

March 10, 1982 - 82/28

Statement by Mr. Kafka on Colombia  
Executive Board Meeting 82/27  
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1. I would like to thank the staff for their outstanding papers on Colombia, with which my Colombian authorities are in broad agreement.
2. One could, I think, summarize developments in Colombia in 1981 and prospects for 1982 by saying that in a world economy which was and can be expected to continue to be a sea of troubles, Colombia stood and stands out as an island of progress.
3. Real GDP growth, while declining, produced a positive increase in per capita income. The balance of payments was in overall surplus in 1981, though less than previously, when the surplus constituted an embarrassment to the conduct of monetary policy. While coffee exports fell, non-coffee exports, after a 40 per cent increase in 1980, rose slightly in dollar terms. Inflation was unchanged overall from the year earlier, but it is significant that the less volatile nonfood products price index showed a perceptible drop from its 1980 level and was below the total index in 1981.
4. The policies which were followed in 1981 and which in essence will continue to be followed in Colombia are well described and analyzed by the staff.
  - a. Stability and growth were and will continue to be the overall objectives of Colombian policy. The government proposes to direct policy so as to achieve a higher growth rate in 1982 than in 1981; but the actions addressed to this objective (like those already adopted in February) will be carefully tailored in order not to prejudice the basic anti-inflationary policy stance. To a large extent they consist of liberalizing measures in the banking regulation and trade fields.
  - b. The change in the situation of coffee, which is still so important to Colombia, means that Colombia required a greater emphasis on investment than in the previous period, when the rise in investment outlays had to be moderated, for reasons of stability, to offset the inflationary impact of large export surpluses. This increased emphasis on investment will continue. Just as it was cautious in 1981 so it will continue cautious in 1982. Regarding the public sector, there was, in 1981, an increase in the overall deficit of the public sector of less than 1 per cent of GDP. Measures are being prepared to deal with the slight erosion of the GDP share of tax collections as well as with the problem of automatic transfers to local authorities. Among

other public sector policies I would stress particularly the maintenance or increase, in real terms, of the prices of public sector services. Finally, the foreign borrowing policies of Colombia can be considered a model; first, because Colombia eschews general purpose loans preferring project loans and second because she avoids giving government guarantees for loans to public (and, of course, private) sector corporations. Recently, conditions governing the obtention of foreign loans by private enterprises in certain sectors have been eased.

c. A very important development has taken place in the area of coffee policy. The agreement between the government and the Coffee Growers' Federation, that the price paid to producers should not increase unless the export quota is increased, should make an important contribution to the containment of inflationary pressures.

d. Colombia's monetary policy has benefited--one of the not overly numerous countries of which this can be said--from governmental budgetary restraint. It has not only permitted the financial system to restrain overall credit expansion, but to direct credit to the private sector. Also in a remarkably short period the effects of previous policies, imposed on Colombia through the coffee boom, which had led to financial disintermediation, have been reversed.

Real rates of interest and the spread between lending and borrowing rates have recently been high, but by no means as high as in many other countries. There is a great likelihood that they will be reduced relatively rapidly, as the reversal of disintermediation continues, e.g. by measures adopted in late February.

e. Official wage policy in Colombia has continued to follow the same stance as previously, i.e., adjustments equal to or only moderately above the year-end to year-end price increase. Since fewer collective contracts expire in even numbered than in odd numbered years, there is a good chance that wage pressures this year will be less than in 1981, favoring progress in reducing inflation.

f. There have also been extremely encouraging developments in energy policy. Prices of petroleum products have been steadily adapted as compared to previous policies of keeping them excessively low and this has had an important effect on conservation. Despite the discovery of new oil fields and the promise of early self-sufficiency, Colombia is actively pursuing the development of substitutes for petroleum; both in respect of coal and the hydroelectric sector the possibilities are vast.

g. In the external field, Colombia has continued and will continue to pursue its policy of mini-devaluations. Supplement I to the consultation report shows that the real effective exchange rate of the Colombian peso depreciated over 4 1/2 per cent over 1981, if the

individual real exchange rates are weighted in accordance with the share which the respective markets represent in Colombia's nontraditional exports rather than in total trade. In view of the dominance of traditional exports by one single product, where the existence of export taxes renders a competitive exchange rate less important, it would seem to me that--despite all possible qualifications--this real depreciation conveys a more appropriate picture of what happened in Colombia last year than the modest appreciation of the real effective exchange rate, which is suggested by weighting the various real exchange rates by the share of the respective countries in Colombia's total trade.

5. In sum, Colombia seems to be well posed for another successful year combining some progress toward price stability with further growth in per capita real income. The Colombian authorities, as the staff well states, are aware of the advantages which the country can derive from a prudent degree of import liberalization. Colombia has indeed recently (February) reduced the advance import deposit on consumer goods and raw materials and eliminated all advance deposits on imports of capital goods. It would be easier for Colombia to adopt liberalization measures, if there were less uncertainty in the world today whether the major trading countries would do the same rather than veer in the opposite direction.