Colombia's economy is disintegrating

by Javier Almario

At the same time that the FARC-ELN narco-terrorists are forging ahead in their efforts to shatter Colombia, the nation's economy, both public and private, is on the verge of a dramatic collapse, equal or worse to that which Ecuador and Brazil are suffering today. Indeed, the economic disaster now facing Colombians is one of the most visible proofs that the Brazilian crisis is fast spreading to the rest of the continent.

Despite multiple tax reforms over recent years, the national income is dramatically falling, a consequence of the severe economic recession created by the globalist dictates of the International Monetary Fund (IMF):

- 22 of the country's 37 departments, or provinces, are in dire economic straits;
- the government now officially recognizes that Colombia had a zero growth rate in 1998;
- the national banking system is on the brink of collapse, the result of usurious interest rates which have forced every sector of the economy into non-compliance with their bank loans and other debt; and
- the unemployment rate for March is expected to reach 19%, representing a social time bomb just waiting to be set off.

Pastrana's secret deal with the IMF

In late 1998, Colombian President Andrés Pastrana toured the United States, where he was greeted with much pomp and fanfare, What has not been publicly revealed is that during the tour, Pastrana struck a secret deal with the IMF and the World Bank, which includes, among other points: 1) that the national government should bail out Colombia's banking system, no matter what the cost, and 2) that the national government should become the guarantor of all private foreign debt in the country, currently approximately $16 billion.

The government further committed itself to meeting all the usual conditionalities of the IMF, such as reducing the fiscal deficit and public expenditure, freezing wages, and so on.

The IMF's two secret conditions carry an immense cost. Immediately upon his return, Pastrana issued an emergency decree, under which he imposed a controversial 0.2% tax on bank transactions, to salvage the Colombian financial system. Despite the fact that the government won Congressional approval for yet another tax reform, to collect more funds to address the fiscal deficit, the deficit increased when the government disbursed some $900 million as indemnification to depositors in financial institutions that were liquidated. But when the crisis reached Granahorrar, one of the largest savings and loans companies in the country, the government refused to allow it to declare bankruptcy, and instead injected nearly 400 billion pesos to keep it afloat.

The unavoidable truth, however, is that the Colombian banking and financial system, within the framework of the current economic policies of the Pastrana government, is unsalvageable. Nearly 13% of all loans by Colombian financial institutions, that is, $4.7 billion out of a total loan portfolio of $36 billion, are non-performing. Worse, the non-performing portion of the loan portfolio has grown during the last six months at an average rate of 80% per month.

At the same time, the banking system holds assets estimated at 2.5 trillion pesos (about $1.7 billion, at the exchange rate of 1,500 pesos per dollar), which have been handed over in lieu of debt payment. Among these assets are all sorts of machinery and equipment that had served as collateral for industrialists' loans, and whose purpose often eludes the bankers. Also included among these bank assets are 600 billion pesos worth of real estate, especially homes. The chances of selling these assets in the midst of recession are remote, and the real estate market is severely depressed, as a result.

Usury has become extreme

Usury in construction has become so extreme that the mortgage debt attached to buildings is greater than the value of the buildings themselves. According to statistics of the savings and loan companies, 66,000 of the country's 550,999 mortgage-holders are not meeting payments. In the first two months of the year, according to official bank statistics, the system had losses of 329.229 billion pesos. The losses are going to be even greater, given that Colombian law dictates that banks are allowed just two years to sell off assets that have been given them in lieu of payment, and then must write them off the books as losses.

This financial bankruptcy is a reflection of the bankruptcy of the entire national productive apparatus, which cannot be squeezed any more to satisfy the usurers. According to official figures, the Colombian economy grew only 0.2% in 1998. However, the productive sectors of the economy—industry, agriculture, and construction—had a much more serious decline. Construction fell 40% in 1998. In January 1999, industrial production fell 13%. The government's strategy for maintaining industrial production on the basis of exports proved a failure, after Ecuador, Colombia's third-largest buyer on the international market, had to suspend almost all purchases of Colombian products because of its own economic crisis; meanwhile Venezuela, the second-largest buyer of Colombian goods after the United states, has also reduced its trade with Colombia. Colombian industrial exports fell 17% in January 1999. According to a census by the Banco de la República, 42% of Colombia's companies will begin layoffs, which will cause a leap in unemployment, already pegged at 19% at the end of March. The census reports that 48% of Colombia's firms will be creating no new jobs this year.

Bankruptcy of the state

Thus, the national government, as well as departmental and municipal governments, are on the brink of bankruptcy. Despite the tax reforms implemented by the Pastrana government, collections in January 1999 fell. In January 1998, tax revenues were 1.58 trillion pesos. In January 1999, revenues were 1.54 trillion pesos, a 17% decline, if measured in constant pesos. A fall in tax revenues of 1 trillion pesos is predicted for the year. In 1998, those revenues amounted to 17 trillion pesos.

The departments are in the same situation. Eight departments are carrying out fiscal reforms to resolve their financial problems, which has led to the layoff of 6,000 workers in the departments' public sector. Fourteen other departments are designing similar adjustment programs, through which another 11,000 people are expected to join the unemployment lines. The national government, meanwhile, has announced plans to fire 200,000 public sector workers. To all of this can be added the economic bloodletting represented by the narco-terrorists, who are demanding as much as 10% of municipal and departmental budgets in blackmail payments.

Meeting the other secret condition of Pastrana's deal with the IMF is also going to prove devastating. Since the beginning of the "globalization" process in Colombia, when all impediments were removed for national companies to take foreign loans, the private foreign debt has grown like a cancer. The private foreign debt has grown from $1.7 billion in 1991 to $16 billion today. The total foreign debt has gone from $17 billion in 1991 to $33 billion today. One can also add to this another $7 billion of "foreign investments" in the Colombian stock exchange, which in reality are foreign obligations.

Included in the government's plan for meeting the IMF's conditions is an acceleration of privatizations. Until now, the government has sold concessions for cellular telephones, mining companies like Cerromatoso, banks, and electricity companies. It plans to sell $4.5 billion worth of stocks in 1999, to cover the fiscal deficit and meet the IMF's demands. There are even those who propose selling the Colombian state to some European monarchy, while others propose that the narco-terrorist FARC pay for the territories the government has granted them under its "peace" plan.

The only solution is that the Colombian state intervene in the economy before it disappears altogether. In recent years, one can trace the worsening of the economic crisis back to 1991, when the César Gaviria government decided to eliminate exchange controls that had been in place for 33 years, liberalize the banking system and capital flows, and impose the so-called "economic opening," that is, the globalization demanded by the IMF.

Since then, 300,000 hectares of land have stopped producing food, and industry has begun to disappear. Agriculture represented 21% of the Gross Domestic Product, and now represents only 18%. The same is true for industry, which represented 21% of GDP and now only 18%.

Under the government's free-exchange policy, the value of the peso has been "defended" by selling off the central bank's international reserves and by increasing interest rates, so that "investors" will leave their capital inside the country. But this policy, in combination with the "opening," has destroyed the Colombian economy.

In addition to destroying Colombian agriculture and industry, the "opening" has generated a sizable trade deficit, which has been financed with foreign debt and foreign "investment," thereby feeding the cancer. Finally, as the U.S. Drug Enforcement Administration has said, globalization has facilitated the laundering of drug money.