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September 18, 1984

To: Members of the Executive Board

From: *The Acting Secretary*

Subject: Colombia - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Colombia. A draft decision appears on page 23.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Bonangelino (ext. (5)7148).

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INTERNATIONAL MONETARY FUND

COLOMBIA

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the
1984 Consultation with Colombia

Approved by E. Wiesner and W. A. Beveridge

September 17, 1984

I. Introduction

The 1984 Article IV consultation discussions with Colombia were held in Bogota in the period July 9-27, 1984. Representatives of Colombia in the discussions included the Ministers of Finance, Agriculture, Labor, Mines and Energy, the Director of the National Planning Department, the Director of the Foreign Trade Institute, the Economic Advisor to the President of the Republic, the General Manager of the Banco de la Republica and other senior officials of the Ministry of Finance and the Banco de la Republica. The staff representatives were M. E. Bonangelino (Head-WHD), A. Antonaya (FAD), A. Caetano (WHD), U. Dell'Anno (EUR), G. Oliveros (ETR), and A. M. Eyzaguirre (Secretary-WHD).

Subsequent to the mission, the General Manager of the Banco de la Republica and the Deputy Minister of Finance visited Fund headquarters to describe to the staff a series of fiscal measures and actions which the Colombian authorities have adopted or are in the process of adopting with the aim of reducing the fiscal deficit.

The last Article IV consultation discussions took place in April 1983 and the reports (SM/83/101 and SM/83/134) were discussed by the Executive Board on July 1, 1983 (EBM/83/97). Colombia continues to avail itself of the transitional arrangements of Article XIV.

II. Recent Developments

After a rapid expansion during the second half of the last decade, Colombia's economy has performed less satisfactorily in recent years. Real GDP increased by less than 1 percent a year in 1982 and 1983, down from an average of over 5 percent in the 1976-80 period and 2.3 percent in 1981 (Table 1). The weaker performance in the last two years reflected mainly a contraction of output in manufacturing and commerce and a slackening in construction activity. The year-end inflation rate slowed to slightly less than 17 percent in 1983 from over 26 percent in 1981, but at the expense of a major drop in the country's international reserves; at the same time the rate of unemployment rose from 7 percent at the end of 1981 to 12.5 percent in December 1983.

Table 1. Colombia: Economic Indicators

	1979	1980	1981	1982	Prel. 1983	Proj. 1984
			(Percentage change)			
GDP at constant prices	5.4	4.1	2.3	0.9	0.8	1.8
GDP at current prices	30.7	32.8	25.6	25.7	18.1	19.0
Agricultural value added (at constant prices)	4.8	2.2	3.2	-1.6	2.1	2.3
Industrial value added (at constant prices)	6.1	1.2	-2.6	-2.4	-0.2	1.5
Consumer price index (December-December)	28.8	25.9	26.4	24.0	16.6	15.7 1/
Wholesale price index (December-December)	29.0	25.4	23.5	24.6	18.0	16.1 2/
			(In percent)			
Unemployment rate (December)	8.6	9.1	7.0	8.9	12.5	13.6 3/

Sources: National Department of Statistics (DANE); Banco de la Republica; and Fund staff estimates.

1/ July 1983-July 1984.
2/ May 1983-May 1984.
3/ March 1983-March 1984.

After registering a cumulative surplus in excess of US$5 billion over the 1975-81 period, the balance of payments showed large overall deficits in the last two years (US$0.7 billion in 1982 and US$1.8 billion in 1983). The overall payments deficit resulted from a widening in the current account deficit in 1981 and 1982 and from a drastic reduction in net capital inflows in 1983, stemming from a net repayment of loans by the private sector and capital flight (Table 2). The deterioration of the balance of payments was in part the result of exogenous factors such as high interest rates abroad, the depreciation of the Venezuelan currency, and a relatively weak international coffee market. However, the fiscal, monetary, and wage policies pursued by the authorities have played a major role in the deterioration of the balance of payments.

Table 2. Colombia: Balance of Payments

(In billions of U.S. dollars)

	1979	1980	1981	1982	Prel. 1983	Proj. 1984
Current account	0.5	0.1	-1.6	-2.7	-2.5	-1.8
Exports, f.o.b.	3.5	4.4	3.5	3.4	3.2	3.6
Of which: coffee	(2.1)	(2.2)	(1.5)	(1.5)	(1.4)	(1.7)
Imports, f.o.b.	-3.0	-4.3	-4.8	-5.4	-4.7	-4.1
Services and transfers (net)	--	--	-0.3	-0.7	-1.0	-1.3
Capital account	1.1	1.2	1.8	2.0	0.7	-0.1
Official capital 1/	0.6	0.8	1.0	1.0	1.0	0.9
Financial system	0.4	0.1	0.1	0.1	--	-0.3
Private sector	0.1	0.3	0.7	0.9	-0.3	-0.7
Long-term	(0.2)	(0.1)	(0.6)	(0.7)	(0.3)	(--)
Short-term 2/	(-0.1)	(0.2)	(0.1)	(0.2)	(-0.6)	(-0.7)
Overall surplus or deficit (-)	1.6	1.3	0.2	-0.7	-1.8	-1.9
Memorandum item						
Current account balance as a percentage of GDP	2.0	0.4	-4.6	-7.0	-6.9	-5.2

Sources: Banco de la Republica; and Fund staff estimates.

1/ Includes transactions with international agencies and SDR allocation.
2/ Includes errors and omissions.

The weakening of the current account has been of the order of 9 percent of GDP, as it has shifted from a small surplus in 1979-80 to a deficit of US$2.7 billion in 1982. The large move into current account deficit has reflected the stagnation of exports, the continued growth of imports resulting from expansionary policies, and a substantial increase in net service payments. The latter, in turn, resulted mainly from higher interest payments on the external debt, lower interest receipts from foreign reserves as they have declined sharply, and a large reduction of remittances from Colombian workers abroad. In 1983 the current account deficit declined slightly to US$2.5 billion (6.9 percent of GDP) because of a significant drop in imports, although this was partly offset by a continued increase in net service payments.

The overall deficit of the public sector rose from about 0.5 percent of GDP in 1979 to 7 percent of GDP in 1983, reflecting both a weakening of revenue growth and a sharp expansion of expenditure (Table 3). Public sector revenue has grown at a slower pace than nominal GDP in recent years, reflecting a decline through 1982 in income tax receipts as a ratio to GDP, the reduction of the tax on coffee exports in 1981, and a decline in the rate of expansion of customs revenue. In 1983 tax revenue grew faster than GDP mainly reflecting the reform of the income tax and the rural property tax that year. This growth in revenue was, nevertheless, insufficient to offset a sharp decline in nontax revenue as a result of a sizable reduction in income earned on the management of the country's foreign official reserves, and total public sector revenue continued to decline as a ratio to GDP.

The ratio of public sector outlays to GDP has risen by almost 3 percentage points from 1979 to 1983, reflecting both a strong increase in current outlays and through 1982, in capital outlays; the ratio of investment to GDP fell in 1983. The wage bill of the public sector has risen much faster than nominal GDP since 1979, mainly reflecting salary adjustments.

Monetary policy turned increasingly expansionary over the last two years. In an attempt to spur economic activity, the Banco de la Republica eased its rediscount facilities, opened a number of credit lines in favor of specific activities, broadened the role of special funds administered by the Banco de la Republica, and released funds which had been kept frozen in the form of special reserve requirements imposed during the export sector boom of 1976-78. As a result of these actions and the increased financing needs of the public sector, the growth of the net domestic assets of the Banco de la Republica accelerated from 6 percent in 1981 to over 60 percent in 1982-83, and to more than 75 percent in the 12 months ended June 1984. At the same time, the rate of increase of the Banco de la Republica's liabilities to the private sector fell to only 8 percent in 1983, compared with 11 percent in 1981 and 30 percent in 1982 (Table 4). This slowing in the growth of the Bank's resourcess reflected a lowering of the yields on the certificates issued by the Banco de la Republica, the elimination of the penalty on the early redemption of exchange certificates, and a discontinuation of open market operations.

For the financial system as a whole, the expansion of net domestic assets accelerated from 30 percent in 1981 to 37 percent in 1983. Credit to the private sector has grown at the same rate of some 25 percent in each of the last three years, despite the deceleration in the growth of

Table 3. Colombia: Consolidated Public Sector Operations

(As percent of GDP)

	1979	1980	1981	1982	Est. 1983	Proj. 1984
Total revenue	22.2	23.8	19.6	19.3	19.0	20.3
Current revenue	22.0	23.6	19.4	19.0	18.7	20.0
Tax revenue	14.3	14.3	12.4	12.6	13.1	14.6
Nontax revenue	7.7	9.2	7.0	6.4	5.6	5.3
Operating surpluses	(1.8)	(2.2)	(2.2)	(2.3)	(2.3)	(2.2)
Property income	(1.3)	(1.5)	(1.7)	(1.5)	(0.8)	(0.8)
Other nontax revenue	(4.6)	(5.5)	(3.1)	(2.6)	(2.5)	(2.3)
Current transfers	--	0.1	--	--	--	0.1
Capital revenue	0.2	0.2	0.2	0.3	0.3	0.3
Total expenditure	23.6	26.2	25.5	26.1	26.3	28.5
Current expenditure	17.1	19.6	17.6	17.9	18.6	19.6
Wages and salaries	5.4	5.7	6.4	6.7	7.1	7.3
Purchases of goods and services	7.8	8.7	5.9	5.7	5.9	6.1
Interest payments	1.2	1.8	1.6	1.7	1.6	1.9
Current transfers	3.3	3.4	3.8	3.6	3.7	3.7
Other current expenditure	0.6	0.6	0.7	0.6	0.6	0.6
Adjustment 1/	-1.2	-0.6	-0.8	-0.4	-0.3	--
Capital expenditure	6.5	6.6	7.9	8.2	7.7	8.9
Overall surplus or deficit (-)	-1.4	-2.4	-5.9	-6.8	-7.3	-8.2
Net residual 2/	0.9	-0.2	1.6	0.6	0.4	--
Overall financing	0.5	2.6	4.3	6.2	6.9	8.2
External financing (net)	1.8	2.0	2.8	2.4	2.6	2.6
Banking system (net)	-1.5	0.4	1.5	3.7	4.2	5.4
Other	0.2	0.2	--	0.1	0.1	0.2
Memorandum item						
Current account surplus or deficit (-)	4.9	4.0	1.8	1.1	0.1	0.1

Sources: Banco de la Republica; Ministry of Finance; and Fund staff estimates.

1/ Adjustment arising from differences in reporting on an accrual and cash basis.
2/ Reflects reporting lags and statistical discrepancies.

Table 4. Colombia: Summary Accounts of the Banco de la Republica

(Percentage change over the previous 12 months) 1/

	December 1981	December 1982	December 1983	December Proj. 1984	June 1983	June 1984
Net international reserves	7.0	-24.6	-52.9	-50.1	-57.4	-65.0
Net domestic assets	6.0	61.2	66.3	69.9	92.3	76.8
Credit to the public sector (net)	19.5	49.8	45.5	53.6	71.8	65.6
Central Administration (net) 2/	(19.0)	(51.1)	(45.1)	(54.2)	(71.1)	(66.8)
Rest of the public sector (net)	(0.5)	(-1.3)	(0.4)	(-0.6)	(0.7)	(-1.2)
Rest of the financial system (net)	-14.1	-0.8	19.4	17.6	16.8	12.8
Credit to the private sector	2.3	1.3	1.1	0.5	1.3	0.6
Net unclassified assets	-1.7	10.9	0.3	-1.8	2.4	-2.2
SDR allocation and valuation adjustment	1.2	5.7	6.0	2.2	8.5	8.9
Medium- and long-term foreign liabilities	0.8	0.6	-0.2	-0.3	0.4	-0.3
Liabilities to the private sector	11.0	30.3	7.6	17.9	26.0	3.2

Sources: Banco de la Republica; and Fund staff estimates.

1/ In relation to the stock of liabilities to the private sector at the beginning of the period.
2/ Includes transfers to the Central Administration of profits from the purchases and sales of foreign exchange.

nominal GDP. At the same time, there has been a slowdown in the growth of the financial system's liabilities to the private sector, from almost 30 percent in 1981 to 23 percent in 1983 (Table 5).

Table 5. Colombia: Summary Accounts of the Financial System

(Percentage change over the previous 12 months)1/

	1979	1980	1981	1982	1983	Proj. 1984
Net international reserves	15.4	10.8	0.7	-6.0	-12.1	-8.3
Net domestic assets	19.1	40.0	29.7	32.9	36.5	30.6
Credit to the public sector (net)	-6.5	1.6	5.1	10.0	12.6	15.6
Central Administration (net)	(-5.0)	(2.4)	(5.2)	(11.0)	(10.7)	(10.8)
Rest of the public sector (net)	(-1.5)	(-0.8)	(-0.1)	(-1.0)	(1.9)	(4.8)
Official capital and surplus	-1.2	-2.2	-2.6	-3.7	-1.5	-1.3
Credit to the private sector	24.0	37.1	26.7	24.1	25.6	16.5
Interbank float and unclassified assets (net)	2.8	3.5	0.5	2.5	-0.2	-0.2
SDR allocation and valuation adjustment	1.9	2.1	0.9	1.9	1.3	0.4
Medium- and long-term foreign liabilities	1.0	1.4	0.1	0.3	0.1	--
Liabilities to the private sector	31.6	47.3	29.4	24.7	23.0	21.9

Sources: Banco de la Republica; and Fund staff estimates.

1/ In relation to the stock of liabilities to the private sector at the beginning of the period.

There are indications that a moderate recovery in economic activity began in the latter part of 1983 and has continued in 1984; real GDP is projected to expand by 2 percent this year. At the same time, the rate of inflation has declined further, with the 12-month increase in consumer prices dropping to around 15.5 percent by July 1984. As regards the balance of payments, however, the situation has continued to deteriorate rapidly in the first seven months of this year as reflected by a decline in the net international reserves of the Banco de la Republica of almost US$1.3 billion, bringing the total loss to US$3.8 billion since the beginning of 1982. At the end of July 1984, the net international reserves of the Banco de la Republica had declined to US$1.8 billion or approximately five months of imports. The real exchange rate has been depreciating since the end of 1982, partly reversing the appreciation that had occurred since the mid-1970s.

III. Report on Discussions

At the time of last year's consultation discussions the Colombian authorities believed that, given the conditions of low capacity utilization and weak domestic demand then present in the economy, stimulative fiscal and monetary policies could produce a moderate revival of the economy without reigniting inflation. The authorities were also of the view that they had considerable room for maneuver given the substantial amount of international reserves that had been accumulated in previous years and the limited recourse to foreign borrowing that had been made.

In the event, stimulative policies were pursued in 1983. While Colombia was able to keep the real GDP from falling in 1983 (a better performance than many other developing countries), its rate of growth was only about one third of that which had been anticipated. Moreover, there was a considerable further weakening of the balance of payments and the loss of foreign official reserves in 1983 was substantially higher than had been anticipated, despite the intensification of exchange and trade controls.

Against the background of the further serious deterioration in the balance of payments situation, the Colombian authorities fully recognize the need for a reorientation of their financial policies with the aim of substantially reducing the balance of payments pressures. The consultation discussions focused mainly on the the need to achieve a prompt reorientation of financial policies and on the means of securing such a reorientation. In its discussions with the authorities, the staff was mindful of the concerns expressed in the summing up of the 1983 Article IV consultation particularly regarding the magnitude and content of the anticyclical action contemplated by the authorities at that time and the need not to delay unduly the adoption of measures required to raise domestic savings and to bolster private sector confidence.

1. Fiscal policy

The Colombian authorities recognize the need to reduce substantially the public sector deficit and its financing from the Banco de la Republica. They agreed with the staff estimates that, in the absence of additional fiscal measures, the overall deficit of the Central Administration would rise from 3.7 percent of GDP in 1983 to over 5 percent of GDP in 1984, while the deficit of the overall public sector would increase from 7 percent of GDP in 1983 to over 8 percent in 1984.

The authorities were of the view that an important part of the fiscal adjustment would have to come from the side of expenditures, particularly since these had been growing in real terms in the recent past. The new Minister of Finance, who assumed office at the time the mission arrived in Bogota, agreed with the staff that public sector wage policy would be of fundamental importance. Public sector wages have increased faster than the rate of inflation in recent years, including 1984. While the final decision on wages for 1985 is to be made later this year, the authorities said that they were contemplating limiting the increase in civil servants wages for next year to only 10 percent, which would be significantly below the rate of inflation likely for 1985.

The authorities explained that the legal framework of Colombia does not permit the Government to enforce a unified wage policy throughout the public sector, and that wage increases in the rest of the public sector had tended to exceed those granted to employees of the Central Administration in recent years. It also was noted that with the decentralization of the educational sector, which was completed by 1980, the Central Administration had lost its power to limit the number of appointments. This has resulted in large transfers from the Central Administration to local governments to cover teachers' salaries. The authorities went on to say that they would seek ways in which a policy of wage moderation would be implemented throughout the public sector.

The 1985 budget proposal for the Central Administration, which was presented to Congress just after the mission returned to headquarters, at the end of July, implies a substantial reduction in the rate of growth of total outlays. Specifically, the budget (including certain supplements to the budget that are already known) implies an increase in current outlays of 12-14 percent in 1985, compared with about 30 percent in 1984, and a decline in capital expenditure; the budget has been drawn up on the basis of a projection that prices would rise by about 16 percent from 1982 to 1983.

To facilitate the implementation of the policy of expenditure restraint implicit in the 1985 budget, the authorities have recently submitted to Congress three draft laws and are about to submit another three which (1) grant extraordinary powers to the Government to modify or eliminate public sector functions and to strengthen its control over public sector outlays, (2) limit the number and the amount of supplementary budgets that can be presented to Congress during the fiscal year to no more than two and for a cumulative amount equivalent to 10 percent of the original budget (there are no limits now), (3) provide for a gradual dismantling of 50 percent of revenue earmarking, (4) introduce reforms to the social security system to improve its financial situation,

(5) limit the transfers made by the Central Administration to local governments for teachers' salaries to the rate of inflation or the increase in their wages, whichever is lower, and (6) modify the present system of automatic promotion for teachers. In addition, in April 1984 the Government introduced a provision whereby the wage and salary bill of the Central Administration can rise in the future only to the extent of salary adjustments.

To complement the policy of expenditure restraint that is planned, on August 24, 1984 the Government decreed an across-the-board increase of 25 percent in existing customs duties. In addition, the authorities have indicated that they intend to raise the gasoline tax by 7 percent in the near future with further increases planned for 1985. Furthermore, one of the draft laws submitted to Congress and referred to above contains various tax proposals: (1) an advance of income tax payments of 20 percent in 1985, 15 percent in 1986, and 10 percent in 1987 (to be refunded five years later with an accrued interest rate of 5 percent a year), (2) a reduction in the amount of deductions permitted under the income tax for interest on mortgages, (3) an increase of 50 percent in the stamp tax, (4) the application of the income tax to certain nonprofit institutions, and (5) measures to control tax evasion.

It is estimated that the proposed revenue measures and curbs on spending would make it possible to reduce the cash deficit of the Central Administration by about one half (in relation to GDP) in 1985. While the increase in customs duties and the planned increase in the gasoline tax should start strengthening the Government's finances right away, the improvement is expected to be quite small in 1984, given the fact that the year is nearly three quarters over and the impossibility of modifying the wage increases already granted.

The authorities are also considering the possibility of increasing the placement of government bonds to substitute financing from the Banco de la Republica, although they are aware of the limitations imposed by the size of the market. In this connection, an issue has arisen in relation to the redemption by the Banco de la Republica of short-term bonds issued by the Central Administration. When the issuance of such bonds was first authorized in 1983 it was intended that their purchase by the Banco de la Republica not be allowed, but the bonds carry a guarantee of repurchase at par by the Banco de la Republica. In honoring such a guarantee clause the Banco de la Republica has ended up buying a large amount of those bonds (Col$27 billion in the first semester of 1984).

With regard to the public enterprises, the authorities are in the process of reorganizing the National Tariff Board, within the Planning Department, which is in charge of approving the tariffs of the main public enterprises. The authorities indicated that they intend to adjust tariffs in real terms, in continuation of a policy which has been followed in the recent past. In the electricity and water sectors, the authorities are undertaking a complete revision of the tariff structure to reduce the large differences existing between rates applied to various volumes of consumption. In the area of electricity rates, the authorities intend to introduce a new schedule of increases starting in October 1984.

2. Monetary policy

Monetary policy has continued to be highly expansionary, in large measure because of the financing of the public sector deficit by the Banco de la Republica. The authorities recognized the need to achieve a sharp reduction in the rate of credit expansion and noted the importance of bringing this about through a reduction of the public sector deficit. They also acknowledged that there was a need to slow the expansion of credit to the private sector by the financial system from rates of increases that have exceeded 25 percent. In this context, the authorities are re-evaluating the Banco de la Republica's policies regarding credit to the rest of the financial system and open market operations. More specifically, they have indicated that they will possibly reinitiate open market sales in the future and acknowledged that this would probably result in higher interest rates.

The authorities expressed concern about the rapid growth registered by advance exchange license deposits (denominated in foreign currency) at the Banco de la Republica since 1983. Such deposits are required in order to obtain an exchange license to make payments abroad for imports and can be made anytime after the import license has been obtained, regardless of when the payment is due. They saw the growth of this type of deposit as a hedge by the private sector against changes in the exchange rate and expressed their wish to dismantle such deposit scheme as conditions permit in the future. Last month a monetary board resolution established that such deposits will be accepted only after the application for an exchange license has been made.

The authorities said that they felt domestic interest rates were uncomfortably high in real terms. However, they recognized that under present circumstances the current level of domestic rates was necessary to avoid an even more serious deterioration in the country's balance of payments situation. The authorities said that because of this reason they had halted efforts to induce a reduction of interest rates through moral suasion and through a lowering in the yield of bonds issued by the Banco de la Republica. They noted that domestic interest rates have indeed increased somewhat in recent months.

The authorities expressed concern about the financial situation of some local commercial banks arising from difficulties in collecting outstanding loans. Such a situation complicated further the conduct of monetary policy. In order to mitigate the effect of the increased frozen portfolio on the financial situation of commercial banks, the Banco de la Republica has been granting emergency credit to them and it has eased the access to its rediscount facilities.

3. Wage policy

Wage policy in Colombia is limited to the determination of salary adjustments for government employees and the setting of minimum wages. Private sector wages that cover a significant portion of the labor force are set through collective bargaining.

Both public sector salaries and minimum wages have risen faster than inflation in the recent past. Central administration salaries rose on average by 23 percent in 1983 and by 22 percent in 1984, compared with increases in consumer prices of 16.6 percent in 1983 and 15.7 percent in the year ended July 1984; wage increases in the rest of the public sector have tended to be higher than those for central administration employees. Minimum wages were raised by 25 percent in 1983, and by 22 percent in metropolitan areas and 24 percent in non-metropolitan areas in 1984. In the first half of 1984, special increases were introduced in the minimum wages for rural workers to bring these wages in line with urban minimum wage.

The authorities recognized that wages have been rising at a fast pace and agreed on the need to pursue a more prudent salary policy in the future designed to ensure a further reduction of inflation. As mentioned above, for 1985 they intend to cut the rate of wage increase to public sector employees substantially as compared with the past two years, and believe that the increase in minimum wages should also be reduced significantly, although the final decisions in this area will only be made toward the end of the year.

4. Coffee policy

Colombia produces more coffee than is absorbed by internal and external demand at prevailing prices given the quota arrangements of the international quota agreement. While the excess has fallen from 2.3 million bags (of 60 kilograms) in the coffee year 1982/83 (ending September 30) to an estimated 1.3 million bags in 1983/84, it should be noted that the stocks of coffee held by the National Federation of Coffee Growers 1/ will reach almost 14 million bags by September of this year, an amount which exceeds a whole year's coffee production.

The authorities observed that coffee growers bear the brunt of the cost of carrying the stocks through a retention system. Nonetheless, relatively low international prices until mid-1983 and a policy of increasing the guaranteed price to the producer in line with inflation, which through 1982 exceeded the rate of depreciation of the peso, has resulted in a large accumulation of debt by the National Coffee Fund, most of it in the form of bonds placed with the private sector. However,

1/ The National Federation of Coffee Growers is a semiprivate organization entrusted with the implementation of the country's coffee policy.

since 1983 the acceleration in the pace of depreciation of the peso and the deceleration of domestic inflation have resulted in an effective tax on the growers (given that the price to producers is increased in line with inflation) which is helping finance the accumulation of coffee stocks. Representatives from the National Federation of Coffee Growers expressed the view that the Federation might be in a position to start reducing the level of the debt if international prices continue at current levels for the coming coffee year, provided that the exchange rate and domestic prices continue on their current paths. In any event, the authorities emphasized that they did not intend to subsidize coffee activities directly, and that the financing of the coffee stock must remain primarily the responsibility of the producers.

Colombia continues to be committed to a policy of promoting a shift away from coffee farming toward other agricultural products. The National Federation of Coffee Growers is in the process of expanding its crop diversification program aimed at replacing coffee with other crops such as bananas and corn, the raising of cattle and forestry. It is estimated that 100,000 hectares out of a total area of about 1 million hectares will be shifted away from coffee and into other crops. To assist this endeavor, the IBRD has recently lent the Federation US$50 million to help finance its program of agricultural diversification; the Federation contemplates a total investment in this program of about US$250 million.

5. External sector policies

The Colombian authorities expressed their great concern about continuing large losses of official international reserves in recent months. They noted that they had attempted to arrest the deterioration of the balance of payments by accelerating the pace of devaluation of the peso in 1982 and 1983 and by adopting tax measures to reduce the size of the fiscal deficit. They also had resorted to the intensification of exchange controls and import restrictions. The authorities believe that to some extent the balance of payments developments in 1982 and 1983 were the result of external factors, such as the change in trade conditions with Venezuela which affected nontraditional exports, as well as a worsening of financial conditions in Latin America in general which led to a reduction in financial flows to Colombia.

The authorities were encouraged by the resumption of growth of nontraditional exports which, in accordance with customs information, has risen at an annual rate of about 15 percent in terms of U.S. dollars in the first four months of this year. Imports are projected to decline considerably this year as a consequence of the continued real depreciation of the currency and the intensification of import restrictions. As a result, a further decline is anticipated in the current account deficit, from 6.9 percent of GDP in 1983 to about 5 percent in 1984. The capital account, however, is expected to weaken further in 1984. Official flows are projected to remain basically at their 1983 levels, but a large deterioration is projected in private sector capital, including a net repayment of foreign debt by local commercial banks; this would reflect in part a reduction of credit lines with foreign commercial banks. As a result, a large loss of net foreign reserves is envisaged for this year.

The authorities hoped that there would be some improvement in the balance of payments in the second half of this year. They noted that in the first semester there had been a small increase in import payments, even though registered imports had dropped sharply in that period. They attributed this to a lag between import registrations and import payments, which they expected would narrow in the second semester. Moreover, they expected that the recent rise in international coffee prices and a slightly higher quota allocation would result in higher coffee exchange receipts.

The staff expressed the view that how the balance of payments evolves will depend largely on the course of domestic policies. Without a change in policies from those of the recent past, the loss of official international reserves probably would continue at a fast pace and might well be of the order of US$1.8-2 billion for the year as a whole. A loss of that magnitude would bring reserves down to about three-and-a-half months of imports by the end of 1984 (only slightly over two months if measured against imports of goods and services).

The authorities responded that they shared the view of the staff that the adoption of substantially tighter demand management policies was necessary to reduce the balance of payments pressures and to arrest the loss of foreign reserves. As discussed above, they are in the process of adopting measures aimed at reducing significantly the deficit of the public sector.

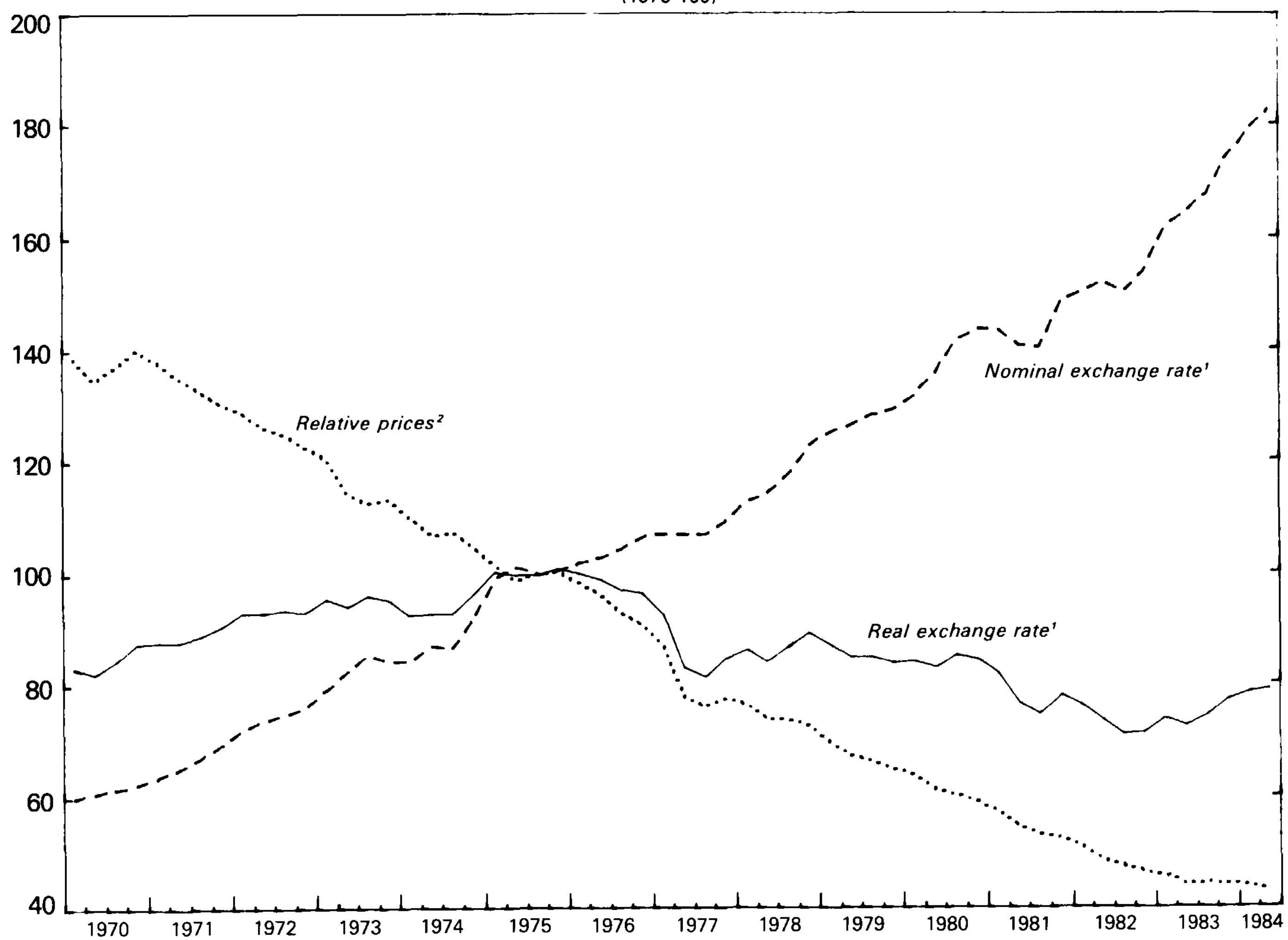
With regard to exchange rate policy, the authorities plan to continue with the present crawling peg system, which they believe has served them well. Under this arrangement, they have a degree of flexibility to adjust the real exchange rate. In October 1982 and again in August 1983, the authorities accelerated the rate of depreciation of the peso and this, combined with a declining rate of domestic inflation, has resulted in a real depreciation of the peso of about 11 percent since the end of 1982 (Chart). The authorities consider the current rate of depreciation (28 percent) appropriate as it is expected to result by the end of 1985 in the recovery of the competitiveness lost since the mid-1970s, if no significant changes take place in domestic inflation. The authorities emphasized that they regarded the crawling peg system as an asset in the management of exchange rate policy since it had been applied with considerable success for a number of years and the general public understood its workings and felt confident about the results it produced. Therefore, they thought that any future decisions regarding exchange rate policy would have to give substantial weight to these considerations.

CHART

COLOMBIA

EFFECTIVE EXCHANGE RATE INDICES, 1970-1984[1]

(1975=100)



Sources: Banco de la Republica, IMF, *International Financial Statistics;* and Fund staff estimates.

[1]Domestic-currency denominated index. An increase (decrease) in the index implies a depreciation (appreciation) of the Colombian peso.

[2]Relative prices were measured by consumer price indices.

The authorities said that they were concerned whenever a large spread developed between the exchange rate in the official and parallel markets. They indicated that the spread had risen to around 35 percent in May 1984, when there were rumors about a possible step devaluation of the peso. Since then the spread has declined to a range of 10-15 percent, which the authorities felt did not cause them serious difficulties.

The authorities noted that in addition to adjustment of the real exchange rate, other measures were being used to promote the growth of nontraditional exports. The General Trade Law of December 1983 allows the Executive to change export incentive rates on a quarterly basis to enable prompt accommodation to changes in external conditions. It also sets forth the basis for tying the export incentive system to the reimbursement of indirect taxes borne by exports in the production process, thereby taking a first step toward removing the subsidy associated with the previous export incentive scheme. In March 1984 new export incentive rates were put into effect which increased the maximum rates permissible from the previous 20 percent to 25 percent, and for the first time, geographical discrimination was introduced in the form of different incentive rates for different destinations. In April 1984 export incentive rates were further increased for a number of commodities up to a maximum of 35 percent, if exported to countries which belong to the Latin American Integration Association. The authorities noted that nontraditional exports are also being promoted through a system of subsidized export credits and export insurance schemes administered by the Export Promotion Fund (PROEXPRO).

The authorities indicated their intention to increase the use of foreign financing both by obtaining new loans and by stepping up the rate of utilization of those already in the pipeline in order to strengthen the balance of payments. As has been traditional in Colombia, the use of foreign financing by the public sector, including that from commercial sources, has generally been associated with the execution of investment projects. The authorities realize that financial markets abroad have hardened, but they consider that Colombia's case is different from that of most of the other Latin American countries. They noted that the stock of total external debt (including private debt) in relation to GDP, at about 25 percent, is low by the standard of most developing countries (Table 6). The staff noted, however, that the debt had risen sharply in recent years; the debt service ratio has more than doubled in the last three years, and could exceed 40 percent of exports of goods and services this year. For this reason, the staff pointed out that additional borrowing, particularly from commercial banks, must be kept within prudent limits.

The authorities said that in May 1984 they introduced a scheme aimed at facilitating the rescheduling of the private sector's external debt. They considered this scheme necessary in view of the difficult financial situation of a number of important enterprises. The scheme

Table 6. Colombia: External Debt

(In millions of U.S. dollars)

	1979	1980	1981	1982	1983	Proj. 1984
External debt 1/	3,996	4,758	6,161	7,413	8,398	9,085
Public	3,494	4,199	5,199	6,122	7,034	7,915
Private 2/	502	559	962	1,291	1,364	1,170
Debt service	952	972	1,509	1,582	1,588	2,005
Amortization	502	345	572	435	641	937
Interest 3/	450	627	937	1,147	947	1,068
External debt/GDP	14.3	14.2	16.9	19.1	22.5	26.3
Of which: public sector	(12.5)	(12.5)	(14.3)	(15.7)	(18.8)	(22.9)
Debt service/exports of goods and services	19.3	15.8	28.7	30.8	35.9	42.7
Of which: public sector	(13.9)	(9.9)	(13.1)	(18.2)	(22.0)	(29.6)

Sources: Banco de la Republica; and Fund staff estimates.

1/ External debt with maturity of one year and over, repayable in local and foreign currencies, outstanding at the end of the period.
2/ Includes private debt with public guarantee.
3/ Includes interest on short-term debt.

consists of an extended payment plan offered by the Banco de la Republica to those enterprises that refinance their debts with foreign creditors on the following terms: six-year maturity, a three-year grace period, and a maximum interest rate of two-and-a-half points above LIBOR, with payments to be made on a quarterly basis. Under the scheme, the Banco de la Republica commits itself to make foreign exchange available to service the rescheduled foreign debt as it falls due, and in return it receives payments in local currency from the Colombian debtor according to a predetermined schedule; the debtor will pay an interest rate of 3 percentage points over the average rate paid by finance corporations on their term deposits. If at the end of the six-year period the scheme should result in higher payments than receipts for the Banco de la Republica at the exchange rate at which each of the payments abroad is made, the Colombian debtor is obligated to pay the difference in installments over an additional three-year period and the applicable interest rate would be the same as the one just mentioned. The intention of the authorities is not to assume commercial or exchange risks from these operations. The total debt that could be subject to the refinancing scheme reportedly amounts to about US$1.8 billion.

The exchange and trade system of Colombia remains complex, involving multiple currency practices, exchange restrictions, and bilateral payments agreements with Fund members.1/ During 1983 and the first half of 1984, the overall exchange and trade system became more restrictive in the face of the rapid deterioration in the external position. The authorities tightened the limits on the sale of foreign exchange for travel purposes on three occasions; in addition, they introduced, and subsequently increased, the advance deposit applicable on such transactions. In July 1983 ceilings were imposed on remittances abroad for study purposes. One multiple currency practice was terminated in November 1983 with the elimination of an advance import deposit required prior to customs clearance. However, a multiple currency practice continues to result from the maintenance of a 95 percent exchange license deposit for import payments to be effected prior to the issuance of the corresponding exchange license.

As regards the trade system, in recent years there has been a reversal of previous liberalization efforts. In 1982 and in mid-1983, across-the-board increases were made in import tariffs. In addition, approximately 90 percent of imports currently require an import license, as compared with 40 percent at the end of 1982. Moreover, in early 1984 a prohibition was placed on the importation of goods affecting more than 800 customs items, and a barter trade system was instituted; such measures are estimated by the authorities to affect imports with an aggregate value of approximately US$250-300 million (6-7 percent of total imports estimated for 1984).

The staff representatives emphasized that while the exchange and trade controls might seem to work in the short term to help contain balance of payments pressures, their prolonged and widespread use will

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1/ A complete description of Colombia's exchange and trade system is presented in the accompanying report on recent economic developments.

most likely result in distortions in the allocation of resources and will tend to generate inflationary pressures. The authorities responded that they regarded existing exchange and trade restrictions as temporary in nature, and that they hoped to be able to begin to dismantle them by the end of 1985. As in past years, the authorities did not request approval of the practices that are subject to Fund approval under Article VIII.

IV. Medium-Term Outlook

For the medium term, the authorities expressed the intention of pursuing policies which would be consistent with the achievement of a sustainable balance of payments position, but they were not in a position to elaborate on their policies with precision for such a period.

To ascertain the implications of different policies over the medium term, two illustrative medium-term scenarios have been developed by the staff extending through the end of the 1980s (Statistical Appendix Tables 7 and 8). The first scenario contemplates as a basic policy objective the gradual reduction in the current account deficit as a proportion of GDP with the primary aim of slowing the growth of external debt. The alternative scenario considers the case of policies geared toward faster economic growth by maintaining access to foreign savings at roughly the same proportion to GDP as the historical average registered over the last five years.

Both scenarios assume that the demand management policies followed are adequate to reduce significantly by 1985 the loss of foreign reserves. Forecasts for commodity prices and export volume for coffee and for the main mineral exports are based on discussions with the authorities and the World Bank and are consistent with the assumptions set forth in the lastest WEO exercise. Exports are expected to regain their 1980 level in U.S. dollar terms in 1986 and grow at roughly 5 percent in real terms thereafter. While this is the average rate of growth in export volume registered in the past decade, it is a somewhat ambitious target given projected world economic conditions, and it presupposes a strong response on the part of noncoffee and nonmineral exports to the current policy of the authorities of improving competitiveness through an adjust- of the real exchange rate. The flow of nondebt-creating capital is consistent with current investment plans in the coal and oil sector and assumes the maintenance of existing policies geared at attracting foreign investment into Colombia.

In Scenario I the reduction in the current account deficit to 1.5 percent of GDP by 1989, in conjunction with the targeted increase of foreign reserves to cover three months of imports of goods and services by that year, implies an average annual growth in import volume of just under 3 percent, which is estimated to be consistent with a similar rate of growth of the economy. With the reduced reliance on foreign savings, the rapid growth in external indebtedness recently experienced by Colombia would be arrested, and total medium- and long-term external debt would stabilize at about 30 percent of GDP by the end of the decade. At the same time, debt service payments, which have risen rapidly since 1980, would fall to 35 percent of exports of goods and services by 1989. Moreover, the debt service ratio would continue to fall sharply beyond 1989 if the current account deficit were maintained at these levels in relation to GDP.

Scenario II assumes that Colombia's access to foreign borrowing is about 4 percent of GDP. This, together with a less ambitious foreign reserve target, would permit a larger volume of imports, which in turn would be expected to make possible the achievement of an average rate of real economic growth of about 5 percent a year by the end of the decade. However, under this scenario the external debt would rise to 33 percent of GDP by 1989, from 22 1/2 percent at the end of 1983. In addition, despite the assumption that borrowing by the public sector would be contracted with a four-year grace period, the higher level of external indebtedness under this scenario would result in some further increase in the debt service ratio after 1985.1/ Moreover, the debt service ratio under this scenario would rise significantly after 1989 as amortization payments become due following the expiration of the grace period. A sensitivity analysis in respect of borrowing terms shows that if the higher borrowing levels contemplated in Scenario II result in a hardening of the average borrowing terms, the corresponding debt service ratio would be substantially higher under Scenario II and could exceed 40 percent by the end of 1989.2/

V. Staff Appraisal

Colombia's balance of payments situation has deteriorated seriously with a cumulative overall deficit of more than US$2.5 billion over the last two years. At the same time, real GDP grew by slightly less than 1 percent a year in both 1982 and 1983, down significantly from the average rate of growth achieved over the past decade. Domestic inflation fell from a rate of more than 26 percent in 1981 to less than 17 percent in 1983 and to 15.5 percent in the 12 months ended July 1984, but this apparently positive development has to be viewed with some

1/ New medium- and long-term foreign borrowing by the public sector was assumed to carry the average terms prevailing on public external debt contracted by Colombia in 1983: an interest rate of 11 percent, a four-year grace period, and repayment within 14 years of drawing. Assumed terms on new foreign borrowing by the private sector are consistent with minimum terms currently required by the Colombian authorities on such borrowing, and they were set as follows: an interest rate of 13 percent, a three-year grace period, and six-year maturity. The assumed interest rate on short-term debt was 13 percent.

2/ The harder borrowing terms on new medium- and long-term foreign borrowing by the public sector are as follows: an interest rate of 13 percent and a three-year grace period.

reservation in the light of the large loss of international reserves. There are some indications that a moderate economic recovery is under way and real GDP could grow by 2 percent in 1984. However, the balance of payments has continued to deteriorate with a loss of net official international reserves of almost US$1.3 billion in the first seven months of this year.

The deterioration of the balance of payments over the past two years was in part the result of external factors such as high interest rates abroad, developments in Venezuela, and relatively weak coffee prices. However, developments in the public finances and wages have played a major role in the deterioration of the balance of payments. In recent years the public sector deficit has risen sharply and it exceeded 7 percent of GDP in 1983. In addition, during the past two years monetary policy has been expansionary; in part this reflected the need to provide assistance to banks in difficulties.

The most pressing concern of the authorities is to arrest the country's severe financial deterioration. While the authorities would like to act to consolidate the incipient economic recovery, they realize that measures geared to halting the rapid erosion of foreign reserves must constitute their first priority. In this regard, the authorities are very much aware that the pursuit of significantly tighter demand management policies is essential at this juncture to reduce balance of payments and price pressures. The staff would emphasize, however, that unless a substantial tightening of such policies takes place soon, the rapid erosion in the level of foreign reserves could give rise to very difficult payments situation in the near future.

The view of the authorities is that fiscal policy should be adjusted to the achievement of a significant reduction in the public sector deficit and in its financing from the Banco de la Republica. The authorities believe that an important part of the fiscal adjustment must fall on expenditures. In this regard, the staff is encouraged by the authorities' 1985 budget proposal which implies a substantial reduction in the rate of growth of outlays. The staff would note in particular the authorities' intention to keep public sector wage increases in 1985 well below the projected rate of inflation. The staff would urge the authorities to seek ways in which a policy of salary moderation be made effective for the public sector as a whole, and not just the Central Administration. The staff would also urge the authorities to make every effort to contain nonwage expenditures and to strengthen control over the operations of the rest of the public sector.

The staff welcomes the initiatives being taken by the authorities to raise revenues--some of which have been adopted and others are still before the Congress--to complement their policy of expenditure restraint. The staff would note that despite the revenue measures adopted in 1983 and early 1984, the tax burden has continued to be relatively low. If the proposed revenue measures are put into effect and the planned curbs on spending made effective, a substantial reduction of the fiscal deficit could be expected in 1985. In the meantime, the authorities plan to increase the placement of bonds as a means of reducing the financing of the budget from the Banco de la Republica. The staff accepts that such bond placement may be necessary as an emergency measure, but it would note that such financing reduces the volume of resources available to the private sector.

The Colombian authorities are aware of the need to slow down the rate of credit expansion. The planned reduction of the fiscal deficit will help in this regard, but a reduction in the rate of growth of credit to the rest of the financial system from the Banco de la Republica also appears necessary. In this connection, interest rate policy would need to be flexible enough to assist in the allocation of credit and to help promote the growth of financial savings. Moreover, while interest rates in Colombia may appear high in real terms, the staff believes that such levels still favor investments abroad given the current exchange rate and interest rates abroad.

Reference has already been made as regards the importance of wage and salary moderation in the public sector. The staff also believes that it would be essential to limit carefully the adjustment of minimum wages, with a view to consolidating the reduction in the rate of price increase and setting the stage for a further deceleration of inflation in the period ahead.

The staff welcomes the authorities' intention to continue to follow an exchange policy which is expected to result in a real depreciation of the currency that would permit recovery of the international competitiveness lost over the past several years. Nevertheless, the adequacy of the exchange rate policy will need to be kept under close review in light of the seriousness of the country's balance of payments difficulties and the magnitude of the adjustment that needs to be made.

While Colombia's external debt is smaller in relation to the size of its economy than in the case of many other developing countries, the debt has been rising sharply and the debt service ratio has more than doubled in the last three years. The staff believes that there is some margin for increasing foreign financing, but additional borrowing should be kept within prudent amounts to assure a manageable debt service burden.

Most of the practices in Colombia's exchange system which are subject to approval under Article VIII, sections 2 and 3, have been in effect for some time. They include multiple currency practices arising from an advance deposit on the purchase of foreign exchange for travel purposes, an advance exchange deposit on imports, a tax applied on the foreign exchange proceeds from coffee exports, tax credit certificates granted to nontraditional exports and applied to the amount of foreign exchange surrendered, and taxes on profit remittances and other selected transactions. They also include exchange restrictions arising from limits on the purchase of foreign exchange for travel purposes, limits on the annual remittance of profits, and bilateral payments agreements with two Fund members. During 1983 and the first half of 1984, the Colombian authorities tightened the limits on the sale of foreign exchange for travel and increased the advance deposit applicable on such transactions, and in July 1983 limits were imposed on remittances abroad for study purposes.

In the area of trade policy, in the recent past there has been a reversal of previous liberalization efforts. These have included across-the-board increases in tariffs, a substantial rise in the number of imports subject to the license regime, and an outright prohibition of imports of some 800 customs items. In addition, in February 1984 a barter trade system was instituted, in effect requiring barter arrangements for the importation of goods under certain customs positions.

The exchange and trade restrictions just described involve important costs in that they create distortions and lead to an inefficient use of resources. The staff would urge the authorities to proceed with their removal as soon as possible, supported by the shift to a more appropriate demand management policy along the lines indicated above and the continued pursuit of an exchange rate policy that is helping the country to improve its international competitiveness. The authorities are not requesting, and the staff is not proposing, Fund approval of these practices.

Finally, it is recommended that the next Article IV consultation with Colombia be held on the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Colombia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with Colombia, in the light of the 1984 Article IV consulation with Colombia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Colombia maintains a complex system of restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/84/216. The Fund encourages the authorities to reverse the intensification of exchange restrictions and multiple currency practices that was implemented recently, and to proceed with a simplification of the exchange system. The Fund also notes that Colombia maintains bilateral payments agreements with two Fund members, and encourages Colombia to take early steps for their elimination.

Colombia - Fund Relations
(As of July 31, 1984, unless otherwise indicated)

I. Membership Status

(a)	Date of membership:	December 27, 1945.
(b)	Status:	Article XIV.

A. Financial Relations

II. General Department (General Resources Account)

(a)	Quota:	SDR 394.2 million.
(b)	Total Fund holdings of pesos:	SDR 394.2 million or 100.0 percent of quota.

III. SDR Department

(a)	Net cumulative allocation:	SDR 114.3 million.
(b)	Holdings:	SDR 77.7 million or 68.0 percent of net cumulative allocations.
(c)	Current designation plan:	None.

B. Nonfinancial Relations

IV. Exchange rate arrangement: The exchange rate for the Colombian peso is adjusted in small amounts at relatively short intervals taking into account movements in a set of indicators. Exchange surrender and foreign payments are generally effected through the medium of exchange certificates, which are traded in the official market at the official rate. Exchange certificates are also traded in the stock exchange at varying rates of discount. On August 17, 1984, the rate in the official market for the U.S. dollar, the intervention currency, was Col$103.86 per U.S. dollar.

V. Last Article IV consultation: The 1983 Article IV consultation discussion was completed on July 1, 1983 (EBM/83/97 and SM/83/101) and the following decision was taken:

1. The Fund takes this decision relating to Colombia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with Colombia, in the light of the 1983 Article IV consultation with Colombia conducted under Decision No. 5392(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Colombia maintains restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/83/101. The Fund hopes the that the authorities will find possible the early removal of the exchange restrictions and multiple currency practices introduced recently, so as to proceed with a further simplification of the exchange system. The Fund also notes that Colombia maintains bilateral payments agreements with two Fund members, and encourages Colombia to take early steps for their elimination.

The consultation is under the normal 12-month cycle.

VI. Technical assistance: A joint Bureau of Statistics/Fiscal Affairs Department mission visited Bogota for two weeks in January 1984. The main purpose of this mission was to establish a homogenous government finance data base and methodology to improve the fiscal statistics in the GFS Yearbook. The Bureau of Statistics also has provided technical assistance to the Banco de la Republica and the National Administrative Department of Statistics on the revision of price and monetary statistics.

COLOMBIA

Area and population	
Area	1,141,748 sq. kilometers
Population (est. mid-1983)	28.0 million
Annual rate of population increase (1979-83)	2.0 percent
GDP (1983)	SDR 34,910 million
	US$37,319 million
	Col$2,943 billion
GDP per capita (1983)	SDR 1,247

Origin of GDP	1980	1981	1982	Prel. 1983
		(percent)		
Agriculture	23	23	22	23
Mining	1	1	1	1
Manufacturing	22	22	21	20
Construction	3	3	4	4
Transportation and communications	9	10	10	10
Government	8	8	8	8
Other	34	33	34	34
Ratios to GDP				
Exports of goods and services	18.9	15.1	13.7	12.3
Imports of goods and services	18.5	19.7	20.7	19.2
Current account of the balance of payments	0.4	-4.6	-7.0	-6.9
Central government revenues	9.1	8.8	8.2	8.0
Central government expenditures	10.3	10.9	11.7	11.7
Public sector savings	4.0	1.8	1.1	0.1
Public sector overall surplus or deficit (-)	-2.6	-4.3	-6.2	-6.9
External public debt	12.5	14.3	15.7	18.8
Gross national savings	19.5	16.0	13.5	13.2
Gross domestic investment	19.1	20.6	20.5	20.1
Money and quasi-money (end of year)1/	37.7	39.2	39.0	41.0
Annual changes in selected economic indicators				
Real GDP per capita	2.1	0.3	-1.1	-1.2
Real GDP	4.1	2.3	0.9	0.8
GDP at current prices	32.8	25.6	25.7	18.1
Domestic expenditure (at current prices)	36.5	30.9	26.5	17.1
Investment	(39.5)	(35.8)	(24.9)	(16.0)
Consumption	(35.7)	(29.7)	(27.0)	(17.4)
GDP deflator	27.6	22.8	24.6	17.2
Cost of living (annual averages)	26.5	27.5	24.5	19.8
Central government revenues	36.1	20.6	17.7	14.1
Central government expenditures	50.3	31.5	35.4	18.5
Money and quasi-money 1/	47.3	29.5	24.7	23.0
Money	(27.9)	(21.2)	(25.4)	(25.6)
Quasi-money 1/	(61.0)	(34.0)	(24.3)	(21.7)
Net domestic bank assets 2/	40.0	29.7	32.9	36.5
Credit to public sector (net)	(1.6)	(5.1)	(10.0)	(12.6)
Credit to private sector	(37.1)	(26.7)	(24.1)	(25.6)
Merchandise exports (f.o.b., in U.S. dollars)	22.3	-21.0	-2.1	-6.1
Merchandise imports (f.o.b., in U.S. dollars)	43.5	10.7	13.5	-12.2

Central government finances	1980	1981	1982	Prel. 1983
	(billions of Colombian pesos)			
Revenues	144.6	174.4	205.4	234.5
Expenditures	163.8	215.3	291.6	345.7
Current account balance	22.8	20.2	-6.0	-29.5
Overall surplus or deficit (-)	-19.2	-40.9	-86.2	-111.2
External financing (net)	16.5	19.5	14.9	-6.1
Internal financing (net)	2.7	21.4	71.3	117.3
Balance of payments	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	4,372	3,458	3,384	3,178
Merchandise imports (f.o.b.)	-4,300	-4,762	-5,405	-4,747
Investment income (net)	-210	-427	-787	-840
Other services and transfers (net)	274	74	84	-145
Balance on current and transfer accounts	136	-1,657	-2,724	-2,564
Official capital (net)	733	1,034	965	962
Private capital (net)	359	458	972	32
Errors and omissions	73	-73	48	-242
Allocation of SDRs	24	24	--	--
Change in banking system net reserves (increase -)	-1,325	-214	739	1,812

International reserve position	December 31 1981	1982	1983	June 30 1984
	(millions of SDRs)			
Central Bank (gross)	4,839	4,435	3,033	2,023
Central Bank (net)	4,837	4,433	2,940	1,934
Rest of banking system (net)	-1,220	-1,449	1,536	...

1/ Includes, in addition to narrow quasi-money, other liabilities to the private sector.

2/ In relation to the financial system's liabilities to the private sector at the beginning of the period. Excludes contra-entry of SDR allocations.

Colombia - Statistical Issues

1. Coverage, currentness, and reporting frequency

		Latest Data in September 1984 IFS
Real sector	- National accounts	1983 (partial)
	- Prices	May 1984
	- Production	Nov. 1983
	- Employment	...
	- Earnings	...
Government finance	- Deficit/surplus	Feb. 1984
	- Financing	Feb. 1984
	- Debt	Nov. 1983
Monetary accounts	- Central Bank	June 1984
	- Deposit money banks	March 1984
	- Other financial institutions	Dec. 1983
External sector	- Merchandise trade: values	Feb. 1984
	- Merchandise trade: prices	May 1984
	- Balance of payments	1982
	- International reserves	June 1984
	- Exchange rates	July 1984

During the past year, the reporting record of the IFS correspondent has been fairly regular.

2. Outstanding statistical issues

Real sector: A technical assistance mission to review the compilation of a revised wholesale price index took place from January 16-27, 1984; the report has been sent to the authorities. The publication of the new index with base year 1982 is scheduled to begin in the second half of 1984.

Government finance: There are several outstanding statistical issues with regard to Government Finance Statistics mentioned in the report on a joint technical assistance mission (GFS-FAD) that took place January 16-27, 1984, such as the consistency in the classification and coverage of certain transactions, the need to produce a detailed economic classification on a cash basis of central administration expenditures, and to compile data on a cash basis for decentralized institutions and social security funds.

Monetary accounts: The monetary accounts in the September 1984 issue of IFS are current. The Bureau of Statistics receives printouts and typewritten tables sent by the IFS correspondent rather than the normal report forms, due to past staff constraints in the Research Department of the Banco de la Republica. A Bureau of Statistics mission, which visited Colombia in July 1984, recommended the introduction of revised report forms, which will facilitate the reporting of data for IFS. The mission also reviewed the sectorization of government accounts with the purpose of obtaining further detail of different levels of government, and made arrangements for the inclusion of the commercial financing companies which are not yet part of the OFI section in Colombia's country page. A report on the work of the mission will be finalized by the end of September 1984.

External sector: A revision in the computation of volume and unit value indices for exports and imports is being undertaken, and it is expected that it will be completed toward the end of 1985.

Table 7. Colombia: Medium-Term Outlook, Scenario I

	Est. 1983	Projected 1984	1985	1986	1987	1988	1989
	(In millions of U.S. dollars)						
Balance of payments							
Current account	-2,564	-1,783	-1,515	-1,028	-740	-599	-647
Exports of goods and services	4,421	4,691	5,301	6,096	6,706	7,376	8,114
Imports of goods and services	-7,158	-6,634	-6,976	-7,294	-7,646	-8,215	-9,031
Net transfers	173	160	160	170	200	240	270
Capital account	752	-67	1,215	1,315	1,053	918	1,057
Direct investment	286	250	380	320	290	370	340
Private capital 1/	-500	-1,200	-200	--	200	250	300
Official capital	966	883	1,035	995	563	298	417
Overall balance	-1,812	-1,850	-300	287	313	319	410
External debt							
External debt outstanding 2/	8,396	9,085	10,148	11,142	11,894	12,321	12,869
Of which: public sector	(7,032)	(7,915)	(8,950)	(9,945)	(10,508)	(10,806)	(11,223)
Gross disbursements	1,625	1,626	1,852	2,081	1,867	1,732	1,818
Of which: public sector	(1,370)	(1,576)	(1,752)	(1,851)	(1,617)	(1,432)	(1,518)
Amortization	641	937	789	1,087	1,115	1,305	1,270
Of which: public sector	(407)	(693)	(717)	(856)	(1,054)	(1,134)	(1,101)
Interest 3/	947	1,068	1,082	1,212	1,364	1,469	1,553
Medium- and long-term debt	(658)	(803)	(916)	(1,046)	(1,196)	(1,283)	(1,348)
Of which: public sector	/530/	/695/	/803/	/933/	/1,058/	/1,128/	/1,161/
Short-term debt	(289)	(265)	(166)	(166)	(168)	(183)	(205)
	(As a percent of GDP)						
Current account	-6.9	-5.2	-4.7	-3.0	-2.0	-1.5	-1.5
Capital account	2.0	-0.2	3.8	3.8	2.8	2.3	2.5
Overall balance	-4.9	-5.4	-0.9	0.8	0.8	0.8	1.0
External debt	22.5	26.3	31.7	32.5	32.2	30.9	29.8
Of which: public sector	(18.8)	(22.9)	(30.0)	(29.0)	(28.4)	(27.1)	(26.0)
	(As a percent of exports of goods and services)						
Debt service 4/	35.9	42.7	35.3	37.7	37.0	37.6	34.8
Of which: public sector	(21.2)	(29.6)	(28.7)	(29.3)	(31.5)	(30.7)	(27.9)

Sources: Colombian authorities; and Fund staff estimates.

1/ Includes errors and omissions.
2/ Includes debt with an original maturity of one year and over.
3/ Includes interest on short-term debt.
4/ The sharp increase in the debt service ratio in 1984 is mainly the result of a sharp increase in amortization payments on external public debt in that year. Fluctuations in the debt service ratio over 1985-1989 largely reflect the uneven projected pattern of amortization payments on private debt outstanding as of December 31, 1983.

Table 8. Colombia: Medium-Term Outlook, Scenario II

	Est. 1983	Projected 1984	1985	1986	1987	1988	1989
	(In millions of U.S. dollars)						
Balance of payments							
Current account	-2,564	-1,783	-1,515	-1,297	-1,371	-1,498	-1,646
Exports of goods and services	4,421	4,691	5,301	6,096	6,706	7,376	8,114
Imports of goods and services	-7,158	-6,634	-6,976	-7,563	-8,277	-9,114	-10,030
Net transfers	173	160	160	170	200	240	270
Capital account	752	-67	1,215	1,377	1,500	1,651	1,818
Direct investment	286	250	380	320	290	370	340
Private capital 1/	-500	-1,200	-200	--	200	250	300
Official capital	966	883	1,035	1,057	1,010	1,031	1,178
Overall balance	-1,812	-1,850	-300	80	129	153	172
External debt							
External debt outstanding 2/	8,396	9,085	10,148	11,204	12,403	13,563	14,872
Of which: public sector	(7,032)	(7,915)	(8,950)	(10,007)	(11,017)	(12,048)	(13,226)
Gross disbursements	1,625	1,626	1,852	2,143	2,314	2,465	2,579
Of which: public sector	(1,370)	(1,576)	(1,752)	(1,913)	(2,064)	(2,165)	(2,279)
Amortization	641	937	789	1,087	1,115	1,305	1,270
Of which: public sector	(407)	(693)	(717)	(856)	(1,054)	(1,134)	(1,101)
Interest 3/	947	1,068	1,082	1,213	1,391	1,560	1,726
Medium- and long-term debt	(658)	(803)	(916)	(1,047)	(1,223)	(1,377)	(1,521)
Of which: public sector	/530/	/695/	/803/	/934/	/1,085/	/1,219/	/1,334/
Short-term debt	(289)	(265)	(166)	(166)	(168)	(183)	(205)
	(As a percent of GDP)						
Current account	-6.9	-5.2	-4.7	-3.8	-3.7	-3.6	-3.6
Capital account	2.0	-0.2	3.8	4.0	4.0	4.0	4.0
Overall balance	-4.9	-5.4	-0.9	0.2	0.3	0.4	0.4
External debt	22.5	26.3	31.7	32.5	33.1	32.8	32.7
Of which: public sector	(18.8)	(22.9)	(28.0)	(29.1)	(29.4)	(29.2)	(29.1)
	(As a percent of exports of goods and services)						
Debt service 4/	35.9	42.7	35.3	37.7	37.4	38.8	36.9
Of which: public sector	(21.2)	(29.6)	(28.7)	(29.4)	(31.9)	(31.9)	(30.0)

Sources: Colombian authorities; and Fund staff estimates.

1/ Includes errors and omissions.
2/ Includes debt with an original maturity of one year and over.
3/ Includes interest on short-term debt.
4/ The sharp increase in the debt service ratio in 1984 is mainly the result of a sharp increase in amortization payments on external public debt in that year. Fluctuations in the debt service ratio over 1985-1989 largely reflect the uneven projected pattern of amortization payments on private debt outstanding as of December 31, 1983.