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Colombia Experiences Worst Recession in Decades

by LADB Staff

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The elusive search for peace is only one problem facing Colombian President Andres Pastrana. Colombia is also suffering the worst recession in decades, and the economic woes are bringing increasing protests against government policies. Pastrana proposed to Congress on July 20 a fiscal-adjustment plan that includes cuts in government spending, the reduction of tax benefits, and the flexibilization of labor laws.

In the ceremony marking the installation of the last Congress of the century, Pastrana said the fiscal belt-tightening, without precedent in Colombia, is necessary to restore a healthy economy and reactivate employment and production.

The president said administration efforts would focus on creating jobs, reconstructing the social fabric to regain public confidence in national institutions, and investing in the social sector. Pastrana blames the economic woes on his predecessor, Ernesto Samper (1994-1998), who spent freely to bolster political support amid corruption scandals.

Budget cuts and a tight monetary policy are necessary to repair the damage, says Pastrana, who also blames the economic crises that began in Asia two years ago and spread to Latin America last year.

Recession takes Colombians by surprise

Unlike many of its neighbors, Colombia has enjoyed fairly steady economic growth, partly because of coffee and oil exports and partly because of the cushion provided by illegal earnings from drug trafficking. But the traditional steady growth ended last year with a drop in international commodity prices and soaring interest rates imposed to defend the peso currency. On June 28, Colombia devalued its currency by 11%.

The decision had been expected, since the currency had come under heavy selling pressure. The government had spent US\$275 million of its US\$8.5 billion in foreign reserves the previous week to defend the peso's value.

On July 15, the Departamento Nacional de Estadísticas (DANE) said the economy shrank 5.85% in the first quarter of 1999, its worst performance since records began. It was the fourth consecutive quarter showing a decline, and the country plunged into its deepest recession in more than half a century. "This is the worse [economic] crisis Colombia has had in the last 60 years," said Jaime Ruiz, director of the government's National Planning Department.

Ruiz pointed to one of the few bright sides of the economy noting that, in preliminary estimates, the agriculture sector grew by 5.2% in the first quarter. But the construction industry posted negative growth of 15.9%, industrial production was down 20.3%, and the manufacturing sector contracted

by 16.8%. Ruiz said the growth rate for 1999 would be between 0.5% and 1.0% and the government expects economic growth of 2.6% in 2000. He said economists are optimistic that a recovery will begin in the second half of 1999.

Stephen Edkins, a Bogota-based economist at Santander Investment, said that, while he expects the first-quarter growth figure to be the weakest of 1999, "data so far doesn't point to any significant recovery." Violence also hurts economy The perceived strength of both the left-wing guerrillas and right-wing paramilitary groups has also weakened the economy and made foreign investors nervous.

Government figures show non-oil foreign direct investment rose 40% in 1998 to US\$4.18 billion. But an April poll of foreign companies named political and guerrilla-sponsored instability as the two main factors discouraging more investment.

Finance Minister Restrepo said that "without the scourge of the guerrillas, the paramilitaries, and drug-traffickers," Colombia would have grown 2.2% in 1998, instead of 0.2%. Public Defender Jose Castro said that, in addition to the internal conflict, the excessive concentration of wealth in the hands of a few also influences the level of violence. "One of every five Colombians capable of work is unemployed, and more than half the nation's 40 million inhabitants live below the poverty line," said Castro.

Common crime has also adversely affected the economy. A report by the Board of Judicial Police (DIJIN) revealed that 29,342 murders were committed last year, a rate of 72 per 100,000 inhabitants. This was more than four times that of both Brazil and Venezuela the next two countries on the list. Santiago Montenegro, Dean of Economics at the private University of the Andes, said the high crime rates had hurt foreign investment and increased production costs.

Effects of the recession are felt throughout the country. Unemployment hit 19.5% in March, and the country has since seen a string of strikes by oil workers, teachers, truck drivers, and hospital workers. On June 17, Pastrana faced his third strike by state employees since he took office last August, this time the strike was to protest his plan to restructure the public sector. The strike came less than a month after a three-week national strike by 300,000 teachers and 180,000 health workers.

The government's appeal for international help could bring more protests. Pastrana has already adopted several austerity measures required by the International Monetary Fund (IMF), including recapitalizing state banks and cutting spending to reduce the 1999 fiscal deficit to 2.5% of GDP. Reducing the fiscal deficit, which has surpassed 5% of GDP, is a condition for IMF approval of a US \$3 billion loan requested by Colombia last week.

Drug-crop earnings now counted

The government has begun to include income earned from crops grown for illegal drugs in its calculations of the size of the nation's economy. The change is necessary, officials say, to take into account the reality of the drug trade, which could equal between one-quarter and one-third of Colombia's legal exports, as much as US\$4 billion a year. "We are realists," said Rene Verswyvel Villamizar, director of the National Statistical Administrative Department. "We have to recognize

that narcotics and guerrillas exist. We have to measure things as they are, not as we would like them to be."

But some in Washington said the decision was a capitulation to drug dealers. Clinton administration drug czar Barry McCaffrey called the move "a political error." Colombian government officials say they are merely complying with IMF and World Bank guidelines for potential borrowers, and they say other countries, such as Bolivia, use the same system. Instructions prepared by the IMF, World Bank, and other international lenders say that "transactions involving the sale or purchase of illegal goods and services must be recorded." As yet, the new system does not include money earned from processing or trafficking in cocaine, marijuana and heroin. Verswyvel said cultivation "is as far as we can go with certainty." [Sources: Inter Press Service, 05/13/99, 06/13/99; Notimex, 06/16/99; El Nuevo Herald (Miami), 05/07/99, 06/14/99; CNN, 06/27/99; The New York Times, 06/27/99, 06/29/99; Associated Press, 06/23/99, 07/11/99; Reuters, 05/21/99, 06/12/99, 07/15/99; Notimex, 06/28/99, 06/30/99, 07/07/99, 07/16/99, 07/20/99]

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