

PRESENTATION, SUMMARY AND CONCLUSIONS

✦ Consumer inflation, measured as annual change in the Consumer Price Index (CPI), stood at 8.7% in December 2000, down by 0.1 percentage points on November and by 0.5 points on a year earlier. This made it 20 months in a row with inflation not exceeding 10.0%, and two years running with single-digit inflation (for the first time in thirty years). Inflation continued to fall in the fourth quarter, a trend practically unbroken since midyear, and by December it was 0.5 percentage points lower than in September.

✦ The half-percentage-point drop in inflation between December 1999 and December 2000 resulted from decreasing price rises in health-care (15.1% to 10.3%), housing (5.8% to 4.9%), transport (18.7% to 16.2%), education (10.2% to 9.9%), and food (7.5% to 7.4%). The only CPI group displaying faster price growth was clothing (3.1% to 3.6%). Upward pressure on prices came chiefly from rising world fuel prices, the dismantling of public-services subsidies, and devaluation.

✦ The CPI items most responsible for inflation in 2000 were fuel (with a 30.3% annual price rise), residential telephone charges (27.5%), banking services (22.3%), and bus fares (17.2%). These services, together, accounted for 22.4% of inflation in 2000, while another 5.9% came from a 17.2% rise in vehicle prices.

✦ The breakdown of consumer inflation by the alternate classification shows tradables registering a lower annual price rise in December 2000 (10.2%) than in September (10.7%) and a year earlier (12.2%). For nontradables the annual price rise was also lower in December (7.8%) than in September (8.3%) but slightly higher than a year earlier (7.5%). The tradables' price rise was higher than headline inflation all through 2000, partly because of devaluation, as evidenced by the large pick-up in the prices of import-intensive goods such as drugs (14.6%).

✦ To judge by the behavior of the core-inflation indicators, no great inflationary pressures came from demand during 2000. Core inflation, measured as the average of four indicators, stood at 8.0% in December, 1.1 percentage points lower than in December 1999 (9.1%) and 0.4 points lower than in September 2000. A similar trend was shown by inflation measured as the average of three of the indicators, leaving out the most volatile one (the asymmetric mean). None of the indicators overshot the inflation target, and only the CPI excluding food (9.3%) exceeded actual inflation.

✚ Producer inflation, measured as annual change in the Producer Price Index (PPI), was 11.0% in December, down by 1.9 percentage points on three months earlier and by 1.7 points on December 1999. The breakdown by origin shows imports as the main cause of lower PPI inflation in 2000, import price growth having decreased by 3.6 percentage points between December 1999 (16.1%) and December 2000 (12.5%). In the breakdown by industrial activity, the fall in producer inflation resulted from slower growth in agricultural prices: 11.7% a year in December 1999 to 6.0% twelve months later.

✚ Core inflation as the average of four indicators is currently projected to be 7.0% by December 2001. Leaving out the asymmetric mean, which was volatile all through 2000, the projected average would be 7.9% by the end of 2001.

✚ Various indicators of economic activity point to a fourth-quarter growth not much different from the annual rate registered for 2000 up to then. Thus, Colombia's economic expansion over 2000 should be close to the 3.0% rate forecast by the government. No big changes are expected in growth trends in early 2001, given the still satisfactory behavior of such variables as industrial orders and stocks, short- and medium-term business expectations about the economy, and present interest rates. Economic expansion in 2000 brought a recovery in capacity utilization, raising it in the fourth quarter to levels slightly above historical averages, for the first time since early 1998. But the country's high rate of unemployment and the low level of production in some industries should work against any strong inflationary pressures in the first months of 2001. It is important to point out that low investment levels have characterized the Colombian economy since 1996, resulting in limited expansion of production capacity for the future.

✚ At the end of the fourth quarter the monetary base's 20-month average stood 0.5% above the reference line's moving average, whereas the base's 45-month average stood on this line. The financial system's loan portfolio shrank somewhat faster in the fourth quarter than in the third, in both real and nominal terms. As in the previous quarters, however, private non-mortgage financial institutions saw the nominal net value of their loan portfolio expanding by 5.9% in December, compared with 3.3% in September. Likewise, on the latest information available in November, the entire financial system's gross loan portfolio, excluding the loans removed from balance sheets by intermediaries in the previous 18 months, grew at an annual rate of 2.5%.

✚ The nominal deposit rate averaged 13.3% in December, down by 0.3 percentage points on September, while the nominal lending rate averaged 29.4%, some 0.5 points higher than in September. In real terms the deposit rate was 4.2% and the lending rate 19.0% in December, having risen by 0.7 and 0.5 percentage points respectively since September. In December the interbank rate averaged 12.2% in nominal terms, and 3.2% in real terms.

✕ The Board of Directors of the Banco de la República kept the fundamental aspects of monetary policy unchanged in the final quarter of 2000, which ensured attainment of the 10% inflation target, in an environment of economic recovery. In December the Board decided to narrow the range of the intervention band, from January 2001, so as to reduce volatility in the interest rate. Thus, the Lombard expansion rate was lowered from 17% to 16% and the contraction rate raised from 7% to 8.5%, while the auction rates of contraction and expansion were left unchanged at 11% and 12% respectively.

✕ Attainment of the 2000 inflation target places the Colombian economy solidly among the group of countries with single-digit inflation. The lowering of inflation in 2000 was particularly noteworthy in that it was achieved in a context of economic upturn. Last year's results have created a suitable environment for obtaining a rate of inflation no higher than 8.0% in 2001 and consolidating the economy's recovery. As the analysis and forecasts presented in this Report suggest that meeting an 8.0% inflation target is feasible in the present circumstances, the Board of Directors does not consider it necessary to make any further changes to the intervention interest rates currently governing monetary policy.

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