

PRESENTATION, SUMMARY AND CONCLUSIONS

⊠ Annual consumer inflation stood at 9.7% in March, down by 3.8 percentage points on a year earlier. This was the eleventh month in a row with one-digit inflation. The fall came from slower price rises in all groups of the Consumer Price Index, except transport. Housing showed the biggest drop in price growth (from 14.0% in March 1999 to 5.9% this year), followed by health care (from 18.6% to 12.9%), and clothing (from 7.1% to 2.5%). Nevertheless, annual inflation rose in March for the second month in a row, standing 0.5 percentage points higher than in December 1999 (9.2%).

⊠ In the twelve months to March, price growth was higher than average in sundry expenditures (19.5%), transport (19.2%), and health care (12.9%), largely owing to the surge in the cost of, respectively, financial services (30.1%), fuel (39.9%), and drugs (18.9%). Prices rose by less than average inflation in clothing (2.5%), housing (5.9%), education (8.3%), and food (8.5%).

⊠ Accumulated consumer inflation over the first quarter was 5.4%, up by 0.5 percentage points on the same period in 1999, mostly because of price rises in a few highly weighted goods and services in the CPI basket: potatoes (101.6%), banking services (20.5%), vehicles (7.4%), primary and secondary education fees (6.9%) and gas (21.1%).

⊠ Annual producer inflation in March was 13.7%, one percentage point higher than at the end of 1999, having picked up in February and March. The main cause of this pick-up was a sharp price acceleration in farm produce, from an annual growth of 11.7% in December 1999 to 18.4% in March. Accumulated producer inflation in the first quarter ran to 4.7%, as against 3.8% over the same period in 1999.

⊠ Analysis of the CPI by an alternate classification shows both tradables and nontradables to have contributed to the fall in annual consumer inflation. Within nontradables, however, flexible items (fruit, vegetables and root crops) have pushed prices up, accounting for an inflation increase of two percentage points over the past 12 months. As mentioned in previous reports, the behavior of flexibles is associated with the normal seasonal pattern of food prices.

⊠ The core-inflation indicators calculated by the Banco de la República averaged 8.4% in March, 0.7 percentage points lower than in December 1999. On data to March they are

projected to average 7.9% by December 2000, up by 0.3 percentage points on the average projected on February data.

✠ At the end of March the monetary base's 20-month moving average stood at the corridor ceiling. Growth in the financial system's nominal and real loan portfolio slowed further in March. However, private financial institutions as a whole, excluding the savings and loan corporations (CAVs) and mortgage banks, have seen their nominal portfolio become stabilized, with a positive annual growth of about 6%. The nominal deposit rate edged up from 10.2% to 10.9%, while the lending rate remained steady at 23.6% in the last month of the quarter. The real lending rate fell from 13.5% in February to 12.6% in March, and the real deposit rate from 1.2% to 1.1%.

✠ The latest figures from the National Statistics Agency (DANE) on industrial production lead to the conclusion that economic recovery was under way by the end of 1999. First-quarter data available so far on real activity confirm that the upturn has continued this year, with particular dynamism in certain branches of industrial production, propelled by mounting exports. It is feasible to expect industrial growth in February and March to have been at least as satisfactory as in January. There are also signs of a similar pick-up in commerce over the first quarter. Recovery has not been widespread, though, with depression or a very poor performance persisting in some sectors such as construction and the financial sector. January figures suggest that use of installed capacity remains low, even compared with levels in other downturns. Consequently, no great demand pressure is expected in the short run, except perhaps for certain specific goods and sectors associated with exports.

✠ The rise in inflation over the first quarter stemmed largely from supply problems. This development had been anticipated in previous Reports and may continue throughout the first half of the year. It is clear now, however, that supply shocks have been stronger than originally expected, which accounts in part for higher inflation forecasts for the end of 2000 and 2001. Nevertheless, rising potato prices, alone responsible for 20% of inflation in the first quarter, should encourage greater production, with a consequent falling back in prices during the second half of the year. Moreover, increases in school fees and banking and gas charges tend to be specific to the beginning of the year and therefore not expected to put pressure on the price index in the coming months.

✠ In view of the above, and bearing in mind particularly that the monetary base's moving average is running within the corridor, that the average core-inflation indicator was below the target at the end of March, and that inflation is still projected to undershoot the target in December, the Board has decided not to alter the level and structure of the Banco de la República's interest rates and reaffirms its commitment to a 10% inflation target for 2000.

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