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Coordinator Good morning and welcome to the IDEAglobal conference call. I would now like to introduce your host, Mr. Douglas Smith, head of Latin American Research at IDEAglobal.com. Mr. Smith, you may begin.

D. Smith Good morning. This is Doug Smith. I'm part of the IDEAglobal's Latam Group. This morning we're pleased to have Dr. Nuncio Cardenes on the line with us. Dr. Cardenes is the director of the Planning Ministry in Colombia and this morning he will discuss the consequences of the Constitutional Court ruling on the National Development Plan and the government's response. He will also discuss the Q1 GDP figures.

Dr. Cardenes, please go ahead.

Dr. Cardenes Thank you very much, Doug. Thank you for all the people that are on the line listening to us.

I'm going to be brief. Basically what you mentioned is what we have to say. First, the recent decision by the Constitutional Court to overturn the Development Plan and the reaction of the government and second, the first quarter GDP figures.

In regard to the recent decision of the Constitutional Court, I think it's important to say that any citizen in Colombia, according to the constitution, can ask the Constitutional Court to overturn a rule, a law that has been enacted by Congress if he or she thinks that it contradicts in any way the constitution. What happens in the case of the Development Plan is that it was presented to Congress. Congress had three months to decide about the law and the citizens that presented those lawsuits against the law considered that the Congress had gone beyond those three months that they have by law. Therefore, they presented a lawsuit because of problems with the procedure, more with the formality of the process rather than with the content of the law. The decision of the Constitutional Court was to accept those lawsuits and overturn the law.

Now, the constitution itself establishes the mechanisms for the government to have a Development Plan. And in this case the government

can proceed an issue, a presidential decree, with the force of the law, with the Development Plan that was initially presented to Congress. So we have that power. We can issue the decree. We are preparing the decree as soon as we are formally notified by the Constitutional Court, the President will sign the decree. And again, it will be a decree with the force of the law with the original Development Plan, what we originally presented to Congress. That is what the constitution allows us to do when there are problems with the procedure.

So there will be no ... The Development Plan will be the one that the government initially intended to have approved by Congress. One important aspect is that the decree that we'll issue to the government will include the financial transactions tax which was part of the Development Plan and which had been collected this year for the purposes of the reconstruction of the earthquake area. Therefore, those revenues, the receipts of the financial transactions tax, are not at risk and they will again be issued into the decree that will come out of the presidency early next week. That's in regard to the Constitutional Court decision.

Now in regard to the Q1 GDP figures, I think it is important to say that the final figures will be provided by the National Department of Statistics.

However, the National Department of Planning generally forecasts based on data from manufacturing, from trade, from the construction service. It forecasts the GDP figures as well. And the latest figure that we have corresponds to the first quarter of this year is that GDP grew by 2.6%, which is positive. In fact, it is the first time that we're seeing positive growth during the last 18 months. And this is growth of the first quarter of this year compared to the first quarter of last year.

When we compare the first quarter of this year with the last quarter of '99, we have a growth rate of 1.4. Growth is being led by the manufacturing sector. All the data that we have from manufacturing – the survey that is conducted by independent institutions, such as Survey's ... and Andes, the business association. And the survey's also conducted by the National Department of Statistics indicate that there is very significant growth in manufacturing. Of the 28 sub sectors of manufacturing, 19 are having positive growth rates.

The estimate that we have is that the GDP in manufacturing has grown by 9.1% during the first three months of this year and there are sectors with very, very dynamic growth, like iron and steel industries, glass, clothing,

chemicals, textiles, paper. All of them growing more than 20% relative to last year.

So in sum, I would say that the recovery, again, is being headed by manufacturing. Trade, retail, restaurants and hotels are growing at 5.4%.; transportation, communications by 1.5%; electricity, gas and water by 1.3%; and community, social and personal services, 2.2%. The financial sector is growing at 1.3%; agriculture, livestock, forestry, fishing and hunting are growing very slowly, .3%, mainly due to the fact that coffee production during the first three months failed by 7% relative to last year. But it is expected that coffee will, the new crop which starts in May, will be much better than last year's. Last year's was unexpectedly and unprecedently low for Colombia.

So these are the figures. I would add that within manufacturing and from the demand side what one sees is that clearly exports are, the forest studies explaining these dynamics. Exports are growing, especially indicates of the regional markets and particularly Venezuela and Bolivia and also in relation to the US market. So I think what we're seeing is our recovery where external demand has responded as a result of the real depreciation of '99 and lower interest rates and more credit to exporters. That in turn

has been reflected in manufacturing output and in turn manufacturing has also made other sectors, especially services, including transportation and telecommunications, to grow. I think this is what's happening.

We're confident about the GDP forecasts for this year. Our projection of 3%, I think that's achievable. Inflation figures are also positive. I think we're going to meet the target of 10% inflation this year. And in regards to the other projections of our program, which include the current account deficit of the balance of payments and ...cumulation, I think we're also going to meet those forecasts.

So I think this is the recent event, the recent news in Colombia. I'd be glad to answer any questions you might have.

Coordinator Thank you. Our first question comes from Gary Lundgren.

G. Lundgren I'm the Chairman of Inter Pacific Investor Service and I'm calling you from St. Croix today. I've spent the greater part of the last year in Colombia. In fact, I maintain a house and an office in Metagine, Colombia, and I sense, from the time that I've spent there, that there's a continuing deterioration of the economy and an exodus of wealth being

parked off shore and other currencies and people exiting the country because of the government's passive surrender to a small faction of the population called the Guerrilla. In the United States, we have more armed militia than Colombia has Guerrilla. I think by the estimates of knowledgeable people in Colombia have given me, they've told me that something like 100,000 guerrilla or people involved in drug manufacture exist there and they seem to be exerting a strong influence on the other 42 million very nice people that live there. And it doesn't seem to be getting better. In fact, it seems to be getting worse. Just wondering what comments you might have as to what the government plans to do with the Guerrilla faction.

And one other observation I'd make is that Colombia is a good example for the US to look at of why gun control doesn't work. Colombia has gun control and it's illegal to own a firearm in that country without a permit and purchasing the firearms from a government agency. And I was wondering, too, if the government might relax some of the controls that make it very difficult for a foreign investor to do business in Colombia? We do business in other countries down there and we don't see controls where it's very difficult in Colombia to get a simple cellular telephone or to open a bank account. I have a business VISA, I have a Sedalia, and all

of these things are extremely difficult for me to do. So just wondering what answers you might have for some of these issues.

Dr. Cardenes

Well the question and the comments are very broad in spirit and I think it will take a lot of time. We can discuss and discuss about these things for days. But you start with a statement that I don't agree, the fact that the economy has deteriorated in the past and that these have been recited in the ...capital, including human capital from Colombia. And especially to the US.

It is true that during the past years we've had very difficult economic conditions and that has been reflected in a... But things have changed. I think '99 was characterized by a sharp recession, for different factors. I think one of the most prominent was the conditions of the financial sector. But the policies and the therapies that we applied throughout '99 are starting to produce results. I think the fact that we now have positive growth is a reflection of the fact that we have managed to stabilize the economy, to solve the financial crisis and to bring down the interest rates from where they were at the beginning of last year and also to devalue the currency in an orderly fashion that allowed us to increase by about 30 percentage points the value of the real exchange rate index without having

an overshooting, what's happening in other countries, especially Brazil.

So I think we managed to get the economy back on the track of growth and prosperity and that's what we're seeing. I think we're seeing nearly 3% of growth, which is what we expect for this year. I don't think it's necessarily a figure that will make everyone happy, but it's a figure that reflects our commitment to resolving the economic problems and that we think it's conservative, it's a figure that can be achievable and next year it will grow again by four. And then in the year 2000 it will grow in such a way that will allow us to be back on the five percent growth rate.

Now with regard to the other questions that are related to the political conditions in the country, I would say the following. The administration, and particularly President Pastata has been very clear about the fact that the process of negotiations with the guerrilla's is the way of finding a solution to the arms conflict in Colombia. I think this is what Colombia has voted for, this is why the population elected President Pastata because of his platform of open negotiations, and I think we're carrying them on. We are negotiating now with the FARC, the largest group. We have an agenda, we have the mechanisms for the negotiations, and we just also decided to open a ...north of the country for the encounters with the

ELN's so that we start, we will start the negotiations there, with the second largest faction very soon.

So I think this is positive. In fact, we are negotiating the fact that we have an agenda, the fact that we have a mechanism for settling these issues and this is a difficult process. And it necessarily is a slow one. But I think we're in the right direction and I think the country has this sense.

Now, while we do that, we also need to strengthen our state, including the military. And for that we're spending quite a lot on that and we're also very aware of the need to reinforce the military with the equipment, with the soldiers that they need for that purpose. So I think we're in the right direction and I think in this front, as in the economic front, we will show results.

Coordinator Our next question comes from Enrique Tisari with Bridge News.

E. Tisari Three questions. One, how do you see Colombia's Q2 growth versus last year and Q1? And also you said in your statement that you probably saw GDP growth in 2000 being higher than the projected 3%. And the last question is, do you think that Colombia's coffee production problems are

over? That we will see normal production in Colombia starting from April? Or May, June will be very good? Or let's say all months will be quite normal from now on?

Dr. Cardenes

In regard to the Q2 GDP figures, what do we know? We have the April surveys from Andes and in terms of manufacturing activity, what we're seeing is they are continuing to grow, very much in the same fashion as in March. I think that's positive. That will probably make this second quarter also in the same direction as what we saw in the first quarter.

There was a preoccupation with the figures of April from the Andes survey in regard to the expectations, the expectations for the next six months. And I think this probably has a relation to the difficulty that the government has had in Congress. But as you know, and I think it's important to touch that issue, the recent decisions of the government, especially the decision to withdraw from Congress the referendum proposal, the new language of the Minister of the Interior and the requests from the President to all the political parties to reach a national agreement has changed those perceptions. In the sense that people now understand well that an agreement can be made around the economy reform platform and particularly the agenda we have put forward in Congress, the reforms

that we have there. So changing the expectations in the April survey did not have an effect on output figures and I think that with this new event in May, the expectations will be returning to what they were at the beginning of the year.

I think it is also important to mention at this point that in response to that the government decided to cut last week in the cabinet the budget for this year by 1.1 billion peso's, which is about \$550 million US to make sure that we are ...the targets in terms of the fiscal deficit that we have for this year. So that also has brought a lot of tranquility and stability to the markets, particularly the bond market. We've seen spreads on the Colombian sovereign debt come down about 100 basis points since we decided to cut the budget.

So I think the turmoil is over and I'm fairly confident that we'll meet our projected GDP for the year, which is 3%. And I wouldn't say that we won't do better than that, I think we'd rather be conservative in that regard and we don't want to create false expectations. But things seem sound enough for the 3% to be achievable.

You asked me also about coffee. The figures that the National Federation of Coffee Growers are managing are indicating that the crop this year for this calendar year will be back in the 11 million bags range, up from slightly over 9 million bags last year. This is a result of ...that was bad at the beginning of last year because of the heavy rains. It seems that the technicians of the Federation of Coffee Growers indicated the ...for this year is much better, so that the Colombian production will be back starting May in the 11 million bags range on a yearly basis.

Coordinator

Our next question comes from Lisa Gallagher.

L. Gallagher

I have two questions. First, on the Constitutional Court and the decree that's going to substitute for the previous law, are there any differences? I mean, is that decree then going to be permanent and have exactly the same force as the law? Or does it have just congress or the Constitutional Court have the opportunity to review that again after a specific period of time?

My second question is with respect to the proposals made by the liberals two days ago for a national accord and so forth, in particular I think they asked for an economic policy more focused on employment and the execution of social investment. And I think it was announced that the

government may come back with a response by tomorrow. What's your view of those proposals from the liberals and if you could give us any idea of what the government response might be and how you think their economic policy request might influence economic policy?

Dr. Cardenes

First on the constitution and the decree, yes, the decree has exactly the same force of the law. This is what the Constitution mandates. And as the law, the decree can be part of a lawsuit. Any citizen in Colombia, that in any way believes that the decree that we are going to issue does not follow the Constitution is allowed to present a lawsuit. So that possibility is there for any law that is enacted by Congress. So that's the role of the Constitutional Court.

Now we strongly believe that the decree will be very sound in the sense that I don't think it's likely that it can be overruled by any decision of the Constitutional Court. So we feel very confident about the power and the long-lasting effects of the decree.

Now, in regards to the courts, the National Courts, a series of meetings are taking place where these issues are being presented by the labor party in a broad manner, in a very general way. We haven't talked about specifics,

we haven't gone through the details, and I expect that to happen in the next few days. Probably beginning next week. So we will start talking about the projects that had been presented, a lot of projects that had been presented to Congress that from our point of view, from the point of view of the government and particularly the economic team, we believe that it's important that those projects, the laws that we have presented, continue to be discussed in Congress and that the discussions resume as soon as possible. We had been talking with the house and the senate committees and this is part of the ongoing talks with the members of ...Court.

So, nothing specific has come out yet. I think that what you mentioned about the needs of more active social policies and more preoccupation about employment is in the projects, is there and I think we have all the elements to answer that. In fact, as you probably are aware of, we are now in the process of establishing a new network of social services based on a set of loans from the multi... that will be very, very significant change in terms of social policies in Colombia with the creation of a safety net that will allow us to generate a large number of employment and also to reduce the levels of poverty in the population. So I think we have all the elements to be engaged in that discussion and look forward to that.

- Coordinator Our next question comes from Kathy Hapworth with Prudential Global Asset Management.
- K. Hapworth Just a clarification on the April survey from Andes, you might have hinted at this, you said that the manufacturing activity will be similar to that in March. I'm assuming that was on a year-over-year basis. On a month-over-month basis, might it be negative?
- Dr. Cardenes No. I actually don't have the figures with me here. I'm not in Colombia. I'm in a hotel room in San Francisco. But the first four months' growth relative to the first four months of '99 looks very similar as to the first quarter figures.
- Coordinator Our next question comes from Julio Deltato with T. Rowe Price.
- J. Deltato Basically three questions and just comments. It sounds like from this conference call and other conference calls that there's a little bit of a certain level of distrust with the growth numbers that Colombia has been publishing. So it's good news that, like in your case you're giving more detail on where those growth numbers are coming from.

So basically my one question was on the balance of payments. There are three things that concern me. One is capital flight, which is kind of a new thing for Colombia. Second of all is private debt inflows, the expectations are going to be lower than the initial government targets. And the third one is privatization's, that basically is going to leave a gap in terms of financing the current account deficit, even with good trade numbers. So what is your view on that in regards to the balance of payments?

Second question, in terms of fiscal performance for the first quarter, the Colombian government tends to give very old information on what's going on there. But if you could give us a little bit of an update on how this 2.3% growth has reflected in fiscal performance for the first quarter.

Finally, if you could give a little bit of an update on the negotiations that the current government has with the liberal party in regards to some sort of economic or fiscal agreement that will help support the IMF targets for this year and also for 2001.

Dr. Cardenes

Before I answer, I have to say that I have to go, because I have an appointment waiting for me. Since we're going beyond the original topics of these conference, which were the constitutional court rulings and the

GDP figures for the first quarter, I would say that I would be delighted to repeat the conference with this much broader set of issues next week at any time of your convenience once we're back in our office in Boga... Please accept my apologies for ending the conference at this point.

But let me answer these last questions. The GDP figures are coming from the National Planning Department. The way this operates in Colombia is the following. The National Planning Department consolidates all the information that is provided by the surveys. Both these surveys are conducted by ... and the surveys are conducted by the independent agencies and the sectors, such as Andes. And we have a model, consistency model, that puts all that information together and provides the forecasts. These are estimates. The final figure will come from ... It will take a few more months for that figure to come, but the Planning Department estimates are usually accurate and I think we have confidence in saying the growth rate that we're seeing for the first quarter is a realistic estimate.

Now in regard to the balance payment questions, the main concern is not so much capital flight and private capital inflows. I think what we have seen in the first month are not necessarily dramatic changes from what we

expected. I think that the main concern from the point of view of capital transactions in the balance of payments is privatization's, as you said. Originally we had estimated that the total value of the assets that were going to be privatized was \$2 billion. We have revised that. We have revised that because some of the privatization's will not be made this year. In fact, we are fairly confident about privatizing the ...enterprise, ... and also the ..., that is the enterprise that generates electricity, about 13% of the electricity that's generated in Colombia.

We are, again, confident that we will sell these two companies before the end of the year. That will provide us with around \$750 million. And the rest of the privatization program, which is the transmission company ESA and the banks, will be privatized early next year. But there is a chance we might sell ESA before the end of the year, but it's a borderline case.

We are going to compensate for that with some external and some internal credit for the government. We're talking about those things with the IMF. And I think this is a realistic scenario. I don't think it will cause damage to the balance of payments. Particularly, we don't think this will be causing any trouble to our minimal level of reserves, which is part of the problem with the IMF.

In terms of fiscal performance, things look good. I think with the budget council last week we will meet the target of 3.6% of GDP as the overall deficit for this year. Revenues are increasing, tax revenues are doing well. Those are the conditions of the retail sector, which are quite related through the VAT tax. And I think we repeat our commitment, we restate our commitment with this fiscal target.

Now negotiations with the labor party, as I said in the previous question, this is something that is still being handled at a very broad manner. No specific discussions have taken place and we look forward for that. I will keep you informed as soon as we make progress in that front.

D. Smith

Well thank you very much for being with us. I would remind the callers that replay is available. The number is 1-888-566-0468 in the US and 1-402-998-0633 for international callers. A transcript of the call will be available on Brady Net, which is at www.bradynet.com. And IDEAglobal will send out information about our conference call for next week as soon as we have the details set up.

Thank you very much, again, Dr. Cardenes for being with us.

Dr. Cardenes Thank you.

D. Smith Bye.