Understanding consumption in Colombia

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One of the principal issues of Colombian macroeconomic policy in the 1990s has been the deterioration of private savings (Figure 1). The decline in the private saving rate was usually related to consumers real expenditure, which grew by an average of 3.9% in the period 1991-1993, compared to 1.9% per annum during 1950-1990. The trade reform, the acceleration of the financial liberalization process, a reassessment of permanent income due to the oil bonanza and a sterilization policy that increased real interest rates, and caused expectations of real exchange rate appreciation, were seen as the main determinants of the high consumption growth experienced in this decade (see, among others, Urrutia an López (1994-1995), Echeverry (1996)). López (1996) and López et. Al (1996) pointed out new avenues of research. Looking closer to the Colombian National Accounts and correcting data inadequacies, they suggested that the behavior of private consumption was not the main factor behind the sharp drop in private savings in the 1990s. According to these studies, the consumption of durable goods after the trade reform could not be blamed for the decline in the private saving rate. In fact, the latter was falling since 1998 and, until 1993, the trade reform did not cause a stock adjustment of durable goods. Moreover, they argued that the private consumption boom of the 1990s did not happen , leaving without foundation most of the traditional explanations of the decline in private savings. In contrast to the prolonged and significant increases of private savings. In contrast to the prolonged and significant increases of private consumption observed in the contrast to the prolonged and significant increases of private consumption observed in the early 1960s and 1980s, this aggregate only increased 2% of GNP in 1992. The higher growth of consumption between 1991 and 1993 was matched

by a similar increase on the rate of growth of labor per-capita income, wich rose 4.3% in 1991-1993 co