

## INTRODUCTION

The following report, presented to the Colombian Congress, offers a detailed look at recent economic performance and macroeconomic policy implemented during the year 2001 to date. Annual inflation, measured by the consumer price index (CPI), declined gradually in the first six months of the year due to the monetary policy applied up until then and the existence of unused installed capacity in various sectors of the economy. With respect to the balance of payments, the current account showed a deficit in the first quarter of 2001, following equilibrium in the year 2000. This was due to considerable growth in imports, the downturn in oil export volumes, and lower prices for coffee on the international market. Unemployment continued to be the most serious problem in the Colombian economy, in spite of having declined slightly during the year to date. On the other hand, following the drop in product registered in 1999, the economy recovered during the year 2000 and registered moderate growth rates. Economic activity continued to increase throughout the first quarter of 2001, although not as dynamically. This was due, in part, to factors associated with supply, such as the strike in the beverage industry and the slump in oil production, and, in part, to factors related to domestic demand sparked by uncertainty over the future of the economy and the persistence of high unemployment. The slowdown in the Colombian economy is not entirely different from the situation in a number of Latin American countries. This suggests the presence of shocks common to the region's economies, as discussed in detail in Chapter III of this report.

The similarity between performance of the Colombian economy throughout the nineties and that of the Latin America countries as a whole is illustrated in Chapter III. Capital flows to the Latin American countries are particularly important to explaining the so-called "Latin American economic cycle." Their presence limits the extent to which national authorities are able to implement counter-cyclical policies, particularly if there have been serious imbalances in the economy for some time.

As is customary, the report offers a detailed description of the macroeconomic policy applied during the first half of 2001 with respect to monetary, exchange, financial and fiscal matters. A coherent macroeconomic policy has helped the economy to recover and contributed to lower inflation. Decisions on monetary policy were intended to aid economic growth and to make sure the inflation target would be met. There has also been important progress towards lowering the fiscal deficit. This, in turn, has boosted the confidence of domestic and international investors alike. The major indicators in the financial system point to a substantial improvement in the sector.

The fifth section of the report outlines macroeconomic prospects for 2001, specifically in terms of inflation, the balance of payments, economic growth and the fiscal deficit. The gradual decline in inflation continues to be the result of a carefully implemented monetary policy. Accordingly, the Board is confident the target of 8% inflation for 2001 will be met. As to the balance of payments, the current account deficit is expected to be 3.0% of GDP in the year 2001, thanks to a decline of 6.5% in goods exports and a 12.1% increase in goods imports. The weak growth in product observed in the first quarter of 2001 prompted the government to revise its projections for the year as a whole. The new projections point to 2.4% economic growth. The consolidated public sector deficit will be around 2.8% of GDP by the end of the year, with a variation close to 0.6% of GDP in relation to the size of the deficit during the year 2000.

The report ends with a description of international reserves and the financial position of the Banco de la República.