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CONFIDENTIAL

August 14, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Colombia - Real Effective Exchange Rate - Information Notice

The attached information notice on a change in the real effective exchange rate of the Colombian peso is circulated for the information of the Executive Directors.

Att: (1)



INTERNATIONAL MONETARY FUND

COLOMBIA

Real Effective Exchange Rate--Information Notice

Prepared by the Western Hemisphere and Exchange and
Trade Relations Departments

(In consultation with the Legal and Research Departments)

Approved by E. Wiesner and Manuel Guitián

August 14, 1984

The recent evolution of Colombia's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of June 1984 the Colombian peso has depreciated in real effective terms by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss Colombia's exchange rate policy--the 1983 Article IV consultation in July 1983. The depreciation is estimated to have amounted to 10.5 percent.

For some years, the Colombian authorities have followed the policy of adjusting the value of the peso vis-a-vis the U.S. dollar in small amounts at relatively short intervals, taking into account the movements of Colombian prices versus the movements in the prices of its major trading partners, balance of payments indicators, and the level of international reserves. The real effective exchange rate remained relatively stable during the 1978-80 period, but appreciated by 20 percent in 1981-82 when the rate of depreciation against the U.S. dollar was not sufficient to offset the impact of the dollar's strengthening against other currencies and higher domestic inflation. The balance of payments remained in surplus in 1981, but faced with a deteriorating external position in 1982 the authorities decided in October of that year, and again in August 1983, to accelerate the rate of depreciation of the peso. This policy, combined with a declining rate of inflation (which amounted to 15 percent for the year ending in June 1984 compared to 20 percent in the previous year) has resulted in a substantial real depreciation of the peso since the end of 1982.

Developments in the Colombian economy were last reviewed by the Executive Board in concluding the 1983 Article IV consultation in July 1983. At that time, the staff expressed concern over the weakening in Colombia's balance of payments, which had registered an overall deficit of about US\$740 million in 1982. In 1983, the external position deteriorated further. While lower imports brought about a relative

improvement in the current account, exports also declined and net capital inflows dropped to less than 40 percent of their 1982 levels. As a result, net official international reserves declined by more than US\$1.8 billion last year. There was a further decline of almost US\$1.3 billion in the first seven months of 1984 leaving gross official reserves at US\$1.9 billion, equivalent to approximately six months of imports (compared to almost eleven months of imports at the end of 1982). There are, however, preliminary indications that exports are responding to the recent real depreciation. Customs data show an increase in non-coffee exports of about 15 percent in the first four months of 1984 compared with the same period last year.

Given the weakness of the balance of payments, the real depreciation of the Colombian peso should be regarded as appropriate. Exchange rate policy together with recent economic developments and future prospects will be discussed in full in the forthcoming staff report for the 1984 Article IV consultation.

Table. Colombia: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

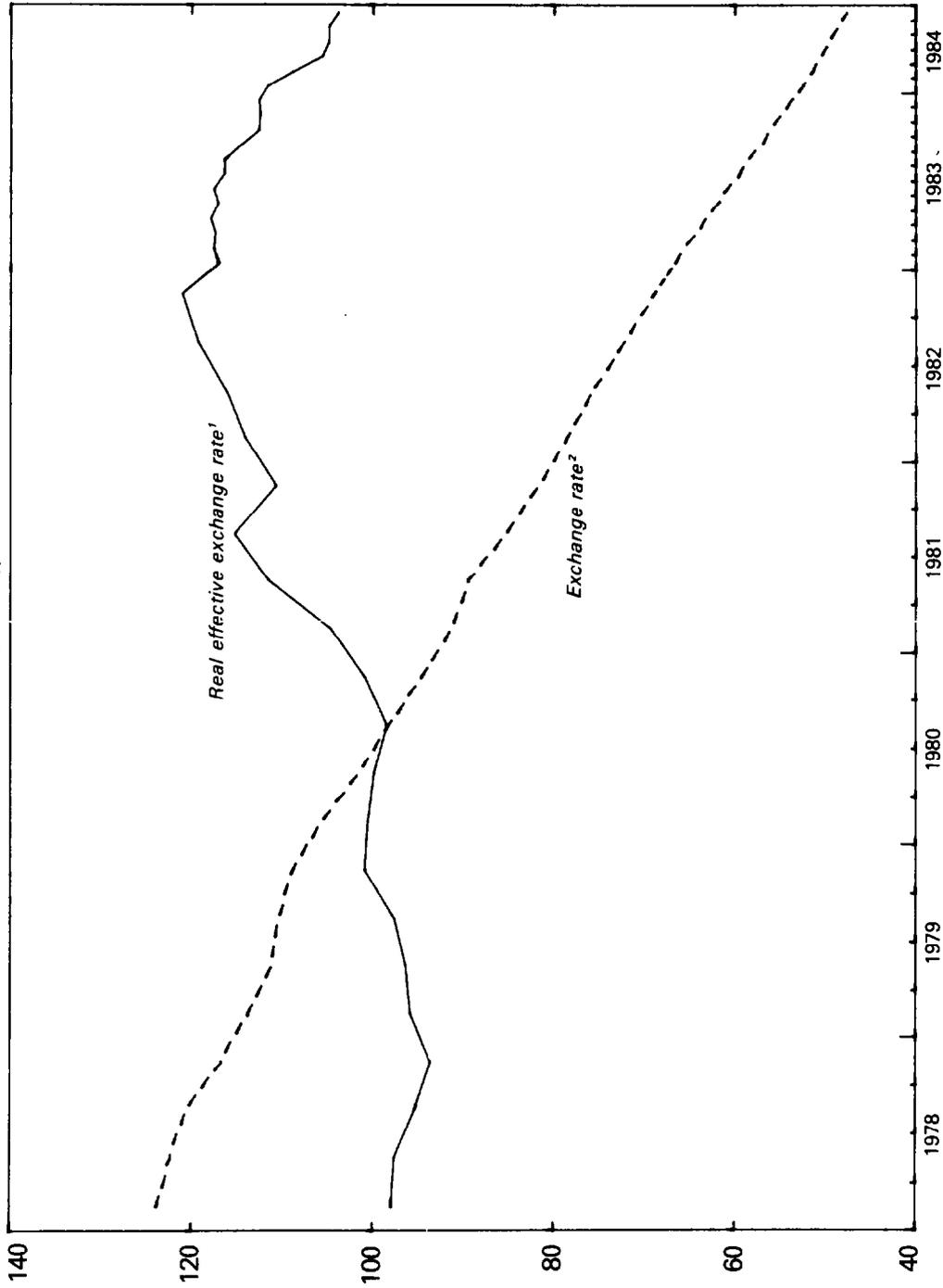
	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currency)	Exchange Rate (U.S. dollars)	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
<u>Quarterly</u>						
1978						
I	97.9	124.7	78.6	123.7	59.7	59.0
II	97.6	123.1	79.3	122.3	61.7	62.9
III	95.4	118.3	80.6	120.6	64.2	64.6
IV	93.7	112.5	83.3	116.8	67.9	67.0
1979						
I	95.9	110.3	86.9	113.8	72.7	71.9
II	96.5	109.4	88.2	111.1	75.9	77.2
III	97.6	107.6	90.8	110.4	80.8	81.2
IV	100.8	106.9	94.3	108.8	86.7	85.8
1980						
I	100.6	104.8	95.9	105.6	91.6	90.7
II	99.9	101.6	98.3	101.5	97.0	98.5
III	98.4	97.4	101.0	98.2	102.2	102.5
IV	100.8	96.3	104.7	94.6	109.3	108.3
1981						
I	104.7	96.6	108.4	91.3	116.7	115.7
II	111.5	100.1	111.4	89.4	123.4	125.0
III	115.3	99.8	115.5	85.3	131.7	132.2
IV	110.8	93.9	118.0	81.7	138.1	137.1
1982						
I	114.2	93.4	122.3	78.6	146.1	144.8
II	116.3	92.3	126.0	75.7	153.8	155.7
III	119.3	91.6	130.2	72.3	163.2	163.7
IV	120.9	89.9	134.6	68.9	172.0	170.9
1983						
I	117.3	85.4	137.4	65.5	178.7	177.1
II	117.5	83.4	140.9	62.0	187.3	189.6
III	115.8	81.6	141.9	58.4	193.3	193.9
IV	112.6	78.4	143.6	54.9	201.4	200.1
1984						
I	108.6	74.8	145.3	51.5	209.1	207.1
II	104.5	71.7	145.8	48.6	215.0	217.9
<u>Monthly</u>						
1983						
July <u>3/</u>	116.4	82.0	141.9	59.5	191.5	193.5
Aug.	116.4	82.2	141.6	58.6	193.0	193.4
Sept.	114.5	80.6	142.1	57.1	195.5	194.9
Oct.	112.7	78.8	142.9	56.2	198.7	198.2
Nov.	112.5	78.2	143.9	54.8	201.6	200.7
Dec.	112.6	78.1	144.1	53.8	203.8	201.5
1984						
Jan.	11.5	76.9	145.0	52.4	206.7	204.0
Feb.	108.7	74.9	145.3	51.5	209.1	206.8
Mar.	105.5	72.5	145.6	50.5	211.4	210.5
Apr.	104.9	71.9	145.7	49.6	213.5	214.7
May	104.8	72.0	145.5	48.6	214.7	217.7
June	104.3	71.1	146.6	47.7	217.8	221.2
Percentage change July 1983- June 1984	-10.5	-13.3	3.3	-19.8	13.3	14.3

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indexes.

3/ Date of latest consideration by Executive Board.

CHART
COLOMBIA
INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE
(1980 = 100)



¹Trade weighted index of nominal exchange rates deflated by seasonally adjusted consumer prices; increase means real appreciation.
²Exchange rate index (U.S. dollar per colombian peso).