Board Meeting of November 6, 1997
Statement by Carlos Marulanda

COLOMBIA - Country Assistance Strategy

Let me start by commending the several teams of the Bank that have worked in Colombia during the past few years and thank them for their sincere advice, dedication, and professionalism. The Colombian government very much appreciates the World Bank’s lending and non-lending services. This is noticeable in the strategy designed and presented in this CAS, which is fully supported by the government. The government also appreciates the participatory approach utilized in producing this CAS.

Economic Context

Over the years, Colombia has established a good reputation for its prudent and gradual approach to macroeconomic management, as reflected by its investment grade and impeccable record in the international capital markets.

Throughout the 1990s, Colombia’s adjustment effort has included trade liberalization, foreign direct investment and partial capital market liberalization, Central Bank autonomy, domestic financial reform, fiscal decentralization, modernization of the public sector, an opening of the infrastructure sector to private investment, a reform of the social security system, and modifications to reduce rigidities in the labor regime. Nevertheless, the country still faces significant economic challenges.

Among these challenges, inflation, in a descendent trend for six years now, is still relatively high at 17.8% - with an estimated high inertial component. Since 1995, unemployment started an upward trend and peaked at 13.3% in June, 1997. GDP growth was 5.8% in 1994, 5.4% in 1995 and dropped to 2.1% in 1996. Although several factors contributed to these results, a major reason was the contractionary policy implemented by the Central Bank to confront a clear overheating of the economy at the end of the 1992-94 boom, during which, aggregate domestic demand increased at unsustainable levels: an average of 11% per year, compared to a GDP growth rate of 5%.

As of the second quarter of this year, economic conditions have significantly improved. Colombia is now expecting rates of growth of over 3% for 1997 and close to 5% for 1998. Since the second quarter of this year, annualized rates of growth have stabilized at around 5%, employment growth has exceeded 4% and unemployment has fallen to
12.2%. The trade and current account deficits are simultaneously decreasing, and the country has been able to correct the undesired real appreciation of the exchange rate faced during the second semester of 1996. Inflation has declined by 3.8 percentage points this year and non-food inflation by more than 5 percentage points, reflecting a significant weakening of the inertial factors which lie behind Colombia’s price dynamics. These good macro-economic results are consistent with unprecedented levels of foreign direct investment, which would exceed US$5 billion this year, i.e., more than 5% of Colombia’s GDP.

Economic recovery and the austerity measures adopted for 1997 have been reflected in stronger fiscal accounts than originally projected. This process will continue in 1998, as indicated in the austere budget approved by Congress. Central government expenditure, net of interest payments, will fall by more than 1 percentage point of GDP between 1996 and 1998. Tax revenues have simultaneously increased by 15% in real terms over the past five months. This will allow a reduction of the operational deficit of the consolidated public sector to 2% of GDP this year, and to less than 1% in 1998. This shows the country’s strong commitment to a sustainable recovery and to traditional orthodox standing in fiscal policy.

It is in the context of the recent strong macroeconomic performance that the Colombian Government considers that the basic macro scenario presented in the CAS is somewhat pessimistic. The Government believes that existing excess capacity in the economy, as well as high levels of investment in physical and human capital in the past few years, would result in higher growth rates--of about 1 percentage point per annum--over the basic CAS scenario. On the other hand, it believes that, under the gradual monetary policy followed by the independent Central Bank, inflation will fall to single digit levels by the early years of the next decade.

Social Context

A solid growth of about 4.5% per year for the last four decades, combined with a drop in the population growth rate to a level of 1.8% per year have facilitated improvements in social conditions for Colombia’s 38 million inhabitants.

Nevertheless, the country is far from providing overall quality basic education and health. Employment has not grown at a rate that ensures work opportunities to all that require them. Closing the gap between the rich and the poor and between urban and rural areas in order to significantly reduce poverty has been an elusive goal. Social tensions and violence in Colombia are, at least in part, a product of the country’s inability to bridge these gaps.

The clear message received by Bank staff from all sources it consulted - government, private sector, civil society and NGOs - while preparing the present CAS, is that there is an understanding by the Colombian society that the acceleration of economic growth and the simultaneous strengthening of democratic institutions requires more social development; major improvements in health, education and social security sectors; better distribution of income and less poverty; an agrarian reform and attention to rural areas; and, a better functioning of the judicial system.
Furthermore, it also seems clear that Colombian society seriously wishes to learn from the best practices of other countries to try to achieve a better national strategy to tackle its problems.

The World Bank’s Strategy

After having participated in almost all the recent adjustments and reforms carried out in Colombia, the Bank is now ready to shift its course to attend the new challenges Colombia is facing. This means working strongly in social areas, building and developing social and human capital, helping to reduce poverty, and to reduce the gap between rural and urban areas, strengthening of the judicial system, and upgrading of infrastructure services. It also means not abandoning the traditional measures and actions needed to ensure sustainable growth, where the Bank will be reinforced by IFC and MIGA’s own strategic programs according to a better coordinated effort.

This new approach will require that the Bank move into new, sometimes uncharted, waters. This may lead to smaller loans and more staff intensive projects. More projects will face situations in which there is a need for pilot projects and support to the decentralization process. A wide use of the Adjustable Lending Program is expected, since it suits this new approach very well. The two projects on education before the Board today, are a sample of the projects that have to be developed. In this critical sector, the country is facing a deep crisis of quality and quantity, in both urban and rural areas, and is reaching out to the Bank for advice on best practices and financial support.

Other Considerations

Let me conclude with some considerations on the illegal drug trade in Colombia. First of all, I wish to state that only a very small minority of the 38 million Colombians are involved in this activity. Second, clearly, the Colombian society disapproves of this trade and knows that the country has not benefited in any way by the activities derived from it. Third, that in its fight against this transnational, immoral and powerful enemy, Colombia has been continuously drained of its human resources - presidential candidates, ministers, judges, policemen, soldiers, priests, and civilians in rural and urban areas have been murdered. Fourth, that Colombia has put in place one of the most advanced legislation in the world to stop money laundering, to forfeit illegally acquired assets and to combat corruption. Fifth, that Colombia’s war against drugs, must be aimed at eradicating this curse from its territory, but Colombia alone cannot be held accountable to eliminate the drug problem around the world. This can only be done by real cooperation between nations, which consider themselves equal partners in this endeavor. Sixth, and final point, that in spite of the difficulties and the threats posed to our democracy, the extraordinary turnout in the recent regional and municipal elections showed the strong support to democracy and to the building of a more peaceful, participatory society.