The fall in Colombian savings during the 1990s: theory and evidence

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This After 1991 Colombia witnessed a sharp fall in the national savings rate (see figure 1.1), and in particular that of the private sector. Two hypotheses have been advanced for explaining this behavior. The first one stresses consumption smoothing within the Perrnanent Income Hypothesis framework (PIH). The reasons for such smoothing can be related with three major phenomena that characterized this period; namely, i. Since 1990 the government pursued an "apertura" (opening), consisting of tariff reductions, which the agents may have deemed as non-credible (transitory); hence, they exploited the advantage of purchasing imported goods at current low prices, expecting future rises in tariffs. ii. The agents believed in the apertura, but an overshooting of capital inflows led to an overvalued exchange rate, which, they expected, should be corrected at some point in the near future, with similar effects on current imports consumption. A similar effect on the real interest rate has been also claimed to have similar effects on total consumption (see Lopes et al, 1996). And iii. a predictable increase in income originated in fairly secure and substancial oil exports starting in 1997; this could lead oil exports revenues from $ 1.4 bn. yearly in 1991 (approximately 42% of total exports), to $ 4bn. after 1997. Such expected rise in income would have caused the observed increase in consumption. The second hypothesis is based on the relaxation of liquidity constraints (LCH), as a result of the capital inflows. Urrutia and Lopez (1994) argue

that the increase in consumption was due to a relaxation in the liquidity constraints binding on an important share of the population (75% according to them). The inflow of capital experienced in the first years of the 1990s, and the monetary policy of that period would have allowed an increase in outstanding loans directed to consumption purposes. Cárdenas (1996) and Sánchez (1996) also present evidence in support of this hypoth.