

## **Translation of the speech of President Álvaro Uribe Vélez**

- Colombia is essentially a free-market economy with major commercial and investment links to the United States and the Andean Latin American countries. For more than two decades, our country has undertaken a transition from a highly regulated economy, a trend that will continue to deepen with the trade preferences agreements and alliances that constitute the Government's main agenda.
- The size of Colombia's economy, measured by GDP, is US\$ 82 billion. The economy is mainly led by the services sectors. Community and social services and the financial and real-estate sectors stand for 38% of the GDP. Nonetheless, agriculture and industry make significant contributions to our economy; as each of these sectors has a 17% share in the overall output.
- The Construction Sector, which stands for 5% of GDP, is a key area in which Colombia has an opportunity for labour-intensive growth. This economic activity experienced a sound growth throughout last year assisted by low interest rates and public policies for its promotion.
- The diversification and promotion of our exports has been a priority of several administrations, including ours. Trade alliances and agreements with Latin American and Caribbean countries, Europe and North America have served this goal. Currently, exports stand for 18% of Colombian GDP and are mainly driven by oil which contributes with 22% of total sales. Other leading exports are coal and a variety of manufactured goods such as chemical substances, processed food, beverages and tobacco, textiles and clothing. The importance of our most traditional product- coffee- has decreased steadily in the last decades. Whereas in the mid 80's coffee represented almost 60% of total exports, in 2003 it had a 6% share. Nonetheless, coffee and other agricultural products such as cut flowers continue to generate significant foreign revenues for our country.
- Until the end of the 90's Colombia enjoyed a fairly stable economy; the country's macroeconomic performance stood out in Latin America. However in the last years of the decade Colombia suffered a painful economic crisis, characterized by weak domestic and foreign demands, high unemployment levels, large fiscal deficits and a serious internal armed conflict. This stormy situation can be illustrated with a few unfortunate indicators. In 1999, overall production measured by the gross domestic product dropped by 4.3 percent implying a 6% drop in GDP per capita. In the same year, one out of five people searching for a job in the major cities wouldn't find it. Capital outflows and a banking crisis worsened this situation.
- Economic distress was aggravated with a vile domestic conflict in which the main victims were the vulnerable citizens in rural communities. Just in the year 2000, 92 rural towns were attacked by illegal groups and 26 thousand homicides were committed. In the month when I took office - August 2002- 304 people were kidnapped.
- Fortunately, Colombia is full of people capable of dreaming even under the harder conditions. Hence, the primary objective of my administration has been to restore

economic and political confidence in Colombia... To restore the rule of law and the faith of our citizens... To construct a legitimate State that provides for, takes care and protects the poorest and most vulnerable ones...But, at the same time, to graduate Colombia as a prosperous nation, with steady growth, macroeconomic stability and full access to financial markets; committed, as our reputation proves, to an on-time debt service; with transparent, stable and unambiguous rules; with a market friendly environment where economic growth is fuelled by a strong private sector.

— To deliver these results I have constructed a road map for my country that revolves around three policy pillars: i) democratic security, ii), social and economic recovery and iii) fight against corruption.

— With such a road map we attempt to build a Communitary State, in which people can participate in the achievement of social goals, in which public resources are administered with efficiency and austerity, in which regional decentralization, accountability and participation are a reality.

— In 2002 my first order of business was an immediate macroeconomic and fiscal stabilization plan aimed at guaranteeing the sustainability of our public debt, but also sufficient resources to strengthen our armed forces and to meet highly unattended social demands. This plan was backed by a stand-by-agreement with the IMF and enormous support from the World Bank and the IADB.

— The strategy consisted of an increase of government revenue, a decrease of government expenditure, and an administrative reform geared towards achieving a more efficient government that leaves no space for corruption.

— A wealth tax earmarked to military spending was rapidly implemented. It received enormous citizen support, as it was targeted to the wealthiest. Congressional approval of painful yet necessary tax, pension, State and labour reforms was also rapidly obtained.

— Thanks to these measures we have achieved: i) for the first time since 1996, a reversal in the upward trend of public indebtedness, ii) a significant acceleration of economic activity, iii) outstanding, yet insufficient, results in social investment, iv) an important curbing of bureaucratic spending, and v) significant results in our fight against terrorism.

— In fact, between 1996 and 2002 public debt grew from 22% of GDP to 54% of GDP. However, in 2003, our indebtedness fell to 51% of GDP. And we are committed to a further reduction in the years to come.

— Our initial estimate for economic growth in 2003 was 2%. Nevertheless, during the third quarter of 2003 GDP grew 4.17% and, therefore, we now expect consolidated growth for the whole year to be close to 4.0%. In the last nine years, since 1995, we hadn't experienced such a high rate of growth.

— Better news is that this growth recovery is across all sectors of the economy. Industry is growing at 3.4%. Agriculture is growing at 4.2%. Construction is

growing at 11.3%. The financial and real estate sector is growing at 6.1%. Finally, the mining sector had an outstanding performance, growing at 21.6%.

- This recent economic recovery has rendered rises in GDP per capita. After years of reduction and stagnation, GDP per capita experienced a 2% growth in 2003.
- As envisaged in our road map, this economic growth is being driven by private investment, which grew 11.6% during the last year. We expect this dynamics to be maintained in the years to come, in conjunction with a steady growth rate of 4% for private consumption.
- Not surprisingly, asset prices are reflecting an outstanding behavior. For instance, last year our stock market index grew 40.4% in US dollars, while the average spread on our dollar denominated public bonds has fallen from more than 1000 basis points to less than 400 basis points.
- The pick up in economic activity has been accompanied with a steady reduction in inflation. In fact, headline inflation fell from 7.7% in 2001 to 6.5% in 2003.
- Our exports have also exhibited an important recovery, despite the negative effects of Venezuela's economic upheaval on our commercial flows.

% Annual Growth  
(FOB Exports-2003)

Andean Community/1	-23%
Other Latin American Countries/2	4.3%
USA	12.1%
Caribbean and Central American countries/3	73.0%
Canada	8.2%
European Union	13.6%
Japan	1.0%
China	191%
Asian countries/4	18%
TOTAL	7.9%

1/ Venezuela, Bolivia, Ecuador, Peru

2/ Members of the Latin American Integration Association excluding Andean Community

3/ Dominican Republic, Puerto Rico, Costa Rica

4/ Includes most Asian countries with the exception of China, Japan and the Middle East Asian Countries.

- As a result, unemployment has fallen from 16% in August 2002 to 12.3% in December 2003. I must highlight that most new employment opportunities have been in the formal sector. Evidence can be drawn from the number of participants in the social security system. Today, there are at least 290 thousand new affiliated contributors to the pension system, which in total has approximately 5.5 million

contributors, and approximately 1.1 million new beneficiaries of the subsidized health system, being 3 million the Government's target for 2006.

— Of course, the most important benefit of this strong economic recovery relies in the new possibilities that open up for social investment, in the context of fiscal adjustment and strong budgetary restrictions that limit our investment capacity. How is this possible, you may ask. The answer is simple. We will deepen the streamlining and curbing of bureaucratic spending with our State Reform program: less expenditure in bureaucracy more resources to efficient and progressive social investment programs and elimination of pork barrel politics.

— Since I took office, I have had the firm determination of eliminating pork barrel politics and establishing new ways of interaction between the legislative and the executive branches of government. Therefore, in the National Development Plan we defined a fixed amount of money, US\$ 365 to be assigned to municipalities in accordance with the decisions of Public Audiences.

— In these audiences, representatives of the Central Government had meetings with members of the communities, majors, governors and congress men and women and they decided which projects were needed. The results of the meetings are published on the internet, and each annual budget law will include the appropriations as determined by the audiences. With this mechanism, Congress is participating in a public, direct and transparent way in the budget, and in accordance with the Government's Development Plan.

— Regarding the reduction of bureaucracy, there have been significant results. As of today, 10.733 government jobs have been removed and by 2006 38.325 bureaucratic positions will have been eliminated. This will render permanent savings equivalent to 0.4% of GDP, to be used solely in social investment. This process has included two features that are highly responsible for minimizing the voices of contradictors of the program. First, a "social filter" was implemented, in which parents responsible for family subsistence, physically impaired employees and those to receive a pension in the next three years, kept their jobs. A public financed training program was launched for people who lost their employment

— Results in social investment reflect our commitment to improving the welfare of the most vulnerable. I will mention just a few. Last year, 477,598 new school places were created reducing to 2,2 million the number of children still out of the school system. The goal for this year is to provide 260,000 new school places and the target for my presidential period is to amplify the public education system in 1.5 million places. In 2003, 192 new public libraries were given to municipalities that had none and we expect to provide 150 more during 2004. For small children, we have a program that provides a very nutritious breakfast: we were able to increase the number of children receiving this alimentary support from 78.000 in 2002 to 322.000 by the end of last year and our goal for this year is 500.000 breakfasts.

— In terms of technical and professional formation, at the beginning of my term 1.1 million people were receiving this service. By the end of last year, we doubled that number and 2.3 million people were attending these courses. Instead of having bureaucratic posts, we have a strategy focused on providing access to the service.

Also, 700.000 new small cooperative enterprises of artisans and craftsmen were financed, receiving US \$ 575 million.

- While in 2002 it was 3.500 families of internal refugees returned to their home, in 2003, 7,500 families returned to their hometowns,. Forty seven towns destroyed by terrorist attacks were rebuilt and we reduced the waiting period that displaced families were facing before they got humanitarian assistance.
- We launched a program called “forester families”, which offers legal alternative income to families located in strategic ecosystems or in conservation areas where illicit crops are being grown. Families entering this program commit themselves to protect and preserve these selected areas. Thus, it’s a program that contributes to reduction of illicit crops and, concurrently, supports the generation of communitarian organizations. Moreover, it consolidates strategies for forest management and ecological sustainability.
- We currently have 20.932 families in the program and our goal is to have 50,000 families by the end of my term. I heartedly invite you to support this program.
- As you may see, our goals regarding social investment are much more ambitious in the following years, and for that, we need support..
- The economic upturn of Colombia couldn’t have been possible without our firm commitment to reinstate domestic security. Indeed, the widespread internal armed conflict and rampant violence of our country had become the main hindrance to our productive and employment possibilities, competitiveness and growth. Not surprisingly, all of our citizens, but especially the poorest, were suffering dramatic economic and social adversity.
- I need to emphasize it: The main victims of the abuses by illegally armed groups have been the poorest and most vulnerable civilians in Colombia, especially those living in rural communities.
- Therefore, I have committed myself to freeing Colombia completely from the bitter, dark and painful threat of terrorism. To do so, we have implemented a Democratic Security strategy, with remarkable results. I will name just a few. From August 2002 to December 2003, the number of kidnappings had a 75% reduction. The number of civilian killings by guerrilla and paramilitary groups decreased from 2.088 in 2001 to 972 in 2003. Attacks to rural communities during the second semester of 2003 were 84% lower than attacks during the second semester of 2002.
- Under this Democratic Security policy regular attacks on small civilian populations, massacres, selected murders, kidnappings of citizens regardless of their health or age and forced recruitments of young adults and children are the nightmare we are leaving behind thanks to the patriotic effort and sacrifice of our public force,.
- However, to guarantee sustainable economic growth in the long term we also need structural institutional changes. The most important consists of opening our country to the benefits and opportunities of global trade. The U.S.–Colombia Free Trade

Agreement is a first step in this direction. It will offer new prospects to Colombian workers and entrepreneurs.

- More important, the FTA will bring stability and credibility to the rules determining our trade relationships with the U.S. and the rest of the world. It will be a commitment technology highlighting our pledge to stable and transparent rules and institutions. It will generate strong incentives for domestic and foreign direct investment.

- In consequence, we expect that the consolidation of economic and fiscal stability will be rewarded by investors with a significant reduction in the cost of our debt, meaning lower interest rates and increases in the maturity of our loans. This, in turn, will facilitate the creation of the political and social support needed for implementing additional fiscal sacrifices.

- This is why we recognize a mutually dependent relation between investors and our nation: our fiscal efforts should be rewarded by better financial conditions, which in turn, should improve the fiscal situation and the value of our debt.

- Nevertheless, I must add that our fiscal sustainability will not hamper our social investment goals and our defense program. In spite of the strong budgetary constraints required to attain fiscal stability, we are committed to achieving ambitious social goals and maintaining the Democratic Security programs. In fact, 62% of the resources of the National Budget (excluding debt service) have been allocated to social sectors, mainly social security, health and education, and most of them benefit from constitutional mandate. Colombia's Constitution decentralized education, health and other public services to territorial entities, resources amounting to 6% of GDP, a relatively high percentage in comparison to other Latin American countries. Security, defense and justice stand in the second place, with 17% of the total budget.

- Inequality in Colombia is not due to the existence of a senseless oligarchy or a pressing private sector. On the contrary, it is the consequence of having a private sector that is too small. In relative terms, we have a lack of formal economy and an excess of informal economy.

- The consolidation of our social goals requires the support of private industrialists and entrepreneurs, the expansion of large, middle, small and micro enterprises. Fortunately, Colombia is a country of enormous internal solidarity, there is a fair framework, an excellent combination of rules, being solidarity the basic one, as it permeates the relationship between employers and employees. For example, employers are the main contributors to the pension accounts of employees. Cross subsidization in the health insurance system implies that everybody, regardless of their income, receives the same health plan.

- This solidarity will be supported with the ever growing confidence of the private sector as it plays a major role in the revival of our economy and in the consequent generation of employment opportunities. This is reflected in the Index of Consumer Trust, which reached its highest level by the end of 2003. Whereas in 2001, the balance was -20, in December 2003 it peaked to 14.5.

- The expansion of the private sector is a must for improving the social fabric of our nation. Luckily enough, we have the main ingredient: Colombians are entrepreneurs by heart and mind; we prefer to have our own tiny enterprise than to be a submitted worker. It is not a chance that one of our seven tools for social equity is called “country of owners.” In order to support the development of small enterprises, our Government has promoted the lending of microcredits by the financial system. This strategy has proved effective; microlending has experienced a 57% annual growth, thus fuelling the development of small entrepreneurship.
- Microcredit lending for small entrepreneurs can be immensely effective to foster economic growth, as it drives internal consumption and, therefore, promotes internal demand. Furthermore, a policy which encourages small enterprises can be at the heart of job creation. Don’t forget it: Colombia is the country that has more opportunities for small enterprise.

### **What do we need from Europe?**

- The extension of a trade preferences agreement between the European Union and Colombia for an additional year is good news, but we need to have permanent access to the European market. There is a free trade agreement with Mexico, Chile, Mercosur, but not with the Andean countries, it is hard to understand and even harder to explain. Be sure, the more we grow, the better for your countries, because we are importers of intermediate and capital goods and manufactured goods. We understand your concerns with the imperfect system we have at the Andean countries, but I believe that instead of waiting for us to have a perfect system, it is a better approach to negotiate with our countries, since this will force us to improve our institutions and rules.
- We are very grateful with your cooperation; your recent decision to develop more peace laboratories in Colombia is a great step. With this decision, we will complete 3. Colombia has a strong tradition of projects being managed by NGO’s, and traditionally the European Union countries have recommended which NGO’s.
- Please consider the possibility of financing the forester program: every private corporation, regardless of its size and speciality, could adopt a group of families and support them. Microlending is also an area where cooperation will be more than welcome. Finally, concessional credits may result in more social investment.
- Colombia is the land for investment opportunities. We are doing a great effort to conciliate the problems we inherited in relation to the investments made in utilities power distributions, joint venture agreements with our state telecommunication corporation, roads and railroads concessions. We will do our best effort for achieving good conditions for everybody.
- We have implemented a strategy of tax incentives for private investment, aimed at key sectors which show a special economic potential. These include economic activities such as biodiesel or eolic energy, which may fuel new technologies and scientific research. Investments in ecological tourism and forestry growing also have tax benefits as these constitute ecologically sustainable economic activities.

Tax benefits are also offered to other activities such as: machinery import, software import, river transportation and seismic oil detection.