

INSIDER VIEW

The economy of Colombia

FRIDAY, SEPTEMBER 28, 2001

Reforms promise brighter future

AFTER SUCCESSFULLY WEATHERING THE DEEP RECESSION OF 1999, COLOMBIA IS CURRENTLY EXPERIENCING VASTLY IMPROVED ECONOMIC CONDITIONS, WITH UPCOMING REFORMS AND THE AMBITIOUS 'PLAN COLOMBIA' SET TO FURTHER STRENGTHEN THE COUNTRY'S ECONOMY

COLOMBIA has received more than its fair share of unfavorable press, and while few countries or government administrations could have withstood the fallout from such international news media scrutiny, the

government of President Andres Pastrana has thrived under the spotlight, and indeed welcomes the chance to present its case to the world and highlight its many achievements. U.S. government support for

Latin America's oldest democracy has been steady, while savvy U.S. companies understand the strategic economic potential of Colombia and have been unwavering in their willingness to set up shop in the country and expand with local partners.

Colombia's economic growth is expected to reach nearly 3% this year and inflation to fall to below 8%. Debt to GDP should stabilize around the 40% level after record increases over the past six years. Imports rose 15.1% in the first half of 2001, with US\$2.3

Imports rose 15.1% in the first half of 2001, with 35.7% of the total coming from the U.S. billion of the total, or 35.7%, coming from the United States—Colombia's largest trading partner. The figures are impressive considering that just over a year ago Colombia was coming out of an economic downturn. Following the appointment of Finance Minister Juan Manuel Santos last year, the Pastrana government implemented a far-reaching series of economic reforms designed to regain credibility in the international financial markets. These structural reforms include: a substantial fiscal adjustment with the full support of the International Monetary Fund (IMF), budget expenditure reduction, creation of special economic zones, measures to enhance transparency in public finances, and constitutional reform of territorial transfers. The result of this program of reforms has been economic and financial stabilization. This



ANDRES PASTRANA

President of Colombia, has gathered support in the international community for his "Plan Colombia".

translates as: completing the financing requirement for 2001 as early as May with a total of US\$2.7 billion, as well as diversifying its financing sources to include Japan, Europe and the U.S. Government officials are proud of the fact that in just one year the economy has been turned around and stabilized to the extent that there is once again an international financial presence in Colombia. This ambitious program was

also aimed at improving competitiveness, increasing transparency, easing non-tariff and bureaucratic roadblocks, doubling exports within three years, reducing corruption and—most importantly for the United States—modernizing industry and services. The initiatives will require a steady inflow of technology. And as that need grows, the country will be more and more open to U.S. companies—favored in the Colombian market because of their quality and value for money—that are

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JUAN MANUEL SANTOS
Minister of Finance and Public Credit: has delivered

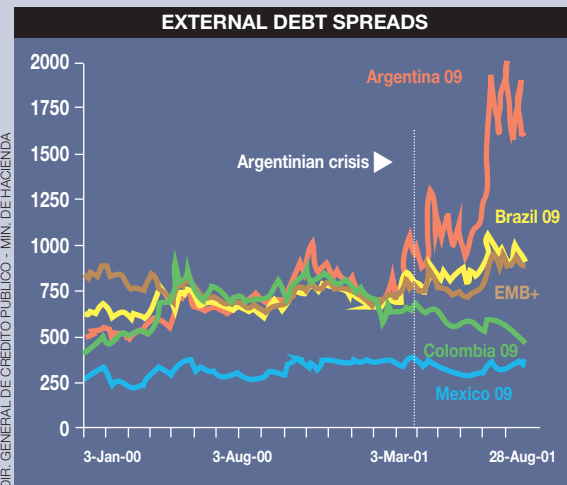
The rising star of the Latin American markets

UNDOUBTEDLY one of the key reasons for Colombia's renewed economic growth over the past year was the incorporation of Liberal Party leader Juan Manuel Santos in the Pastrana administration to take over the Finance Ministry portfolio, a move which ended a lingering political crisis that had much-needed economic reforms bogged down in bipartisan wrangling. Mr. Santos' stellar performance was underscored recently by U.S. Under Secretary of State for Economic, Business and Agricultural Affairs Alan Larson in an August 3rd hearing before the U.S. Senate Finance Committee. "Finance Minister Santos," Mr.

Larson testified, "has played a key role in implementing the Pastrana administration's economic agenda, combining budget cuts with needed structural reforms covering taxation, transfer payments to sub-national governments, and the social security and pension systems." According to Mr. Santos, the main thrust of each of those measures has been presidential support and a commitment from the leading party majorities in Congress. "It has restored successful governing and has led to far-reaching structural reforms and a substantial fiscal adjustment with firm International Monetary Fund support over the past year," notes Mr. Santos.

And despite internal conflict, drug trafficking problems and the negative impact in recent years from the international economic environment, "we have delivered the economic agenda towards fiscal sustainability as a condition for growth. The result is economic stabilization: inflation, interest rates and exchange rates are stable and predictable," adds Mr. Santos. The Finance Minister says the essence of Colombia's economic policy of fiscal reform and macro-economic stabilization is a desire to attend the needs of the people. "Stabilization means stimulation to investment and growth," he explains. "But economic growth is not enough," Mr. Santos adds.

"There is a high responsibility from government to allocate its fiscal resources in the right place. Fiscal funds should go where they are socially efficient in order to achieve social prosperity. The government, according to Mr. Santos, should stay out of activities where the private sector can do a better job. "Government must be dedicated to stimulating growth in the long run in the health, education and security sectors among others. Rather than spending in inefficiency and corruption, good resource allocation is the way to better income distribution and social prosperity," Mr. Santos concludes.



FACTS & FIGURES

POPULATION
39,685,655
(July 2000 est.)

AREA
440,831 sq miles

CURRENCY
Colombia Pesos (COP)

EXCHANGE
1 U.S. dollar=2,294 COP

CAPITAL
Bogota

GDP
US\$87 billion (2001 est.)

GDP GROWTH
Real GDP growth forecast 2001-2005:
3.3% (Economist Intelligence Unit forecast, June 2001)

RESOURCES
Colombia's natural resources include petroleum, natural gas, coal, iron ore, nickel, gold, copper, emeralds, and hydropower

EXPORTS
Petroleum, coffee, coal, gold, bananas, cut flowers

Investor Information Desk
Republic of Colombia
www.coinvertir.org.co/ild/

Colombia



"Finance Minister Santos [pictured] has played a key role in implementing the Pastrana administration's economic agenda," according to U.S. Under Secretary of State for Economic, Business and Agricultural Affairs, Alan Larson.

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looking to take advantage of the emerging opportunities.

Investors have recognized the marked improvement in policy initiatives. As Michael Corbat, Managing Director of Salomon Smith Barney notes, "the economic stabilization program of reforms implemented by Minister Santos and his team has been a key factor in achieving their funding objectives in the capital markets, such strategy has allowed them to successfully access the market." According to Deutsche Bank's analysts, the overall policy mix has improved remarkably: from the combination of a loose fiscal and a very

tight monetary policy, Colombia has moved to a tighter fiscal and looser monetary policy which has clearly helped to limit the negative impact of the global downturn. The analysts believe that the most concrete sign of a strong rebound in investor confidence in the country fundamentals is demonstrated by the fact that YTD returns on Colombia's foreign currency sovereign bonds are the highest in the emerging market world. Other analysts, such as New York-based IdeaGlobal, confirm that Colombia is now one of the best places to diversify risk among the emerging markets, thanks to the fiscal achievements of the current administration.

PLAN COLOMBIA

Making a plan for development

THE PLAN COLOMBIA OF PRESIDENT PASTRANA AIMS TO RESOLVE CONFLICTS WITH REBEL GROUPS, FIGHT ILLEGAL DRUG TRAFFICKING, AND MODERNIZE THE NATION'S LEGAL AND MILITARY INSTITUTIONS

IN LATE August, U.S. Under Secretary of State for Political Affairs Marc Grossman headed a fact-finding mission to Colombia comprised of some 20 other senior U.S. diplomats, military policymakers and law enforcement officials. Their task was to review anti-drug cooperation policies, with talks focusing on the progress of the multi-billion-dollar Plan Colombia to eradicate the illegal drugs trade to ensure political stability in the South American nation.

After meeting with President Andres Pastrana, Mr. Grossman stressed Colombia's importance to the United States and concluded that, "we are backing all efforts that support Plan Colombia and nothing is going to change."

President Pastrana announced his Plan Colombia in early 2000.

Some US\$7.5 billion has been earmarked for the three-year plan, with Colombia committing US\$4 billion, the United States US\$1.3 billion and the rest coming from the international community.

Plan Colombia is based on the clear fact that the country cannot reach its potential or resolve social and economic problems without progress towards ending its nearly four-decades old rebel insurgency, which in turn depends on cutting the link between the illegal drugs trade and guerrilla and paramilitary groups. In the last 18 months, Colombian police acting in conjunction with the U.S. Drug Enforcement Agency have eradicated some 112,500 acres of illicit drug crops that would have netted traffickers some US\$30 billion.

"The idea is to get all that money out of the hands of the guerrillas," says Anne W. Patterson, the U.S. Ambassador to Colombia. "But there are a lot of other things in Plan Colombia. There's US\$87 million in law enforcement programs, another US\$26 million in human rights-related programs and US\$115 million for administration and justice programs and US\$20 million for displaced persons. These programs are being carried out all over the country."

Despite initial concerns about



ANNE W. PATTERSON
U.S. Ambassador
to Colombia



LUIS C. VILLEGAS
President of ANDI
(National Association of
Industrialists)

the depth of U.S. involvement in Colombia's internal affairs, Plan Colombia has since won over its strongest critics, including Venezuela and neighboring nations that feared Colombia's problems would spill over across their borders. Strong support for Plan Colombia has also come from the country's private sector, especially the National Association of Industrialists (ANDI). Luis C. Villegas, the association's president, was asked recently what he thought the consequences of the plan would be for Colombian industrialists.

"That's not how we should look at the issue," he said. "The question should be, 'what would be the consequences without Plan Colombia?' After 13 long years we have finally convinced the international community that the drugs problem isn't only a Colombian issue, but one that is global in scope."

Finance Minister Juan Manuel Santos, who was in Washington in September to attend the annual Andean Development Corporation conference, adds that it is important that the U.S. Congress this year renews and expands the decade-old Andean Trade Preferences Act (ATPA), which Mr Santos calls "a critical

economic component in the war on drugs". "By providing duty-free access to the U.S. market for certain Andean products, the ATPA has generated a total of US\$1.2 billion in new output and the US\$1.7 billion in new exports since its inception in Andean countries," Mr. Santos notes. "Just as important, it has created approximately 140,000 new legitimate jobs in the region, economic deterrents for illegal crop production and drug trafficking. Renewal of the ATPA is critical to jump-starting the legal economies of all Andean countries."

The US\$7.5 billion Plan Colombia has met with strong international support

The Peace Cup kicks off a new era

FEW EXAMPLES of sport's often ignored ability to transcend social and political conflict and rally a city, town or country behind a common cause, can compare to this summer's soccer victory of Colombia's national team over Mexico to seize its first ever Copa America title in the tournament's 85-year history.

So important were the matches for Colombia that President Andres Pastrana had dubbed the tournament "the Peace Cup" in the hope that it would mark an important step towards a new Colombian spirit of national unity after decades of internal strife.

Following the July 29 victory, 46,000 fans in Bogota's El Campin Stadium erupted in cheers of "Colombia, Colombia" and hundreds of thousands more took to the



MONICA ECHEVERRI
General Manager of
MasterCard Colombia



UNITING THE NATION
Colombia's Copa America victory has lifted the country's hopes and upped the president's popularity.

streets for celebrations that stretched as far as New York's numerous Colombian community.

"I want to invite you all not to lose this enthusiasm, and to remain united around that goal which we all seek and of which we have all dreamed: to have a country at peace," President Pastrana said in an emotional radio and television address broadcast the day after the win.

This year's Copa America, by far Latin America's most important sporting event, as well as the previous five tournaments were sponsored by MasterCard International, whose general manager for Colombia, Monica Echeverri, played an important role in the success of the two-week event.

"Sponsoring the Copa America was a great opportunity to offer fans and tournament organizers the possibility to join

in the soccer activities of our company," which donated US\$8,700 to a soccer youth program for the 57 goals scored during the tournament. President Pastrana's hard-fought efforts to host the tournament in Colombia this year won him praise among the majority of Colombians. As a result, his popularity rating soared in the week following his country's victory, with 42% of the nation saying they approved of the president's policies compared to just 24% in May opinion polls. In his post-game speech, Mr Pastrana thanked citizens for the "non-violent enthusiasm" they showed during the long road to the championship. "And for those who choose to believe in the mistaken path of weapons, I exhort you to open your ears to the national clamor in favor of living and progressing in peace."

U.S.-COLOMBIAN RELATIONS

The new Colombia wins U.S. backing

COOPERATION ON BILATERAL ISSUES HAS INCREASED CONSIDERABLY BETWEEN WASHINGTON AND BOGOTA SINCE THE ARRIVAL OF ANDRES PASTRANA, DEMONSTRATED BY THE U.S. COMMITMENT TO PLAN COLOMBIA

U.S.-COLOMBIAN relations have been warm and cordial ever since the United States became one of the first nations to recognize the new republic some 179 years ago when Washington set up a resident diplomatic office there. Since then the two countries have built strong economic ties that have benefited both nations as well as the nearly 30,000 U.S. citizens based there and the 300 or so

U.S. companies that operate in Colombia. After sinking to an all-time low during the previous Samper administration, relations have improved significantly under the government of President Andres Pastrana, as evidenced by Washington's positive and immediate response with a US\$1.3 billion package to Colombia's request early last year for international backing for Plan Colom-

bia, and that was on top of nearly US\$300 million of aid for the year 2000 that had previously been agreed upon, ranking Colombia third among all U.S. recipients of foreign aid.

"That figure not only reflected Colombia's strategic position for the United States," notes U.S. Ambassador to Colombia Anne W. Patterson, "but I think it also reflected fear. A 22% growth rate of coca cultivation was taking

Colombia

place here. There are huge areas of Colombian territory that are not under the control of the state. There are more than 200 little towns without even a police presence, so there are many places that drug traffickers could start to move into, and if they were to become allied with the guerrillas or paramilitaries there would be a serious problem." Ambassador Patterson was present at the last meeting between President Pastrana and President George W. Bush in the United States, "where they talked mostly about trade, and quite a bit less about Plan Colombia. They discussed at length the Andean Trade Preferences Act (ATPA) and the future Free Trade Area of the Americas. President Bush gave Mr. Pastrana his full commitment to try to get both an extension (past the December 2001 expiration date) and an expansion (to include more Andean products) of the ATPA," the ambassador said. Over the past ten years Colombia has continually ranked among the top 25 largest markets worldwide for U.S. products and the fifth largest in Latin America, while the United States remains Colombia's principal trading partner. For the fiscal year 2000, the United States exported more than US\$3.5 billion of goods and services to Colombia and imported US\$6 billion worth. President Bush has called on Congress to renew his father's successful ATPA program for four years and has proposed his own US\$882 million plan for the Andean Ridge nations called the Andean Regional Initiative (ARI), which expands on Plan Colombia to include that nation and its Andean neighbors.

State Department officials say the goal of the ARI is to provide a combination of social and economic development aid along with a comprehensive counter-drug strategy and represents a balanced approach to the problems facing the region. Finance Minister Juan Manuel Santos believes that the 1991 ATPA has been an economic and strategic success and stress that it is imperative that the U.S. Congress votes to renew and expand it. Mr. Santos feels that, in spite of the positive bilateral benefits of the ATPA over the past several years, the Andean nations are currently experiencing an economic downturn. Extension of an enhanced ATPA would go a long way towards reversing these problems, prolonging the benefits already in place and preserving critical foreign investment in the region. It would also help expand trade and ensure the viability of a number of critical, labor intensive industries in the region whose products are currently excluded under the program, such as apparel, footwear, tuna, leather goods, watches, sugar and petroleum.

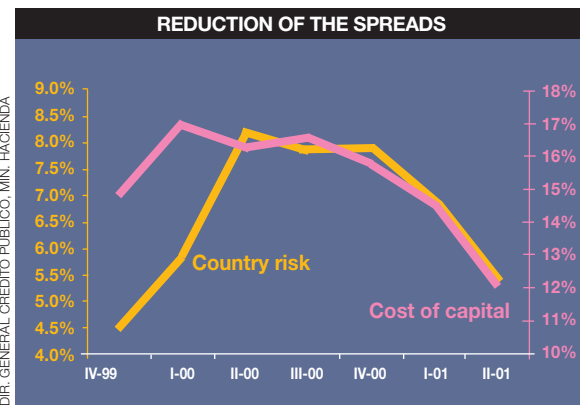
FINANCE SECTOR

Banks recover confidence

WITH THE AFTERMATH OF THE 1999 RECESSION STILL BITING, COLOMBIA'S BANKS ARE BETTING ON FAR-REACHING NEW BILLS—INCLUDING A VITAL PENSION REFORM—TO TURN AROUND THE SECTOR'S FORTUNES

COLOMBIA'S FINANCE sector is slowly beginning to show signs of improvement after being hit with huge losses resulting from the 1999 recession and the added negative effects of high interest rates, with non-performing loans reaching 14.2% at the end of that dreadful year. Much needed resources from the World Bank and other international lending institutions allowed the government to bail out or take over several of fundamentally weak institutions in the sector. The year 2000 saw marked improvements and this year there has been a slow increase of available capital to spur economic recovery. Commercial banks have also increased their capital and loan

provisioning levels through an injection of new capital and a lowering of loan delinquencies in both the corporate and consumer sectors. The government is right on target for meeting its goal of privatizations in the sector. By the end of the year the sale of the state's only remaining institution in the mortgage sector, Granahorrar, and the last remaining public bank, Bancafe, should be complete. When finished, the Pastrana administration will have reached its objective of liquidating or divesting all public banks, with the exception of the agricultural bank Banco Agrario, by the end of 2001. But the government says there is still a lot of work and a few key issues to resolve in the finance sector. The government must push through a new package of bills to consolidate and project towards the future the achievements it has already made. Without a doubt, the most important reforms the government faces are those to the pension system. Despite it being a medium and long term issue, these reforms are key and without them, government officials acknowledge that they will not be able to complete the stabilization of the public debt or balance state finances. Currently, the country's private financial sector is dominated by the



Bolivar Group, which is mostly involved in banking and insurance but provides many other financial services. Banco Davivienda is part of the group and is one of the largest banks in the country. The company is also into leasing, commercial loans and insurance and boasts a company in the Bogota stock exchange that covers pension funds. MasterCard International Colombia currently has agreements with some 16 Colombian financial institutions. The company started operations in the country around 30 years ago, and in the first six months of 2001 operations grew by 15% over the same period a year ago, indicating a rise in consumer confidence in the economy. According to MasterCard International Colombia's general manager, Monica Echeverri, the com-

pany has gained a 38% market share of all credit and debit card business in the country. An association comprised of more than 20,000 member financial institutions, MasterCard serves consumers and businesses in 210 countries and has more than 21 million acceptance locations worldwide. Another major U.S. player taking advantage of Colombia's improved economic conditions is Citibank, part of the Citigroup. The President of Citibank Colombia, Steven Puig, recognizes that, "the economy has been rebounding since the recession of 1999. Now, the macro economic management of the country is very good, very strong. The results can be seen in the economic growth that Colombia is now registering, the low inflation—less than 10%—, as well as the development of the exchange."

Pension reforms are required to stabilize public debt and balance state finances

TOTAL U.S. ASSISTANCE FOR PLAN COLOMBIA	
	Millions of dollars
Support for Efforts in Southern Colombia	416.9
Support for Interdiction Programs	378.6
Support for the Colombian National Police	115.6
Support for Alternative and Economic Development (including programs at the national level and programs in Southern Colombia)	106.0
Support for Programs to Promote Human Rights and Reform the Judicial System	119.0
Support for Other Regional Programs and the Peace Process	183.0
Total U.S. Support for Plan Colombia	US\$1,319.1M

U.S. DEPARTMENT OF STATE, FEBRUARY 2001

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BANKING SECTOR

Banking on renewed strength

RESOLUTE ACTIONS TO REINFORCE THE BANKING SECTOR AND DEAL WITH LOSS-MAKING PUBLIC BANKS HAVE BEEN PRAISED BY THE INTERNATIONAL FINANCIAL COMMUNITY, IN PARTICULAR THE IMF

EARLIER THIS year, the International Monetary Fund (IMF) praised the Colombian government for its "resolute actions in dealing with loss-making public banks and strengthening the banking system." The global lending institution had confirmed that adequacy levels had risen and the problems with non-performing loans had all but disappeared. Special mention was made to the government's push to bolster mortgage institutions and its efforts to spur activity in the housing and construction industries. "Maintaining a healthy banking system could have benefits for the fiscal situation in that it would avoid possible restructuring costs and increase the authorities' room for maneuver in the conduct of monetary policy by increasing resilience to exchange and interest rate changes," the IMF said in a report this summer following consultations with Colombia.

Mr. Pastrana's government is to complete the bank restructuring process by the end of the year with the privatization of Bancafe. The country's agriculture bank, which is also completing restructuring, will stay in the hands of the public sector. Bancafe was set up in 1953 by the country's federation of coffee producers, but the government increased its stake in the bank to 99.99% during the entity's 1999 financial crisis. Since then, Bancafe has been restructured into

a highly profitable and mainly commercial bank with an office in Miami and successful operations in Panama. Currently, it is Colombia's second largest bank totaling US\$28.9 billion in assets with 280 branches and an 8.2% share of the market.

"If Bancafe maintains its capitalization over the next few years, it has all the potential to increase its client base, perhaps even doubling it from its current level of 1.2 million, which will allow it to continue improving profits on a daily basis," explains Bancafe president Pedro Nel Ospina Santa Maria.

The privatization of Bancafe is one of the priorities of the government's restructuring plan

Competition for a market slice of Colombia's finance sector is stiff, with nearly 30 banks vying for a piece of the pie. The company best positioned in the market is without a doubt the powerful Bolivar Group of companies, which includes the nation's fifth largest bank, Banco Davivienda.

The holding has some 13 companies operating in Colombia's financial and insurance sectors, although the Bolivar Group prides itself in offering a wide range of other financial services. The group also owns companies in the construction, tourism and Information Technology sectors and other business areas.

"Simply put, we are in the insurance and financial business, and our orientation is mainly through banking, offering mortgages, consumer loan, leasing and all types of insurance," explains Jose



DR. GEN. DE TURISMO, MIN. DE DESARROLLO ECONOMICO (D. ALFONSO MEJIA)

NEARLY 30 BANKS now operate in Colombia, while the **insurance sector, which accounts for 12% of the GDP, is in full bloom.**

SURAMERICANA

A personal vision of peace

CREATED IN 1944 TO ATTEND THE NEED OF THE POST-WAR RECOVERY, SURAMERICANA IS TODAY THE LEADING COMPANY OF THE MEDELLIN-BASED GRUPO EMPRESARIAL ANTIOQUEÑO AND MANAGES STRATEGIC INVESTMENT OPERATIONS, NOT ONLY IN COLOMBIA BUT IN THE ENTIRE ANDEAN REGION

COLOMBIA'S GIANT financial firm Suramericana de Inversiones, whose portfolio includes investments in some 125 companies, was formed just four years ago. In 1997 the group reorganized its investments under one parent company, Suramericana de Inversiones, which takes care of making and managing investments in sectors of interest in Colombia and Latin America. Its strategic investment operations are centered on financial services, insurance, social security, foodstuff, cement, and the services sector.

Today it is the leading company within the powerful Medellin-based Grupo Empresarial Antioqueño and its portfolio includes such big names in Colombia as Bancolombia, the country's largest bank by total assets, the food producers Compania Nacional de Chocolates, Industrias Alimenticias Noel and retailer Almacenes Exito. Suramericana and its subsidiaries invested over US\$100 million in the capitalization of Bancolombia, the group's main investment of 2000.

And in late August, the company announced that it had sold some US\$38.7 million in shares that will allow Suramericana to "continue strengthening its present investments and achieve more growth in the domestic and Latin American markets."

Company officials said as many as ten international funds participated in the sale of the stocks and the company welcomed 200 new shareholders to its fold, for a current total of some 2,500. "We generated 8% of Colombia's gross domestic product last year. We employ some 83,000 people and export more than US\$500 million worth of manufactured goods," notes Suramericana president Nicanor Restrepo Santamaria, a former governor of Antioquia and top government representative in the peace process.

"We have investments in many countries of the Andean region. In Venezuela we have commerce,

foodstuff and cement. In Central America we have banking, insurance and leasing businesses and in Panama we have cement. We're involved in the cement industry in Haiti and the Dominican Republic, and we're active in the insurance sector and similar activities like pension funds in Bolivia, Peru and Ecuador. We have some 125 companies in these industries and others, such

as coffee, cacao, pasta, meat, cookies and candies. We also have about 20 companies associated with multinational," Mr. Restrepo explains. The group is also involved, through Suramericana and the Suramericana Foundation, in numerous social projects, contributing over US\$1 million to more than 250 institutions.

Indeed, Mr. Restrepo's personal role in the ongoing peace process has been pivotal since negotiations began in 1999. As one of the government's spokesmen at

Mr. Cortes says the group's Davivienda bank fits perfectly in the company's strategy, most notably because of the strong synergy between its insurance division and banking operations.

"We are extremely orientated towards individuals and families. And if one wants to continue providing financial services to families such as credit cards, car loans, mortgages and all the corresponding insurance—health, life, car—you have to be able to assist the client to fit his needs and provide it all at just one office," he says.

And that is one reason why Davivienda has invested heavily in expanding its banking channels to 250 branches, 800 ATM machines, a call center staffed by 150 people, an automated telephone banking system and, in its latest move to increase customer loyalty, an online banking portal.



NICANOR RESTREPO SANTAMARIA
President of Suramericana

the time, Mr. Restrepo was actively involved in the government's peace efforts. "I'm convinced that the strategy of the Pastrana administration is the correct one, as it is based on four essential elements: a negotiated political solution to the conflict, a strengthening of the political institutions, the participation of the international community, and the emphasis on social development," says Mr. Restrepo.

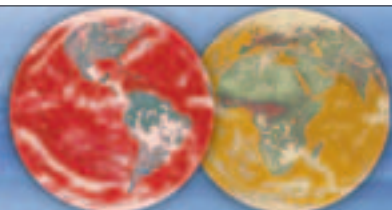
He goes on to explain that, "these negotiations have created a framework that will allow us to move on from a process of searching for peace to one of truly constructing peace. If we achieve this, then the government will be free to concentrate on the necessary economic and structural reforms."



PEDRO NEL OSPINA SANTA MARIA
President of Bancafe



JOSÉ ALEJANDRO CORTÉS OSORIO
President of Sociedades Bolívar



Colombia, a treasure to be discovered.
Accepted all over this beautiful country.



Colombia

5

OIL AND GAS

Positive energy

A MAJOR EXPORTER OF OIL TO THE U.S., COLOMBIA IS WOOING FOREIGN INVESTORS IN ORDER TO INCREASE ITS PRODUCTION AND AVOID ANY FUTURE SHORTAGE. THE GOAL IS TO REACH 800,000 BARRELS

COLOMBIA'S OIL industry is a major factor in the country's economy and is hoped to help spearhead full-fledged recovery within the next few years. Oil tops both coffee and coal in terms of export earnings and accounted for 35% of government revenue last year. Colombian oil also helps fuel the U.S. economy, as only six other oil-producing nations exported more oil than Colombia to the United States in 2000.

Some doomsayers in the oil industry, however, have predicted that by the year 2004 Colombia could become a net oil importer if current reserve levels do not increase. But the government, well aware of the situation and the fact that much of the country remains unexplored, has made encouraging foreign investment in oil exploration and production a top priority.

"We began a new strategy in 1999 aimed at providing incentives to investors so that they return to Colombia in the sector of hydrocarbon exploration," noted Energy and Mining Vice Minister Luis Ernesto Mejia Castro. He was referring to the so-called Ronda 2000 and Ronda 2001 plans that improve economic conditions for exploration companies, more benefits for investors, fair playing rules and, among other incentives, the handover of oil fields that were once under state control.

"This was all done to mitigate the risk of possible shortages in the future," Mr. Mejia notes. "In just 18

months, these Ronda 2000 and Ronda 2001 strategies have already led to the signing of 46 new contracts, when in all of 1999 we only signed one. So the move has been a success and we expect production to increase. Our goal is to return to a daily output of over 800,000 barrels."

And as figures from the year 2000 indicated, nearly 50% of all that oil will end being exported to the United States. The more optimistic oil analysts point out that few companies that invest in the Colombian oil and gas industry will be disappointed. Eleven of the country's 18 sedimentary basins remain unexplored and are

Nearly 50% of the oil produced in Colombia is exported to the United States

potentially rich in hydrocarbons, they say, adding that Colombia shares many of the geological features of its oil-rich neighbor Venezuela.

Meanwhile, nobody argues that Colombia will remain Latin America's largest producer of coal for years to come. The country's second largest export in terms of revenue, Colombian coal is high in demand worldwide since its sulfur content of less than 1% makes it relatively clean to burn. Investments in natural gas, however, have fallen as the industry waits to see which way congress votes on plans to deregulate prices and spur production through export promotion while increasing domestic consumption by earmarking natural gas for the production of electricity.

The main players in the industry include Ecopetrol, which manages the exploration and devel-

opment of gas reserves, and Ecogas, the state-owned company linked to the Ministry of Energy that manages the nation's transmission system and operates most of the gas transportation pipelines. According to the president of Ecogas, Juan Carlos Duarte Torres, the company plays a key role in the country's export initia-

FOREIGN TRADE

Open for business

THE LIBERALIZATION OF THE MARKETS IS A KEY ELEMENT IN THE DRIVE TO INCREASE FOREIGN TRADE. BOGOTA IS ALSO EAGER TO GET U.S. CONGRESS APPROVAL OF THE ANDEAN TRADE PREFERENCES ACT

COLOMBIA'S Foreign Trade Ministry has embarked on a do-or-die crusade to push through market liberalization programs that are aimed at removing the last remaining stumbling blocks to fluid trade. The ministry's 1999-2009 Strategic Exporter Plan is a key, voluminous guideline that Foreign Trade Minister Martha Lucia Ramirez de Rincon sums up in a few simple words, "Colombia is open for business".

The United States has been and will remain Colombia's major trading partner and the Andean nation is a key link to the hemisphere-wide Free Trade Agreement of the Americas (FTAA) that is tentatively scheduled to take place in 2005 and will create the world's largest free trade area.

But the long road to FTAA is not without its bumps, which is why every effort should be made to smooth it. A huge step towards that aim should start with U.S. congressional approval this year



DIR. GEN. DE TURISMO, MIN. DE DESARROLLO ECONOMICO

46 NEW CONTRACTS have been signed by Ecopetrol and the ministry of Mines and Energy in the past 18 months.

tives, most notably the administrations attempts to build a pipeline to Venezuela, and beyond. "That project is of top priority because it would mean the beginning of integrating our gas pipelines with Venezuela," says Mr. Duarte. "Then we also have to look towards the south, to Bolivia and Peru, and finally to the huge U.S. market, which will buy all the natural gas you can sell it."

Colombia's National Association of Industrialists (ANDI), which has more than 650 companies among its members, couldn't agree more, and is hopeful that the U.S. congress will agree to include more Andean products in the decade-old trade preference arrangement. As president of ANDI, Luis C. Villegas' job is to defend the sectors under his wing, like clothing manufacturers and the textile industry that are currently excluded from the trade preference scheme.

"We want these industries to be included in the same way that they receive special treatment to enter the U.S. market from Central America," Mr. Villegas says. "If not, it'll be more than textiles we lose, we will also lose some

200,000 jobs. And Colombia would then have to seek more direct aid from the United States." With or without ATPA, Mr. Villegas says he is confident that Colombia's strong industrial sector offers many possibilities for investors. High on his list are the opportunities for international companies in the tourism, infrastructure and agriculture industries.

Another important trade avenue is Colombia's National Association of Foreign Trade (Analdex), which has been promoting import and export companies long before programs like the ATPA were even conceived. According to Analdex president Javier Diaz-Molina, even though there are more than 5,000 exporters in the country, 75% of all Colombian exports are carried out by approximately 100 companies. "Our aim is to diversify the type of products destined for export and to include more and more companies in the activity of foreign trade, in particular exporting," Mr. Diaz-Molina explains. "We have been working with the government on different programs to include small and mid-sized industries in export activities, and so far we are on the right track."



MARTHA LUCIA RAMIREZ DE RINCÓN
Minister of Foreign Trade



JAVIER DÍAZ-MOLINA
President of Analdex



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AGRICULTURE

Fertile new projects

COLOMBIA IS FAMOUS FOR ITS EXCELLENT COFFEE BUT IT ALSO EXPORTS BANANAS, FLOWERS AND LESS TRADITIONAL PRODUCTS. THE GOVERNMENT PLANS TO MODERNIZE THE SECTOR AND INCREASE EXPORTS

AFTER SUFFERING through just 1% growth in 1998 and negative growth in 1999, Colombia's agriculture sector bounced back last year to expand by 5.36%. The industry as a whole accounts for some 14% of the nation's GDP. Coffee, which accounts for well over 20% of the nation's exports and provides a living directly and indirectly to some 1.6 million people, is still the top crop.

One of the most important institutions in Colombia is in fact the National Federation of Coffee Growers (Fedecafe), headed by Jorge Cardenas Gutierrez. Fedecafe represents over 80% of the growers and over 95% of the national coffee production. It continues to play a vital role in the country's development through infrastructure funding and the modernization of farming methods.

Last year's growth figures for agriculture were no accident, as many in the industry had feared. Instead, they were the result of a well-organized government effort to increase production, promote exports and diversify. "All indicators for the first quarter of this year point to a growth in the agriculture sector of exactly 4.99%," notes Colombian Agriculture Minister Rodrigo Villalba Mosquera. "This tells us that growth in the sector is not fleeting, but is consolidated

and steady. And we have other indicators showing an increase in farming area and investments." Funding new projects and technological improvements in the agriculture industry was a difficult endeavor during the lean recession years of 1998-99. Since last year, however, domestic and international financing derived from Plan



RODRIGO VILLALBA MOSQUERA
Minister of Agriculture

Colombia and other government-led programs and international assistance funds has allowed the industry to recover lost ground.

"We are currently working with the Ministry of Foreign Trade to create an investment fund for mega-projects, especially in the agriculture sector, with an aim towards exports. We already have a commitment from the Inter-American Development Bank for loan of US\$100 million, which is on top

of the government's funding programs," Mr. Villalba explains.

The industry's traditional products are coffee, flowers and bananas, all of which are well positioned in international markets. Non-traditional products that have the most potential as foreign revenue earners include palm and palm oil, cotton, cocoa, corn, fruits and livestock products.

"Right now we already have the potential to export palm oil, meat and milk. There are other products that we are still trying to recover for manufacturing and domestic consumption," Mr. Villalba says. "For example, 10 years ago we were net exporters of cotton and now we're importing as part of our strategy to supply the national industry. The same goes for corn, soybean and cocoa, all products that we will be able to export in the medium and long term. In the short term our strategy is to produce for domestic supply."

So for both the short and long term the government is committed to making the agriculture business a profitable one for both domestic and foreign investors, who Mr. Villalba insists are more than welcome. "All I can tell foreign investors is that Colombia's agriculture sector is once again a good and profitable business venture. We have set up important instruments to help finance projects and are adding new ones. The government is also making great efforts to guarantee security and investments. There will be no risks to investors here," Mr. Villalba concludes.

Supermarkets go global

ONE INDICATION that domestic demand is on the rise for Colombian agriculture products and industrial goods is the growing success of the nation's retail and distribution outlets, the most remarkable of which has been Carulla Vivero.

The company was formed last year following a merger between the neighborhood supermarket chain Carulla and the giant hypermarket Almacenes Vivero, 30% of it owned by the U.S.-based financial firm New Bridge. Within the next two years it has plans to expand into the Venezuelan and Ecuadorian markets.

"Carulla Vivero is the second largest retail company in Colombia, with 148 stores and sales of \$600 million and around 10,500 employees," notes Samuel Azout Papu, the company's president. This year's sales are expected to



SAMUEL AZOUT PAPU

President of Carulla Vivero

rise by nearly 50%, he adds. Mr. Azout points out that the company's success is a result of its strategy of creating a multi-format concept with three different types of centers, Carulla, Vivero and the Merquefacil outlet, which is geared more towards discount shoppers and the lower income groups.

This format, along with the company's young and well-trained staff, has helped the company stand up to stiff

competition from multinationals like Makro and Carrefour. "Our multi-format model allows us to be more versatile and quick to reach different types of clients and markets than Carrefour, for example. Not only do we have the agility to make rapid decisions to seize opportunities, but Carulla Vivero also has more retail outlets that any other company in the sector," Mr. Azout Papu explains.

Competition is welcomed in this sector, says Mr. Azout, as it "forces us to be better, improve business technology and globalize our development. But the most positive effect is that the Colombian consumer will get better service, lower prices and higher quality. Having such sophisticated competitors like these new operators forces us to be at the top of our game in order to maintain our share of the market."



THE EXTERIOR ARCHITECTURE illustrates the high quality of the most important chain of supermarkets and supercenters, providing excellence to all Colombia with over 80 stores.

INFRASTRUCTURE

The roads to peace

THE UPGRADING OF THE TRANSPORTATION SYSTEM IS CONSIDERED BY THE AUTHORITIES AS A MAJOR PEACE-BUILDING PROJECT

COLOMBIA'S transportation infrastructure is receiving new impetus for growth and improvement under President Andres Pastrana's administration, especially concerning the nation's road network. The Transportation Ministry and the National Highway Institute have opened new highway concession projects that will increase investments in road construction and upgrades for the years to come. Currently there are 22 such projects under

construction, eight under licensing and another 25 new projects to be licensed. In total, the projects call for the construction, rehabilitation and maintenance of 4,050 miles of roads. Additional investments also involve state and city road networks, railroads and both sea and river ports.

"In Colombia there is a low ratio of paved roads to square kilometer or to number of inhabitants, which is how roadway development is

measured," explains Colombian Transportation Minister Gustavo Adolfo Canal Mora. "And we are seeking through all means formulas that will bring us up to date and are working to make sure private investment in the sector finds its way to Colombia."

The Transportation Ministry has a huge role in President Pastrana's ambitious Plan Colombia for economic and social development and peace. The ministry has even come up with a program called "Vias Para la Paz", which can be loosely translated as "Ways for Peace". The US\$400 million program started

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Colombia

last year and covers all different means of transportation, although its main focus is on the rural road network. "About \$32 million is to go to improve waterways and \$8 million for small airports in conflictive areas and the rest will go for roads," Mr. Canal says.

He adds that the roads under consideration in the program have little traffic volume but are of major importance to Plan Colombia, as they all pass through cultivation areas for illegal coca plants. "We are looking to provide opportunities in regions where all these illicit crops exist," Mr. Canal explains. "Many peasants find themselves in a region where they cannot commercially produce anything else than coca because there are no roads or because the roads are so bad that transporting a ton of corn or yuca or a cow would be too expensive," he says.

So far the program has reached 228 small towns and villages, or about 25% of the country's 1,040 tiny municipalities. Completion of the program will take about three years and massive investment.

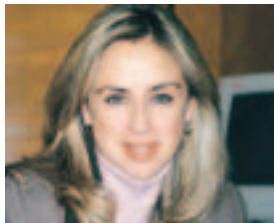
"This government is committed. The investment so far under the Ways for Peace plan is four times more than has been made in the past 20 years. In three years we are going to do what has never been done," Mr. Canal concludes.

TELECOMMUNICATIONS

Building lifelines

COMPETITION IS THE RULE IN THE COUNTRY'S TELECOMMUNICATIONS SECTOR AND THE GOVERNMENT SPONSORS VARIOUS PROJECTS AIMED AT PROVIDING ACCESS IN RURAL COMMUNITIES

THE COLOMBIAN telecommunications sector accounts for approximately 3% of GDP, which indicates that in a country of 41 million people there is a huge market ripe for development. The sector has been made even more attractive by the fact the government is providing incentives aimed at expanding the existing network to reach all areas of the country and at developing an information-



ANGELA MONTOYA MORA
Minister of Communications

driven society. "Colombia has a dynamic communications sector. Today, the country provides fixed, mobile and advanced telecommunication services in an environment of growing competition among public, private domestic and foreign operators. There is a huge market to develop concerning all types of services and we believe that we now have the necessary conditions for this development," Communications Minister Angela Montoya Mora says. Several government-sponsored projects are currently underway in the Colombian communications sector. Bidding for a third mobile telephone operator's PCS license began in September and runs until December. Other investment

opportunities in the sector include activities in the government's Compartel program, which is aimed at providing access to telecommunications in rural areas.

"In the two years since the Compartel programs began, we have established rural community telephone points in more than 6,500 towns and villages of 300 inhabitants or more and more than 1,000 community Internet access centers, making it one of the most ambitious social telecommuni-

U.S. operators such as BellSouth are investing in the dynamic telecom sector

nications programs in Latin America," says Ms. Montoya. Compartel now plans to provide \$100 million to support operators who can develop 5,000 more of these rural community telephone points and about 500 new voice and Internet access centers.

"The focus that we have designed for this rural development program is unique and is attracting international operators. And no wonder, considering the amount of



MINISTERIO DE COMUNICACIONES

INTERNET access centers are being built in thousands of villages thanks to Compartel.

money the government chips in for these projects, anyone can make a profit," Ms. Montoya notes.

BellSouth is a clear example of a U.S. company making good in the Colombian telecommunications sector. After losing its original bid for a wireless telephony license, Bellsouth purchased part of Celumovil, the country's first wireless operator. "We had an interest in Colombia for a long time. We felt it was important for a multinational company with a Latin American portfolio and a Latin American strategy to be present in Colombia," recalls BellSouth Colombia president Larry Smith. "So after purchasing a part of Celumovil in July of 2000 we purchased 100%

of Cocolco, which gave us two licenses for the entire country. Today we are still the only national provider of cellular services in all Colombia, which is a good advantage for us because we can provide consistent service all over the country," Mr. Smith notes. Now, with its

feet firmly planted in Colombia, BellSouth has managed in just over a year to turn the South American nation into the company's fourth largest property, and one of the most important for BellSouth International, with considerable investment but with considerable potential for growth as well.

"Our contribution to Colombia's social development is really one of the pillars of BellSouth's vision," Mr. Smith adds. "We are a leader in this area without a doubt. BellSouth Colombia has donated 500 or so computers to projects that the first lady has to help kids with education. We sponsored a project to provide artificial limbs for children injured in landmine explosions, and we have handed out more than 700 scholarships to get kids who were working to support their families back into school."

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MEDIAS

Talent meets public

THE AWARD-WINNING CARACOL TV AND CARACOL RADIO ARE NUMBER ONE IN THEIR FIELD AND HAVE SIGNED NUMEROUS AGREEMENTS WITH INTERNATIONAL NEWS AND MEDIA GROUPS

JUST ONE year after going on the air with its first broadcast in July 1998, Colombia's Caracol TV had already become the nation's number one rated channel, capturing 29% of the entire audience in July 1999 and 34.4% by September. Two months later, Caracol TV received Spain's prestigious Ondas Award as the best television station in Latin America and "for having become a unique experience in the American continent".

"Caracol TV had to get on its feet in a really short time, for both legal and competitive reasons," recalls Caracol TV president Ricardo Alarcon Gaviria. "This forced us to quickly find a big dose of high na-

tional and international talent. We already had national experience and we were able to count on consultants from other countries. Perhaps the closest relationship was with the Spanish group Arbol, although we also had Canadians helping with the technical issues and for the news programs we had U.S. assistance. It was a short, but very intense period. Today, however, we hardly work at all with any of these companies, and 100% of our programs is handled by the channel's own teams."

The company has moved quickly to form international alliances with such firms as the powerful Cisneros Group, which owns a minority stake



RICARDO ALARCON GAVIRIA
President of Caracol TV



JOSE MANUEL RESTREPO
President of Caracol Radio

VIEWERS can follow the romantic adventures of their heroes as well as news, chats and commercial offers "live" on the Caracol website.



38 years later the Bavaria Group entered the company as a shareholder and gave Caracol the professional focus and business orientation that has led to its stellar success today.

In 1999 Caracol Radio signed an agreement with the Spanish media giant Grupo Prisa to form a joint venture in the United States called Grupo Latino de Radiodifusion that broadcasts out of Miami, adding to Caracol's presence in France, Chile, Panama and Costa Rica with 107 radio stations in all. "Radio Latina in Paris, for example, is not only geared towards the Spanish-speaking market. The French speakers are big fans of tropical music. Every year there's a huge party in Paris where some 5,000 people gather to listen to and dance to salsa, merengue and vallenato," explains Jose Manuel Restrepo, president of Caracol Radio.

The company's long-term strategy includes expanding into the New York and Los Angeles markets to tap into the huge Hispanic communities there, Mr. Restrepo says. "The Spanish Group Prisa," he notes, "decided to set up their main offices in Miami because the idea is to develop our participation in the Hispanic market throughout the United States."

in Caracol TV, and is moving into the U.S. market with strategic alliance agreements and perhaps in the future by entering directly into the open-air channels to serve the Hispanic community.

"We have a five-year agreement with Telemundo to co-produce soap operas and are working on a co-operation agreement concerning news broadcasts," says Mr. Alarcon. "Telemundo is relatively new in the United States and so we can identify with them. With CNN we have some specific agreements to offer news about Colombia and they have a small office in our newsroom. It's a very concrete agreement, but could expand at any moment."





"We also closed an important agreement with Disney's Buena Vista that's the first of its kind for Latin America. They are going to co-produce one of our soaps, and about two months ago they included two of our soap operas in their international sales package, right along with their top full-length film productions," says Mr. Alarcon.

Although Caracol TV is a new company, the Caracol brand name has a long tradition in Colombia. Caracol Radio was founded in 1948 in Medellin and later expanded operations to Bogota and Cali. Some

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