about the economy in the short run have been improving gradually since June, while expectations for the next six months began to pick up, albeit with some ups and downs, back in April and rose considerably in July and August. This has been reflected in a better outlook for production in the short run (three months). Figure 32 shows the business climate indicator, which embodies the average behaviour of some of these variables.

Although the seasonal element cannot be disregarded in explaining the recovery seen in these and other industrial indicators in July and August, the intensity and duration of the recovery seem to indicate that longer-term factors are at work. Some improvement may therefore be expected in industrial production indicators during the fourth quarter.

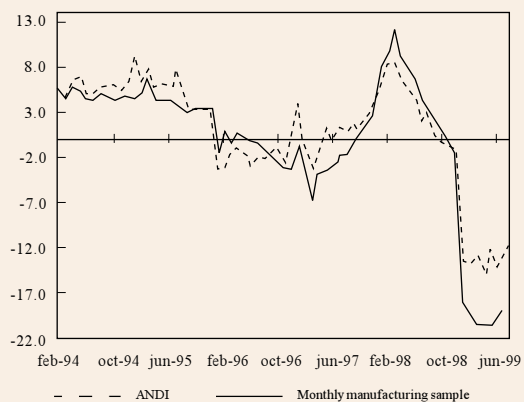
### 3. Consumption

According to the National Statistics Agency's figures, final consumption in the second quarter declined by 2.8% in annual terms. This was the third quarter in a

row in which final consumption decreased, its longest period of contraction in 20 years, according to the quarterly spending series. The National Planning Department's currently projects consumption for 1999 as a whole to decline by around 3.7%, more than previously expected.

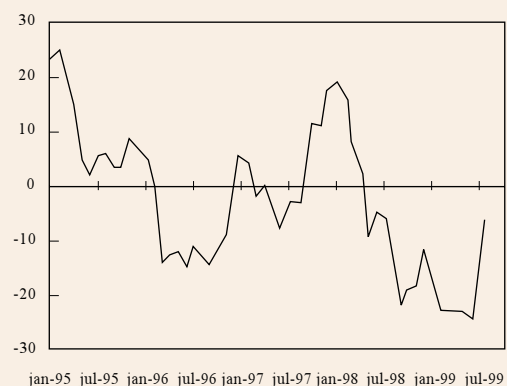
Spending financed through credit cards suggests that the contraction in consumption extended into the third quarter. For the year to July and August, monthly sales and cash advances through credit cards continued to show declines of about 10% relative to the same period last year. The year-to-date and 12-month figures in August showed no signs of recovery either (Figure 33).

FIGURE 31  
REAL INDUSTRIAL OUTPUT INDEX  
(ANNUAL CHANGE YEAR TO DATE)



Sources: ANDI and National Statistics Agency.

FIGURE 32  
BUSINESS CLIMATE  
(TO AUGUST 1999)



Source: Economic Studies Division of figures from Fedesarrollo's Business Opinion Survey.



The real cash indicator has moved up considerably in the past two quarters. However it no longer moves in line either with the Retail Sales Index (RSI), with which it has traditionally been correlated, or with final consumption, according to data from the National Statistics Agency. Everything seems to point to a major change this year in the composition of the public's liquid assets portfolio, fostered perhaps by an expansion of informal commercial and financial activity. The outcome has been to make the cash indicator temporarily useless as a predictor of sales and consumption (Figure 34).

Despite the foregoing, it should be noted that in June and July the monthly Retail Sales Index contracted more slowly than in the first months of the year.

#### 4. Investment

Gross domestic capital formation fell sharply in the second quarter of this year with respect to last year; at 46.6%, this fall even exceeded its large drop of 38.0% in the first quarter.

For the second half of the year there seem to be no signs of a possible recovery in this type of demand. Items such as imports of durable and capital goods, which may be associated with investment spending, continued to shrink at rates above 40.0% for the year-to-July series (Figure 35). Investment for 1999 is projected by the National Planning Department to decline by about 29.0%; this strong contraction is mostly accounted for by a 53.7% fall in private investment (Table 2).

### C. WAGES

#### 1. Industrial wages

In July, adjustments to average nominal pay in the industrial sector continued to fall. July data show a 16.3% annual adjustment in the average nominal wages and salaries of the previous 12 months. Salaries were adjusted by 18.1% and wages by 14.8%. The adjustments observed up to July were about one percentage point lower than in March for salaries and wages as a whole (Figure 36).

FIGURE 33  
SALES AND CASH ADVANCES THROUGH  
CREDIT CARDS  
(ANNUAL PERCENTAGE CHANGE)

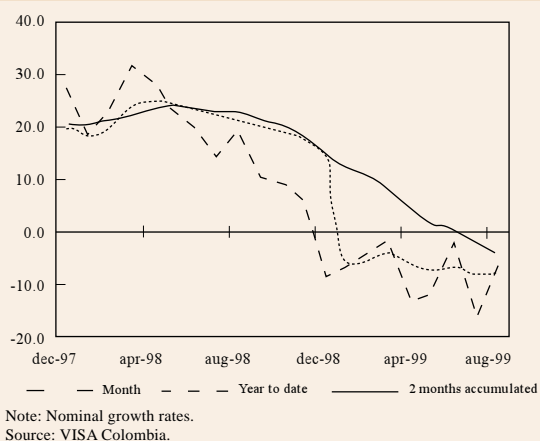


FIGURE 34  
CASH VS RETAIL SALES INDEX (RSI)  
QUARTERLY AVERAGES  
(ANNUAL REAL PERCENTAGE CHANGE)

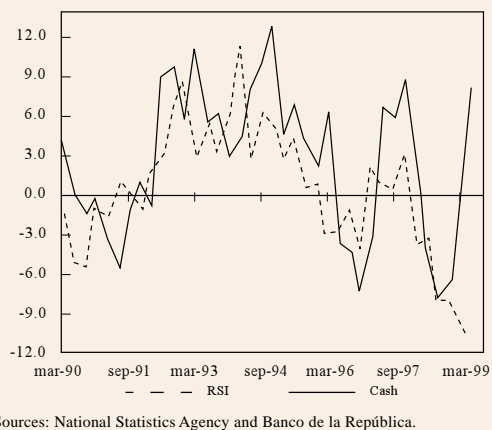
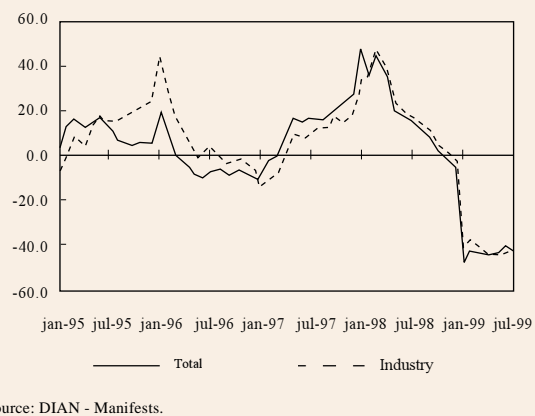


FIGURE 35  
CAPITAL GOODS IMPORTS  
(CHANGE IN YEAR TO JULY 1999)



It should be pointed out, however, that adjustments for the month of July itself (15.5%) did not differ substantially from those in March. If this trend continues over the second half of the year, the average industrial pay adjustment for the whole of 1999 should be close to 15%. This figure is not far off from the pay rises established in collective bargaining agreements at the end of 1998, revealing a high degree of inflexibility in industrial pay in Colombia over the medium term. Industrial pay has been affected only partially by a largely excessive labor supply and high rates of unemployment.

Thanks to the considerable decrease in inflation all this year, the real value of industrial pay has gained much ground, and this tendency has been maintained during the latest months for which data are available. In July, the 12-month average real salaries and wages rose at an annual rate of 1.6% (Figure 37).

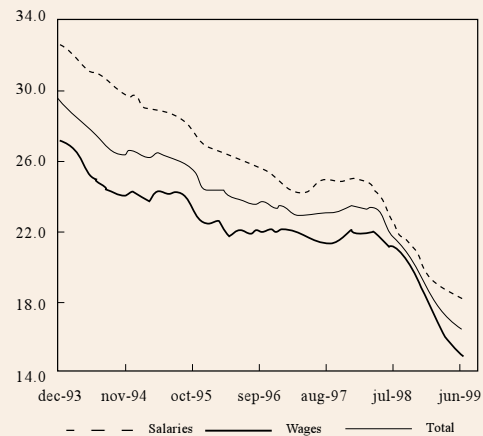
## 2. Negotiated pay rises

Table 4 presents data from the Ministry of Labour and Social Security on one-year and two-year negotiated pay rises.

The top half of the table shows the percentages of workers covered by one-year pay rise settlements between January and September 1999. For 35.4% of workers the pay increase has been under 16%, for 22.8% between 16% and 17%, and for 36.2% between 17% and 19%. In the June quarter, most workers covered by settlements (60%) obtained a one-year pay rise of 16% to 17%.

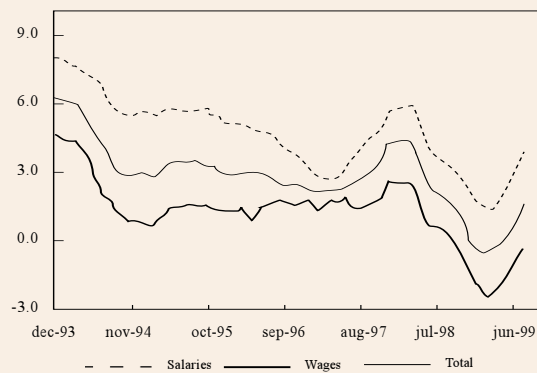
The bottom half of Table 4 shows the percentages of workers covered by pay rises negotiated in 1999 up to 2001. In the year to September, most of these workers (57.7%) have seen their pay increased by a proportion ranging between CPI inflation and inflation plus three points. It should be pointed out that the number receiving a pay rise of less than 16% expanded from 15.8% in the June quarter to 28.8% at September, and that only 9.5% have obtained a pay increase between 16% and 21% this year.

**FIGURE 36**  
NOMINAL AVERAGE SALARIES AND WAGES PAST 12 MONTHS MANUFACTURING INDUSTRY  
(ANNUAL PERCENTAGE CHANGE)



Source: National Statistical Agency, monthly manufacturing sample.

**FIGURE 37**  
REAL AVERAGE SALARIES AND WAGES, PAST 12 MONTHS MANUFACTURING INDUSTRY  
(ANNUAL PERCENTAGE CHANGE)



Source: National Statistics Agency, monthly manufacturing sample.

**TABLE 4**  
PERCENTAGE OF NEGOTIATED  
PAY-RISE BENEFICIARIES  
(JANUARY – SEPTEMBER 1999)

One-year negotiated rise				
< 16	[16–21]	[17–19]	[19–21.5]	
35.4	22.8	36.2	5.6	
Two-year negotiated rise				
< 16	[16–17]	[CPI to CPI+3]	[LMW to LMW+2]	
28.8	9.5	57.7	4.0	

LMW: Legal minimum wage  
Source: Ministry of Labour and Social Security.

#### D. UTILIZATION OF PRODUCTIVE CAPACITY

The indicators of utilization of installed productive capacity provided by ANDI (a major business association) and Fedesarrollo (a research institution), show a small pick-up between June and August, the first simultaneous and significant pick-up for both indicators since early 1998. Never the less, their levels are still far below historical averages (Figure 38).

The recovery in the series probably results largely from the usual mid-year seasonal improvement in demand, combined with a considerable decrease in inventories. For this reason and given the poor prospects for third-quarter growth, no further significant improvement is expected in these indicators in the coming months.

#### E. THE FISCAL SITUATION

According to the latest projections of the Ministry of Finance and Public Credit the non-financial public sector's deficit, excluding privatizations, is expected to be 4.8% of GDP in 1999. As can be seen from Table 5, while all other entities under this category are projected to run a surplus of 0.8% of GDP, the central government is expected to show a deficit of 5.6% of GDP. Compared with the financial plan projections released in December 1998, the current estimates widen the consolidated deficit by about three percentage points of GDP, attributable mostly to the worsening of the central government's fiscal situation. The 1999 deficit as currently projected also exceeds the 3.4% deficit recorded in 1998<sup>7</sup>.

<sup>7</sup> IMF methodology predicts that the nonfinancial public-sector deficit for 1999 will be 6.2% of GDP and the central government's deficit 7.0%. IMF methodology differs from the one used for this report in several respects, including the way of reporting the Banco de la República's profit that is transferred to the central government.

FIGURE 38  
UTILIZATION OF PRODUCTIVE CAPACITY  
(TO AUGUST 1999)



1/ Asociación Nacional de Industriales

2/ Research institution

Sources: ANDI and Fedesarrollo.

TABLE 5  
NON-FINANCIAL PUBLIC-SECTOR DEFICIT 1999<sup>1/</sup>  
(PERCENTAGE OF GDP)

Entities	Financial plan (a)	Current projection (b)	Difference (a-b)
Electricity	(0.1)	(0.3)	(0.2)
CARBOCOL (coal)	0.1	0.1	0.0
F.A.E.P. (oil stabilization fund)	0.1	0.5	0.4
ECOPETROL	0.3	0.5	0.2
TELECOM	(0.1)	0.1	0.2
Metro de Medellín	0.0	0.1	0.0
Other entities	0.1	0.1	(0.0)
Social Security	1.2	0.4	(0.8)
Regional and local entities	(0.1)	0.2	0.3
Entities not included	0.1	(0.5)	(0.6)
Fondo Nacional del Café	(0.1)	(0.3)	(0.1)
Central government	(3.7)	(5.6)	(2.0)
Total	(2.2)	(4.8)	(2.6)
Total including privatizations	(1.0)	(4.4)	(3.5)

1/ Projected on October 8, 1999.

Source: CONFIS (fiscal policy council).

The central government's total revenues are projected to grow by 21.7% relative to the 1998 level (Table 6). An increase of 11.4% is expected in tax revenues, and of 95.9% in non-tax revenues, which include among other things profits from operations of Banco de la República.

Between January and September 1999, effective operating revenues are calculated at 15,059 billion pesos, representing an execution level of 73.3% with

respect to the Ministry of Finance and Public Credit's latest annual projection.

Tax revenues have been affected by the slowdown in economic activity, which has hit both taxes of domestic origin and import taxes.

Relative to tax revenues collected between January and September 1998, income tax and VAT show a nominal growth of 8.8%, while customs taxes and VAT on imports decline by 23.2%.

TABLE 6  
CENTRAL GOVERNMENT  
(BILLIONS OF PESOS)

	1999 1/	1998-1999 change %	January-September			1999 execution %
			1998	1999	change %	
<b>I. Total revenues (A+B)</b>	20.544.2	21.7	12.273.4	15.059.1	22.7	73.3
A. Tax revenues	16.519.3	11.4	11.143.9	11.781.7	5.7	71.3
Income tax & domestic VAT	11.322.1	13.0	7.561.1	8.229.0	8.8	72.7
Customs & external VAT	3.436.1	(15.9)	3.087.4	2.369.7	(23.2)	69.0
Gasoline	796.0	24.0	478.7	530.0	10.7	66.6
Other 2/	965.2	4.429.0	16.7	652.8	3.809.0	67.6
B. Non-tax revenues <sup>3/</sup>	4.024.9	95.9	1.129.5	3.277.4	190.2	81.4
<b>II. Total expenditures (A + B + C + D)</b>	29.180.9	20.6	17.991.5	19.815.1	10.1	67.9
A. Interest	5.214.8	27.5	3.430.9	4.118.5	20.0	79.0
B. Operating costs	21.065.2	23.0	12.524.7	14.127.4	12.8	67.1
C. Investment	2.042.1	(10.4)	1.767.5	1.283.7	(27.4)	62.9
D. Net loans	858.8	161.2	268.4	285.5	6.4	33.2
<b>III. Deficit or surplus (I - II)</b>	(8.636.7)	24.4	(5.718.0)	(4.756.0)	(16.8)	55.1
<b>IV. Financing</b>	8.636.7	24.4	5.718.0	4.756.0	(16.8)	55.1
A. Net external credit	3.212.9	18.9	2.710.8	1.264.3	(53.4)	39.4
Disbursements	4.796.4	29.6	3.466.6	2.110.6	(39.1)	44.0
Servicing	1.583.5	58.6	755.8	846.3	12.0	53.4
B. Net domestic credit	4.239.1	6.1	2.978.8	3.463.4	16.3	81.7
Disbursements	11.088.2	43.8	6.269.8	9.310.0	48.5	84.0
Servicing	6.849.1	84.5	3.291.0	5.846.5	77.7	85.4
C. Privatizations and other	1.184.7	388.5	28.5	28.3	(0.7)	2.4
<b>V. Deficit as percentage of GDP</b>	(5.6)		(4.3)		(2.9)	

1/ Projected on October 8, 1999.

2/ Includes the 2/1000 withdrawal levy.

3/ Includes profit transfers from the Banco de la República.

Source: CONFIS (fiscal policy council).

As regards expenditures, CONFIS (the council on fiscal policy) has set a target of 29,181 billion pesos for 1999, which represents growth of 20.6% compared with total payments in 1998. The growth in transfer payments is around 28%. Between January and September the execution percentage for operating costs was 67.1%, for investment spending 62.9%, and for interest payments 79.0%. Relative to the same period in 1998, the growth in total expenditure is 10.1%, in interest payments 20.0%, and in operating costs 12.8%. Unlike all other expenditure items, investment spending during this period declines by 27.4%, owing to the government's adjustment of the annual target.

Comparison of the execution of revenues and expenditures shows that the central government's accumulated deficit over the first nine months of the year amounts to 4.756 billion pesos, equivalent to 2.9% of annual GDP. The deficit has been financed largely from external and internal credit funds, which show net changes of 1.264 billion and 3.463 billion pesos, respectively, between January and September. If the privatization of Carbocol (state coal company) is not completed before the end of the year, which is expected to bring in 584 billion pesos in 1999, the government will have to consider alternative sources of financing or adjust the last quarter's payments

target. It should be noted that these projections do not include the fiscal impact of the subsidies to mortgage-loan debtors announced by the government at the end of September, for there are as yet no definite estimates of their amount, nor is it known when they will begin to be granted.

As regards other sectors and entities, mention should be made of a weakening in social security and in the electricity sector. The surplus in social security has declined because of the reduction in the Social Security Institute's income received in the form of health-care and pension contributions. The electricity sector's increased deficit is mainly attributable to the fall in energy demand resulting from the slowdown in the economy.

At the same time there has been an improvement in Ecopetrol's financial situation, thanks to the favorable performance of world crude prices all this year. Ecopetrol has, however, been affected by falling domestic demand for fuel, since income from the sale of gasoline and other petroleum by-products represents more than 50% of the company's total revenues. Lastly, declining external coffee prices have weakened the Fondo Nacional del Café's finances by more than 0.1% of GDP.

## DEVALUATION AND INFLATION IN COLOMBIA

The relationship between devaluation and inflation is a matter of constant concern to monetary authorities. The extent to which a higher devaluation translates into higher inflation determines to what degree exchange instruments will affect key external aggregates such as the economy's trade balance, current account, and international-reserves position.

In the past twenty years, a large part of the economics literature has been devoted to studying the effects of exchange-rate changes on export and import prices and on the general level of prices (*pass-through effects*). Theoretical approaches to this problem are based to a greater or lesser extent on what is known as the *law of one price*. Broadly speaking, this law holds that the price of a particular item should be the same (measured in the same currency) no matter where it is produced or sold.

In macroeconomic terms, this principle suggests that, for small open economies in which the bulk of domestic production is tradable, an exchange-rate variation should translate into a variation of equal magnitude in the general price level, for given external prices. In other words, an acceleration (or slowdown) in devaluation should cause an increase (or decrease) of equal proportion in the rate of inflation.

In actual fact, all economies have sectors of nontradable goods (for example, education, health-care and education services) which bear no significant direct relation to international prices. In practice this reduces the likelihood of devaluation translating fully into inflation, at least in the short term. However, constant movements in the exchange rate may affect the prices of services, through their impact on input prices.

The economics literature has also pointed to the importance of assessing whether the ratio between the prices of tradables and nontradables (known also as the real exchange rate) is close to its equilibrium level, in determining the possible effect of devaluation on the rate of price growth. When this ratio is at its equilibrium level, a nominal devaluation should lead to a proportional increase in inflation. This is because an increase in tradables prices caused by exchange-rate movements should be offset by changes in nontradables prices to re-establish the original ratio.

However, if the exchange rate has appreciated, as may occur immediately after an unexpected fall in the prices of major exports, then a devaluation may not be offset by increases in nontradables prices, making it easier for the relative price of tradables to rise. In these circumstances, if growth in the monetary aggregates is kept under control after a rise in the exchange rate, the increase in tradables prices should be compensated by a lower increase in nontradables prices, with the result that no substantial changes should occur in overall inflation. But if monetary policy is loose, the faster growth in tradables prices will not be offset by a reduction in nontradables inflation, and the result will be a higher rate of inflation in the economy.

Lastly, economics literature has also been concerned with the part that the economic-cycle phase may play in the degree of pass-through. In an upward phase with a growth higher than potential or long-term growth, a change in the nominal exchange rate can be expected to be transferred easily to the general price level through tradable goods. The opposite may occur in the cycle's contraction phase. Moreover, when the real exchange rate is running above the long-term equilibrium real exchange rate, a further nominal devaluation is likely to be transferred more easily to inflation than when the real exchange rate is relatively overvalued.

It follows from the above discussion that the degree of pass-through of devaluation to inflation will depend on such factors as the importance of nontradable sectors in the economy, the initial level of the real exchange rate, the importance of indexation, the degree of competition in domestic tradables markets, and the phase of the economic cycle the economy is in. Consequently, the effect that a devaluation may produce on prices in an economy is a problem to be solved on the ground and may vary considerably over time.

In Colombia's present economic situation, the accumulated devaluation of the past 12 months is expected to have a mild effect on inflation in the year 2000. The reasons for this are: the strong downturn in the economy, the existence of factors conducive to a real devaluation (for instance, reduced external funding, and weakening terms of trade), and the monetary authority's commitment to consolidate the progress made in reducing inflation. However, as economic activity picks up, there will be greater risk of the pass-through effect becoming stronger.

### III

## MEASURES OF EXPECTATIONS

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### INFLATION EXPECTATIONS SURVEY

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#### Findings

The September 1999 Inflation Expectations Survey shows inflation expectations of 12.2% by the end of the year. This is 1.3 percentage points down on the June figure (Figure 39).

The September survey also shows a downward trend in the third quarter of this year in long-term inflation expectations, with agents expecting a 11.3% inflation by December 2000, down from 12.2% in June (Figure 40).

Devaluation is expected by agents to average 27.3% by the end of 1999 (Figure 41).

GDP for 1999 is predicted to shrink by 1.6%: a worsening of 1.8 percentage points in expectations relative to June (Figure 42).

Other survey findings show that, on average, firms have raised their workers' nominal pay for 1999 by 15.5%, 1.5 percentage points less than in 1998 (Figure 43). And, on average, they have increased their product prices for 1999 by 10.5%, down from the 14.9% increase recorded at December 1998 (Figures 43 and 44).

The September survey's section on economic activity (Figures 45 and 46) shows that in the past 12 months 52% of respondents implemented fewer projects than planned, while 32% carried out all planned projects. For the next 12 months, 57% of respondents plan to

FIGURE 39  
INFLATION EXPECTED BY END OF THE YEAR  
(PERCENTAGE)

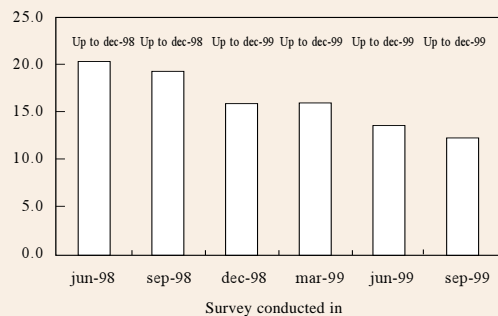


FIGURE 40  
INFLATION EXPECTED BY END OF FOLLOWING YEAR  
(PERCENTAGE)

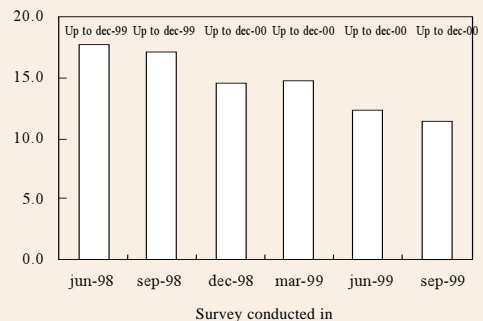
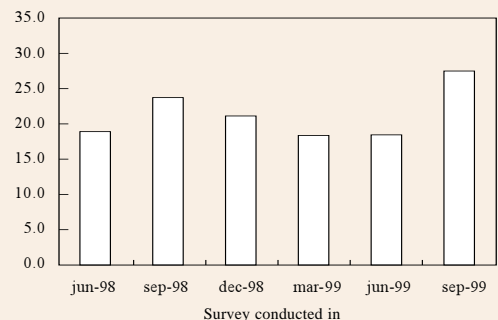


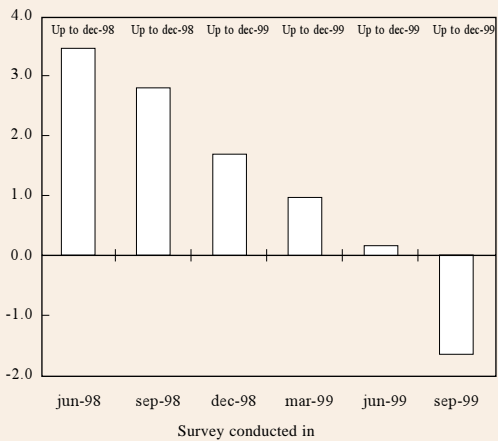
FIGURE 41  
DEVALUATION EXPECTED BY END OF YEAR  
(PERCENTAGE)



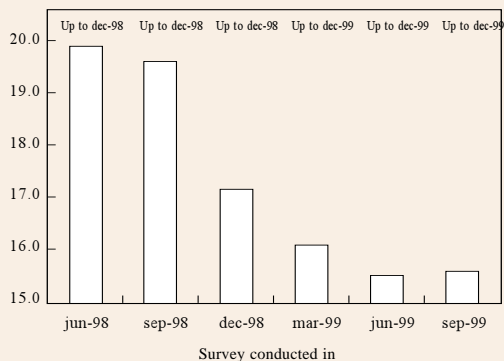
operate with the same productive capacity, whereas 12% intend to invest in expanding it and 21% mean to reduce it.

Lastly, questions about employment (Figures 47 and 48) have provided the information that for the next quarter 50% of respondents will keep the same number of employees, while 40% will reduce theirs. For next year, 48% of respondents plan to keep their workforce unchanged, 30% are thinking of reducing theirs, and only 13% intend to hire more employees.

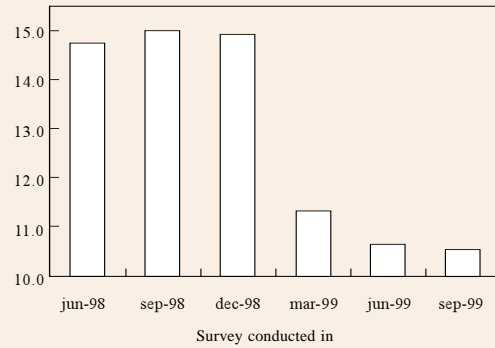
**FIGURE 42**  
EXPECTED GDP GROWTH  
(PERCENTAGE)



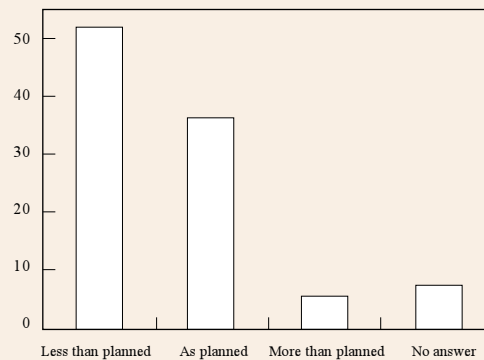
**FIGURE 43**  
NOMINAL PAY INCREASE GIVEN BY FIRMS  
(PERCENTAGE)



**FIGURE 44**  
PRICE INCREASE BY END OF YEAR  
(PERCENTAGE)



**FIGURE 45**  
PROJECT EXECUTION IN PAST 12 MONTHS  
(PERCENTAGE)



**FIGURE 46**  
INVESTMENT PLANS FOR PRODUCTIVE CAPACITY (PC)  
IN NEXT 12 MONTHS  
(PERCENTAGE)

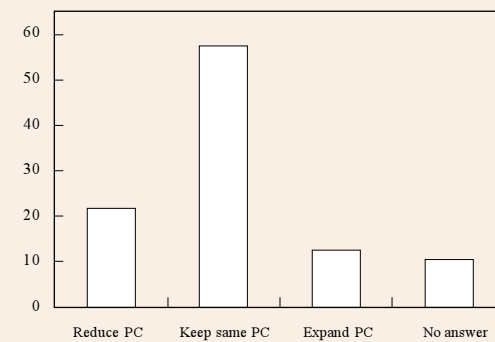




FIGURE 47  
WORKFORCE PLANS FOR NEXT QUARTER  
(PERCENTAGE)

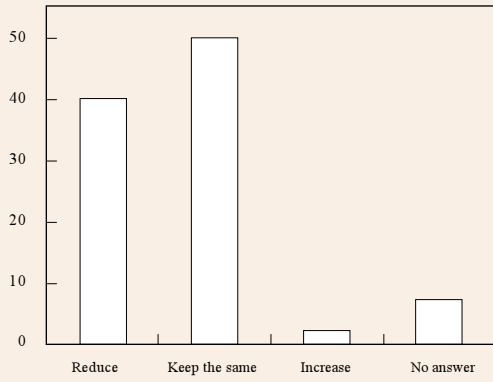
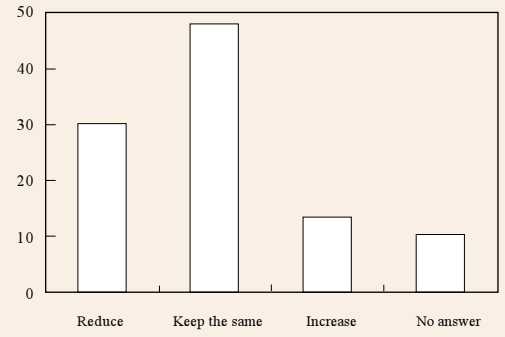


FIGURE 48  
WORKFORCE PLANS FOR NEXT YEAR  
(PERCENTAGE)



## IV

### INTERNATIONAL CONTEXT

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#### A. ECONOMIC GROWTH

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World economic conditions have improved significantly in recent months. Fears that the mid-1998 Russian crisis and the Brazilian crisis at the beginning of this year would impair growth in developed countries and impede recovery in several emergent economies in South-East Asia and Eastern Europe have gradually faded away. Published figures on world economic performance in the first half of the year have confirmed the better outlook for growth (Table 7).

Economic growth in the United States was satisfactory in the first two quarters of the year, and prospects for the rest of the year are equally good. At 4.3% and 1.8% the growth rates for the first and second quarters, respectively, were quite acceptable and in line with figures recorded in recent years. Although the second-quarter growth (1.8% annualized) was lower than several analysts expected, this was largely because of stock reductions, so a pick-up can be predicted for the third and fourth quarters.

Domestic demand in the United States for the coming months should continue to drive economic growth, since on the external front the US economy has begun to show a substantial and mounting deficit. However, a good part of the impetus to domestic demand in recent years has come from asset appreciation, mainly in the equity market, and the rest of the year may see some correction in share prices, leading to a slowdown in consumption and investment. GDP growth in the United States for 1999 is currently projected to stand around 3.7%, up a little on projections three months ago. Although growth

is expected to slow down in 2000, it should continue to run higher than 2%<sup>8</sup> (Table 8).

Growth in European-Union countries slowed in the first half of this year, but this tendency is expected to reverse and a new upswing in growth indicators is predicted for the third and fourth quarters. This forecast is based on the recent improvement in

TABLE 7  
ECONOMIC GROWTH, 1999

	First quarter	Second quarter
<b>Developed countries 1/</b>		
United States	4.3	1.8
Germany	1.8	0.2
Japan	8.1	0.9
<b>Emerging countries 2/</b>		
<b>Asia</b>		
South Korea	4.6	9.8
Malaysia	(1.3)	4.1
Indonesia	(9.5)	1.8
Thailand	0.9	n.a.
<b>Latin America</b>		
Argentina	(3.0)	(4.9)
Brazil	(0.1)	(0.8)
Chile	(2.1)	(3.2)
Ecuador	(3.2)	n.a.
Mexico	1.9	3.2
Peru	1.9	4.3
Venezuela	(9.3)	(9.6)

n.a. Not available

1/ Growth in the quarter compared with the previous quarter, annualized.

2/ Growth in the quarter compared with the same quarter the year before.

Sources: Bloomberg, The Economist, WEFA, and central banks.

<sup>8</sup> Figures from The Economist's poll of forecasters.

TABLE 8  
ECONOMIC GROWTH, 1999 AND 2000

	1999	2000
<b>Developed countries</b>		
United States	3.7	2.6
European Union	2.0	2.7
Germany	1.4	2.5
Japan	1.0	1.5
<b>Emerging countries</b>		
Malaysia	2.4	6.5
Indonesia	(0.8)	2.6
Thailand	4.0	4.0
Korea	6.5	5.5
Argentina	(3.0)	1.5
Brazil	(1.0)	4.0
Chile	(0.4)	5.5
Ecuador	(7.0)	1.5
Mexico	3.0	5.0
Peru	3.0	5.0
Venezuela	(7.6)	1.6

Source: IMF, World Economic Outlook, September 1999.

business climate and short-term economic activity in Germany, the region's largest economy. It is also based on the easing of monetary policy in recent months, made possible by good inflation performance. It should be noted that the euro's devaluation against the dollar has, to some extent, given a boost to external demand. The 11 countries making up the Union are currently expected to show a growth in the range of 1.8% - 2.3% for 1999 and at least 2.4% for the year 2000.

The Japanese economy, for its part, experienced a sharp upturn (8.1% annualized, according to the latest estimates) during the first quarter of 1999 relative to the last quarter of 1998, the first major quarterly growth since the crisis in Asian economies. This growth, largely driven by an aggressive public-spending programme, is considered by various analysts to be unsustainable because a good many of the financial problems that led to the crisis continue to exist. Besides, the various indicators of business climate suggest that great uncertainty persists among economic agents, and it is accompanied by a weakening of real incomes that makes it impossible

to predict a sustained growth in private spending in the medium term. Even so, growth projections for 1999 (between -0.8% and 1.7%) and for 2000 (between -1.2% and 2.7%) are somewhat better than actual rate registered in 1998 (-1.9%).

With regard to emergent economies, two types of countries should be considered (Figure 7). First there are the countries of South-East Asia, most of which registered positive growth in the first half of 1999, in some cases, such as Korea and Malaysia, at rates prevailing before the 1997 crisis. These substantial growth levels, which received an impetus from the buoyancy of the Japanese economy, may not be kept up during the rest of the year or in 2000. Even so, these economies are expected to continue to grow, but at rates that will depend on how fast structural reforms are implemented and on the future stability of the Chinese economy. China's economic outlook is still uncertain, particularly on the exchange front.

The economies of Eastern Europe, seriously affected by the Russian crisis, have also begun to show signs of recovery. The European Union's improved growth outlook for the rest of the year should strengthen the signs of upturn in several East-European emergent countries. Russia, for its part, continues to underperform the region's other economies, but various analysts presently consider it to be entering on a stage of stabilization.

The economies of Latin America are the ones with the most disturbing prospects. In 1998, such factors as falling commodity prices, and instability in the world financial markets from the Russian crisis combined to produce a sharp economic slowdown. In almost all countries of the region exchange-rate instability led to a large increase in interest rates, which translated into turn collapse of domestic demand.

The slowdown intensified early this year because of Brazil's exchange crisis. With the result that several countries saw their economies contract in the first half of 1999. In Venezuela and Ecuador, two of

Colombia's major trading partners, the economy contracted by 9.8% and 3.2%, respectively, in the first quarter of the year compared with the same period in 1998. Appreciable contractions have also occurred in Chile, Argentina, and Brazil.

One notable exception has been Mexico, which has managed to keep clear of the region's crisis with growth rates of 1.9% and 3.2% in the first and second quarters, probably thanks to its close ties to the US economy.

Growth trends in Latin America for the rest of 1999 are not very clear. In most countries nominal interest rates have decreased significantly, which should help to revive consumption and investment. In fact, in Brazil, one of the region's crucial economies, performance has not been as poor as originally predicted. In principle, this points to a possible rapid upturn in Brazil and, to some extent, in other Mercosur countries, given their close trading relations with Brazil.

Moreover, low inflation rates observed in most countries give central banks scope to loosen monetary policy. In this case, however, the impact on growth is more difficult to foresee, because in most countries lower inflation has prevented real interest rates from falling quickly, thereby delaying a revival in demand. Similarly, there have been inflation rises, such as Brazil's during July, which, if not transitory, may work against any further reductions needed in nominal interest rates.

Table 8 shows economic growth projections made by a number of analysts for various Latin-American countries. Except for Mexico and Peru, the other countries are very unlikely to show any positive growth. The economies of Venezuela and Ecuador are expected to contract by 7.6% and 7.0%, respectively. Colombia's overall destination-weighted export growth is expected to be 0.6% for 1999, less than the actual rate in 1998. That this figure is no lower than 0.6%, despite the poor performance of the region's economies, is thanks to the heavy weighting of US growth (47% of Colombia's exports go the US).

For the year 2000 Colombia's destination-weighted export growth is forecast to be 2.0%.

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## B. FINANCIAL OUTLOOK

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At the end of September the United States Federal Reserve decided to leave interest rates on federal funds unchanged but hinted at a possible upward move for the following weeks. Earlier, on August 24 the Fed had raised the rates by 25 basis points for the second time this year, the first having been in June. The Fed has justified the recent rises by the fact the US economy continues to grow apace, and that this, together with signs of upturn and faster growth in most other economies, could give rise to undesirable inflationary pressures<sup>9</sup>.

Some substantial inflationary pressures are presently anticipated in the United States, which may lead to a reversal in monetary policy and to a higher rise in interest rates for the rest of the year. In any case, consumer price inflation for 1999 is currently expected to be around 2.2%; this is slightly higher than in 1998 (1.6%) but presents no risk to the Fed's general price stability target. A somewhat higher inflation, close to 2.5%, is forecast for 2000.

Several factors have been responsible for keeping prices under control in the United States and also in several other economies. They include notably: major technological change in recent years, which has improved work productivity; greater competition, resulting from wider trade opening in various economies; introduction of flexibility in labour market; and, lastly, very weak demand in the countries affected by exchange and financial crises, which has reduced the prices of several commodities and manufactured goods in the world market. To the extent that a number of these factors continue to exist for some time longer, the inflation scenario will be favourable in the medium term not only for the United

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<sup>9</sup> See The Pocket Chartroom, Goldman Sachs, August 1999.

States but also for the rest of the developed countries and most emergent economies.

This price-stability scenario has been partially altered to date by the substantial rise in oil prices over the past six months.

Accordingly the Fed may decide to make further increases in interest rates, at least during the rest of the year. Even so, the marked improvement in variables such as productivity would still seem to provide scope for strong economic growth, without the labour market coming under such excessive pressure as would jeopardize stability in nominal wages and production costs.

It is important to recall that the Fed reduced the rate by 75 basis point in 1998, in response to the world economic slowdown. So, the increases so far this year may be regarded as intended to bring rates back to their original level, as the world economy recovers. If the upturn in the world economy continues, then a further rise of up to 25 basis points may be expected in the coming months.

In the course of next year the Fed may see a need for raising interest rates if productivity gains begin to slacken, and if the country's trade-deficit growth causes the dollar to fall substantially against the yen and the euro. A further reason for doing so would be a rising trend in commodity prices, resulting from an upswing in emergent markets, for one of the factors that have helped so far to keep US inflation under control has been the low level of commodity prices.

In the case of Europe, given the low rates of inflation and growth so far this year, no monetary tightening is expected to translate into a major rise in interest rates, at least for the rest of the year.

Interest-rate movements in the United States and Europe do not play an important part in raising the cost of credit to Latin-American countries, rather it is the internal conditions in each country and in the region that do so. This fact is reflected by the

persistently high levels of sovereign-debt spread all this year for several countries in the region. Developments such as Ecuador's partial default on Brady-coupon payments, announced in August, tend to intensify this problem.

In Colombia's case, spreads for 10- and 30-year bonds remained above 750 basis points in August. These spreads are similar to levels recorded during much of the year and correspond to countries such as Argentina, Venezuela and Brazil that have not traditionally enjoyed investment-grade ratings. In this respect, it is clear that the market had already taken for granted Colombia's downgrading to under investment-grade rating a good while before the date on which Moody's proceeded to make it effective (Figures 49 and 50).

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### C. COMMODITY PRICES

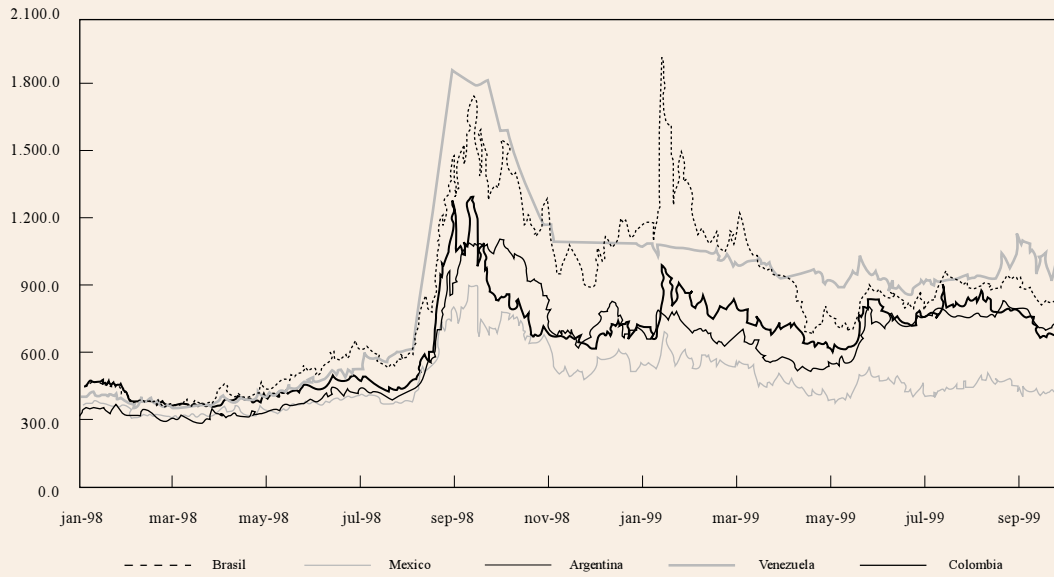
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The most notable development in world commodity prices has been the steep rise in the price of oil. At the end of the third quarter it continued on its upward trend, with the barrel of crude fetching \$4 more than in June. For Colombian oil this meant an average international selling price, in September, of \$20.9 per barrel, a level not seen since the end of 1997 (Figure 51).

At the moment it is not clear how much higher oil prices can rise. On the one hand there is upward pressure from world demand for crude, which shows signs of expanding as a result of faster growth in South-East Asia. On the other hand experts believe that production capacity remains substantially underutilized, which may encourage several OPEC countries not to adhere to their export allocations, thereby causing prices to fall. What is clear, however, is that prices can hardly go up much higher than now, and their stability will depend to a large extent on discipline among members of the exporters' cartel.

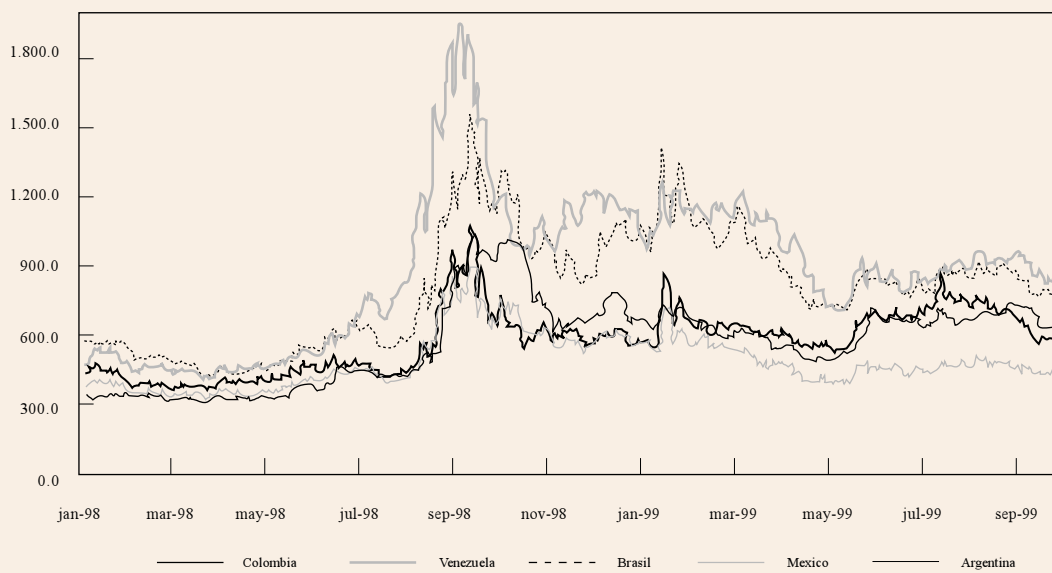
Regarding Colombian coffee, in September the external price fell to one of its lowest levels in recent times. At

FIGURE 49  
SPREADS ON 10-YEAR LATIN-AMERICAN DEBT  
(BASIS POINTS OVER 10-YEAR USA TREASURY BONDS)



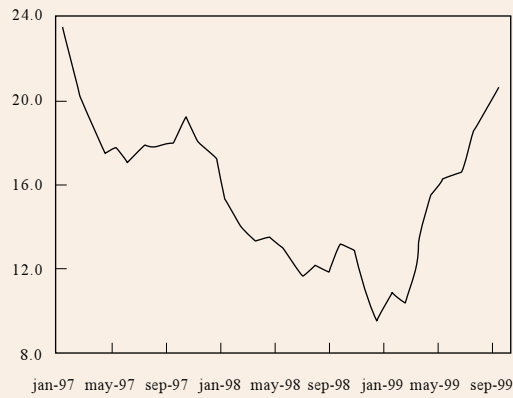
Source: Bloomberg.

FIGURE 50  
SPREADS ON 30-YEAR LATIN-AMERICAN DEBT  
(BASIS POINTS OVER 30-YEAR USA TREASURY BONDS)



Source: Bloomberg.

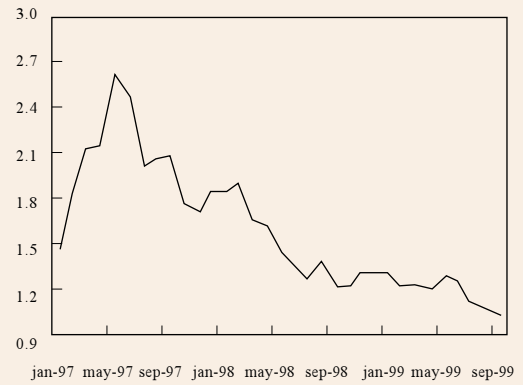
**FIGURE 51**  
**AVERAGE WORLD PRICE FOR COLOMBIAN OIL**  
 (DOLLARS PER BARREL)



Source: Ecopetrol (state oil company).

the end of the month the price in the New York market was less than a dollar a pound (Figure 52). The reasons for this fall are agents' perception that the market is amply supplied. This perception is based on Brazil's large harvest after the frost period, a good harvest in Central America, a growing supply from Vietnam, and a record harvest in Mexico.

**FIGURE 52**  
**INTERNATIONAL COFFEE PRICE**  
 (DOLLARS PER POUND)



Source: Federación Nacional de Cafeteros de Colombia.

The World Coffee Organization estimates that during the 1998-1999 coffee year the world supply of coffee has exceeded world consumption by four million bags. Since the present oversupply is likely to last, the international price of coffee is forecasted to remain at its present levels for some time.

## V

### INFLATION FORECASTS

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#### A. ARIMA AND STRUCTURAL MODELS

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Banco de la República's inflation forecasts for December 1999 are based on the assumption that GDP growth will be negative during the year. It is further assumed that the economy will begin to recover in the year 2000, displaying a moderately positive growth. The monetary base is assumed to remain at the midpoint of the corridor defined by the Bank's Board of Directors, both for the rest of 1999 and during 2000. The exchange rate is not expected to vary much between the end of the third quarter and the end of the year, and to undergo a devaluation in the year 2000 consistent with the current level of the real exchange rate.

The ARIMA model predicts an inflation of 10.1% for December 1999, 0.9 percentage points lower than the projection made the previous quarter.

The combination of forecasts of the Bank's structural models indicates that inflation will be 9.8% by the end of 1999, up from 8.3% predicted in June. This increase is due to upward revision in the assumptions about nominal devaluation and monetary aggregates for this year.

The 12-month forecast from the combination of forecasts, yields an inflation of 9.8% at September 2000, compared with 10.4% projected by the same methodology for June of that year.

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#### B. FOOD PRICE EVOLUTION SCENARIOS

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This section evaluates how inflation will be affected by alternative food-price paths between September and December of this year. The projections use as input the ARIMA forecast for inflation excluding food: with information to September 1999, this is projected to be 10.1%, one percentage point lower than that obtained with information to June.

To obtain forecast for food inflation and the CPI, the historical behavior of the ratio of food to non-food prices since 1960 for the four months from September to December was studied, and four alternative scenarios were defined.

Table 9 presents the projections for food inflation and the CPI, based on the following assumptions about the behavior of relative food prices from September to December 1999: (1) average for post-Niño years, (2) 1993, (3) year of highest growth since 1960, and (4) year of lowest growth since 1960. According to this exercise, inflation as measured by the CPI at the end of the year will run between 7.3% and 10.7% (scenarios 4 and 3, respectively). If relative food prices follow a path similar to that of 1993, inflation as measured by the CPI will be 9%. Lastly, if relative food prices follow a path similar to the average of post-Niño years, inflation will reach 9.1%.



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## C. CONCLUSIONS AND PROSPECTS

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Inflation is projected by the different models to be around 10.1% at December, slightly higher than the level observed at the end of the third quarter. This small increase in inflation will likely arise from the food-price cycle. A cyclical increase may occur in food prices during the first half of 2000. However, this upward surge in prices will tend to disappear over the second half of the year, which should bring inflation back to current levels.

TABLE 9  
FOOD-INFLATION AND CPI PROJECTIONS  
(PERCENTAGE)

Scenario	Non-food	Food	Total
(1) Average	10.1	6.8	9.1
(2) 1993	10.1	6.2	9.0
(3) Highest	10.1	12.0	10.7
(4) Lowest	10.1	(5.0)	7.3

Source: Banco de la República.

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