

MASTER FILES
ROOM C-525 0450

SM/98/251

CONTAINS CONFIDENTIAL
INFORMATION

November 6, 1998

To: Members of the Executive Board

From: The Secretary

Subject: **Colombia—Selected Issues and Statistical Appendix**

This paper provides background information to the staff report on the 1998 Article IV consultation discussions with Colombia, which was circulated as SM/98/249 on October 30, 1998.

Ms. Honjo (ext. 34163) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, November 16, 1998; and to the European Investment Bank (EIB), the Food and Agriculture Organization (FAO), the Inter-American Development Bank (IDB), the United Nations Development Programme (UNDP), and the World Food Programme (WFP), following its consideration by the Executive Board.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

COLOMBIA

Selected Issues and Statistical Appendix

Prepared by a staff team consisting of Olav Gronlie (Head), John Thornton, Wayne Lewis,
Reva Krieger, Keiko Honjo, Henry Ma (WHD), and Katherine Baer (FAD)

Approved by the Western Hemisphere Department

November 6, 1998

	Contents	Page
	Basic Data	6
I.	Overview	8
	A. Summary	8
	B. Developments in 1997-98	9
II.	The Costs of Moderate Inflation in Colombia	21
	A. Trends, Analyses, and Welfare Costs	21
	B. Inflation Uncertainty and Relative Price Dispersion	24
	C. Inflation and Growth in Colombia	25
	D. Conclusions	27
III.	Financial Sector Issues	29
	A. Overall Financial System Structure	29
	B. Developments in Financial Sector Lending and Deposits	36
	C. Bank Soundness and Profitability	38
	D. Conclusions	41
IV.	The Experience of Capital Controls in Colombia, 1991-98	46
	A. Background: 1991-93	46
	B. The Imposition of Capital Controls	49
	C. Effectiveness of Capital Controls	52
V.	Pension System Reform	57
	A. The Pension System in the Early 1990s	57
	B. The 1993 Reform	58
	C. The Fiscal Cost of the Reform	59
	D. Problems and Challenges	60

	Contents	Page
VI.	Issues in Tax and Customs Administration	63
	A. Introduction	63
	B. Background	63
	C. Tax Administration	63
	D. Customs Administration	66
VII.	Cyclically Adjusted Fiscal Position	69
	A. Introduction and Summary	69
	B. Framework	70
	C. Estimates of Potential GDP	70
	D. Results	73
	E. Caveats	73
VIII.	Economic Effects of Violent Crime in Colombia	76
 Text Tables		
I.	1. Selected Economic Indicators	13
	2. Real GDP by Sector of Origin	14
	3. Consumer Price Index	15
	4. Operations of the Combined Public Sector	16
	5. Summary Balance of Payments	17
	6. Summary Accounts of the Financial System	18
	7. External Debt and Debt Service	19
	8. Public Sector External Debt by Creditor	20
III.	1. Structure of the Financial System	42
	2. Financial Sector Claims on the Nonfinancial Sector, 1994–97	43
	3. Financial System Profit Accounts, 1996–98	44
	4. Financial System Risk-Weighted Capital Adequacy Ratios, 1992–98	45
IV.	1. Summary of Capital Controls in Colombia: 1993–98	56
VII.	1. Cyclically-Adjusted Fiscal Stance	75
 Figures		
II	1. Consumer Price Inflation	22
	2. Standard Deviation and Average Level of Inflation	22
	3. Inflation and Inflation Uncertainty	26
	4. Relative Price Dispersion	26

	Contents	Page
Figures		
III.	1. Selected Economic Indicators	32
	2. Interest Rate Differential on Peso-Denominated Borrowing	35
	3. Financial System Credit	37
	4. Nonperforming Loans as Share of Total Loans	39
IV.	1. Balance of Payments	47
	2. Net Capital Inflows	50
	2. Debt Stock	51
	3. Registers of External Financing	54
VII.	1. Actual and Potential GDP	71
VIII.	1. Homicide Rate, 1956–96	77
	2. Exports of Illicit Drugs, 1980–95	77
Boxes		
I.	1. Background	8
III.	1. Financial Sector Reform	30
	2. Strengthening Supervision and Regulation	31
	3. Interest Rate Spreads	33
IV.	1. Foreign Direct Investment in Colombia	48
VI.	1. Options for Increasing the Effectiveness of Tax Administration	66
	2. Options for Improving the Effectiveness of Customs Administration	68
Statistical Appendix Tables		
	1. National Accounts at Current Prices	80
	2. National Accounts at Constant Prices	81
	3. Aggregate Supply and Demand at Constant Prices	82
	4. Saving and Investment	83
	5. Value of Agricultural Crops	84
	6. Coffee Stocks, Production, Exports, and Prices	85
	7. Coffee Output and Exports by Calendar and Coffee Years	86
	8. Volume of Manufacturing Production	87
	9. Mining Production	88
	10. National Production and Consumption of Petroleum Products	89
	11. Structure of Regular Gasoline Prices	90

Contents	Page
12. Indicators of Construction Activity	91
13. Quarterly Survey of Unemployment and Participation Rates	92
14. Minimum Wages	94
15. Nominal and Real Wage Indicators in Manufacturing	95
16. Producer Price Index	96
17. Items Subject to Price Controls	97
18. Operations of the Combined Public Sector (In billions of Colombian pesos)	98
19. Operations of the Central Administration (In billions of Colombian pesos)	99
20. Operations of the Central Administration (In percent of GDP)	100
21. Operations of the Social Security System	101
22. Operations of the National Decentralized Agencies	102
23. Operations of the Central Government	103
24. Operations of the Local Nonfinancial Public Sector	104
25. Operations of the General Government	105
26. Operations of the Consolidated National Enterprises (In billions of Colombian pesos)	106
27. Operations of the Consolidated National Enterprises (In percent of GDP)	107
28. Operations of Selected Nonfinancial Public Enterprises	108
29. Origin, Destination, and Financing of Financial System Credit (Stocks; in billions of Colombian pesos at end of period)	109
30. Origin, Destination, and Financing of Financial System Credit (Annual flows; in billions of Colombian pesos)	110
31. Summary Accounts of the Banco de la Republica (End of period stocks; in billions of Colombian pesos)	111
32. Summary Accounts of the Banco de la Republica (Percentage change)	112
33. Liabilities to the Private Sector	113
34. Summary Accounts of the Commercial Banks	114
35. Summary Accounts of the Specialized Banks	115
36. Financial Indicators	116
37. Requirements for Monetary Reserves, Reserve- Substituting Investments, and Obligatory Investments	117
38. Reserves, Open Market Instruments, and Exchange Certificates	118
39. Sectoral Credit Lines	119
40. Lending Rates of Sectoral Credit Funds	120
41. Forced Investments by Instrument	121
42. Net International Reserves of the Banco de la Republica	122
43. Merchandise Exports	123
44. Nontraditional Exports	124
45. Tax Credit Certificates for Exports	125
46. Exports by Country of Destination	126

	Contents	Page
47.	Imports by Economic Category	127
48.	Imports by Country of Origin	128
49.	Balance of Payments	129
50.	Tariff Rate Indicators	131
51.	External Public Loans	132

Colombia: Basic Data

I. Social and Demographic Indicators

Area	1,138,914 sq km
Population density	32.8 per sq km
Population (1996)	39.4 million
Rate of population growth (1993)	1.7 percent
Life expectancy at birth (1993)	70 years
Infant mortality rate (1993)	36 per thousand
Child death rate (under 5 mortality rate) (1993)	44 per thousand
Population per doctor (1992)	1,152
Population with access to safe water (1988-93)	86.0 percent
Calorie intake as percent of requirements (1988-90)	106.0 percent
Adult literacy rate (1992)	90.3 percent
Primary school enrollment rate (1992)	86.0 percent
Unemployment rate (June 1998)	15.8 percent
GDP (1997)	Col\$109,822 billion US\$96,297 million SDR 69,979 million
GDP per capita (1997)	US\$2,444 SDR 1,776

II. Economic Indicators

	1993	1994	1995	1996	1997
(In percent of GDP)					
Origin of GDP					
Agriculture	20.6	19.6	19.3	19.0	18.3
Mining	3.9	3.7	4.3	4.5	4.6
Manufacturing	20.5	19.7	19.0	18.1	18.0
Construction	3.4	3.8	3.7	3.7	3.5
Government	8.8	8.5	8.6	9.4	9.5
Other services	42.9	44.7	45.0	45.4	46.1
(In percent)					
Ratios to GDP					
Exports of goods and nonfactor services	17.8	17.3	17.2	16.9	16.6
Imports of goods and nonfactor services	20.8	19.9	20.0	19.4	19.6
Current account of the balance of payments	-4.0	-4.5	-5.4	-5.7	-5.9
Central administration revenue	13.3	13.3	13.0	13.5	13.9
Central administration expenditure and net lending	14.5	15.1	16.5	18.2	17.8
Public sector savings	7.1	8.3	9.3	8.8	7.5
Combined public sector balance 1/7/	-0.6	-0.3	-0.8	-2.6	-4.3
External public debt (end of period)	24.9	20.5	18.8	18.4	15.7
Total external debt (end of year)	33.9	31.3	31.1	33.8	33.1
External public debt service ratio (as percent of exports of goods and nonfactor services)	29.8	30.1	21.5	21.3	19.6
External public interest payments (as percent of exports of goods and nonfactor services)	9.9	8.7	8.2	8.2	7.1
Gross national savings	17.2	18.8	16.5	13.7	13.3
Gross domestic investment	21.2	23.3	21.9	19.4	19.2
Financial system liabilities to private sector (end of year)	38.0	38.7	38.5	41.5	41.3
Annual changes in selected indicators					
Real GDP per capita	3.6	4.0	3.9	0.2	1.3
Real GDP	5.4	5.8	5.8	2.0	3.1
GDP at current prices	31.0	32.1	26.8	21.8	22.7
Domestic expenditure (at current prices)	37.7	31.7	27.0	21.4	23.3
Investment	61.4	45.0	19.6	7.6	21.5
Consumption	32.6	28.2	29.2	25.1	23.7
GDP deflator	24.3	24.8	19.8	19.3	19.0
Wholesale prices (annual average)	14.3	17.2	18.1	15.0	15.4
Consumer prices (annual average)	22.4	22.8	20.9	20.8	18.5
Consumer prices (end of period)	22.6	22.6	19.5	21.6	17.7
Central administration revenue	38.1	32.0	23.7	26.5	26.8
Central administration expenditure	30.7	38.1	37.9	34.9	19.9

Colombia: Basic Data

	1993	1994	1995	1996	1997
Liabilities to private sector	30.2	34.6	26.0	31.5	22.0
Money (M1)	31.4	24.0	19.4	16.0	22.2
Quasi-money	43.4	50.3	28.5	21.1	25.6
Net domestic assets 2/	34.3	37.7	26.3	27.8	22.5
Credit to public sector (net) 2/3/	4.6	-0.3	-0.8	-0.5	1.5
Credit to private sector 2/	44.9	34.1	31.6	26.0	21.0
Merchandise exports (in U.S. dollars)	2.3	17.8	16.8	4.2	9.7
Merchandise imports (in U.S. dollars)	50.7	21.9	16.6	-1.0	12.6
Terms of trade (deterioration -)	-1.1	9.5	3.4	1.5	4.6
Nominal effective exchange rate (INS, end of period)	10.5	6.2	-15.4	4.1	-16.7
Real effective exchange rate (INS, end of period)	10.5	10.9	-3.9	20.0	-3.8
Interest rates (deposit, end of period) 4/	26.4	37.9	32.4	27.8	23.9
Central administration finances 7/					
Revenue	5,836	7,701	9,524	12,049	15,283
Expenditure	6,355	8,777	12,106	16,335	19,589
Current account surplus or deficit (-)	697	870	576	59	407
Overall surplus or deficit (-)	-519	-1,076	-2,582	-4,286	-4,307
	(In millions of U.S. dollars)				
Balance of payments					
Merchandise exports	7,429	8,749	10,222	10,651	11,681
Merchandise imports	-9,086	-11,080	-12,921	-12,794	-14,409
Investment income (net)	-1,694	-2,148	-2,754	-3,322	-3,376
Other services and transfers (net)	1,131	1,320	1,087	519	472
Balance on current account	-2,221	-3,160	-4,365	-4,946	-5,632
Official capital 5/	-46	-1,703	944	743	1,559
Banking system 6/	845	741	990	-31	-119
Other private capital, including errors and omissions	1,575	4,250	2,750	5,816	4,196
Overall balance	153	128	318	1,582	4
Change in net reserves (increase -)	-153	-128	-318	-1,582	-4
International reserve position					
Central bank (net)	7,984	8,150	8,501	9,994	9,983
Gross official reserves (in months of imports of goods and services)	6.9	5.8	5.2	5.7	5.2
IMF data (as of August 31, 1998)					
Article XIV status					
Intervention currency				U.S. dollar at Col\$1,440.9 per US\$	
Quota				SDR 561.3 million	
Fund holdings of local currency				36.9 percent of quota	
From Fund resources				None	
From Supplementary and Enlarged Access resources				None	
Fund holdings under Enlarged Access Policy				None	
Total Fund holdings				36.9 percent of quota	
Arrears with the Fund				None	
EFF arrangement				None	
Special Drawing Rights Department					
Cumulative SDR allocation				SDR 114.3 million	
Net acquisition or utilization (-) of SDRs				SDR 18.1 million	
Holdings of SDRs				SDR 132.4 million	

1/ Includes quasi-fiscal transactions of the Banco de la Republica.

2/ As a percentage of liabilities to the private sector at the beginning of the period.

3/ Includes the quasi-fiscal operations of the Banco de la Republica.

4/ Interest rates on 90-day certificates of deposit.

5/ Nonfinancial public sector long-, medium-, and short-term debt.

6/ Includes financial public sector and financial private sector.

7/ Excludes asset sales and most proceeds from telephone concessions. Includes floating debt of the central administration.

I. OVERVIEW¹

Box 1. Background

The Samper administration that took office in August 1994 inherited a solid economic situation, which was considerably strengthened by the implementation of important structural reforms by the previous Gaviria administration (1990–94). However, difficult challenges remained to be addressed, including the persistence of inflation, large regional and socioeconomic disparities, serious gaps in infrastructure, and an unsettled security situation. Against this background, the new government indicated its intention to increase public spending on the social sectors and infrastructure, maintain competitiveness, and promote employment growth as set out in the development plan for 1995–98. The plan envisaged a further rise in government spending, a consolidation of earlier structural reforms, and a phased reduction in inflation to 10 percent by 1998. Government spending pressures were aggravated by increased revenue sharing under the fiscal decentralization mandated by the 1991 constitution as the central government continued to bear much of its original expenditure responsibilities, and by growing pressures on security and judicial outlays. As a result, the nonfinancial public sector deficit shifted from balance in 1993 to a deficit of 2.6 percent of GDP in 1996, notwithstanding the implementation of an important tax reform in late 1995 which sought to improve the structure of the tax system, reduce evasion, and increase revenues.

Large capital inflows in 1993–96 associated with positive interest rate differentials, increased investor confidence, and expectations of revaluation created by large oil discoveries complicated monetary management and provided an additional stimulus to domestic demand, while inflation inertia fueled wage growth. As a result, the external current account shifted from a surplus in 1990–92 to a 6 percent of GDP deficit by 1996 and inflation remained in the range of 19–23 percent. Output growth averaged 5½ percent during 1992–95, but subsequently slowed to 2 percent in 1996 in response to political uncertainty, weakening confidence, and a tightening of credit policy in late 1995 in an effort to dampen the growth of credit and domestic demand (Table 1). To allow for greater flexibility in the operation of monetary policy, the authorities replaced the “crawling peg” exchange rate arrangement in early 1994 with a 14 percentage point band. Following a steady depreciation over the preceding seven years, the real effective exchange rate appreciated considerably from 1990 through mid-1997 owing to the large capital inflows, rapid increase in public sector spending (particularly on nontradables), faster productivity growth in the tradables than in the nontradables sector, and terms of trade gains.

A. Summary

1. *After decades of sound economic management which was reflected in a solid record of economic growth and stable, albeit moderately high inflation, Colombia has experienced large macroeconomic imbalances in recent years (Box 1). To a considerable extent, the deterioration in economic performance reflects a marked weakening in the public finances, which has placed upward pressures on interest rates and the real exchange rate. Output growth slowed sharply in 1996 and early 1997, but subsequently rebounded owing to*

¹Prepared by Reva Krieger and Keiko Honjo.

stronger exports, a temporary boom in world coffee prices, and an easing of credit policy. Despite efforts at addressing the fiscal imbalances, the nonfinancial public sector deficit widened further to over 4 percent of GDP in 1997. Growing market concerns about the sustainability of the large fiscal and external current account deficits was a key factor in the emergence of downward pressures on the exchange rate in the second half of 1997, which intensified in early 1998. Monetary policy during 1996 and most of 1997 was geared toward stimulating domestic demand, but was tightened in the first half of 1998 in an effort to contain the exchange rate pressures. As a result, interest rates rose considerably, which contributed to a weakening in economic activity and financial system performance indicators. Against this background, the central bank depreciated the exchange rate band by 9 percentage points in early September 1998 in the face of heightened global pressures on financial markets.

B. Developments in 1997-98

2. An easing of liquidity conditions initiated in 1996 contributed to a **rebound in economic activity in mid-1997**, and by the fourth quarter of the year annual real GDP growth had risen to 5.4 percent. Real growth of domestic demand increased in response to lower real interest rates, higher coffee grower incomes owing to a temporary surge in export prices, and continued brisk growth in public sector expenditures. Exports of goods and nonfactor services increased more than 11 percent, following several years of sluggishness (Statistical Appendix Table 2). Output continued to advance at a rapid pace during the first quarter of 1998 but subsequently slowed considerably, as growth in domestic demand weakened in response to a rise in real interest rates, and increased uncertainty associated with the presidential elections and stepped-up insurgent activity.

3. **Employment growth** accelerated in 1997, but a simultaneous pickup in the expansion of the labor force resulted in a rise in the unemployment rate to 12 percent by end-year (Statistical Appendix Table 13). Minimum wages were increased by 21 percent in early 1997 compared with 19 percent in 1996 (Statistical Appendix Table 14), which contributed to an acceleration in growth of real wages for the year (Statistical Appendix Tables 15 and 16). Nevertheless, annual growth of unit labor costs slowed to around 5 percent by late 1997 from nearly 30 percent at the start of the year, as productivity growth accelerated sharply.

4. The rise in unemployment, together with a slower pace of exchange rate depreciation through the first part of 1997, contributed to a **decline in consumer price inflation** to 18 percent from 22 percent in 1996 (representing the first year that the official inflation target was attained since it was first announced in 1991) (Table 3). **Upward pressures on inflation** re-emerged in the first half of 1998 owing to the impact of the El Niño weather phenomenon on food prices. By contrast, "core inflation" which excludes food prices and public service and transport tariffs, declined to 15½ percent in September 1998 from 17.2 percent in December 1997.

5. In the wake of the deteriorating fiscal situation, an unexpectedly large foreign reserve gain in December 1996 and a surge in private sector external borrowing registrations, the government declared an **“economic emergency”** in January 1997 that included a tax on most foreign borrowing and other initiatives designed to boost public sector revenues and forestall a further sharp real appreciation of the currency. The constitutional court subsequently overturned the economic emergency in March 1997, and in response the authorities adopted a number of measures, which included intensifying the “sand in the wheels” restrictions on foreign borrowing,² raising import tariffs on most goods by 2.5–5 percentage points for 90 days, and cutting investment outlays. The initiatives contributed to a nearly 1 percentage point **decline in the central administration deficit** during 1997, following three consecutive years of increases (Statistical Appendix Table 20). Despite this progress, further efforts at fiscal consolidation were constrained by the mandatory revenue sharing arrangements and the relatively rigid outlays on wages, interest payments, and national security. As a result, the **nonfinancial public sector deficit widened** by an additional 1.7 percentage points of GDP to 4.3 percent of GDP (Table 4), as the decentralized sector (mainly the territorial governments) ran up considerable bank debt, and the national coffee fund failed to build substantial reserves at a time of record world prices. The deficit was financed by external borrowing, asset sales, and domestic bond placements that were facilitated by ample liquidity in the financial system.

6. **The external current account deficit** widened further to nearly 6 percent of GDP in 1997, as imports rose sharply during the second half of the year in response to an increase in domestic demand and rising expectations for exchange rate depreciation (Table 5). Export growth accelerated owing to higher world coffee prices and a surge in nontraditional exports, especially to Venezuela (the main outlet for these products), reflecting developments in that country and a real depreciation of the peso vis-à-vis the bolivar. Despite a sizable increase in privatization flows (which totaled nearly US\$3.2 billion or 3.4 percent of GDP) and portfolio investment (mostly government bonds and stock market purchases), **net capital inflows** (including errors and omissions) slowed for the first time in several years. The weakening largely reflected a sharp turnaround in both short- and medium-term external borrowing by the private sector, which fell in response to a decline in differentials between domestic and foreign interest rates.³

7. **Monetary policy during 1996 and most of 1997 was geared toward stimulating domestic demand and forestalling a further appreciation of the real exchange rate.** In this regard, measures aimed at reducing interest rates were introduced beginning in March

²Specifically, the maximum maturity of loans subject to the nonremunerated deposit requirement first introduced in 1993 was extended from three to five years in March 1998, and to all maturities in May 1998. The latter modification also included a reduction in the rate to 30 percent from 50 percent.

³A shift in borrowing toward domestic sources was facilitated by measures adopted which allowed for the prepayment of external debt.

1996. Specifically, the monetary authorities took steps to lower reserve requirements on bank deposits,⁴ reduce the yield on central bank bills and lower the intervention band for interbank interest rates. These factors, together with a weakening in private sector credit growth from the rapid pace observed in earlier years, contributed to a significant decline in interest rates from their peak in mid-1996. The benchmark three-month deposit and lending rates declined by about 11 percentage points to 23 percent and 33 percent, respectively, by September 1997, though lending rates remained relatively high in real terms (Statistical Appendix Table 36).

8. Against the backdrop of reduced expectations concerning oil sector prospects, the **peso weakened to the depreciated end of its trading band** during the second half of 1997 amid growing market concerns about the sustainability of the large fiscal and external current account deficits, the decline in domestic interest rates, and a deterioration in the security situation. Despite significant intervention by the authorities, pressures on the peso intensified in early 1998 in response to political uncertainty in the period leading up to the presidential elections, and contagion from the Asian crisis. **The increasingly adverse market sentiment toward Colombia was also evidenced in a rise in sovereign bond spreads** on ten-year bonds in the secondary market, which rose to 350 basis points in June 1998 from 160 basis points a year earlier—considerably higher than for other investment grade-rated countries. To contain the exchange rate pressures, the **central bank tightened liquidity conditions** in February 1998 by raising the interbank interest rate band by 3 percentage points to 23–30 percent and increasing the yield on open market bills. It also sought to encourage greater capital inflows by relaxing the nonremunerated deposit requirement on external borrowing.⁵ Monetary policy was further tightened in May through the suspension of base money as the main intermediate target for monetary policy, and the liberalization of interbank interest rates.

9. These steps—together with a favorable market reaction to the election of President Pastrana in late June—resulted in a temporary easing in exchange market pressures through mid-August. However, the **tightening in monetary policy resulted in a significant increase in interest rates**, which contributed to a deterioration in financial sector performance indicators.⁶ Moreover, **exchange rate pressures re-emerged** in late August in the context of intensified pressures on emerging market countries. **Net international reserves** fell by US\$220 million during the first half of August, bringing the decline to US\$1.5 billion since their peak of US\$10.4 billion in August 1997. In response, the **central bank depreciated the exchange rate band by 9 percentage points in early September**. A fiscal package was announced by the Pastrana administration at the same time, aimed at reducing the nonfinancial

⁴The objective of these measures was also to reduce the dispersion in reserve requirements.

⁵Specifically, the nonremunerated deposit requirement on external borrowing was reduced from 30 percent to 25 percent in February 1998, and the period was lowered from 18 months to 12-month duration.

⁶A full discussion of recent financial sector performance is contained in Chapter III.

public sector deficit to 2 percent of GDP in 1999 through a widening of the VAT base, spending cuts, enhanced efforts at combating tax evasion and contraband, local government tax reform, and changes in the mandatory revenue arrangements. Despite the adoption of a tighter fiscal stance and continued efforts at maintaining a tight monetary policy, the financial markets situation remained difficult through end-September as the exchange rate depreciated by 8 percent to within 2 percentage points of the depreciated end of the new trading band, 90-day deposit rates remained close to 40 percent, and the interbank interest rate market was characterized by considerable volatility. Stock market prices fell by an additional 5 percent in September, bringing the decline for the year as whole to 50 percent in U.S. dollar terms—the lowest level since 1993.

10. **Real exchange rate movements** in recent years have broadly tracked developments in nominal exchange rates. In real effective terms, the peso appreciated by 2 percent during the first seven months of 1998, compared with an average 7 percent per annum in the seven year preceding period. Recent wage developments present a somewhat more favorable picture of competitiveness during the past year, as unit labor costs in U.S. dollar terms fell by nearly 20 percent during the year ended March 1998.

11. The growth of **money and credit aggregates** accelerated considerably in 1997 in response to the pickup in domestic demand and steps taken by the central bank to ease liquidity. Annual broad money (M3+bonds) growth, in real terms, rose from 0.4 percent in October 1996 to 5.8 percent in December 1997, while base money growth rose to 25 percent at end-1997 compared with 20 percent under the authorities' monetary program. Nevertheless, the pace of financial deepening slowed somewhat last year, as financial system liabilities to the private sector as a share of GDP was essentially unchanged at 41 percent, after increasing steadily from 30 percent in 1991. The decline in net international reserves and the decision by the central bank in May to suspend base money as the main intermediate target for monetary policy resulted in a sharp slowdown in annual base money growth during 1998 to 6½ percent in September 1998—well below the authorities' pre-established target range. Broad money growth declined by somewhat less during this period, as the rise in interest rates resulted in a shift toward holdings of interest-bearing assets. Mirroring the periodic adjustments in the stance of monetary policy mentioned above, credit expansion, in real terms, fluctuated during 1997–98, rising from 3.6 percent in 1996 to 7.9 percent in 1997 and subsequently declining to 3.3 percent in September 1998.

Table 1. Colombia: Selected Economic Indicators

(Annual percentage change)

	1994	1995	1996	Prel. 1997	Jan.-Sep. 1997	Jan.-Sep. 1998
Output and income						
Real GDP 1/	5.8	5.8	2.0	3.1	1.2	3.9
Nominal GDP	32.1	26.8	21.8	22.7	...	...
Real domestic demand	7.2	6.9	2.0	5.1	...	...
Prices						
GDP deflator	24.8	19.8	19.3	19.0	...	...
Domestic demand deflator	22.0	20.1	20.8	18.0	...	...
Terms of trade (deterioration -)	9.5	3.9	1.8	4.6	...	...
Consumer price index						
(end-of-period)	22.6	19.5	21.6	17.7	18.0	17.8
(period average)	22.8	20.9	20.8	18.5	18.7	19.4
Core inflation 2/	22.1	21.5	22.4	17.1	17.5	15.4
Wholesale prices						
(end-of-period)	20.7	15.4	14.5	17.5	16.1	16.5
(period average)	17.2	18.1	15.0	15.4	14.8	18.5
Real effective exchange rate 3/						
(end-of-period, depreciation -)	10.8	-3.9	20.0	-3.9	15.1	2.4

Sources: Colombian authorities; and Fund staff estimates.

1/ Data in last two columns refer to the first two quarters of corresponding year.

2/ Excludes agricultural foodstuffs, public services, and transport.

3/ Based on the Information Notice System. Data in last two columns refer to year through August.

Table 2. Colombia: Real GDP by Sector of Origin

	1993	1994	1995	1996	Prel. 1997
(In millions of 1975 Colombian pesos)					
Total GDP	822,335	870,151	920,902	939,775	968,485
Agriculture	169,148	170,738	177,781	178,101	176,915
Mining	32,072	32,594	39,660	42,710	44,571
Manufacturing	168,417	171,052	174,662	169,911	174,240
Construction	27,790	33,135	34,531	34,365	34,287
Commerce	95,253	101,043	109,361	109,000	112,253
Transport	72,301	76,496	80,120	83,733	88,019
Public administration	71,978	73,951	79,626	88,305	92,235
Other	185,376	211,143	225,160	233,650	245,965
(Annual percentage change)					
Total GDP	5.4	5.8	5.8	2.0	3.1
Agriculture	3.2	0.9	4.1	0.2	-0.7
Mining	-1.7	1.6	21.7	7.7	4.4
Manufacturing	1.6	1.6	2.1	-2.7	2.5
Construction	18.2	19.2	4.2	-0.5	-0.2
Commerce	9.1	6.1	8.2	-0.3	3.0
Transport	4.3	5.8	4.7	4.5	5.1
Public administration	0.2	2.7	7.7	10.9	4.5
Other	11.5	13.9	6.6	3.8	5.3
(In percent of GDP)					
Total GDP	100.0	100.0	100.0	100.0	100.0
Agriculture	20.6	19.6	19.3	19.0	18.3
Mining	3.9	3.7	4.3	4.5	4.6
Manufacturing	20.5	19.7	19.0	18.1	18.0
Construction	3.4	3.8	3.7	3.7	3.5
Commerce	11.6	11.6	11.9	11.6	11.6
Transport	8.8	8.8	8.7	8.9	9.1
Public administration	8.8	8.5	8.6	9.4	9.5
Other	22.5	24.3	24.4	24.9	25.4

Sources: Colombian authorities; and Fund staff estimates.

Table 3. Colombia: Consumer Price Index

	Total	Food	Non-Food			Other
			Total	Housing	Clothing	
(Annual average percentage change)						
1993	22.4	15.9	25.9	27.3	19.3	26.3
1994	22.8	20.9	23.8	26.1	15.0	23.7
1995	20.9	19.2	21.7	23.5	12.8	21.9
1996	20.8	16.3	22.9	23.1	11.9	25.5
1997	18.5	15.9	19.6	19.8	9.8	21.6
(12-month percentage change)						
1993						
March	24.2	23.0	24.8	24.8	19.0	26.7
June	21.4	13.3	25.8	27.2	19.8	26.0
September	21.4	11.3	26.9	29.0	20.0	26.5
December	22.6	14.5	26.8	29.5	18.2	26.3
1994						
March	23.4	19.3	25.5	27.9	17.0	25.1
June	23.1	21.4	23.9	26.1	15.1	23.9
September	22.3	21.8	22.6	24.7	13.5	22.7
December	22.6	23.0	22.4	24.7	12.9	22.3
1995						
March	21.3	20.5	21.8	24.3	13.0	21.1
June	21.7	20.7	22.1	24.6	12.9	21.6
September	20.8	18.7	21.8	22.8	12.8	22.9
December	19.5	16.2	21.0	21.6	12.6	22.6
1996						
March	20.2	16.5	22.0	22.0	12.1	24.4
June	19.7	12.8	23.0	22.2	11.8	26.9
September	21.6	16.6	23.8	24.6	11.8	25.9
December	21.6	18.3	23.2	24.0	11.0	25.3
1997						
March	18.9	13.5	21.4	22.0	10.5	23.2
June	18.7	16.4	19.7	20.7	9.9	20.6
September	18.0	17.8	18.1	17.9	9.2	20.4
December	17.7	16.4	18.2	17.6	9.4	21.1
1998						
March	19.2	23.1	17.6	17.2	8.8	20.0
June	20.7	30.0	16.7	15.9	8.5	19.4
September	17.8	20.3	16.7	15.6	8.3	19.8

Source: National Department of Statistics (DANE).

Table 4. Colombia: Operations of the Combined Public Sector

(In percent of GDP)

	1993	1994	1995	1996	Prel. 1997
Total revenue	27.2	28.8	29.9	32.2	31.5
Current revenue	27.1	28.8	29.9	32.2	31.5
Tax revenue	18.1	18.0	18.4	19.1	19.7
Nontax revenue	9.0	10.6	11.4	13.1	11.9
Operating surplus of public enterprises	5.4	5.4	5.0	5.3	4.2
Other	3.6	5.2	6.5	7.7	7.7
Transfers	0.1	0.1	0.0	0.0	0.0
Capital revenue	0.1	0.0	0.0	0.0	0.0
Sale of fixed assets	0.2	0.0	0.0	0.0	0.0
Total expenditure and net lending	27.2	28.8	30.9	34.8	35.8
Current expenditure	19.2	20.2	20.8	23.4	24.0
Wages and salaries	6.7	6.9	6.8	7.1	7.2
Goods and services	3.3	3.0	2.9	3.3	3.4
Interest	3.2	3.2	3.2	4.0	3.7
External	1.6	1.4	1.1	1.1	1.0
Domestic	1.6	1.8	2.1	2.8	2.8
Transfers	5.7	6.8	7.5	8.8	8.9
Other 1/	0.2	0.2	0.3	0.2	0.7
Capital expenditure	8.3	8.6	10.1	11.3	11.9
Fixed capital formation 1/	8.1	8.2	10.0	11.0	11.4
Of which					
On a cash basis	8.1	8.1	9.4	10.8	11.3
Transfers	0.2	0.4	0.1	0.3	0.5
Net lending	-0.3	0.0	0.0	0.0	0.0
Nonfinancial public sector balance	0.0	0.0	-1.1	-2.6	-4.3
Quasi-fiscal balance 2/	-0.6	-0.3	0.3	0.0	-0.1
Overall balance	-0.6	-0.3	-0.8	-2.6	-4.3
Statistical discrepancy	-0.6	0.1	-1.5	0.2	-0.8
Financing	1.2	0.2	2.2	2.4	5.1
Foreign	-0.1	-2.4	1.2	0.9	1.6
Disbursements	2.6	2.6	1.7	2.9	2.9
Amortization	-3.0	-3.1	-1.8	-1.6	-1.4
Short term	0.2	-2.0	1.3	-0.5	0.1
Of which					
Change in government reserves (increase -)	0.3	-1.8	1.0	-0.4	0.2
Domestic	1.3	0.1	0.8	0.6	2.0
Banco de la Republica	0.9	0.3	0.3	-0.1	-0.2
Rest of financial system	0.2	-0.3	-0.5	-0.1	0.7
Bonds	0.0	-0.2	0.1	0.2	1.6
Change in floating debt	0.2	0.3	0.9	0.5	-0.1
Privatization proceeds 3/	0.0	2.5	0.3	1.0	1.5
Memorandum items:					
Military expenditure 4/	2.6	2.5	2.8	3.1	3.1
Public sector savings	7.1	8.3	9.3	8.8	7.5
Overall primary balance	3.3	3.2	2.2	1.4	-0.5

Sources: Ministry of Finance and Public Credit; and Banco de la Republica.

1/ Includes expenditure financed by increase in floating debt and, beginning in 1996 based on financing data, an adjustment for unrecorded local government expenditure.

2/ Balance of Banco de la Republica on a cash basis.

3/ Includes nonrecurrent fees from telecommunications licensing.

4/ Includes army and police wages and pensions, and purchases of goods and services.

Table 5. Colombia: Summary Balance of Payments

	1994	1995	1996	Prel. 1997	Jan.-Jun. 1997	Jan.-Jun. 1998
(In millions of U.S. dollars)						
Current account	-3,160	-4,365	-4,946	-5,632	-2377	-3706
Trade balance	-2,331	-2,699	-2,143	-2,728	-970	-1,981
Exports, f.o.b.	8,749	10,222	10,651	11,681	5,620	5,439
Coffee	1,991	1,832	1,577	2,259	1,109	1,014
Petroleum products	1,313	2,185	2,892	2,707	1,318	1,123
Other	5,445	6,206	6,182	6,715	3,193	3,302
Imports, f.o.b.	11,080	12,921	12,794	14,409	6,589	7,420
Services (net)	-1,690	-2,345	-3,335	-3,516	-1,725	-1,922
Interest	-1,049	-1,089	-1,352	-1,354	-694	-790
Other services	-642	-1,256	-1,984	-2,162	-1,031	-1,133
Transfers (net)	862	679	532	612	318	197
Capital account	3,288	4,683	6,528	5,636	2,786	2,834
Public sector (net)	-1,343	1,291	892	1,261	124	995
Nonfinancial public sector	-1,703	944	743	1,559	-7	896
Medium- and long-term (net)	-329	-112	1,139	1,448	853	1,519
Disbursements	1,820	1,331	2,541	2,780	1,920	2,655
Amortization	2,150	1,443	1,402	1,332	1,067	1,136
Short-term	-1,374	1,056	-396	111	-860	-624
Financial public sector	360	347	149	-298	131	100
Nonfinancial private sector (net)	4,250	2,750	5,816	4,196	2,447	1,481
Direct investment	1,500	1,943	3,208	4,902	1,228	1,274
Leasing finance	579	249	218	211	165	243
Long-term loans	1,759	1,648	2,608	1,792	1,014	157
Short-term 1/	412	-1,090	-219	-2,709	40	-193
Of which						
Privatization proceeds	...	...	...	-1,304	...	...
Financial private sector (net)	381	642	-180	180	215	359
Overall balance	128	318	1,582	4	409	-872
(In percent of GDP)						
Current account balance	-4.5	-5.4	-5.7	-5.9	...	...
Non-oil current account 2/	-5.2	-6.2	-7.3	-7.0	...	...
Overall balance	0.2	0.4	1.8	0.0	...	...
(In months of imports of goods and services)						
Gross international reserves	5.8	5.2	5.7	5.2	...	...
(In millions of U.S. dollars)						
Memorandum item:						
Change in net international reserves plus government deposits held abroad (increase +)	1,077	-264	2,012	-319	971	-376

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

1/ Includes errors and omissions, contributions to international organizations; and changes in net foreign assets resulting from privatization.

2/ Excludes net exports of petroleum products and related services; and imports related to investment in new oil fields.

Table 6. Colombia: Summary Accounts of the Financial System

	1994	1995	1996	1997	June 1998
(Annual percentage changes) 1/					
I. Financial System 2/					
Net foreign assets	-3.0	-0.2	3.7	-0.5	-3.3
Net domestic assets	37.7	26.3	27.8	22.5	23.1
Credit to public sector (net)	-1.5	0.5	-0.5	1.3	3.4
Quasi-fiscal deficit (surplus -)	1.2	-1.3	0.0	0.2	-1.5
Credit to private sector	34.1	31.6	26.0	21.0	21.6
Other (net)	3.9	-4.5	2.3	0.1	-0.3
Liabilities to private sector	34.6	26.0	31.5	22.0	19.8
II. Banco de la Republica (BR) 3/					
Net international reserves	5.6	10.4	48.4	0.1	-42.6
Net domestic assets	27.8	17.7	-30.6	30.0	63.4
Credit to public sector (net)	-2.4	17.6	-2.3	-6.7	4.6
Credit to private sector (net) 4/	43.4	8.0	-14.0	17.9	26.7
Credit to financial system	-30.1	20.0	-14.4	14.5	38.1
Other (net)	16.9	-27.9	0.1	4.3	-6.0
Currency issue	33.4	28.0	17.9	30.1	20.8
Memorandum items:					
(Flows in millions of U.S. dollars)					
Net official international reserves	128.3	318.3	1,582.6	3.9	-1277.4
(Annual percentage changes in nominal terms)					
Broad money 5/	42.8	27.4	29.9	24.5	23.0
Money (M1)	24.0	19.4	16.0	22.2	9.5
Quasi-money and other	50.4	28.5	21.1	25.6	28.8
Private sector credit	35.4	32.6	24.9	20.6	20.9
Base money	27.5	11.2	5.7	25.0	6.0
(Annual percentage changes in real terms)					
Broad money 5/	16.7	6.6	6.8	5.8	1.9
Money (M1)	1.3	0.0	-4.7	3.8	-9.3
Quasi-money and other	22.9	7.6	-0.4	6.7	6.7
Private sector credit	10.6	11.0	2.7	2.4	0.1
Base money	4.2	-6.9	-13.1	6.3	-12.2
(Nominal GDP/broad money)					
Velocity of broad money	2.6	2.6	2.5	2.4	...
(Interest rates) 6/					
90-day deposit rates					
Nominal	37.9	32.4	27.8	23.9	36.6
Real	12.6	10.8	5.0	5.3	13.1
Lending rates					
Nominal	46.6	44.2	38.7	33.2	50.5
Real	19.7	20.7	14.1	13.2	24.7

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

1/ All annual changes in foreign currency stocks valued at a constant exchange rate.

2/ Changes in relation to private sector liabilities at the beginning of the period. Rates of growth of money and quasi-money are with respect to themselves.

3/ Changes in relation to currency issue at the beginning of period.

4/ Corresponds mainly to the sum of the stock of open market bills and exchange certificates.

5/ Includes M3 plus bonds issued by financial institutions.

6/ End of period annual rates.

Table 7. Colombia: External Debt and Debt Service

	1993	1994	1995	1996	Prel. 1997
(In millions of U.S. dollars)					
Public sector debt, end of period	13,885	14,352	15,121	15,932	15,096
Medium term	13,257	13,554	13,952	15,023	14,441
Short term	628	798	1,169	910	655
Private sector debt, end of period	5,056	7,589	9,927	13,262	16,687
Medium term	2,046	3,905	5,553	9,469	12,568
Short term	3,009	3,684	4,374	3,793	4,119
Total external debt	18,941	21,941	25,048	29,194	31,783
Medium term	15,304	17,459	19,505	24,491	27,009
Short term	3,637	4,482	5,544	4,703	4,774
Total debt service	3,706	4,986	4,680	5,373	6,636
Public sector	2,966	3,644	2,968	3,109	3,107
Amortization	1,984	2,585	1,839	1,910	1,977
Interest	982	1,059	1,129	1,200	1,131
Private sector	739	1,342	1,712	2,264	3,529
Amortization	501	841	961	1,352	2,301
Interest	239	500	751	912	1,228
(In percent of GDP)					
Total debt, end of period	33.9	31.3	31.1	33.8	33.1
Public sector	24.9	20.5	18.8	18.4	15.7
Private sector	9.1	10.8	12.3	15.4	17.4
(In percent of exports of goods and nonfactor services)					
Total debt service	37.2	41.1	33.9	36.8	41.8
Public sector	29.8	30.1	21.5	21.3	19.6
Private sector	7.4	11.1	12.4	15.5	22.2
Total interest	12.3	12.9	13.6	14.5	14.8
<i>Of which</i>					
Public sector	9.9	8.7	8.2	8.2	7.1

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

Table 8. Colombia: Public Sector External Debt by Creditor 1/

	1993	1994	1995	1996	Prel. 1997
(In millions of U.S. dollars; end of period)					
Public sector debt	13,257	13,554	13,952	15,023	14,441
Bilateral	1,804	1,496	1,747	1,738	1,587
Multilateral organizations	5,680	5,614	5,649	5,053	4,446
IBRD	2,969	2,566	2,548	2,174	2,293
IDB	2,646	2,912	2,920	2,722	2,926
Other	65	136	181	157	180
Commercial banks	4,439	4,574	4,307	4,370	3,250
Bonds	675	1,333	1,733	3,410	4,731
Other (suppliers)	659	537	516	451	427
(In percent of total)					
Bilateral	13.6	11.0	12.5	11.6	11.0
Multilateral organizations	42.8	41.4	40.5	33.6	30.8
IBRD	22.4	18.9	18.3	14.5	15.9
IDB	20.0	21.5	20.9	18.1	20.3
Other	0.5	1.0	1.3	1.0	1.2
Commercial banks	33.5	33.7	30.9	29.1	22.5
Bonds	5.1	9.8	12.4	22.7	32.8
Other (suppliers)	5.0	4.0	3.7	3.0	3.0

Source: Banco de la Republica.

1/ Does not include short-term public debt or publicly guaranteed private debt.

II. THE COSTS OF MODERATE INFLATION IN COLOMBIA⁷

12. **Between 1955 and 1972, inflation in Colombia was relatively low.** Since 1973, however, Colombia has experienced persistent inflation, which in the 1990s, has been mostly in the range of 18–23 percent (Figure 1). Yet, Colombia has also been known for its prudent macroeconomic policies, to which have been attributed its record of sustained economic growth and manageable external debt, in contrast to the experience of other Latin American countries. Fiscal deficits were kept low (before widening sharply in recent years), while the monetary authorities kept an eye toward an alarm signal of 30 percent inflation: when inflation exceeds that level (as in 1977 and 1990), monetary policy would be tightened to counteract it (Echeverry, 1996).

13. Perhaps because moderate inflation has been accompanied by sustained growth and because of widespread indexation (mostly informal) in the economy, there has not been a vocal constituency within Colombia for stronger measures to reduce inflation, but inflation is now among the highest in the region. **It has been suggested (e.g., Partow, 1995b) that the uptrend in Colombian inflation since 1973 has been partly responsible for the slowdown in real GDP growth.** On the other hand, because inflation has been moderate and relatively stable, it has also been argued that its negative effect on growth could not have been substantial.

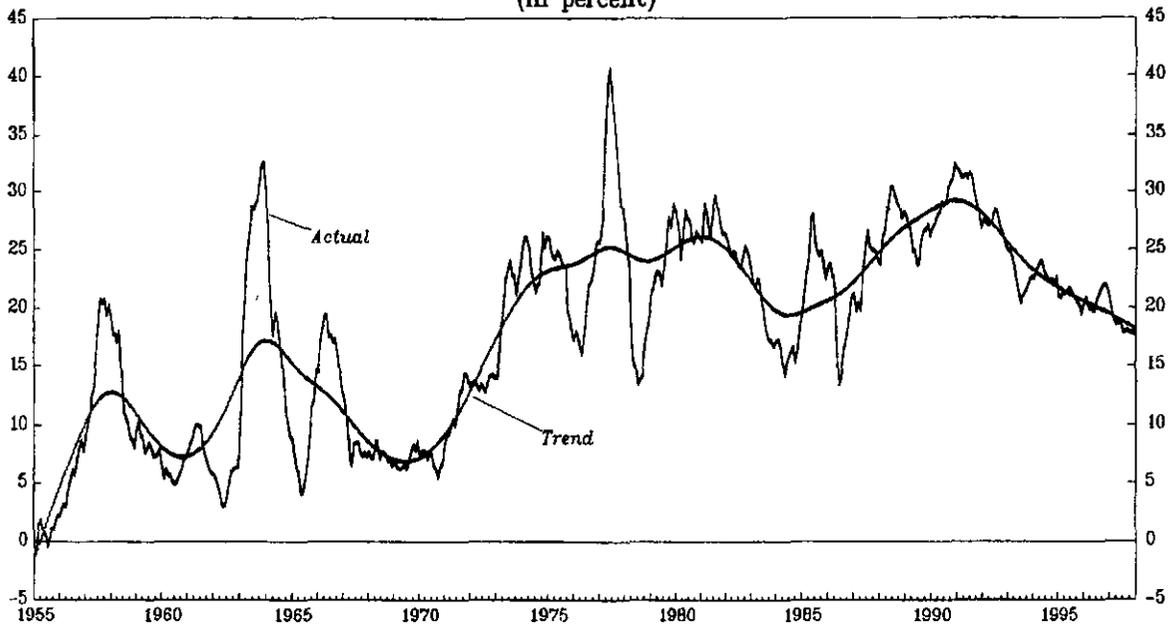
14. This chapter reviews the evidence regarding the effects of moderate inflation in Colombia on economic welfare and economic growth. In the general literature on inflation, it has been pointed out that even in the case of *anticipated* inflation, economic welfare is lower due to the costs that arise from the need to economize on real money balances and to revise prices, and from the losses due to less than full indexation of tax systems and contracts. Furthermore, when inflation is *unanticipated*, these costs also arise: (i) unplanned redistribution of income and wealth; (ii) distortions to economic agents' decisions arising from increased uncertainty regarding future inflation; and (iii) misallocation of resources due to the unwarranted dispersion of relative prices.

A. Trends, Analyses, and Welfare Costs

15. As Figure 1 shows, inflation steadily trended upward over the period 1970–92, but the trend has since edged downward. **Several reasons why inflation has persisted in the 18–23 percent range have been:** the crawling peg exchange rate adopted in 1967; the indexation of the system of housing finances (UPAC); the indexation of tax brackets; partial indexation of wages; and widespread indexation in other sectors (albeit not as formalized as it had been in, say, Brazil). Indexation produces inflationary inertia, increases the sensitivity of inflation to negative supply shocks, and thwarts needed changes in relative prices. In the end,

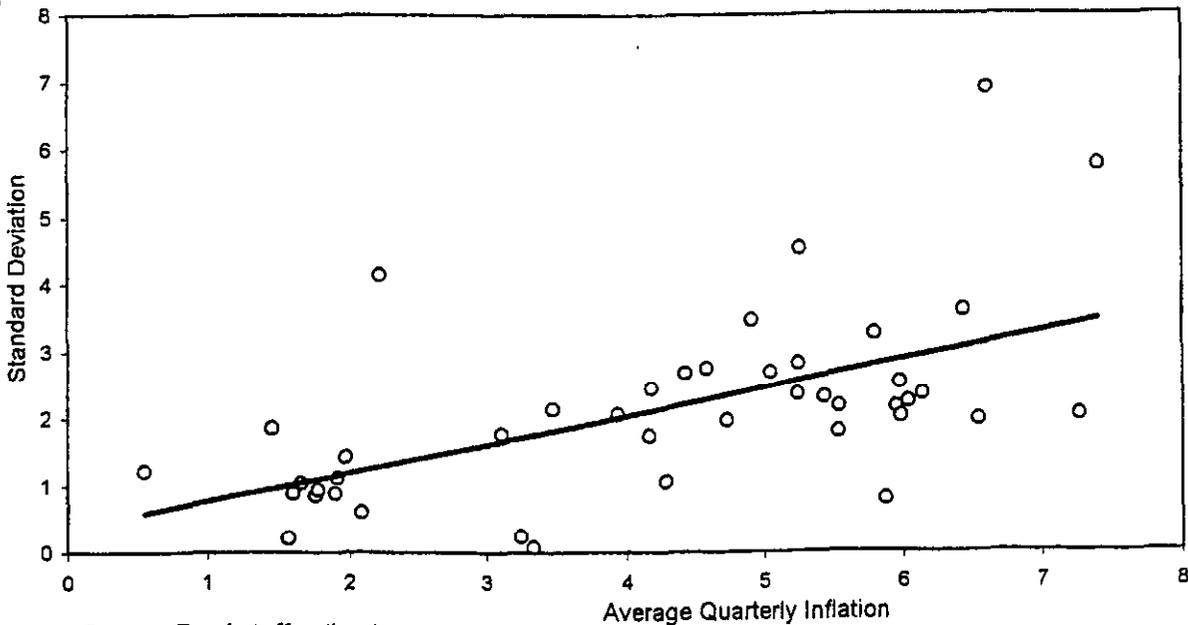
⁷Prepared by Henry Ma.

Figure 1. Colombia: Consumer Price Inflation
(In percent)



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

Figure 2. Colombia: Standard Deviation and Average Level of Inflation



Source: Fund staff estimates.

inflation is a monetary phenomenon, and there have been several analyses of the monetary causes of moderate inflation in Colombia.

16. Cárdenas and Partow (1998) argue that **inflation in Colombia has been moderate to high primarily because inflation control has not been the only objective of monetary policy.** Over the period 1963–91, monetary policy was often geared towards stabilizing the business cycle. On the other hand, whenever the rate of inflation exceeded 30 percent, strong action against inflation would be taken. Cárdenas and Partow (1998) argue that the central bank's governing board lacked the "conviction . . . that the fight against inflation was worth the effort." Since the central bank was made more independent in 1992, money growth has been lower. Nevertheless, they conclude that although the more independent central bank has shown less tolerance for inflation, the new monetary policy framework continues to place weight on output and employment stabilization in addition to inflation reduction; consequently, the decline in inflation since 1992 has been gradual and difficult to achieve.⁸

17. Complementarily, Echeverry (1996) looks at the reaction of monetary policy to shocks to foreign exchange reserves and concludes that several times during the 1980s, other objectives were put ahead of inflation reduction (e.g., output and employment and the health of the financial sector). He also notes that the inertial character of Colombian inflation may have been overemphasized, creating an impression that could result in **an overestimation of the costs of disinflation.**

18. There have also been studies of **the welfare costs of inflation, which arise even if inflation is perfectly anticipated.**⁹ At their most basic, these take the form of so-called "shoe-leather costs": to avoid holding cash, which loses value, people would make more frequent trips to the banks or attempt to synchronize spending with receipts of income. However, these stratagems entail transactions costs, as well as foregone benefits (e.g., the time that could have been used for leisure), reducing the welfare of economic agents. Riascos (1997) estimates that 20 percent inflation (as opposed to zero inflation) costs Colombia approximately 1.5 percent of annual consumption. Carrasquilla et al. (1994) conclude that a reduction from 22 percent to 5 percent inflation would raise social welfare by around 8 percent. Finally, Posada (1997) calculates that even a perfectly anticipated inflation rate of 20 percent costs Colombia 3 percent of GDP per year in welfare losses.

⁸In this connection, 1997 marked the first time that the official inflation target (18 percent for that year) has been met since such targets began to be announced in 1991.

⁹The relationship between inflation and uncertainty, and its effects on economic growth are discussed below in Section C.

B. Inflation Uncertainty and Relative Price Dispersion

19. There are two ways in which high or moderate inflation could be associated with uncertainty in general. First, **high or moderate inflation is often associated with inflation uncertainty**; that is, increased uncertainty regarding future inflation. Because many economic decisions (saving, investment, labor supply, etc.) are dependent on the formation of expectations regarding prices, inflation uncertainty tends to distort decisions regarding the allocation of resources. Furthermore, the increased uncertainty regarding the ex post real rate of interest could make financial instruments riskier, driving providers of capital to raise ex ante interest rates, making it more difficult for otherwise viable projects to pass rate-of-return hurdles, and thus depressing capital formation and perhaps growth.

20. Ball (1992) has suggested an explanation for the positive relationship between high or moderate inflation and inflation uncertainty: **as inflation increases, the public becomes more uncertain about the central bank's attitude toward inflation**. When inflation is low, everybody wants to keep it low, but at higher levels, central banks that are committed to low inflation would try to reduce it, whereas those with a weaker commitment to reducing inflation may attempt to benefit from the short-run trade-off between inflation and unemployment. Hence, when inflation is high, the central bank's response to inflation becomes less certain; in such a situation, policy changes become more likely and the outcomes of such changes become more uncertain.

21. Second, **inflation could reduce the informational efficiency of the price system by raising the dispersion of relative prices**. If there exist fixed costs to changing prices ("menu costs") and these costs vary among firms, then an increase in inflation would lead to staggered price changes across the economy, and thus to an increase in relative price dispersion. Alternatively, the increased inflation uncertainty associated with high or moderate inflation could make firms' output responses relatively inflexible; consequently, prices have to bear the brunt of adjusting to shifts in demand and supply and will have to move around a lot, also increasing relative dispersion. Although some degree of relative price dispersion is unavoidable in a market economy, large changes in relative prices that are unrelated to fundamental demand and supply conditions could generate inefficiencies by "muddling" economic agents' perception of price signals, akin to the situation under inflation uncertainty.

22. One measure of inflation uncertainty is the variability of inflation. Figure 2 indicates a positive relationship between inflation and its variability (as measured by its standard deviation) for the period 1955-97; hence, **it would seem to be getting harder to forecast inflation in Colombia as it increases**. However, the observed variability of inflation may not be an entirely valid proxy for uncertainty (which is not directly observable) because economic agents could well have forecast variability. It has, therefore, become standard in the literature to use the following procedure: (i) estimate a forecasting equation of inflation that allows the variability of inflation to differ in each period (the so-called ARCH model); and (ii) from the estimated equation, extract the estimated variability as a measure of uncertainty. In effect, this

methodology somewhat stacks the deck against finding a positive relationship between inflation and inflation uncertainty; nevertheless, a positive relationship was still found to hold between inflation and this alternative measure of uncertainty.¹⁰

23. Figure 3 shows the behavior over time of the extracted measure of inflation uncertainty, as well as of actual inflation. There seem to have been three periods when inflation uncertainty was particularly high: the mid-1960s, the late 1970s, and the late 1980s. It can be noted that these have also approximately been periods when inflation levels have peaked. In fact, regression results suggest that **a 10 percent increase in inflation leads to a 4.6 percent increase in uncertainty regarding future inflation**, which is a substantial effect.

24. Figure 4 shows the behavior over time of relative price dispersion in Colombia.¹¹ **Econometric analyses indicate that both lagged inflation and inflation uncertainty are positively associated with dispersion.** The former suggests that “menu costs” (the fixed costs of changing prices) have played a role in generating dispersion, while the latter suggests that inflation uncertainty, by “muddling” economic agents’ perceptions of price signals, has also caused relative prices to diverge. Interestingly, the results indicate that the latter effect has had a larger role. The persistence of inflation at double-digit levels could have induced firms to adapt by finding ways to reduce the fixed costs of changing prices in order to keep up with inflation; more directly, the presence of indexation schemes could have mitigated “menu costs.”

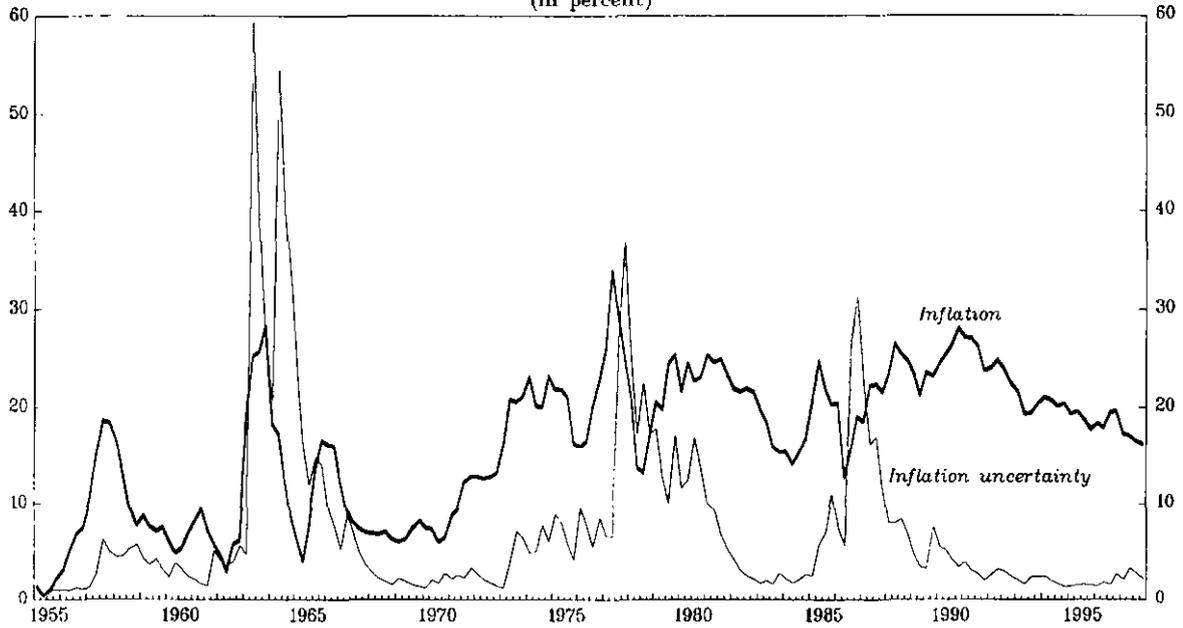
C. Inflation and Growth in Colombia

25. What have been the consequences for economic growth of the increased inflation uncertainty and relative price dispersion associated with inflation in Colombia? It seems intuitive that the uncertainty generated by inflation would depress capital formation and, in turn, the rate of economic growth. **There have been several studies on the relationship between inflation and growth in Colombia, but the results have been mixed.** Uribe (1994) finds that, for the period 1951–92, neither the level nor the variability of CPI inflation have had a statistically significant effect on growth. He attributes this to the fact that whereas inflation was low but relatively volatile in the 1950s and 1960s, it has been high but relatively stable since the 1970s. By contrast, Partow (1995a), studying the same period, finds that inflation has had a negative and statistically significant effect on real GDP growth, and that it takes about ten years for the negative effect to wear off. In a related study, Partow (1996)

¹⁰Detailed results of the econometric analyses mentioned in this and subsequent sections are in Ma (1998).

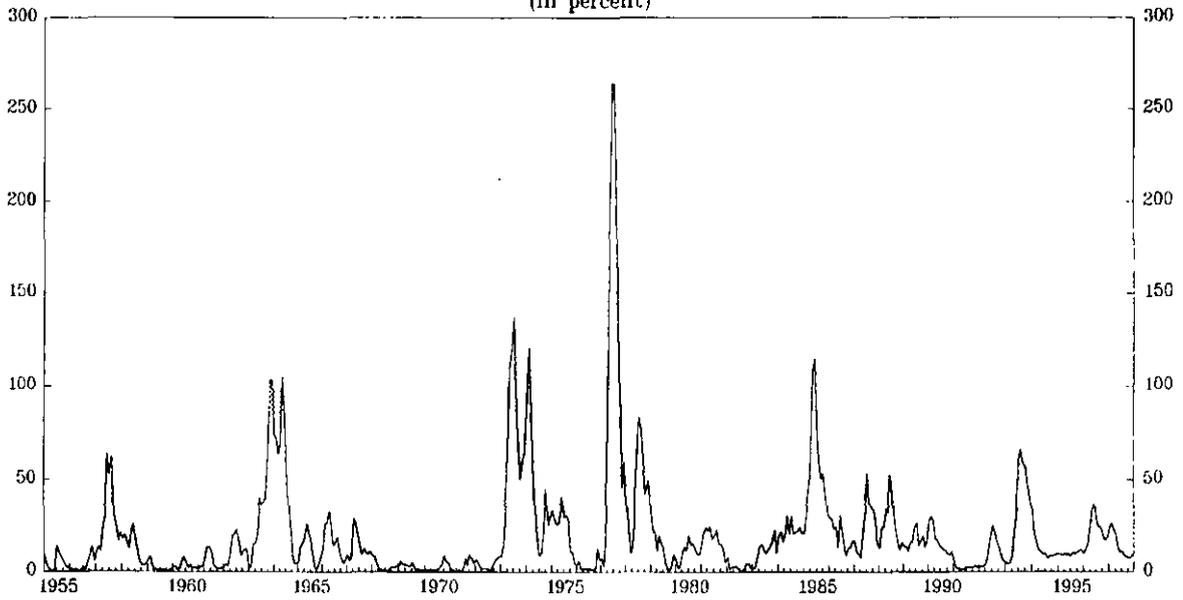
¹¹Relative price dispersion for each period is computed as the weighted sum of the squared differences between the aggregate inflation rate and the rate of change of each component of the consumer price index. The component groups and their weights are: food (35 percent), housing (33 percent), clothing (9 percent), and miscellaneous items (23 percent).

Figure 3. Colombia: Inflation and Inflation Uncertainty
(In percent)



Source: Fund staff estimates.

Figure 4. Colombia: Relative Price Dispersion
(In percent)



Source: Fund staff estimates.

finds that the standard deviation of inflation has had a *positive* and statistically significant effect on private investment.¹²

26. An econometric analysis of inflation, uncertainty (both inflation uncertainty and relative price dispersion), private gross fixed capital formation, and real GDP growth was conducted on annual data (for 1955–97). The main results are as follows:¹³ First, inflation has consistently been a statistically important variable in explaining growth in Colombia. Second, relative price dispersion has had some role in explaining growth, but inflation uncertainty has not had a major role in explaining either investment or growth. Third, increases in either inflation, inflation uncertainty, or relative price dispersion, depress investment growth within one year, but modestly stimulate it within two years; and have a negative impact thereafter. Fourth, *the effect of inflation on real GDP growth is negative and persistent*: nine years after an upward shock to inflation, real GDP growth remains below what it would have been without the shock.

D. Conclusions

27. Colombia's inflation experience is striking in that, since 1973, it has experienced moderate, persistent, and relatively stable inflation. The steady increase from low rates in the 1950s has been attributed to the sidelining of inflation as a policy priority, in the pursuit of other goals such as output and employment stabilization. Since the establishment of a relatively more independent monetary authority in 1992, however, inflation has gradually slowed.

28. Perhaps because inflation has been moderate and positive real GDP growth has been sustained, there has not been much pressure within Colombia for a faster pace of inflation reduction. However, Colombia would do well to pursue such a reduction. For one thing, **inflation even at moderate levels, causes welfare losses due to inefficiencies occasioned by the need to economize on money holdings**. Estimates are that these welfare losses amount to 3 percent of GDP. For another, to the extent that inflation is associated with increased uncertainty and the consequent "muddling" of price signals, distortions of economic agents' decisions, and misallocation of resources, it could have negative effects on real GDP growth. Econometric analyses for Colombia show that there is a positive relationship between inflation and either inflation uncertainty or relative price dispersion. Furthermore, there is a negative and persistent effect of inflation on real GDP growth. Hence, although Colombia has done remarkably well since the 1950s, considering its moderate and persistent inflation, it could have done better. That Colombia's inflation and growth performance now lags that of other Latin American countries bears testimony to this.

¹²Caballero (1991) has pointed out that for a negative relationship to hold, certain stringent mathematical conditions regarding the firm's profit function have to be fulfilled. A priori, the sign of the relationship cannot be determined, and is an empirical question.

¹³Detailed results are in Ma (1998, forthcoming).

References

- Ball, Laurence, 1992, "Why Does High Inflation Raise Inflation Uncertainty?" *Journal of Monetary Economics* Vol. 29, pp 371-88.
- Caballero, Ricardo J., 1991, "On the Sign of the Investment-Uncertainty Relationship," *American Economic Review* Vol. 81, pp. 279-88.
- Cárdenas, Mauricio, and Zeinab Partow, 1998, "Does Independence Matter? The Case of the Colombian Central Bank," Working Paper (Santafé de Bogotá: FEDESARROLLO).
- Carrasquilla, Alberto, Arturo Galindo, and Hilde Patrón, 1994, "Costos en Bienestar de la Inflación: Teoría y Una Estimación para Colombia," Borradores Semanales de Economía No. 3 (Santafé de Bogotá: Banco de la República).
- Echeverry, Juan Carlos, 1996, "The Rise and Perpetuation of a Moderate Inflation: Colombia 1970-91," Borradores Semanales de Economía No. 50 (Santafé de Bogotá: Banco de la República).
- Ma, Henry, 1998 (forthcoming), "Inflation, Uncertainty, and Growth in Colombia," IMF Working Paper (Washington, D.C.: International Monetary Fund).
- Partow, Zeinab, 1995a, "Una Investigación Empírica Sobre el Impacto de la Inflación en el Crecimiento Económico de Colombia, 1951-1992," Borradores Semanales de Economía No. 17 (Santafé de Bogotá: Banco de la República).
- _____, 1995b, "La Relación Inflación-Crecimiento: Un Resumen con Algunas Implicaciones Para Colombia," Borradores Semanales de Economía No. 23 (Santafé de Bogotá: Banco de la República).
- _____, 1996, "Incertidumbre Económica e Inversión Privada en Colombia," Borradores Semanales de Economía No. 56 (Santafé de Bogotá: Banco de la República).
- Posada, Carlos Esteban, 1997, "Otro Costo de Una Inflación Perfectamente Prevista," Borradores Semanales de Economía No. 77 (Santafé de Bogotá: Banco de la República).
- Riascos, Alvaro J., 1997, "El Costo en Bienestar de la Inflación en Colombia," Working Paper (Santafé de Bogotá: Banco de la República).
- Uribe, Jose Dario, 1994, "Inflación y Crecimiento Económico en Colombia: 1951-1992," Borradores Semanales de Economía No. 1 (Santafé de Bogotá: Banco de la República).

III. FINANCIAL SECTOR ISSUES¹⁴

29. A broad-based reform of the financial system was implemented in the early 1990s, which achieved important progress in increasing efficiency, enhancing competition, and strengthening the regulatory framework. This chapter describes and assesses the key elements and effects of the reform, discusses recent trends in the health of the financial sector with particular attention to the heightened vulnerabilities stemming from the recent deterioration in the macroeconomic situation and downturn in worldwide market sentiment, and presents the main challenges to be addressed in the period ahead.

A. Overall Financial System Structure

30. The Colombian financial system presents a complex tapestry of institutions and regulations, which is largely the result of a **broad-based reform implemented in the early 1990s aimed at enhancing competition and increasing efficiency**. The financial sector reforms were part of a broader reform program that also included measures designed to liberalize the trade system, rationalize public sector operations, increase labor market flexibility, and strengthen central bank autonomy. In the financial sector, the reforms included the liberalization of interest rates, and reduced financial taxation through an easing of credit subsidies, forced investment requirements, and simplification of reserve requirements. The reforms also included a partial move toward a universal banking system through a reduction in financial sector segmentation among the four major groups of deposit-taking institutions (commercial banks, finance corporations, savings and mortgage institutions, and commercial finance companies) (Box 1).

¹⁴Prepared by Reva Krieger.

Box 1. Financial Sector Reform

The Colombian financial system weakened considerably in the 1980s. Banks were hurt by a contraction in foreign investment in the context of Latin America's economic crisis of the 1980s, a weakened domestic economy, and insider trading. In addition, through off-shore branches, the Colombian banks lent to other Latin American countries, and suffered from their neighbors' subsequent difficulties. As a result, the central bank and the deposit insurance agency (Fondo de Garantía de Instituciones Financieras) had to assist a number of banks, and intervened in and nationalized four banks.

Framework legislation for reform of the financial sector was contained in *Law 45 of 1990* (adopted as part of the constitutional reform of that year), whose objectives were to reduce the specialization of financial institutions and foster greater competition among the four major groups (commercial banks, finance corporations, commercial finance companies, and savings and mortgage institutions). To achieve these objectives, the law:

- allowed free entry into the industry (including full foreign ownership of financial institutions), subject to minimum capital requirements and suitability of ownership and management. Conversion from one type of institution to another was also eased;
- streamlined regulations on mergers, acquisitions, and liquidation of financial institutions;
- allowed financial intermediaries to expand through the creation of subsidiaries.

As a complement to this framework, new modalities for financial, brokerage, and insurance activities were contained in *Law 35 of 1993* which, inter alia, reduced restrictions that limited the operations of various financial intermediaries. The most important of these reforms was that which concerned the leasing companies. Law 35 established that leasing companies must be converted into deposit-taking commercial finance companies or else be liquidated, while existing commercial finance companies were allowed to engage in leasing. Other principal features of this reform allowed (i) shares of commercial finance companies to be held by all credit institutions; (ii) savings and mortgage institutions to invest in other financial entities and extend consumer loans without mortgages, or mortgage loans to activities other than housing; and (iii) commercial finance companies and savings and mortgage institutions to engage in all types of foreign exchange operations.

31. Several steps to improve supervision were implemented, aimed at the upgrading of Colombia's banking practices to international standards. In particular, the ability of the superintendency of banks to monitor requirements on monetary reserves, forced investments, capital, minimum net worth, and provisioning for nonperforming assets, as well as profit distribution and lending concentration was strengthened. Minimum capital requirements were established, capital/asset ratios based on Basle standards were introduced, and provisioning requirements were strengthened (Box 2).

Box 2. Strengthening Supervision and Regulation

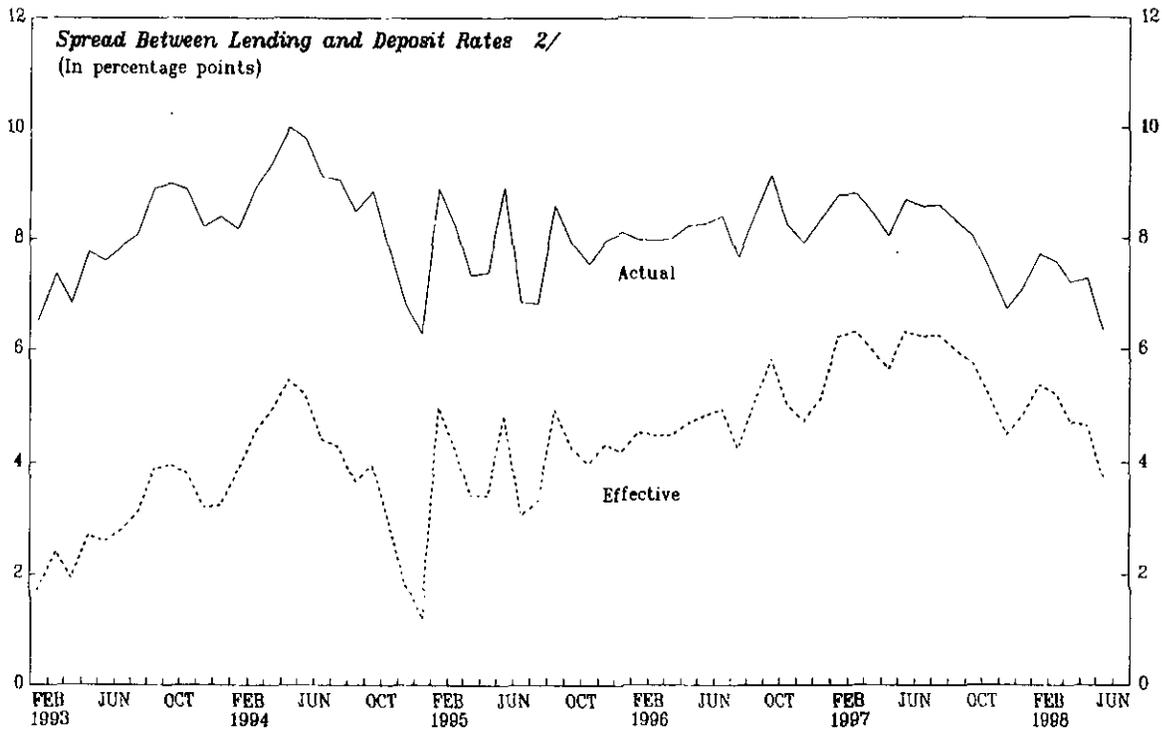
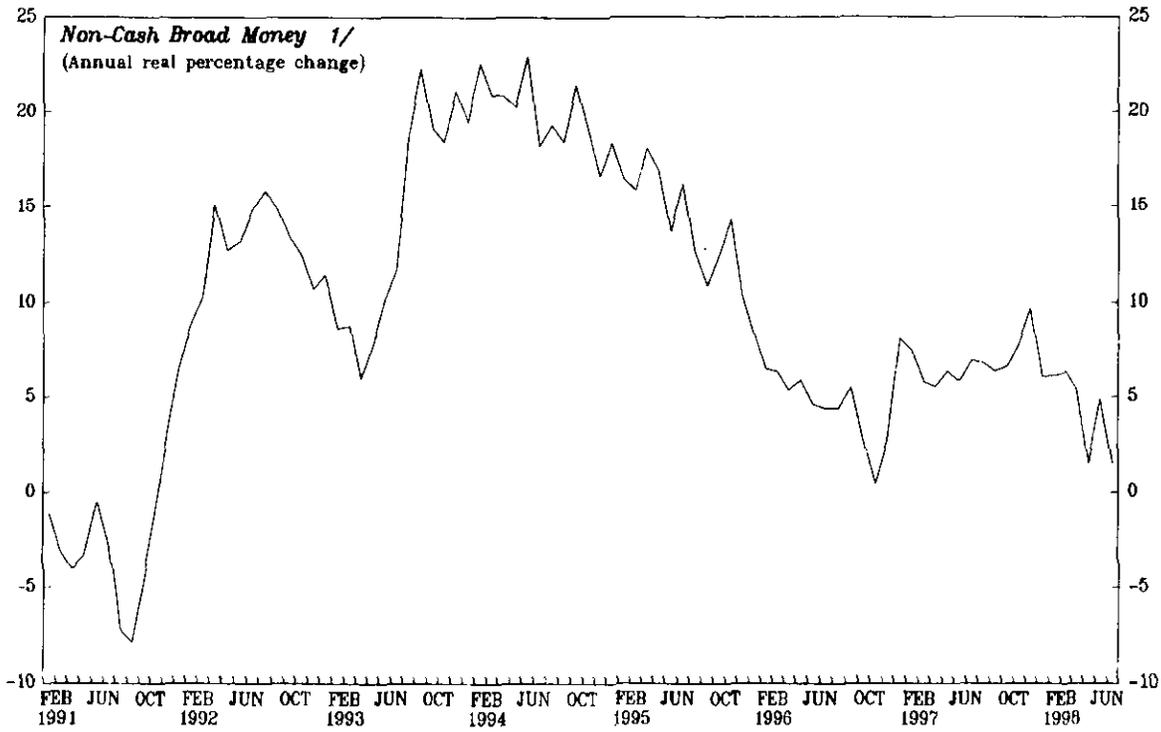
The main steps taken to strengthen supervision and regulation were the following:

- **Minimum capital requirements** were established in 1991, which are adjusted annually in line with consumer price inflation.
- In June 1994, **capital adequacy requirements** in line with Basle standards were adopted. The minimum capital to risk-weighted assets ratio currently stands at 9 percent (this level was increased from 8.3 percent in 1995), a requirement which must be met at the individual entity level, even if supervision is done on a consolidated basis for financial holdings. Calculation of risk-weighted assets by financial institutions is based on five different categories taking into account the borrower's repayment ability, the repayment status of the loan, and the value and perceived quality of underlying collateral.
- **Provisioning requirements** were tightened in 1995, with institutions being required to reserve past due loans in a shorter time frame.
- Since 1995, regulations require the **foreign currency position of financial institutions** to be no greater than 20 percent of core capital; negative net foreign currency positions are not allowed; since 1996, institutions are authorized to borrow in foreign currency and lend these funds in local currency, up to 10 percent of their core capital.

32. These reforms contributed to a number of **significant changes in the structure of the Colombia's financial system during the first half of the 1990s**. First, there was a **large increase in foreign participation**, which rose from 5 percent of total banking equity in 1990 to 25 percent by 1994 and an estimated 27 percent in 1997. During the first half of the 1990s most of the increased foreign interest was from other Latin American countries, but beginning in 1996 Spanish banks were at the forefront of foreign investment in the Colombian financial sector, with the Banco Bilbao Vizcaya (BBV) buying a controlling stake in the Banco Ganadero, the country's largest bank, and the Banco Santander buying the Banco Comercial Antioqueño, the sixth largest. Second, the interpretation of Law 45 of 1990—that financial institution licensing should be quasi-automatic—and the decision to allow commercial finance companies specializing in leasing to accept deposits, led to a **sizable increase in the number of deposit-taking institutions from 90 in 1990 to 130 by March 1997** (Table 1). The proliferation in number was especially marked for nonbank financial institutions, owing to the relatively low minimum capital requirements.

33. The viability of the large number of institutions during the first half of the 1990s was aided by a **rapid increase in intermediation**, as annual growth in bank deposits and bank-issued securities (noncash broad money) averaged 15 percent in real terms during 1992–95 (Figure 1). However, **problems stemming from the significant rise in the number of deposit-taking institutions** began to be manifested in 1996, in the context of a sharp

Figure 1. Colombia
Selected Financial Indicators



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

1/ Defined as M3 plus bonds issued by financial institutions less currency in circulation.

2/ Defined as the difference between the average rate charged on loans and the average rate paid on three-month time deposits during the last week of each month.

slowdown in broad money growth and a weakening in private sector credit in response to a downturn in economic activity.

34. The effects of the downturn were exacerbated by the entrance into the financial system of strong competitors from abroad. This contributed to an erosion in intermediation margins, with the average spread between lending and deposit rates declining from nearly 9 percent at the start of 1997 to 6¼ percent by end-year. The fall in spreads was particularly marked for the savings and mortgage institutions owing to aggressive competition from commercial banks (particularly the Spanish-owned institutions) in the mortgage area (Box 3).

Box 3. Interest Rate Spreads

The Colombian financial system has traditionally been characterized by large intermediation margins. To a considerable extent, this has been attributable to a large degree of financial taxation imposed by high reserve requirements, which averaged nearly 27 percent during 1992–94, before declining to 10.6 percent in 1996 and 8.6 percent in 1997. When adjusted for reserve requirements, the “effective” spread between lending and deposit rates during 1993–97 is considerably lower—about 4½ percent compared with 8¼ percent on an unadjusted basis. In addition to high reserve requirements, a comprehensive study by Barajas, et al. (1998)¹⁵ which examined the behavior of interest rate spreads using panel data for a large cross-section of Colombian banks found that the principle determinants of intermediation margins were (i) high operating costs (ii) the existence of significant market power notwithstanding the greater opening of the financial system to both domestic and foreign competition; and (iii) credit risk associated with a large ratio of nonperforming loans of state banks, and a more prudent behavior toward risk by private banks. State-owned banks were found to have considerably higher spreads than private banks owing to larger operational costs and poorer loan quality.

35. **The most acute manifestation of the deterioration in the macroeconomic situation was experienced by commercial finance and leasing companies**, in line with the particularly rapid growth in number during the early 1990s, and the procyclicality of their main lending activities. Moreover, leasing companies were adversely affected by the 1995 tax reform, which reduced incentives for leasing.

36. As a result, a **second round of structural changes in the industry** occurred beginning in early 1997 that was characterized by a consolidation movement which mainly centered on (though was not limited to) commercial finance companies, and leasing companies—in line with the relative severity of the difficulties facing these groups. In the event, the number of deposit-taking institutions declined from 139 at end-1996 to 126 at end-1997 as a result of nine mergers, three interventions, and one voluntary liquidation. In

¹⁵See Barajas, et al., “Interest Spreads in Banking: Costs, Financial Taxation, Market Power, and Loan Quality in the Colombian Case 1974–96,” IMF Working Paper, 1998.

addition, there were 20 acquisitions in the industry, in most cases involving the takeover of relatively small institutions by larger ones, or by financial groups.

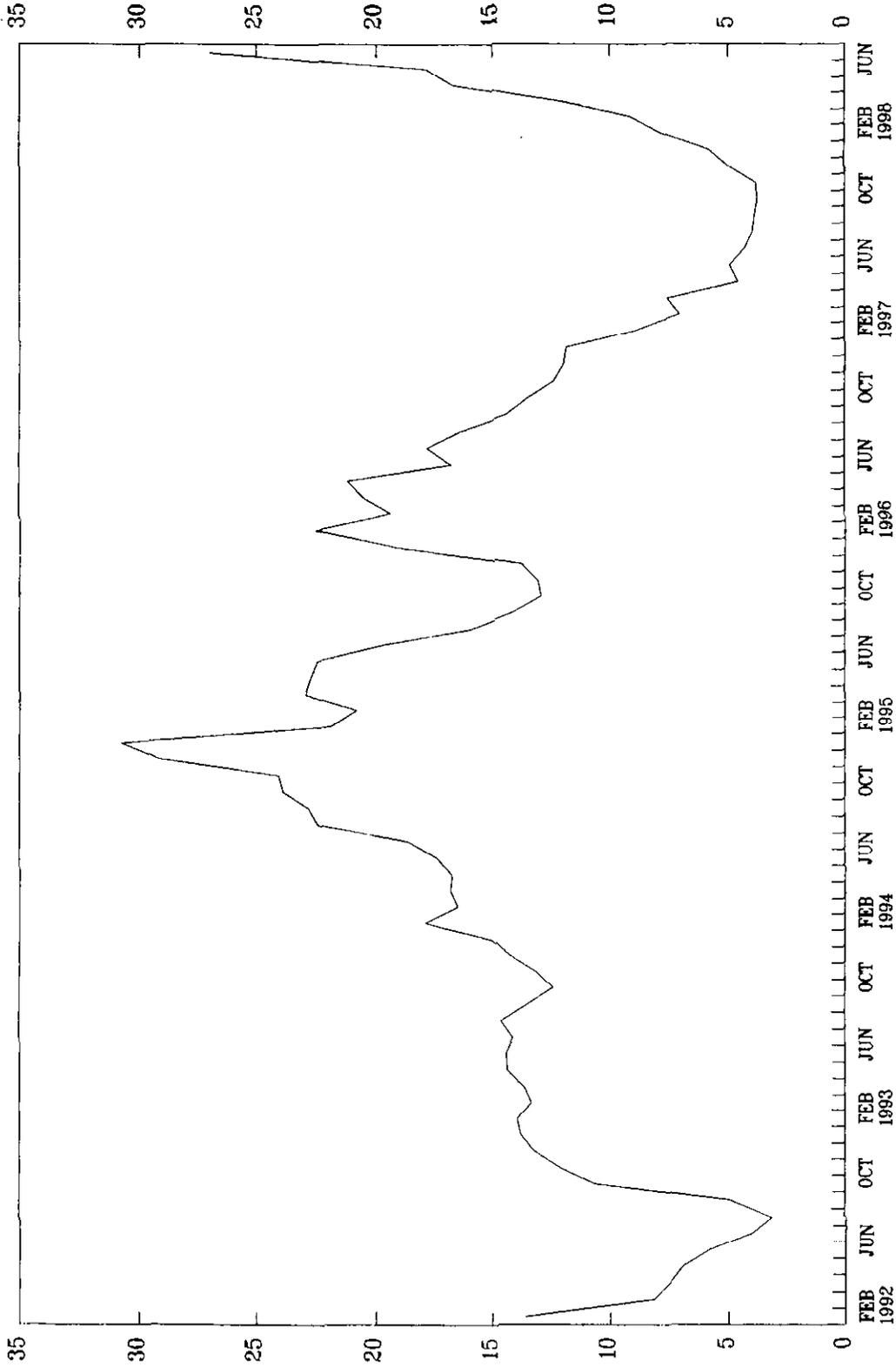
37. This restructuring increased **concentration** of the financial system: 70 percent of total financial system assets were held by the largest 15 percent of all entities at end-1997, all of which were banks, savings and mortgage institutions, and finance corporations. Four domestic financial conglomerates owned 21 banks out of a total of 32. **The average volume of assets per institution remains small**, compared with the rest of Latin America, with the largest Colombian bank ranking only forty-fifth in size in Latin America in 1996. **As financial integration and competition from foreign banks increase, this situation could be disadvantageous to the international competitiveness of the system.**

38. **A key issue currently under debate in Colombia is the extent to which the system should further evolve toward one that is characterized by universal banking, i.e. where legal barriers to specialization are absent.** This issue is of particular importance to the **finance corporations**—institutions that were created at the end of the 1950s in order to increase the availability of medium- and long-term financing for corporations and to contribute to local capital market development. The financial liberalization of the early 1990s generated a number of problems for the finance corporations. On the assets side, these institutions have confronted limited flexibility in their lending operations, as at least 80 percent of their paid capital and reserves is required to be held in the form of investments, half of which in equities or convertible bonds through the primary market. In addition, 50 percent of the total portfolio of investments and credits is required to be of long-term (greater than one year) maturity. These restrictions have posed significant constraints as virtually all corporate financing in Colombia takes the form of borrowing from banks or retained earnings.¹⁶ On the liabilities side, the deregulation process increased competition among financial institutions **so that the finance corporations have increasingly been required to finance long-term investments with short-term volatile funds.**

39. In addition to these balance sheet restrictions, the finance corporations have faced considerable competition from abroad in their lending activities in the context of the capital market liberalization initiated in the early 1990s, and large interest rate differentials between peso and foreign interest rates that prevailed from mid-1994 through end-1996 which made foreign financing relatively cheap for their mainly corporate clients (Figure 2). As a result of these factors, the interest rate spread for finance corporations has declined to levels significantly below the levels in the rest of the financial system, which has contributed to a significant decline in profitability in recent years.

¹⁶According to a survey of manufacturing companies, 60 percent of these firms' financing was through borrowing from the financial system, and 30 percent from retained earnings. Only 10 percent was raised through the sale of shares. (See, Colombian Ministry of Finance, World Bank, and FEDESARROLLO, "Misión de Estudios del Mercado de Capitales: Informe Final," May 1996)

Figure 2. Colombia
Interest Rate Differential on Peso-Denominated Borrowing
(In percentage points)



Sources: Banco de la Republica; and Fund staff estimates.
1/ Defined as the average lending rate for finance corporations less the U.S. prime rate. After Jan. 1994, assumes a monthly depreciation equal to the preannounced slope of the exchange rate band.

40. This environment has resulted in considerable change in the structure of this group, with some institutions having abandoned their intermediation activities in recent years to specialize in investment banking services, and others having merged with other entities, in some cases commercial banks. Further consolidation in the industry is likely in the absence of a new wave of reform defining whether the system should evolve toward one where all deposit-taking institutions face the same regulatory constraints, or where incentives are created which promote the further development of finance corporations as investment banks.

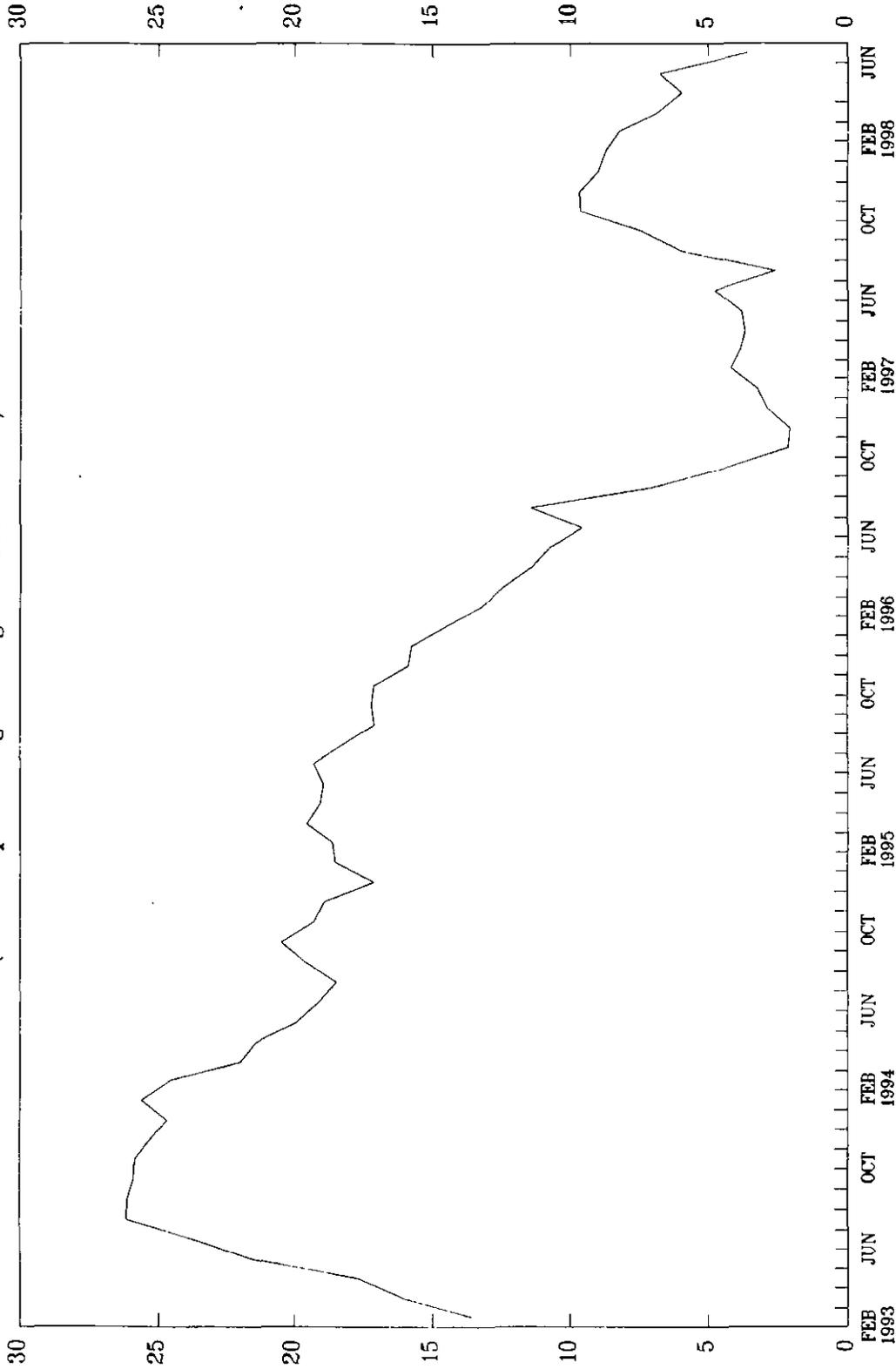
B. Developments in Financial Sector Lending and Deposits

41. Financial innovation, capital market liberalization, a decline in the heavy tax burden on banking activities (including through reserve requirements), and a rising government deficit have contributed to a number of changes in the structure of financial sector balance sheets since the early 1990s, including accelerated intermediation, a sharp increase in the level of real financial sector credit, and a greater share of domestic bank credit absorbed by the public sector.

42. Notwithstanding the imposition in 1993 of a nonremunerated deposit requirement on most foreign borrowing, positive interest rate differentials with foreign markets, new oil discoveries, and increased investor confidence attracted large capital inflows during the first half of the 1990s, which contributed to a real appreciation of the peso, a significant increase in international reserves, and sizable growth in monetary aggregates. This facilitated a **rapid increase in domestic credit to the private sector** during 1993–95 (Figure 3). Although the surge in credit was provided by all segments of the financial market, particularly strong growth occurred for the consumer (especially in the areas of automobile loans and credit card lending) and mortgage sectors. Private sector credit growth subsequently declined in response to a significant weakening in economic activity, but then accelerated in the second half of 1997 owing partly to expectations of exchange rate depreciation which prompted a shift by borrowers from foreign currency to peso-denominated credit.

43. Despite the rapid increase in domestic credit during the first half of the 1990s, **Colombia remains underbanked** relative to other emerging market countries (with an overall loan penetration ratio of about 40 percent of GDP at end-1997), pointing to significant growth potential in the industry. Loans as a share of total financial system assets are slightly higher at 65 percent, and about 10 percent is invested in securities—predominantly government fixed-income instruments. In 1997, there was a large increase in the share of central government bonds in total assets associated with both the higher public sector deficit and a shift in financing strategy to greater domestic financing.

Figure 3. Colombia
Financial System Credit
(Annual percentage change in real terms)



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

44. **Financial system claims on government entities** grew considerably during 1993–97, reflecting the rise in borrowing requirements of these entities associated with their deteriorating budget balance (Table 2).¹⁷ As a result, the share of the private sector in total financial sector assets has been little changed at 85 percent since 1993, while that of municipalities grew from 2¼ percent in 1993 to 8½ percent by end-1997. The especially rapid growth in lending to the territorial governments arose from a sharp increase in their creditworthiness, stemming from the decentralization process initiated under the 1991 constitution which greatly increased their revenues. By early 1998, there was growing anecdotal evidence that a number of these entities faced considerable difficulties in servicing this debt, although the size of nonperforming loans for this group was still fairly small (at 2 percent of total loans in March 1998).

C. Bank Soundness and Profitability

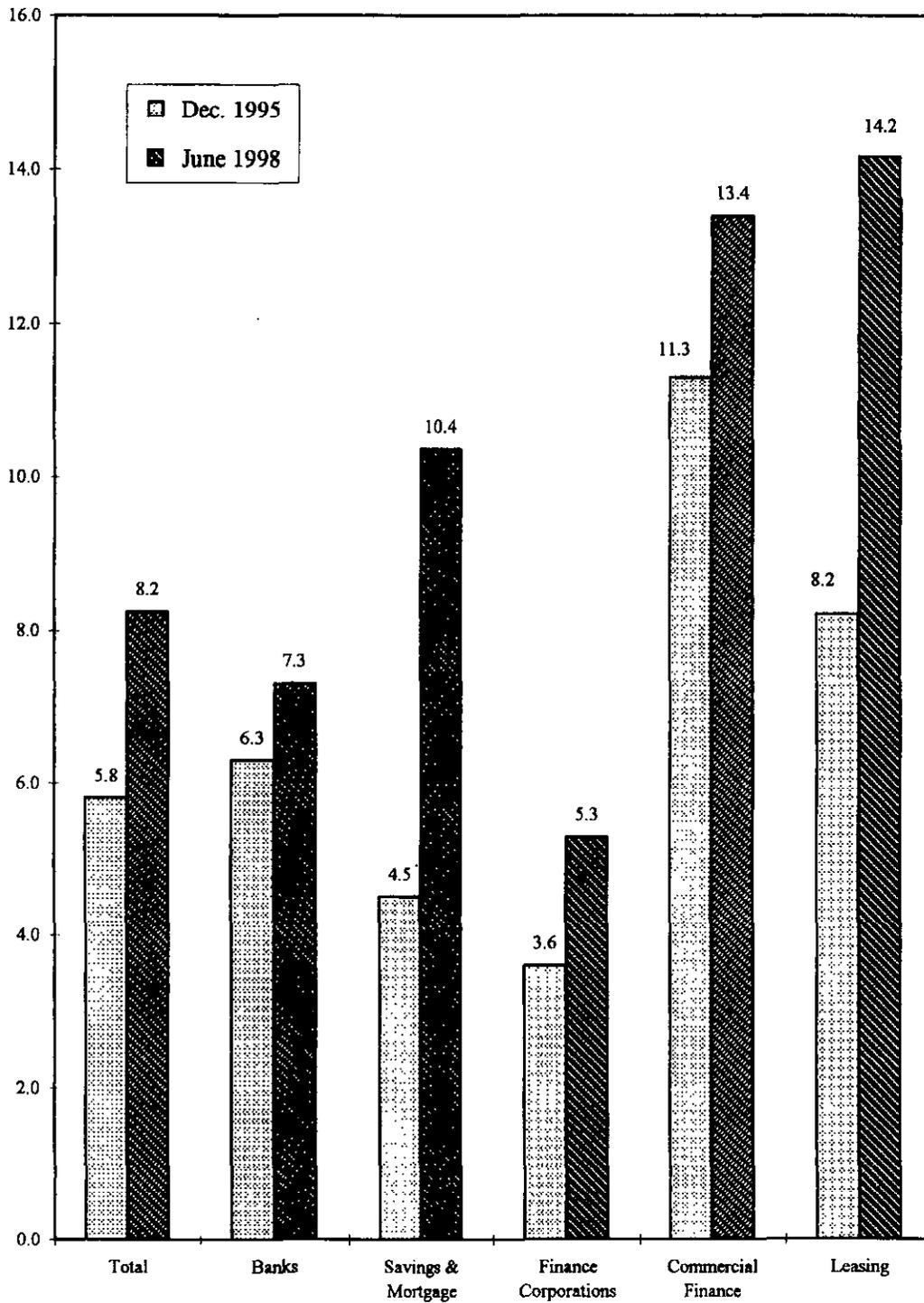
45. The **health of the banking system** deteriorated beginning in late 1995 owing mainly to a sizable increase in the fiscal deficit which placed upward pressure on interest rates, and a sharp slowdown in economic growth. This deterioration accelerated in the first half of 1998, in response to political uncertainty, and contagion effects from the Asian crisis which resulted in a weakening in the terms of trade and large downward pressures on the exchange rate. To contain these pressures, the central bank tightened monetary policy which contributed to a significant increase in interest rates.

46. A key manifestation of the weakened health of the financial system was in a **deterioration of asset quality**, as the ratio of nonperforming loans to total loans rose from 5.8 percent at end-1995 to 8.2 percent in June 1998 (Figure 4); about 40 percent of the stock of nonperforming loans in May 1998 was classified as “doubtful” or “irrecoverable.”¹⁸ There was a particularly marked deterioration in the asset quality of the savings and mortgage institutions (accounting for about 20 percent of financial system assets) during this period, reflecting the slowdown in construction, coupled with a large increase in residential mortgage defaults. Although asset quality as of June 1998 was considerably better than during Colombia’s banking crisis of the early 1980s (when the total nonperforming loan ratio rose to over 20 percent), the full effect on asset quality of the rise in interest rates was likely not yet seen as nonperforming loans only show up on bank balance sheets with a lag.

¹⁷Part of the increase in assets against the central government during 1997 reflects a valuation adjustment arising from the increase in government security prices.

¹⁸These are loans for which payments of either interest or principal are greater than three months overdue in the case of consumer loans, four months overdue in the case of commercial loans, and six months overdue in the case of mortgage loans.

Figure 4. Colombia
Nonperforming Loans as Share of Total Loans
(In percent)



Source: Banco de la Republica.

47. The deterioration in asset quality contributed to a **marked weakening in profits** during 1997 and the first half of 1998 (Table 3), with profits as a share of assets falling from 1½ percent in 1996 to zero in June 1998. Profits during 1998 were also adversely affected by losses on entities fixed-income securities portfolios owing to the rise in interest rates and decline in stock market prices, given the requirement to mark-to-market portfolios monthly. Although the fall in profits was broad based, the finance corporations experienced particularly large declines owing to the concentration of negotiable securities in their portfolios. Profits were also especially weak for the savings and mortgage institutions, reflecting the particularly marked deterioration in asset quality (noted above), as well as a maturity mismatch between assets and liabilities given their tendency to attract deposits of short-term maturities and lend at long term.

48. **Despite the deterioration in these key indicators of financial system health, the ability of Colombian financial entities to withstand adverse shocks has been bolstered by a number of factors.** First, the significant increase in **solvency levels** since the early 1990s has greatly bolstered the ability to weather a deterioration in asset quality. Colombian financial institutions have tended to adopt a very cautious approach to risk management, holding general reserves well in excess of the level required to achieve the minimum mandated 9 percent risk-weighted capital adequacy ratio (CAR) (Table 4).¹⁹ Second, the **small size of entities' loan books** in their overall asset portfolios makes the financial system better able to withstand the impact of deteriorations in loan quality in the face of higher interest rates. Third, the existence of capital controls reduces the ability of foreign investors to build up substantial short positions on the currency. Fourth, the importance of foreign direct investment flows in total capital inflows has increased steadily since the early 1990s and early indications are that such flows have been relatively resilient to downward shifts in market sentiment.

49. Important strides in **strengthening regulation and improving supervision of the financial system** were made in the first half of the 1990s. However, there are a number of important challenges which remain to be addressed in this area. First, the current operating environment is characterized by group and cross holding structures with no clear definition or disclosure of holding by economic group, and the existence of bank investments in related parties. With the majority of commercial banks in the hands of four large domestic financial conglomerates (noted above), such an operating environment runs the risk of generating difficulties in the financial system arising from conflicts of interest, interlocking relations, and financial agglomeration. Second, the current regulatory framework (as defined in the organic law of the financial system), is not designed around a clear mechanism under which specific corrective actions are triggered in response to undercapitalization of the financial institutions concerned. Specifically, the mechanism for enforcing the capital adequacy requirement is not defined in the law—rather, the regulatory authorities have discretionary power to implement

¹⁹The CAR of nearly half of all financial entities was greater than 13 percent, for about one-third of the entities the CAR was between 10 and 13 percent, and for the remainder it was between 9 and 10 percent.

the mechanism. In addition, provisions governing recapitalization procedures are ambiguous, in terms of rules governing any required recapitalization. In the absence of clearly defined automatic mechanisms for capital increases when a financial institution's capital falls below the minimum required level, there is a danger that undercapitalized institutions could stay on the market indefinitely with all the attendant implications. Third, the functions and operational methods of FOGAFIN (the deposit insurance scheme) are not explicitly stated in the law, thus exposing the system to potential pressures to be overly generous in the event of a bank failure. Fourth, despite steps to bolster supervision, the staffing for effective supervision remains inadequate, and the true solvency of many institutions, particularly the smaller ones, may be overstated. Fifth, the provisioning norms could be strengthened further, particularly in light of the recent pressures on asset quality.²⁰

D. Conclusions

50. This chapter examined trends in the financial sector in recent years, against the background of a broad-based reform implemented in the early 1990s which achieved important strides in increasing efficiency, enhancing competition, and strengthening the regulatory framework. Notwithstanding these achievements, the financial sector is currently facing difficult times owing to increased foreign competition, a weakening of the macroeconomic environment, and heightened exposure to risk stemming from increased penetration into riskier consumer markets. A likely consequence of these factors will be further consolidation in the industry. In light of the increased vulnerabilities, it would be important to address the aspects of the supervisory and prudential regulatory framework that could entail risks for the soundness of the financial system in order to prevent these vulnerabilities from resulting in systemic problems.

²⁰Under the current norms, principal on nonperforming loans secured by real collateral (usually real estate) is exempted from provisioning for the initial 12 months; provisioning is only required for the delinquent interest. As a result, specific provisions as a share of total loans remained nearly constant at 2.2 percent during the two-year period through June 1998, despite the significant rise in nonperforming loans.

Table 1. Colombia: Structure of the Financial System

	Number			Dec. 1997	Share in Total Assets Dec. 1997
	Dec. 1990	Dec. 1994	Mar. 1997		
Total deposit taking institutions	90	134	137	126	100.0
Banks	26	31	32	33	57.9
Savings and mortgage institutions	10	10	9	8	23.2
Finance corporations	23	23	24	22	12.1
Commercial finance					
Traditional companies	31	28	34	30	3.8
Commercial finance					
Leasing companies	0	42	38	33	3.0

Sources: Banking Superintendency; and World Bank, "Colombia: Financial Reform" (1993).

Table 2. Colombia. Financial Sector Claims
on the Nonfinancial Sector, 1994-97 1/

	Dec. 1994	Dec. 1995	Dec. 1996	Dec. 1997
(In billions of Colombian pesos; end of period)				
Total assets	25,994.9	33,796.3	43,541.0	53,347.8
Central government	409.1	373.3	626.6	1,395.9
Subnational entities 2/	1,941.1	2,769.3	3,467.7	4,478.6
Rest of public sector	1,333.0	1,168.9	1,554.0	1,792.5
Private sector	22,311.6	29,484.8	37,892.7	45,680.8
(In percent)				
Sectoral allocation of financial sector assets				
Total assets	100.0	100.0	100.0	100.0
Central government	1.6	1.1	1.4	2.6
Subnational entities 2/	7.5	8.2	8.0	8.4
Rest of public sector	5.1	3.5	3.6	3.4
Private sector	85.8	87.2	87.0	85.6
(1993=100)				
Real financial sector assets				
Domestic assets	100.0	108.8	115.3	120.0
Central government	100.0	76.4	105.4	199.5
Subnational entities 2/	100.0	119.4	122.9	134.9
Rest of public sector	100.0	73.4	80.2	78.6
Private sector	100.0	110.6	116.9	119.7

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

1/ Valued at constant exchange rates.

2/ Departments and municipalities.

Table 3. Colombia: Financial System Profit Accounts, 1996-98

	1996	1997	Q1 1998	Q2 1998
(As percentage of average total assets)				
Net interest income	4.8	4.6	4.8	4.5
Fees, commissions and other revenues (net)	4.8	4.7	4.2	4.4
Operating expenses	7.7	5.9	6.0	6.3
Operating profit	1.9	3.3	3.0	2.6
Provisions net of recuperations	...	0.5	0.4	0.6
Depreciation and amortization	0.8	0.8	0.9	1.0
Net operating profit	1.1	2.0	1.7	1.0
Adjustment for inflation	-0.7	-0.5	-0.7	-0.5
Nonoperating revenues (net)	1.6	0.1	-0.2	0.0
Pretax profit	2.0	1.6	0.8	0.4
Tax liability	0.5	0.5	0.4	0.4
After tax profit	1.5	1.1	0.4	0.0

Sources: Banking Superintendency; and Fund staff estimates.

Table 4. Colombia: Financial System Risk-Weighted
Capital Adequacy Ratios, 1992-98

	1992	1993	1994	1995	1996	1997	June 1998
	(End of period; in percent)						
Commercial banks	12.0	12.4	13.1	13.4	13.8	11.9	12.1
Finance corporations	10.5	17.0	16.4	15.8	15.7	14.4	15.1
Savings and mortgage institutions	10.3	10.3	11.1	10.3	10.4	10.2	11.0
Commercial finance companies	13.5	12.1	15.3	12.4	14.5	16.5	15.3
Leasing companies	...	...	...	17.4	15.6	15.6	19.7

Sources: Banking Superintendency; and Fund staff estimates.

IV. THE EXPERIENCE OF CAPITAL CONTROLS IN COLOMBIA, 1991-98²¹

51. In recent years, Colombia has experienced large capital inflows, averaging about 3.5 percent of GDP per year and increasing from 0.1 percent of GDP in 1990 to nearly 6 percent in 1997. These flows facilitated a significant acceleration of domestic demand during the first half of the decade, and have also played an important role in financing the widening current account deficit (Figure 1). However, they also exerted upward pressure on the real exchange rate, posing a threat to competitiveness. These concerns prompted the introduction of a set of policies to curb the destabilizing effects of the capital inflows, including the imposition of controls. This chapter discusses Colombia's experience with such controls.

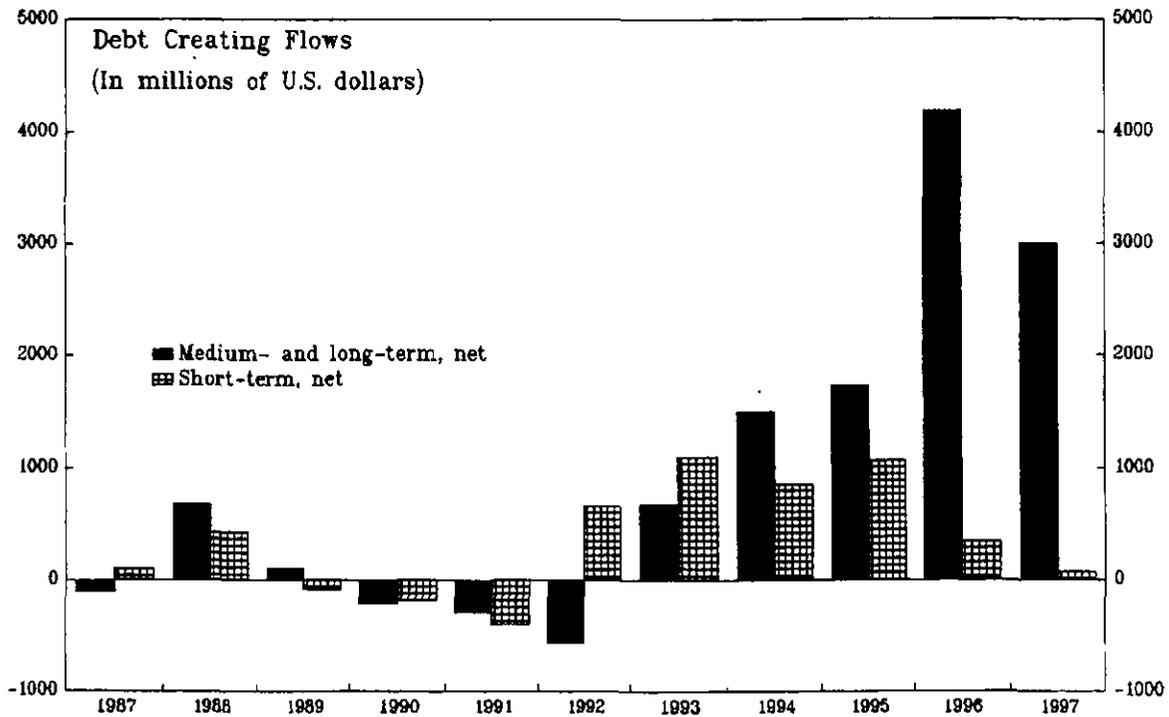
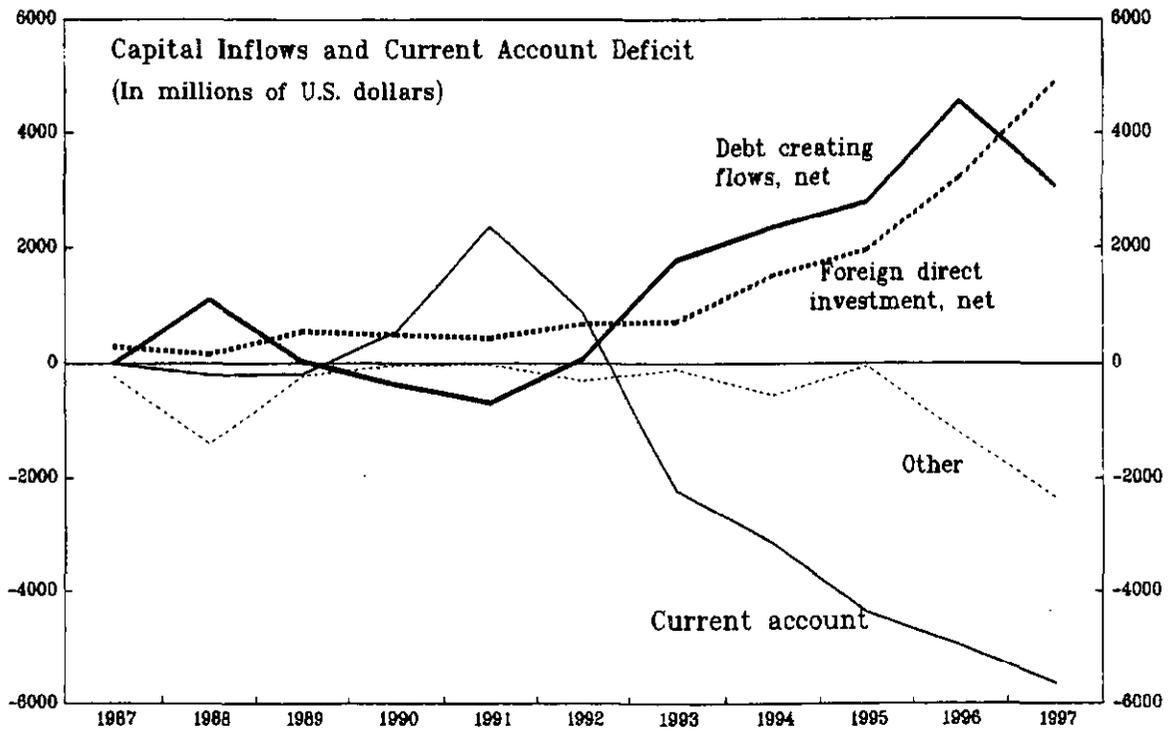
A. Background: 1991-93

52. Colombia embarked on an ambitious structural reform program in the early 1990s, which included a comprehensive liberalization of the exchange and trade system, the dismantling of interest rate controls, and financial sector reform which allowed full foreign ownership of banks. In addition, a new financing strategy was defined, aimed at diversifying the country's financing sources, with emphasis on domestic financing for the public sector and foreign direct investment for the private sector. Foreign direct investment was promoted by a new law introduced in 1991 (Box 1).

53. The implementation of these reforms, together with a tightening of credit conditions and a reduction in the rate of crawl of the currency aimed at lowering inflation, contributed to a large increase in private capital inflows beginning in 1991. The overall balance of payments position was also boosted by a significant improvement in the external current account balance which was partly attributable to steps taken to lower the fiscal deficit. In the event, the external current account improved from near balance in 1989 to a surplus that amounted to 5.6 percent of GDP in 1991, and net international reserves rose from 5.5 to 8.9 months of imports of goods and services. To limit the growth of liquidity resulting from the buildup of foreign reserves the monetary authorities took a number of steps during 1991, which included (i) aggressive open market operations in the form of sales of central bank securities; (ii) the imposition of a temporary 100 percent reserve requirement on most new private deposits with the financial system; and (iii) the issuance of non-interest bearing certificates denominated in U.S. dollars in exchange for most foreign exchange receipts.

²¹Prepared by Keiko Honjo.

Figure 1. Colombia
Balance of Payments



Source: Banco de la Republica.

Box 1. Foreign Direct Investment in Colombia

Foreign direct investment in Colombia increased sharply in the second half of the 19th century, mainly related to the extraction of gold and textile production. In the early 1930s, such flows became subject to registration. In the 1960s, in the context of the import substitution strategy pursued at that time, increasing concerns about foreign participation in the process of industrialization led to the introduction of regulatory measures on foreign direct investment. This created a negative investment climate which was aggravated in the early 1970s when foreign participation was banned in important sectors (infrastructure, electricity, transportation and communication, public services, health and financial services) and all other areas where it was expected to seriously damage the competitiveness of domestically owned firms. In addition, the repatriation of profits was controlled, foreign companies were restricted to short-term credits in the domestic market, and local equity funding was prohibited.

The situation changed in the 1980s when access to international financial markets became increasingly restricted for sustained financing of the country's external current account deficit. With the domestic financial market not sufficiently developed to finance growth, Colombia was prompted to change its external financing policy. As a result, in 1987 foreign participation was permitted in areas previously restricted, except in the financial sector, and access to domestic credit was granted to foreign owned firms.

Barriers to foreign investment were further removed in 1991 with the introduction of a law that (i) gave foreign and domestic companies equal access to domestic credit and offered new foreign investments broadly the same tax treatment as domestic investments; (ii) allowed foreign investment in most sectors; and (iii) liberalized restrictions on profit repatriation. In October 1992 all limitations on annual transfers of profits were abolished. The impact of the new law contributed to a substantial increase in foreign direct investment. Net foreign investment rose from 1 percent of GDP in 1991 to 5.1 percent of GDP in 1997, bringing its share in total net capital flows to about 90 percent. In recent years, privatization has accounted for a major part of the foreign direct investment in Colombia.

54. The large scale sterilization resulted in a substantial weakening in the quasi-fiscal position of the central bank (from near equilibrium in 1990 to a deficit of 0.8 percent of GDP in 1991).²² By end-1991, the increasing quasi-fiscal losses by the central bank and sustained capital inflows led the authorities to modify their underlying policies. The peso was revalued by 3 percent, restrictions on capital outflows were eased further, and import liberalization was accelerated. Nevertheless, large-scale capital inflows continued through 1993. Faced with limited effectiveness of existing instruments to stem the inflows, the authorities adopted capital controls in September 1993.

²²This occurred because of the excess in cost per sterilization bond issued over earnings on international reserves.

B. The Imposition of Capital Controls

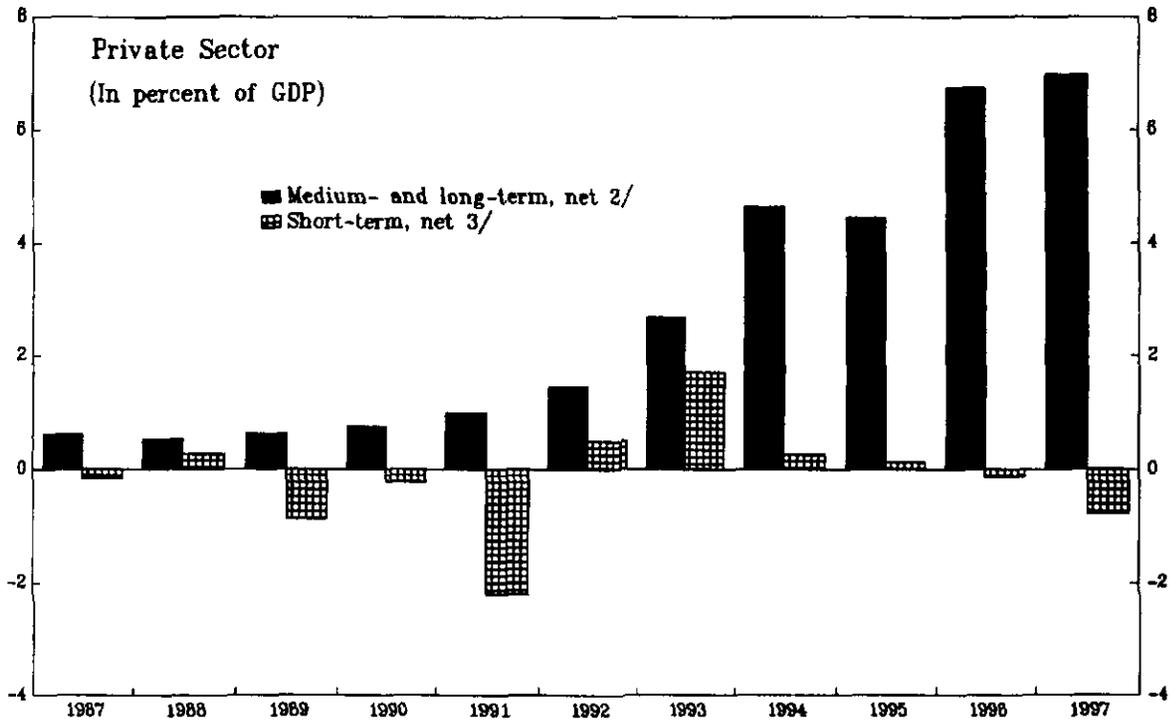
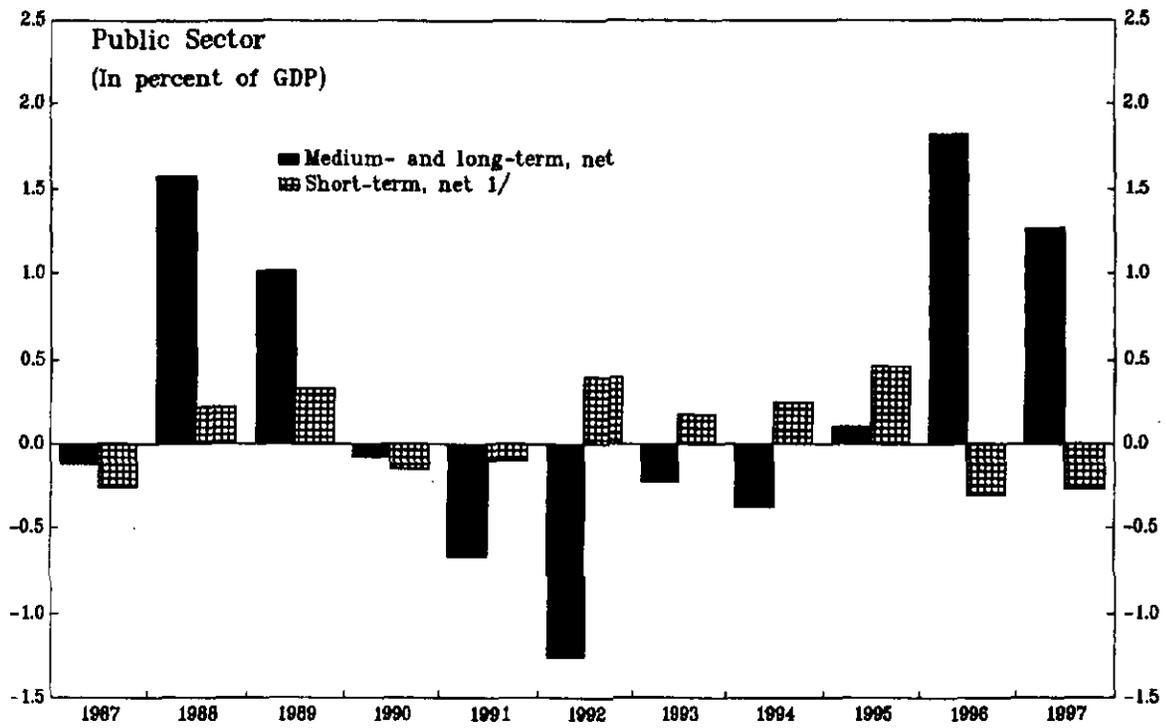
55. The capital controls took the form of a deposit requirement; initially 47 percent of external disbursements were to be deposited in an unremunerated account at the central bank for 18 months. In an effort to target short-term inflows, the deposit requirement was imposed only on debts up to 18 months' maturity, while trade credits of up to 6 months, capital inflows related to privatization and concessions, loans contracted by Colombians to finance investments in other countries, and financing of capital goods were exempt.

56. Subsequently, the terms of the deposit requirement have been adjusted on several occasions to reflect changes in external and domestic conditions (Table 1). These changes have affected mainly the percentage of the loan amounts subject to the deposit; the length of the deposits; and the maturity of the loans subject to the requirement. Furthermore, all external borrowing plans, including for short-term loans (less than a year), had to be registered at the central bank prior to disbursement. The terms and conditions of the deposit requirement were applied to the date of the loan registration regardless of any subsequent changes to the requirement prior to disbursement. With no penalty for the cancellation of registered loans, the system provided an incentive to maintain a stock of registered borrowing plans to avoid the effects of a future tightening of the deposit requirement.

57. The evolution of Colombia's capital controls since their introduction in 1993 has undergone four phases: (i) the period through early 1996 when the terms and conditions of the deposit requirement were tightened in response to upward pressure on the real exchange rate; (ii) during the remainder of 1996, when the terms of the deposit requirement were eased as part of an effort to lower domestic interest rates; (iii) during the first half of 1997, when the terms of the deposit requirement were tightened to help forestall a further appreciation of the real exchange rate; and (iv) during the remainder of 1997 and 1998 when the deposit requirement was successively relaxed in the face of recurrent episodes of strong private capital outflows.

58. Despite the imposition of the deposit requirement, private capital inflows remained strong, increasing from 4.1 percent of GDP in 1993 to 6.5 percent of GDP in 1996 (Figure 2). The increase was accounted for in part by debt-creating flows but also by a significant growth in foreign direct investment, which reached 3.7 percent of GDP in 1996, compared with 1.3 percent in 1993. Net debt-creating flows by the private sector remained strong but mostly stable at 3.2 percent of GDP on average during the period 1993-96, compared with 1 percent in 1992, with a notable lengthening in the maturity structure. The share of net short-term flows in net debt creating flows declined from 60 percent in 1993 to less than 20 percent in 1996. Accordingly, the maturity structure of the private debt stock changed; the share of medium- and long-term debt rose to 70 percent of the total debt stock in 1996, from 40 percent in 1993 (Figure 3).

Figure 2. Colombia
Net Capital Inflows



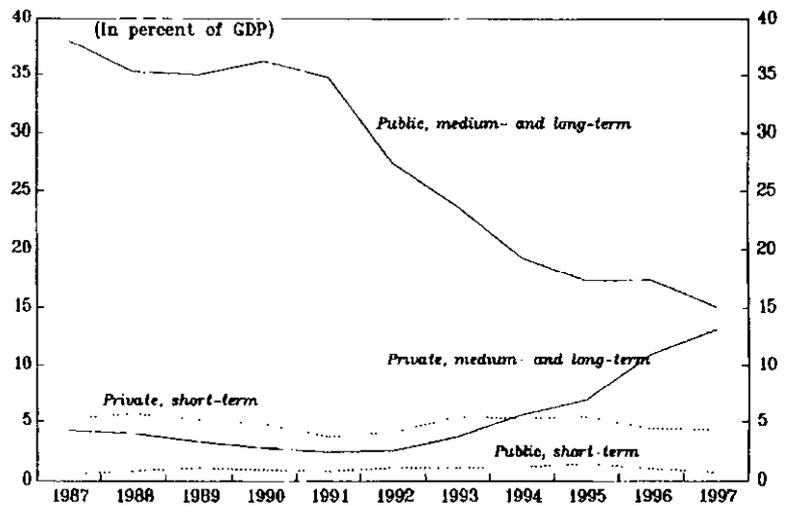
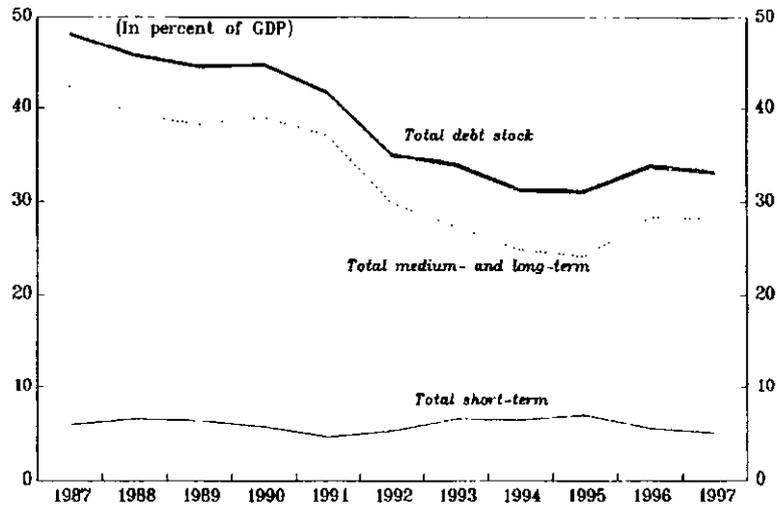
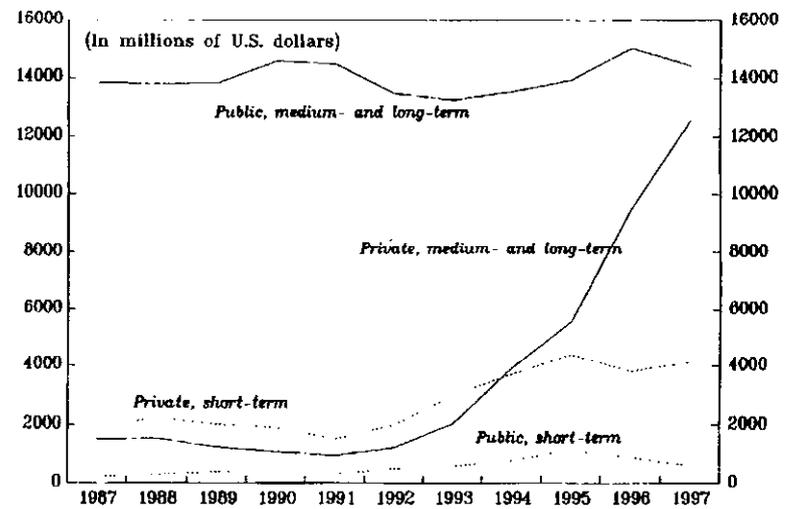
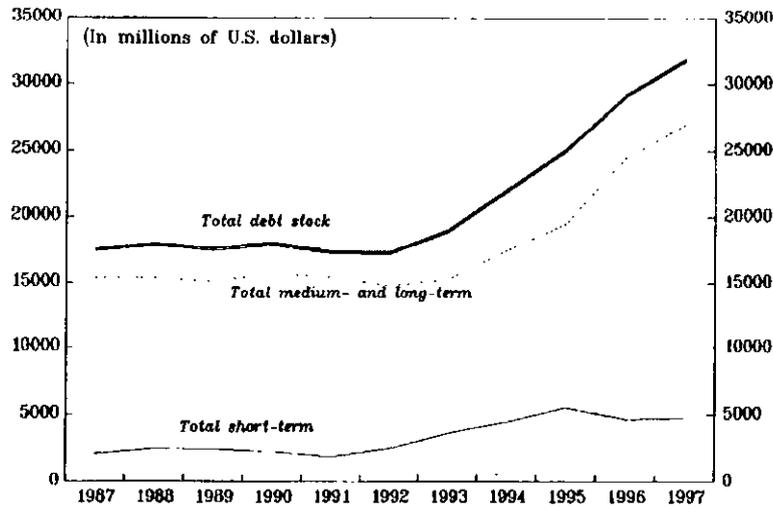
Source: Banco de la Republica.

1/ Does not include changes in net foreign assets.

2/ Includes net foreign direct investment.

3/ In 1997 excludes changes in net foreign assets related to privatization proceeds kept abroad.

Figure 3. Colombia
Debt Stock



Source: Banco de la Republica.

59. As part of the authorities' efforts to contain the downward exchange rate pressures which began after mid-1997, the deposit requirement was relaxed in January 1998 and again in September; the retention period was reduced, the deposit ratio was lowered and import financing over six months became exempted. Despite these measures, preliminary figures through September 1998 indicate that the trend of net private capital outflows persisted.

C. Effectiveness of Capital Controls

60. There are three questions to be addressed in assessing the effectiveness of capital controls in Colombia: (i) have they been effective in reducing the total volume of net capital inflows; (ii) did they contribute to reducing the relative amount of short-term capital; and (iii) how did they affect savings and investment.

61. There has been debate over whether the capital controls have been effective in reducing the total amount of external flows to Colombia. Cárdenas and Barrera (1996) calculated the effect of the capital controls in Colombia by specifying its burden in terms of the opportunity costs incurred by agents holding the unremunerated deposits. They concluded that total inflows have not been sensitive to the deposit requirement. Ocampo and Mora (1997), on the other hand, using a different measurement of private capital flows showed that they have been effective in reducing the amount of external financing.

62. The deposit requirement seems to have played an important role in lengthening the term structure of inflows to Colombia. The estimation results by Cárdenas and Barrera (1996) as well as by Ocampo and Mora (1997) confirm that the controls have been effective in inducing longer term maturities in the Colombian debt structure. However, reservation may be required in assessing its effectiveness in lengthening the maturity structure. Imposition of the deposit requirement coincided with the introduction of the exchange rate band, which also may have contributed to reducing the short-term flows, making it difficult to isolate the impact of each of these policies on short-term flows.²³

63. Records of external debt registers suggest that the effects of capital controls have been diluted by the requirement of debt registration prior to disbursement. The registration system created incentives to anticipate changes in the deposit requirement and secure future "rights" to obtain external financing, as the terms of the deposit requirement were determined at the

²³Some studies have raised doubts about the relevance of discussing the issue of short versus long-term flows. The argument against the short-term flows is based on the assumption that the long-term capital inflows would be more stable because they are mainly guided by longer term fundamentals and hence less sensitive to short-term interest rate differentials. In fact, if capital markets are sufficiently developed, allowing relatively easy transactions of the long-term flows, the long-term capital could be as liquid as the short-term flows. In the case of the United States, for example, there is no classification of flows between short and long.

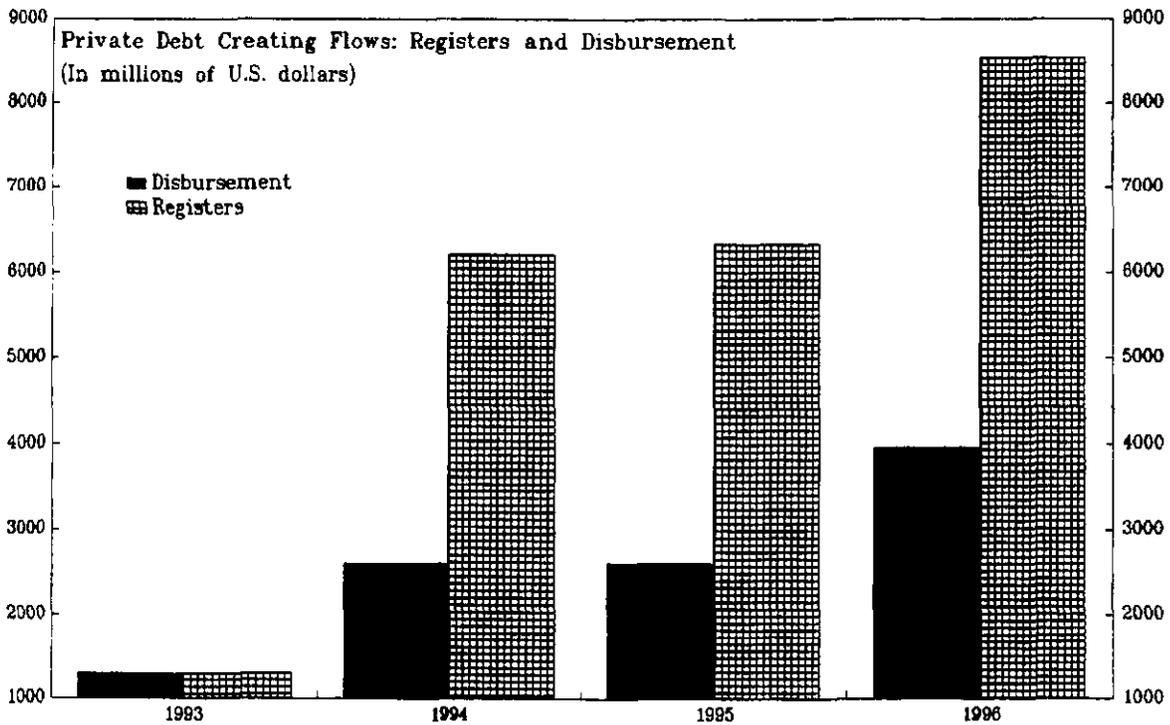
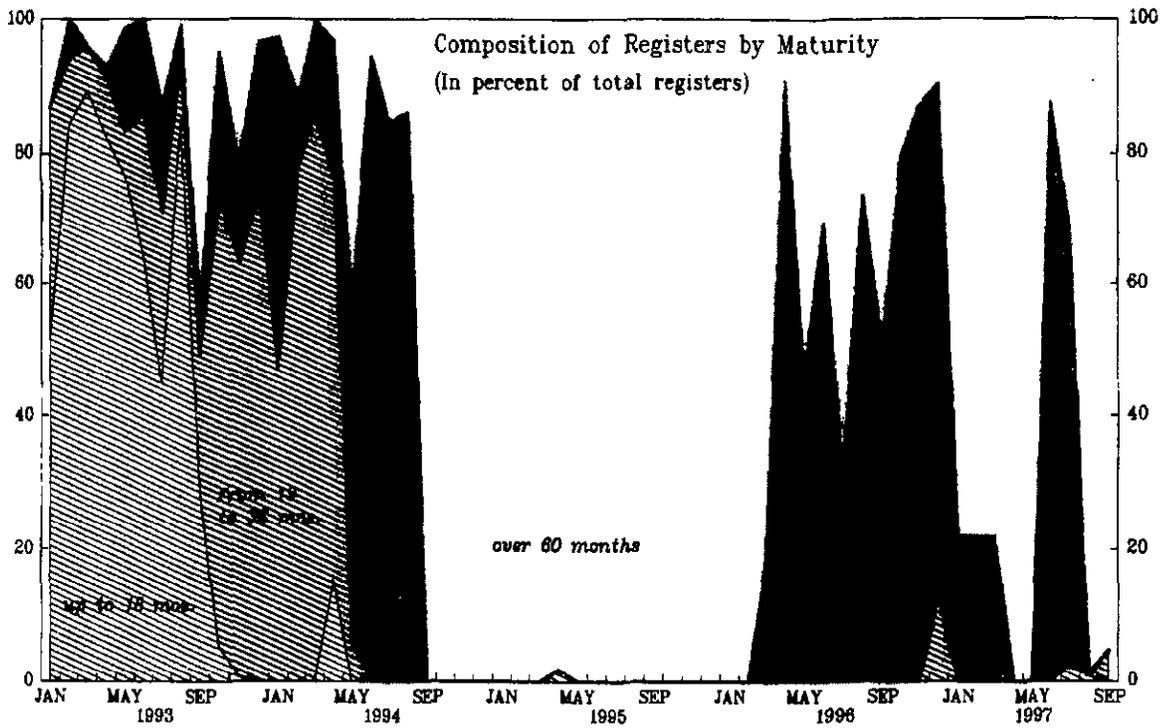
time of registration rather than at the time of disbursement, as noted above. For example, from late 1993 the maturity of registered loans increased sharply from less than, to greater than 18 months. (Figure 4). However, the increase in the maximum maturity of loans subject to the deposit requirement from 18 to 36 months only took place in March 1994, which would indicate that potential borrowers anticipated the future tightening by the central bank. The same happened in mid-1994 before the terms were tightened further to 60 months; by the time the maturity was lengthened, all borrowing registrations were for over 60 months. Until the requirement of pre-registration was abolished in May 1997, the magnitude and the maturity of the registrations exceeded substantially that of the actual capital inflows.

64. While the effectiveness of the deposit requirement in controlling the total volume of inflows is uncertain, the data suggest that the deposit requirement has contributed to a shift to alternative financing sources that were exempt from the controls. The surge in foreign direct investment is accounted for in part by the foreign direct investment law adopted in 1991 and, more recently, by large privatization receipts. However, the deposit requirement appears to have provided incentives to switch from debt-creating flows to foreign direct investments which are not subject to this restriction. In some cases this provided a loophole to avoid the deposit requirement.²⁴

65. Finally, on saving and investment, there is a vast literature showing a strong relation between savings and investment in Colombia and external financing in the 1990s. Sánchez et al. (1996) demonstrated a significant substitution of private savings for external financing in the first half of the 1990s. Ocampo and Mora (1997) confirmed the crucial role played by the external financing: large capital inflows substituted, to a large extent, the private savings and encouraged investment by private firms. However, it did not affect the public sector investment which was mostly dependent on tax revenues. The direct impact of the capital controls on savings and investment is subject to further studies in the case of Colombia in light of the uncertain effect of the controls on the total volume of external financing.

²⁴There have been several cases in the past in which the deposit requirement was circumvented through establishment of a holding company in a tax-heaven country abroad. The external borrowing by such holding companies and their transfers of funds to Colombian domestic companies would be legally recorded as foreign direct investment, exempt from the deposit requirement.

Figure 4. Colombia
Registers of External Financing



Source: Banco de la Republica.

References

- Cárdenas, Mauricio, and Felipe Barrera, "On the Effectiveness of Capital Controls in Colombia," mimeo, FEDESARROLLO, 1997.
- Ocampo Gaviria, Jose A., and Tovar Mora, Camilo E., "Capital Flows, Savings and Investment in Colombia 1990-96," 1997, *Archivos de Macroeconomía* 58, DNP.
- Sánchez, F., Murcia G. and Oliva C., "Auge y Colapso del Ahorro Empresarial en Colombia, 1983-1994," Planeación y Desarrollo, 1996.

Table 1. Summary of Capital Controls in Colombia: 1993-98

In Effect	Maximum Maturity Subject to Restriction (months)	Period after which the Prepayment was Allowed (months)	Deposit Requirement		Trade Credits Subject to Deposit Requirement (Months) 2/
			Period (months)	Value 1/ (in percent)	
September 1993 to March 15, 1994	18	18	12	47	Import and export financing over six months.
March 16, 1994 to August 15, 1994	36	36	Less than 12	93	Import and export financing over six months.
			Between 12 and 18	64	
			Over 24	50	
August 16, 1994 to February 20, 1996	60	60			Import financing over four months but less than six months subject to 30 percent deposit. Export financing over six months.
August 1995 to February 20, 1996					Import and export financing over 6 months.
February 21, 1996 to March 18, 1996	48	48			Export financing over three months subject to 25 percent deposit for 48 months. Import financing over six months.
March 19, 1996 to January, 1997	36	36	18	50	Export financing over four months subject to 15 percent deposit for 36 months. Import financing over six months.
March 12, 1997 to May 21, 1997	60	60	18	50	No changes
May 22, 1997 to January 30, 1998 3/	all 3/		18	30 in pesos 3/	Export financing over four months subject to 15 percent deposit in U.S. dollars for 18 months. Import financing over six months.
January 31, 1998-September 17, 1998	all		12	25 in pesos	No changes
September 18, 1998	all		6	10 in pesos	Export financing over four months subject to 10 percent deposit in U.S. dollars for 36 months. Import financing over six months no longer subject to deposit requirement.

Source: Banco de la Republica

1/ Percentage of the loan amount to be deposited at the central bank.

2/ Trade credits for longer maturity than allowed were considered regular external financing and were subject to the same terms and conditions of regular deposit requirement, unless they are separately specified.

3/ Prepayment of debt prior to maturity was permitted subject to authorization of the central bank. In addition, the external borrowing registration requirement was modified from prior to disbursement to the time of disbursement.

V. PENSION SYSTEM REFORM²⁵

66. The Colombian congress approved a major pension reform in December 1993 (Law 100 of 1993) to broaden the coverage of the pension system, remove inequities, and provide adequate and sustainable retirement benefits. **The main aspect of the reform was the establishment of a defined contribution, fully funded, privately administered pension system, alongside the public pay-as-you-go (PAYG) defined benefit system;** contributions to the new system began in April 1994. This chapter reviews the situation with respect to the pension system at the beginning of the 1990s; describes the pension reform; assesses the impact on the fiscal accounts; and presents the main challenges ahead.

A. The Pension System in the Early 1990s

67. At the time of the reform, Colombia's pension system comprised six broad categories of PAYG defined benefit pension plans: (i) three government sector worker systems (comprising 56 national pension funds and 991 regional pension funds), with about 811,000 affiliates; (ii) several decentralized and public enterprise pension funds, with about 300,000 affiliates; (iii) a mandatory pension scheme for private sector workers administered by the ISS, with 3.4 million affiliates; and (iv) a group of pension plans sponsored by insurance companies for voluntary pension contributions by private and public sector workers and by private firms for their own employees, with 100,000 affiliates. Coverage of the system amounted only to about 30 percent of the labor force compared with an average of 38 percent for Latin America and the Caribbean as a whole.

68. Benefits under the old system varied widely between different regimes but were more favorable to public sector workers. Public sector schemes generally were noncontributory, whereas the contribution rate for workers in the ISS scheme was 6.5 percent of wages; and retirement ages generally were five years lower in the public sector schemes than for the ISS scheme (55 for men and 50 for women). Pension payments were defined relative to average nominal wages two years before retirement and varied from 75 percent for public sector workers to 45–90 percent for private sector workers, subject to a minimum of between 10 and 20 years of pension contributions.

69. By 1993, pension payments for public sector workers were equivalent to 1.4 percent of GDP, almost entirely financed by transfers from central administration and local government budgets; payments to private sector workers in the ISS scheme were equivalent to 0.8 percent of GDP, slightly below contributions of 1 percent of GDP. The financial position of the ISS scheme suffered because reserves were mainly invested in low-yielding government securities and pension contributions subsidized health and other social services provided by the ISS. The poor financial position of the public sector schemes also reflected mismanagement and corruption. The consolidated pension system had reserves equivalent to about

²⁵Prepared by John Thornton.

1.6 percent of GDP in 1993 and implicit pension liabilities were estimated at the equivalent of 86 percent of GDP (Clavijo, 1998; Schmidt-Hebbel, 1995); without reform, the gap between implicit PAYG debts and explicit reserves was projected to increase sharply.

B. The 1993 Reform

70. The 1993 reform introduced a fully funded privately administered pension system, closed all but six of the public pension schemes, and restructured pension contribution rates and benefits.²⁶ Affiliates to the schemes that were closed had to choose between joining the ISS scheme or moving to the private sector scheme. **Three pension schemes were not reformed: the security services (military and police), teachers, and the state oil company (ECOPETROL).** Contribution rates for the ISS and privately funded schemes were set at 8 percent of salary, rising to 13.5 percent by 1996; the minimum number of years of contribution to qualify for a pension was set at 19.2 years for which the pension was set at 65 percent of base salary (computed as the average of declared salaries during the last ten years); and, beginning in 2014, the retirement age for women and men will be raised by two years. The new retirement age applied only to new entrants into the labor force and to existing affiliates aged below 35 years for women and below 40 for men.

71. To **broaden coverage of the pension system to low income groups**, all workers earning more than four times the minimum wage were required to contribute an additional 1 percent of their income to the solidarity pension fund (SPF). These contributions were to be matched by government transfers to the fund. The SPF would be managed by the government and its resources used to supplement the contributions of wage earners and independent workers to enable them to join the pension system; the workers supported by the subsidy would have the choice of joining either the ISS or the privately funded system.

72. Affiliation to either the ISS or privately managed pension systems is mandatory for dependant public and private sector workers and they may switch back and forth between them every three years. Independent workers may join either system voluntarily, provided their contributions reach a minimum level. Workers already contributing to the ISS system who choose to transfer to the privately managed system receive compensation in the form of a recognition bond calculated to reflect the net present value of pension entitlements accumulated under the old system.

73. The recognition bonds are endorsed to **private pension fund administrators (AFPs)** who compete for the management of the workers' individual retirement accounts. Each AFP pools its affiliates' funds and invests them in equities, bonds, and money market instruments. Upon retirement, workers can use the funds accumulated in their individual accounts to

²⁶The public sector schemes deemed insolvent and those relating to single public entities were no longer allowed to collect pension contributions; some continue to administer pension payments (from government transfers) but this activity is gradually being centralized.

purchase an annuity from an insurance company, start a series of phased withdrawals, or a combination of the two. However, early retirement is possible as soon as the balance in the individual account is sufficient to finance a pension of at least 110 percent of the minimum wage; any excess capital can be withdrawn and used for purposes other than retirement. Affiliation to the private pension system grew from about 1 million affiliates at end-1994 to 2.5 million at end-1997. The early success of the scheme benefited from the similarities in benefit eligibility conditions and contribution rates between the ISS and AFP systems, and the fact that workers were already familiar with the concept of private fund management companies due to the Colombian severance program.²⁷

74. Regarding the **investments by the AFPs**, the reform established maximum investment limits by instrument and issuer, expressed as a percentage of the total fund. Currently, for each AFP the combined ceiling limit for government securities and other public debt instruments is 70 percent; for equities and mutual fund shares, 30 percent; for foreign bonds and international mutual funds invested in bonds and stock index instruments, 10 percent; financial sector bonds, 50 percent; and mortgage backed securities, 30 percent. At end-March 1998, the total funds under management of the mandatory private pension system amounted to US\$1.4 billion (1.6 percent of GDP) for about 2.5 million affiliates. Investment in domestic financial sector and corporate bonds and in time deposits accounted for about 60 percent of the total. The average annual rate of return on AFP funds over the period mid-1995 to end-March 1998 was 30 percent.

C. The Fiscal Cost of the Reform

75. One of the determinants of the cost of the reform is **the amount of the entitlement recognized to those who switch to the private pension system**. The authorities had to choose between compensating for past contributions to the system, or recognizing the pension rights accumulated under the public pension system. Compensating for past contributions presented three important difficulties: (i) records were inadequate to reconstruct the individual affiliates' contribution histories; (ii) contributions to the ISS system had been relatively low, such that valuing recognition bonds on this basis would have discouraged transfers by affiliates to the private system; and (iii) it would have been necessary to agree on an implicit rate of return on past contributions, which was complicated by volatile real interest rates. In the event, the authorities chose the more expensive option of compensating workers according to the net present value of the entitlements accumulated under the old system. The face value of the recognition bond is calculated as the amount that should have been saved in the individual account in order to accumulate the necessary capital to finance an annuity equal to the corresponding pension entitlement in the old system.

²⁷Employers are required to provide severance benefits of one month's salary for each year of employment; since 1990, the severance program has been administered by private mutual funds.

76. Several recent studies suggest that the pension system will remain a substantial burden on the public finances despite the reforms: the combined balance of the public sector and ISS pension schemes is projected to deteriorate from a surplus of about 1 percent of GDP in 1998 to a deficit of 2.25 percent of GDP by 2025, with a cumulative deficit equivalent to 54.4 percent of GDP.²⁸ Such estimates, however, are highly sensitive to the assumptions made, particularly about the number of workers projected to switch to the private pension system, the value of the recognition bonds issued, and the discount rate. By end-May 1998 about 589,856 recognition bonds had been issued with a value of about US\$16.4 billion.

77. The continued heavy burden of the pension system on the public finances reflects: (i) the increase in contribution rates that the government will have to pay as the employer of workers enrolling in the privately administered scheme; (ii) the long transition period over which pension benefits in the ISS scheme are reduced; (iii) the option of affiliation to the privately administered scheme means that the ISS and public sector schemes will gradually lose their contributor bases while continuing payments to their own current and future pensioners; and (iv) the lack of reform to the pension schemes of the security services, teachers, and the state oil company.

D. Problems and Challenges

78. **The continued burden of the pension system on the public finances points to the need for additional measures.** The two most obvious areas for action are: broadening the pension reform to include the schemes of the security services, teachers, and ECOPETROL; and shortening the reform transition period to the new retirement age in the ISS scheme. These measures would also reduce further the substantial remaining inequities in the system.

79. However, additional reforms are unlikely to eliminate the pensions deficit altogether and the government will need to devise a financing strategy for the PAYG pension system and redemption of recognition bonds in the coming decades. Options under discussion include increased taxation, the use of revenue from oil discoveries and privatization receipts to build up pension reserves, improving the quality of the portfolio of ISS investments, and increased government debt issues (representing the swap of explicit government debt for implicit PAYG debt).

80. **There have been problems with the implementation of recognition bonds** due to the fragmented pension system for public employees and the fiscal decentralization of the country. In particular, regional governments have been slow to meet their obligations to issue bonds for affiliates switching from regional public sector pension funds to the private system.

²⁸This is the baseline scenario presented by the Comisión de Racionalización del Gasto y de las Finanzas Públicas (1997) which assumes that all new affiliates enter the private sector scheme; the deficit is broadly in line with that projected by Clavijo (1998).

The option of switching back and forth between public and private systems after three years will further complicate the management of recognition bonds.

81. **Difficulties in increasing the coverage of the pension system are likely to persist** given the incentive to maintain employment in the informal sector because of the high payroll tax and the quite large element not linked closely to expected benefits at the individual level.²⁹ In order to raise the share of formal sector employment and production, the “pure taxation” component of payroll contributions might be replaced by general taxation.

82. **The financial health of the AFPs may be an issue** given their high start-up costs and low incomes of affiliated workers. At end-1996 the total capital of the AFP industry was about US\$236 million, but net worth amounted to about US\$68 million because of large operational losses mainly due to high advertising costs and salaries for the sales force. Since the fees of the AFPs generally are charged as a percentage of affiliates’ salaries, the operating revenue of the AFPs also has been low,³⁰ however, by March 1998, all but one of the nine AFPs had broken even.³¹

²⁹Between 7 and 9 percentage points of the payroll tax of 46.3 percent of earnings is not linked closely to expected benefits at the individual level.

³⁰Total commissions charged by the AFPs, including the premiums charged for disability and survivors’ insurance, may not exceed 3.5 percent of the contributors base salary.

³¹The AFPs are licensed, regulated and supervised by the pension department of the superintendencia bancaria.

References

- Clavijo, S., 1998, "Pension Reform in Colombia: Macroeconomic and Fiscal Effects," mimeo (Washington: International Monetary Fund).
- Comisión de Racionalización del Gasto y de las Finanzas Públicas, 1997, "Informe Final - El Saneamiento Fiscal, Un Compromiso de la Sociedad, Tema IV: Sistema de Pensiones-Deuda Publica," (Colombia: Ministerio de Hacienda y Crédito Público).
- Mackenzie, G. et al., 1997, *Pension Regimes and Saving*, IMF Occasional Paper No. 153 (Washington: International Monetary Fund).
- Queisser, M., 1997, "Pension Reform and Private Pension Funds in Peru and Colombia," World Bank Policy Research Paper No. 1853 (Washington: World Bank).
- Schmidt-Hebbel, K., 1995, "Colombia's Pension reform, Fiscal and Macroeconomic Effects," World Bank Discussion Paper No. 314 (Washington: World Bank).

VI. ISSUES IN TAX AND CUSTOMS ADMINISTRATION³²

A. Introduction

83. This chapter provides an overview of the major issues in the areas of tax and customs administration, and a summary of options for improving the effectiveness of revenue administration.

B. Background

84. From 1995 to 1997 central government tax revenue rose from 11.3 percent of GDP to 12.1 percent of GDP. This increase resulted mainly from the 1995 tax reform, which increased the VAT rate from 14 percent to 16 percent; imposed a VAT withholding system; increased the VAT rate on cars from 45.6 percent to 60 percent; and added new services to the VAT base.³³

85. As part of the 1995 reform changes were also introduced to the income tax structure, the most important of which was the establishment of a minimum income tax based on 1.5 percent of gross assets or 5 percent of net assets, whichever is the greatest. However, because this change did not take effect until 1996, tax revenue was not affected until 1997.

86. During the first half of the 1990s, noncompliance with respect to domestic VAT payments was in the range of 33–40 percent, which is comparable to the average rate of VAT noncompliance in other Latin American countries. However, noncompliance with the VAT decreased from 1995 to 1996. One of the major reasons for this improvement was the introduction of the VAT withholding system in 1996, which caused a one-time increase in revenue in that year.

C. Tax Administration

87. During the 1990s, the government has made continuous efforts to modernize the organization and functions of the tax administration in order to provide a solid base for revenue mobilization. In 1993, the tax and customs directorates were unified under one administration, the national tax and customs directorate (DIAN).³⁴ Partly as a result of the

³²Prepared by Katherine Baer.

³³The reform resulted in a reduction of the VAT base, however, because it exempted some products (e.g., tobacco).

³⁴In principle, this unification implied that both the administrative and major functional areas of the tax and customs administration were merged into single offices. For example, collection
(continued...)

difficulties which were encountered in establishing a single revenue administration, this decision was partially reversed in 1997 with congressional approval of Law 344, which called for the “functional separation” of the two directorates. Under this arrangement, some of the major functions of each administration, such as tax audit and enforcement, were again separated, but some common functions, such as collections and general administration, have remained unified. Also, in an effort to take more prompt disciplinary action against tax and customs officials who were found to have violated the rules of conduct of the DIAN, a division of disciplinary investigations was established which is responsible for handling cases of such violations.

88. Several changes in tax administration procedures have been introduced with a view to improving the effectiveness of audit and enforcement operations and improving revenue collection. In 1995, Law 223 was passed establishing concrete targets for different types of audits with a view to increasing taxpayer compliance. The SICAT, a computerized audit management system, was also designed. In the area of collection enforcement, the SISCOBRA, a special computerized information system, was designed to improve monitoring and recovery of tax arrears. The DIAN has started developing a system for the electronic filing of returns and electronic transfer of tax payments. Also, penalties have been made more severe with a view to reducing taxpayers’ noncompliance, and in 1997 stiffer sanctions for tax evasion and contraband were introduced.

89. Despite these efforts, officials recognize that there is room for improving the effectiveness of the tax administration’s operations by addressing a number of issues.

90. The first is the high cost of tax collection through the banking system and the poor quality of information from tax returns and payments as reported by the banks. In Colombia, the float period—the compensation to the banks for collecting the DIAN’s payments—is unusually long.³⁵ This effectively represents a hidden cost to the treasury. Minimizing the float period to around 3–4 days would significantly reduce this cost. In addition, the information from returns and payments which is keyed in by the banks often contains errors and is late. To resolve this, the tax administration is planning to introduce an electronic filing and payment system, beginning with the 5,000 largest taxpayers.

³⁴(...continued)

enforcement for domestic and foreign trade taxes was carried out by a single department. In practice, however, the process of unification was not fully completed.

³⁵There are several methods which a tax administration can use to pay the banks for tax collection services—banks may charge a fixed fee for processing each tax form, they may charge a percentage of the tax collected, they may keep the totality of taxes paid for a short time period (“float period”), or they may opt for a combination of these options.

91. Second, under the current system, there is an extensive payment (and collection) lag built into the tax system. In contrast to most other Latin American countries with a VAT, in which taxpayers are required to file and pay the VAT monthly, the VAT in Colombia is filed and paid every two months. Also, any income tax annual balance can be paid in one, two, or five installments (by individuals, businesses, and large taxpayers, respectively). This complicates the monitoring of compliance with filing and payment obligations and delays actions to enforce collection of overdue taxes.

92. Third, the system to detect taxpayers who are unregistered, those who are registered but do not file a return (nonfilers), and those who are registered and were filing but have ceased to file their returns (stopfilers) needs to be strengthened. For example, monitoring of compliance with filing requirements for the largest taxpayers, who account for around 70 percent of total taxes collected, is mostly done manually; the computerized information system does not automatically produce a list of stopfilers which can be followed up quickly by tax officials. Control of unregistered taxpayers who are economically active could be improved by ensuring that the taxpayer master file is up to date, that the record of "active" taxpayers is accurate, and by more systematic use of third party information.

93. Fourth, there is significant scope for improving tax auditing: an insufficient number of taxpayers is audited, and too much emphasis is given to lengthy, in-depth audits. The audit plan sets rigid criteria for performing specific numbers and types of audits, and does not allow local offices sufficient flexibility in selecting taxpayers for audit who are suspected of under-reporting or evading taxes. The manuals used by auditors to guide their work focus on administrative procedures rather than providing technical guidelines and instructions for different audit methods. Coordination between the audit, assessment, appeals, and collection enforcement divisions is weak. For example, auditors may be unaware of which audit cases have been appealed by the taxpayers and how much of additional taxes assessed as a result of an audit was actually collected.

94. As is the case in tax administrations in many countries, the management of staff needs to be improved. On one hand, there is a large number of employees in relation to the overall tax administration workload (e.g., the number of tax returns and payments received); on the other hand, the salaries of the technical staff (mainly tax auditors) are well below market rates for similar professionals.

95. Against the background of the issues discussed above, several options for improving the effectiveness of tax administration are outlined in Box 1.

Box 1. Options for Increasing the Effectiveness of Tax Administration

- **Tax collection through the banks.** Reduce the float period to three–four days to eliminate “hidden costs” to the treasury of tax collection.
- **Filing and payment schedules.** Reduce the collection lags for the VAT and income tax. Require VAT payers to file and pay monthly, and income taxpayers to file and pay any balance of their liabilities in one installment.
- **Stopfiler control.** Improve the system for controlling stopfilers. This system should be based on the taxpayer master file, tax return files, third party information, and business taxpayers who had tax withheld but did not file.
- **Audit plan and strategy.** Focus audit activities on: (i) the VAT, which accounts for 44 percent of the DIAN’s total collection; (ii) VAT returns of the most recent tax periods; (iii) cross-checking large taxpayers’ and government purchases against import declarations; and (iv) invoice printing control.

To facilitate the broad coverage of the taxpayer population, design and implement programs for computer-assisted issue-oriented auditing of VAT and income tax liabilities, and establish audit selection programs based on comparisons of taxpayers in the same or similar economic sector.

Improve coordination between the areas of audit, assessment, appeals, and enforcement of arrears payments.

- **Staffing.** Review staffing needs while increasing the salaries of technical staff so they are closer to those of professionals in similar areas of specialization.

D. Customs Administration

96. The customs administration plays an important role in the mobilization of tax revenue, as approximately 25 percent of total tax revenue stems from foreign trade activity. The customs administration provides services in twenty-six offices around the country, but the agency’s workload in terms of revenue collection is concentrated in four major trade centers—Bogotá (airport), Cartagena, Buenaventura, and Barranquilla (ports)—which account for nearly 67 percent of total tax collections by the customs administration.

97. The increase in the volume of international trade following the opening of the economy in the early 1990s has resulted in a significant increase in the workload of the customs administration. Between 1992 and 1993, the customs administration began to carry out an ambitious modernization program; this took place in the context of the unification of the customs and tax administrations mentioned earlier. The reforms of customs procedures were based on the introduction of a self assessment system, in which importers and exporters

assess and pay their customs taxes and duties on their own and without prior intervention from customs officials. Many of the tasks which had been performed by customs officials were transferred to the private sector. In 1995 the government introduced a pre-shipment inspection (PSI) program, which handles some of the merchandise verification tasks (verification of price, quantity, quality, and customs classification) otherwise carried out by customs. The percentage of goods physically inspected by customs officials, which previously was 100 percent, was sharply reduced. Controls over imports (for example, to verify their origin, volume, and value) were simplified under the assumption that the significant reduction in import duty rates would make contraband and tax fraud less attractive. At the same time, as a result of the privatization of key customs administration functions the number of customs personnel was significantly reduced, from around 5,000 to less than 2,000.

98. One of the major objectives of the measures described above was to minimize delays in processing and clearance of imports and exports. This effort was to be supported by new computerized information systems that would allow the customs administration to exercise the needed controls over import and export activity and ensure the appropriate coordination with recently privatized customs procedures. However, there were delays in the introduction of the computerized customs processing systems, and the simplification of customs processing procedures for legitimate importers and exporters did not materialize. Also, the system of controls over imports and exports was dismantled before ensuring proper coordination with the newly privatized valuation and control functions, and without the simultaneous introduction of more selective import and export controls based on risk assessment.

99. As the volume of international trade increased steadily toward the mid 1990s,³⁶ the customs administration was faced with major problems, including increased congestion of the main airports and ports, long delays in the processing and clearance of merchandise, and an apparent increase in the volume of contraband goods and cases of tax fraud.

100. In response to the most pressing problems, a number of measures were initiated toward the end of 1997, including: (i) the separation of the customs and tax administrations within the DIAN; (ii) a new organizational structure providing departments with greater operational independence and flexibility; (iii) staffing of key positions with more qualified managers; (iv) review of basic procedures to identify their weaknesses and ensure better coordination with the private sector; (v) reinforcement of physical control measures; and (vi) development of a computerization plan for the customs administration (the *Siglo XXI* project).³⁷

³⁶The volume of exports increased around 30 percent between 1991 and 1994, and around 9 percent in 1995. The volume of imports doubled between 1991 and 1993, and increased by 10 percent between 1994 and 1996.

³⁷ The project team is financed by a World Bank loan (Modernization of the Public Financial
(continued...))

101. The new organizational structure, which provides greater independence and flexibility to the departments that perform key customs operations, and the steps taken thus far to establish discipline in the administration of foreign trade taxes, are appropriate. However, there are several issues which will need to be considered in the continuing efforts to improve the quality of customs administration. For instance, the computer modernization program cannot by itself be expected to ensure that needed reforms in customs administration will be implemented. Thus, the *Siglo XXI* project needs to be coordinated with a program to improve customs procedures with a view to improving service to the trade community and increasing customs revenues collection. Also, the above mentioned pre-shipment inspection program has certain features that limit its effectiveness, including the fact that it covers only about 30 percent of the total value of imports.

102. There is scope for building upon the recent and ongoing changes in customs procedures to improve the effectiveness of customs administration. Several options for achieving this are outlined in Box 2.

Box 2. Options for Improving the Effectiveness of Customs Administration

- **Customs reform program.** Broaden the program to encompass not only computerization, but also simplification of procedures, a review of the customs code, and a strong emphasis in training.
- **Control strategy.** Ensure proper control over goods arriving in ports and airports, before transfer to private warehouses; redesign the inspection and postclearance selection systems; analyze the staffing, procedures, and technical support requirements for regional valuation units; and establish post-release review units to examine tariff classification, origin, drawbacks, and valuation issues.
- **Pre-shipment inspection.** Develop control procedures to minimize circumvention of PSI and to ensure that proper use is made of PSI findings; and, for the medium to longer term, develop a comprehensive strategy to phase out PSI.
- **Computerization.** Proceed on a priority basis with plans to introduce the more advanced version of ASYCUDA (2.6) in the ports of Barranquilla and Buenaventura. Continue with groundwork to define the requirements of the *Siglo XXI* computer system that will replace ASYCUDA in 1999 for the processing of all import and export transactions.

³⁷(...continued)

Administration, MAFP). It is expected that the second phase of this loan, MAFP II, will include a large component for institutional strengthening of customs administration.

VII. CYCLICALLY ADJUSTED FISCAL POSITION³⁸

A. Introduction and Summary

103. Colombia's fiscal position has deteriorated substantially in recent years, with the nonfinancial public sector balance (before asset sales) shifting from near balance in 1992 to a deficit of 4.3 percent of GDP in 1997. While a number of structural factors underlie this weakening, spending pressures have also been aggravated by higher investment and social spending under the Development Plan initiated in 1994, as well as by a need for increased security and military outlays. However, the deterioration in the fiscal stance in more recent years has also coincided with a marked weakening in economic activity. Specifically, output growth fell from an average of 5¼ percent in 1992–95 to 2½ percent in 1996–97, and the unemployment rate rose to nearly 16 percent by June 1998. The effects of the cyclical downturn were particularly evident in the behavior of public sector revenues. Despite a comprehensive tax reform package enacted at end-1995 which included a rise in the VAT rate from 14 to 16 percent, tax revenues were little changed at around 19 percent of GDP during 1995–97 compared with the pace in the preceding two-year period.

104. This note examines the extent to which the evolution of the actual public sector balance in Colombia during the period 1993–97 has been attributable to the effects of cyclical movements in economic activity. This is done through analysis of the cyclically adjusted fiscal balance, which is obtained by excluding from the actual balance the portion that, under unchanged policies, is related to the business cycle—i.e., the output gap when actual and potential GDP differ.

105. The following conclusions emerge from the analysis:

- the public finances were allowed to weaken relative to what would have been a cyclically neutral position during the period 1994–95. That is to say when GDP was above potential, the fiscal impulse was expansionary;
- a considerable part of the deterioration in the fiscal stance in 1996 appears to be explained by cyclical factors. However, the deterioration in 1997–98 is considerably greater than warranted by the cyclical downturn for the nonfinancial public sector, pointing to expansionary fiscal policy during this period. For the central administration, the weakening of the actual balance with respect to the cyclically neutral balance was reduced in 1997 and is projected to be moderately expansionary in 1998.

³⁸Prepared by Reva Krieger.

B. Framework

106. For the purposes of this analysis, the public sector broadly defined comprises the central administration, social security system, national decentralized agencies, and the local nonfinancial public sector.³⁹ Measurement of the cyclically neutral budget stance starts by establishing a base year in which actual and potential real output are judged to be the same.⁴⁰ The “cyclically neutral” budget balance is derived from the actual balance by assuming that nominal tax revenues are unit elastic with respect to actual nominal income, and government expenditures are unit elastic with respect to potential output valued at current prices. On this basis, government revenues are characterized as cyclically neutral if they increase proportionally with respect to changes in actual nominal output. A similar characterization holds for changes in government expenditures with respect to potential output. More specifically, cyclically neutral revenues are defined by relating actual GDP in each year to the revenue ratio established in the base year—i.e., it is equal to **actual** GDP multiplied by the base year revenue to GDP ratio. Cyclically neutral expenditures are estimated by relating potential GDP to the expenditure/GDP ratio established in the base year—i.e., **potential** GDP multiplied by the base year non-interest expenditure/GDP ratio. The difference between cyclically neutral revenues and cyclically neutral non-interest expenditures are defined to be the **cyclically neutral primary balance**. The **fiscal stance** indicates the difference between the cyclically neutral and the actual balance. If the actual balance is less than the cyclically neutral balance (a larger deficit or a smaller surplus), then the fiscal stance is deemed to be expansionary. The **fiscal impulse** is the change in the fiscal stance, in percentage points of GDP, from one year to the next.

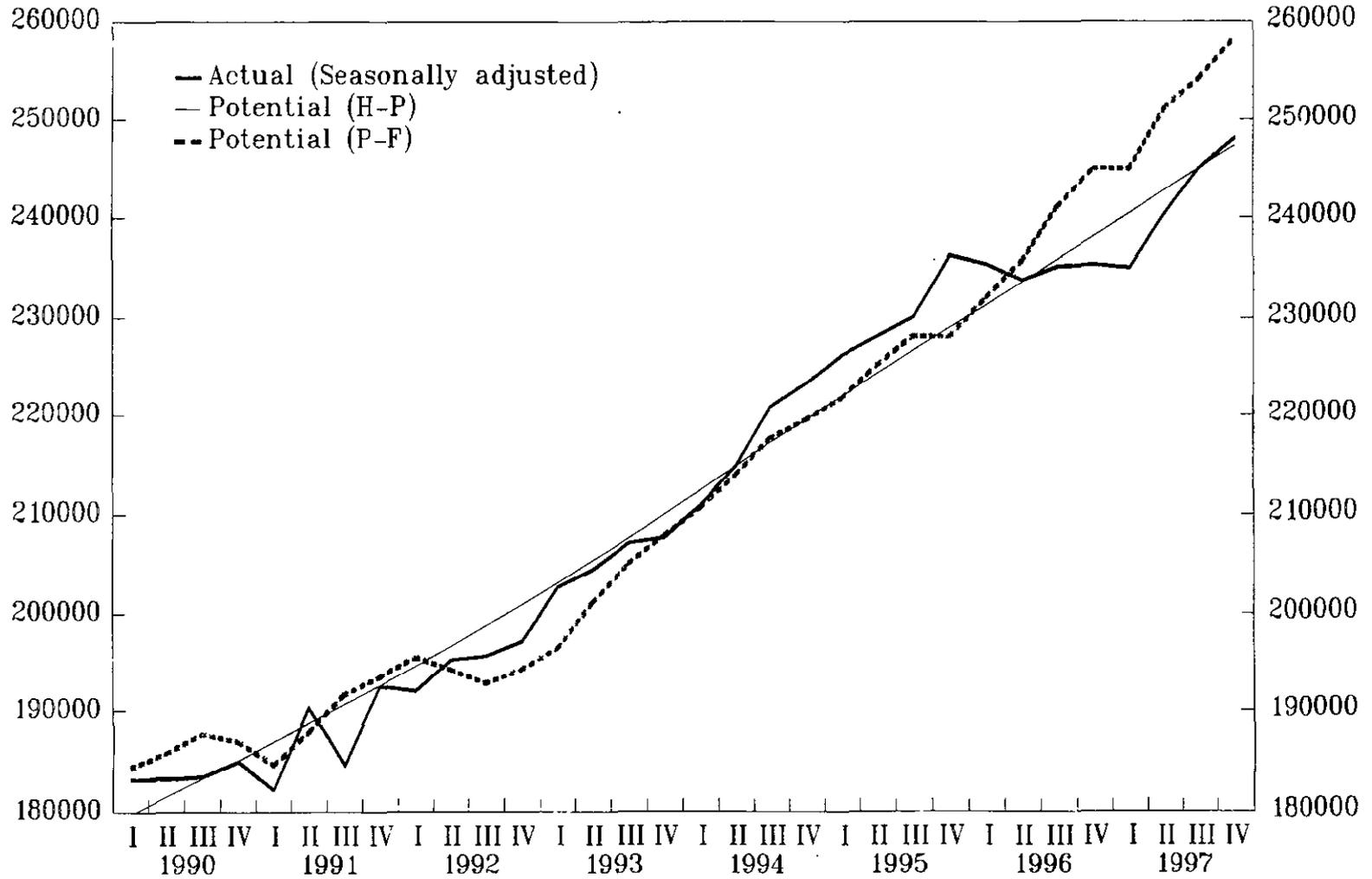
C. Estimates of Potential GDP

107. Estimates of potential GDP are crucial for analysis of the cyclically adjusted budget deficit. Several approaches were followed to arrive at such estimates. First, a Hodrick-Prescott (H-P) time-series filter was used on long time series of quarterly real GDP data for the period 1981–97. This filter smooths actual output so that potential output is a weighted average of past and future actual values, or alternatively, the *trend* in actual output. **According to this methodology, Colombia’s potential GDP was growing at a range of 4–4.5 percent per annum by the mid-1990s.** (Table 1 and Figure 1). Although the principal advantage of this technique is its simplicity, it also has several drawbacks. First, it suffers from an “endpoint” problem that occurs because, although the smoothed series is calculated as a centered weighted average of actual observations throughout most of the period analyzed, it

³⁹Asset sale receipts are excluded, as are nonrecurrent revenues from telephone concessions.

⁴⁰The methodology follows Heller, Peter S, et al., “A Review of the Fiscal Impulse Measure,” International Monetary Fund, Washington D.C., May 1986.

Figure 1. Colombia
 Actual and Potential GDP
 (In billions of Colombian pesos)



Sources: Colombian authorities; and Fund staff estimates.

depends only on past values at the end (and on future values at the beginning). As a result, the potential output estimates are highly sensitive to the chosen sample period. Second, this method will usually produce a potential output series that approximates the average level of actual output over time, that is, the estimated output gap will generally have an average value close to zero. This technique thus does not allow for the possibility that output may be above potential more often than it is below or vice versa. Finally, given that the potential output estimates given by the Hodrick-Prescott technique are essentially smoothed versions of actual output, permanent shocks to the level or growth rate of output resulting from structural changes in the economy may not be fully captured. In Colombia's case, the far-reaching and ambitious liberalization program of the early 1990s, and the shift to a system of exchange rate bands in 1994 likely resulted in changes to potential output growth which may not be fully reflected in these estimates.

108. To account for these possible deficiencies, an alternative estimate of potential output was used which is based on the work by Prieto and Rodríguez (1997).⁴¹ Their analysis was based on the "production-function" approach, which explicitly models output in terms of underlying factor inputs, and involves specifying and estimating a production function linking output to capital, labor, and total factor productivity. Potential output was calculated as the level of output that results when the rates of capacity utilization are normal," when labor input is consistent with the natural rate of unemployment, and when total factor productivity is at its trend level. Although this methodology clearly corrects for some of the deficiencies of the Hodrick-Prescott technique—particularly the ability to account for permanent shocks to potential output—the calculations are contingent on reliable information on capital stock and labor force participation as well as sometimes arbitrary assumptions on the technique for adjusting the latter to its "full-employment" level. **According to this approach, growth in potential output in Colombia averaged 5.5 percent during 1993–97—somewhat higher than indicated by the Hodrick-Prescott technique.**⁴²

⁴¹Prieto, William O.B., and Norberto Rodríguez, "Una Aproximación al PIB Potencial en Colombia: El Enfoque de Una Función de Producción," mimeo, Banco de la República, September 1997.

⁴²Although the estimated degree of slack in the Colombian economy at end-1997 may appear low in comparison with the actual unemployment rate, several studies point to a large structural component to unemployment in Colombia, i.e., one that is invariant to deviations of aggregate output from potential. For example, Henao and Rojas (1998) estimate the natural rate of unemployment to have been about 10.5 percent during the period 1982–96; see Henao and Rojas, "La Tasa Natural de Desempleo en Colombia," National Planning Department Working Paper No. 89, July 1998. A recent study by the IDB found that only about one-fifth of the current unemployment rate in Colombia is attributable to cyclical factors, with the remainder reflecting structural and frictional elements; see IDB, "Desempleo en Colombia," IDB mimeo, 1998.

109. Based on the above estimates, the note uses two scenarios of potential GDP growth, one assuming 4 percent and the alternative assuming 5.5 percent a year. Regardless of the scenario used, the potential and actual level of GDP would appear to have been approximately equal around 1992–93. For this note, the levels of actual and potential GDP in Colombia are assumed to have coincided in 1993.

D. Results

110. Estimates of actual and potential GDP are shown in Figure 1, assuming potential real GDP growth of 4 percent and 5.5 percent and assuming 1993 as the base year. **According to both measures, the output gap was strongly positive from early 1994 through the first half of 1996 and turned negative thereafter.** The production function-based measure of potential output points to a larger output gap in 1997 (4.1 percent) than that based on the Hodrick-Prescott filter (1.3 percent). On the basis of projected real GDP growth of just under 3 percent in 1998, the two measures point to existing output gaps of 2 percent and 4.7 percent, respectively.

111. Table 1 summarizes the actual fiscal balance, the fiscal stance, and the year-on-year fiscal impulse under each scenario. **In both scenarios, the cyclically neutral fiscal balance is estimated to have been positive (a surplus) during the high growth years 1994–95. Instead, the actual stance was in balance in 1994 and showed a deficit in 1995, indicating that the fiscal stance was expansionary.** As output growth subsequently slowed relative to potential in 1996, the cyclically neutral balance swung into a deficit and started to narrow its difference with the actual balance. This implies that while the fiscal stance remained expansionary relative to the base year 1993, the fiscal impulse was about neutral in 1996 relative to the year before according to both measures of potential output. Despite the continued output gap in 1997 which resulted in a widening of the cyclically neutral deficit, the fiscal stance appeared to have been strongly expansionary in that year, as the public sector balance deteriorated well in excess of that estimated on the basis of cyclical factors. For the central administration, the shortfall of the actual balance with respect to the cyclically neutral balance was reduced in 1997, as an increase in the cyclically neutral deficit was accompanied by a contraction in the actual deficit.

E. Caveats

112. A number of caveats should be considered in interpreting these results. First, the cyclically neutral budget is calculated under the assumption of unitary elasticities of expenditure and revenue with respect to actual and potential output, as noted previously. In practice, however, the elasticity of tax revenues with respect to output is, as an empirical matter, not equal to unity in most countries and is likely to vary with the rate of inflation, reflecting inter alia the effects of progressivity and administrative lags in collection.

113. Second, the above analysis does not consider the general equilibrium conditions for sustainable growth and external and internal balance. This means that there is no assurance that the elimination of the output gap and achievement of a neutral fiscal impulse would be consistent with external viability over the medium term at existing relative factor prices. More specifically, there has been a significant increase in the structural fiscal deficit in recent years which is expected to continue over the medium term reflecting (i) fiscal decentralization; and (ii) an increased burden of the pension system on the public finances.

Table 1. Colombia: Cyclically-Adjusted Fiscal Stance
(In billions of Colombian pesos unless otherwise indicated)

	1993	1994	1995	1996	1997	Proj. 1998
Output						
Actual real GDP	822.3	870.2	920.9	939.8	968.5	994.6
(Percent change)	5.4	5.8	5.8	2.0	3.1	2.7
Potential real GDP	826.1	863.7	901.7	938.7	975.5	1,014.5
(Percent change)	4.5	4.6	4.4	4.1	3.9	4.0
Primary balance						
Actual						
Nonfinancial public sector	1,434.9	1,867.6	1,594.2	1,212.5	-585.2	14.8
Central administration	63.3	-295.9	-1,545.9	-2,407.9	-1,843.8	-3,618.2
Cyclically neutral						
Nonfinancial public sector	1,387.3	1,998.0	2,769.1	2,950.0	3,387.4	3,664.4
Central administration	37.2	140.1	307.2	142.2	54.3	-155.0
Overall balance						
Actual						
Nonfinancial public sector	15.2	1.7	-793.0	-2,331.0	-4,700.6	-5,951.9
(Percent of GDP)	0.0	0.0	-1.1	-2.6	-4.3	-4.5
Central administration	-518.9	-1,076.0	-2,582.0	-4,286.4	-4,306.5	-7,537.5
(Percent of GDP)	-1.2	-1.9	-3.5	-4.8	-3.9	-5.7
Cyclically neutral						
Nonfinancial public sector	-32.4	132.1	381.9	-593.5	-728.0	-728.0
(Percent of GDP)	-0.1	0.2	0.5	-0.7	-0.7	-0.6
Central administration	-545.0	-640.0	-728.9	-1,736.3	-2,408.4	-4,074.2
(Percent of GDP)	-1.2	-1.1	-1.0	-1.9	-2.2	-3.1
Fiscal stance (percent of GDP)						
Nonfinancial public sector	-0.1	0.2	1.6	1.9	3.6	4.0
Central administration	-0.1	0.8	2.5	2.8	1.7	2.6
Fiscal impulse (+ expansionary)						
Nonfinancial public sector	0.6	0.3	1.4	0.3	1.7	0.3
Central administration	-0.7	0.8	1.8	0.3	-1.1	0.9
Memorandum items:						
With potential GDP growth of 5.5 percent per annum						
Fiscal stance (percent of GDP)	0.3	0.3	1.6	1.6	2.8	1.6
Fiscal impulse (+ expansionary)	0.6	-0.1	1.3	0.0	1.2	-1.2

Sources: Ministry of Finance; and Fund staff estimates.

VIII. ECONOMIC EFFECTS OF VIOLENT CRIME IN COLOMBIA⁴³

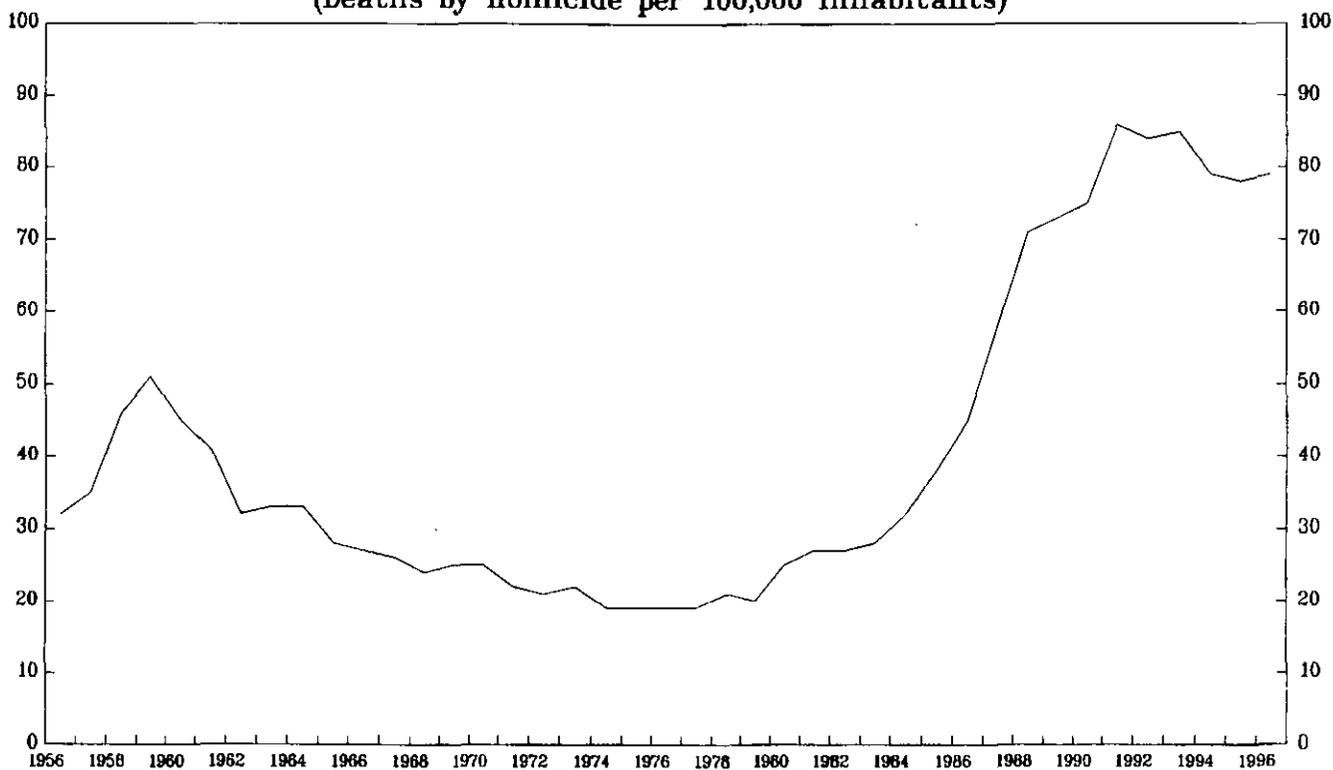
114. Colombia has experienced a surge in violent crime since the mid-1980s related to the growth of the illicit drug trade, the guerrilla insurgency, and a general increase in violent urban crimes, particularly robbery and assault. In 1996, the homicide rate was the highest in the world, at about 80 deaths per 100,000 of the population (Figure 1), which is about four times the Latin American average. Exports of illicit drugs (mainly cocaine) are estimated to have increased from about US\$1 billion a year in the mid-1980s to an average of about US\$2.5 billion in the 1990s, equivalent to about 25 percent of recorded exports (Figure 2). In the case of guerrilla activities, there are three main movements operating under the coordinating umbrella of the Coordinadora Nacional Guerrillera (CGN): the Fuerzas Armadas Revolucionarias de Colombia (FARC), estimated to have 7,000 guerrillas; the Ejército de Liberación Nacional (ELN), estimated to have about 2,700 guerrillas; and the Ejército Popular de Liberación (EPL), estimated to have about 700 guerrillas. Their combined annual income is estimated to be about US\$570 million, about a third of which is income from "taxes" levied on the growers and processors of illicit drugs, about half is from kidnaping and extortion, and most of the rest is from investments in mining (gold and coal) and public transportation. Guerrilla activity accounted for 16,625 violent deaths between 1985–96.

115. Estimates of the direct and indirect costs of crime (protection, insurance, property damage, loss of life, etc.) vary markedly, ranging from 5 percent of GDP to 15 percent of GDP, and also to have reduced the growth rate of real GDP by as much as 2 percentage points a year by one estimate over the period 1970–93. The negative impact on economic growth stems mainly from the loss of physical and human capital. Physical capital is reduced by damage and a poor investment climate. Oil and agriculture have been among the sectors most adversely affected. In the oil sector, damage is reported to have run at between US\$150 million and US\$200 million a year in the 1990s. The state oil company (ECOPETROL) has been a particular target, reporting around 700 serious attacks on the oil pipeline between 1986–97. Oil companies also spend substantial amounts on security: one company recently signed a three-year agreement with the ministry of defense to create a battalion of 150 officers and 500 soldiers to protect production sites; another is creating two platoons (totaling 80 soldiers) to protect oil fields, which increased its annual security bill from US\$3.8 million to US\$7 million. In the agricultural sector, violent crime and the high cost of private policing have contributed to falling land prices and led to the abandonment of many small land holdings. Agricultural production also has been affected adversely in that coca crop eradication methods have harmed other agricultural outputs, and disrupted production generally.

116. Human capital is reduced when people are killed, if education is interrupted, or if governments have to spend funds to maintain large security forces at the expense of education and health. In Colombia, violence is the principal cause of death, accounting for about

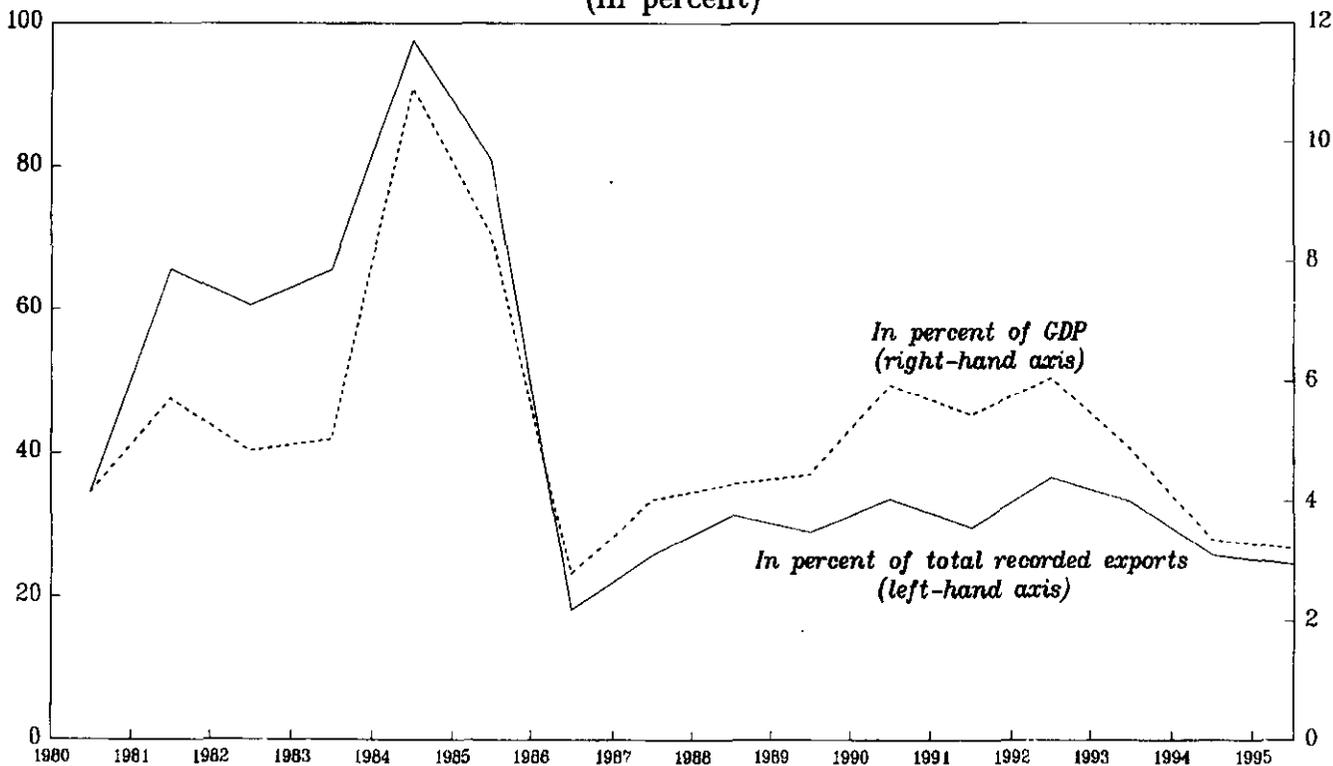
⁴³Prepared by John Thornton.

Figure 1. Colombia: Homicide Rate, 1956-96
(Deaths by homicide per 100,000 inhabitants)



Sources: Rubio (1995); and Echandia C (1997).

Figure 2. Colombia: Exports of Illicit Drugs, 1980-95
(In percent)



Sources: Steiner (1998); and Fund staff estimates.

26 percent of the total deaths and about 60 percent of deaths of prime working age males (aged between 15 and 44 years); in Latin America as a whole, violence accounts for about 3 percent of total deaths. A recent study estimates the loss of human capital from violent deaths at equivalent to 1-1½ percent of GDP a year between 1991-96. At the same time, Colombia's defense budget increased from around 1½ percent of GDP in 1985 to about 2½ percent of GDP (excluding the police) in the mid-1990s, and is about 1 percentage point higher than the average for Latin America as a whole (however, public expenditures on education and health has risen more than defense spending, from 4 percent of GDP in 1985 to about 6½ percent of GDP in 1996).

117. Violent crime also may reduce economic growth to the extent that it erodes the effectiveness of government and encourages the private sector to engage in less productive activities. An obvious example is the proliferation of private security agencies in recent years, with businesses and individuals estimated to spend about US\$150 million (0.3 percent of GDP) to protect their properties. Eroded government capacity may also increase the incentives to engage in crime *per se*, rather than undertake productive activities. For example, in Colombia the judicial system takes a long time to process plaintiffs and settle disputes and only about 3 percent of criminal cases end up by sentencing someone for the crime; at the same time, average income from crime appears to be high.

118. Finally, violent crime has made the income distribution more uneven, which may be detrimental to economic growth. In Colombia, income disparities appear to have increased in the agricultural sector: the ownership of rural property has become increasingly concentrated, with about 50 percent of the best property in the hands of 1.3 percent of landowners (compared to 3 percent of landowners in the 1940s); and many land purchases appear to have been financed by drug-related income and facilitated by falling land prices because of the violence. By one estimate, illicit drug income is estimated to have been used to purchase about 4-6 million hectares of agricultural land (about 10 percent of the total) since the mid-1980s. Violent crime also has affected the poor the most in that they have lost a higher proportion of their wealth, had less access to the judicial system, and been less able to protect themselves by contracting private security (it is mainly the poor that have been abandoning rural land holdings, exacerbating the housing problem in some urban areas).

References

- Echandia C., Camilo, 1998, "Dimensión Regional del Homicidio en Colombia," *Coyuntura Social*, pp. 89-103.
- Montenegro, A., 1994, "Justicia y Desarrollo Económico," *Planeación y Desarrollo*, Vol. 25, (July).
- Persson, T., and G. Tabellini, 1994, "Is Inequality Harmful for Growth?," *American Economic Review*, Vol. 84 (June).
- Raccoon, N., 1997, "The Political Economy of Violence: The War System in Colombia," *Journal of Interamerican Studies and World Affairs*, Vol. 39, No. 2.
- Rubio, M. P., 1995, "Crimen y Crecimiento en Colombia," *Coyuntura Económica*, Vol. XXV, No.1.
- Steiner, R., 1998, "Los Dólares Del Narcotráfico," Cuadernos FEDESARROLLO No. 2.
- Trujillo Ciro, E., and M.E. Badel Rueda, "Los Costos Económicos de la Criminalidad y la Violencia en Colombia: 1991-1996," *Archivos de Macroeconomía*, No. 76 (Colombia: Departamento Nacional de Planeación).

Table 1. Colombia: National Accounts at Current Prices

	1993	1994	1995	1996	Prel. 1997
(In billions of Colombian pesos)					
Consumption	35,907	46,042	59,467	74,396	92,000
Private sector	30,799	38,390	48,413	59,995	74,317
General government	5,108	7,653	11,054	14,401	17,683
Gross domestic investment	9,300	13,489	16,134	17,362	21,092
Fixed capital formation	8,251	11,873	14,484	15,446	18,729
Public sector	3,568	4,762	7,358	9,889	12,544
Private sector	4,683	7,110	7,127	5,557	6,185
Stockbuilding	1,049	1,616	1,650	1,916	2,363
Domestic demand	45,207	59,531	75,602	91,759	113,093
Foreign balance	-1,309	-1,549	-2,091	-2,235	-3,271
Exports of goods and nonfactor services	7,833	10,014	12,612	15,124	18,119
Imports of goods and nonfactor services	9,142	11,563	14,703	17,359	21,390
GDP at market prices	43,898	57,982	73,511	89,524	109,822
(Percentage change)					
Consumption	32.6	28.2	29.2	25.1	23.7
Private sector	33.3	24.6	26.1	23.9	23.9
General government	28.8	49.8	44.5	30.3	22.8
Gross domestic investment	61.4	45.0	19.6	7.6	21.5
Fixed capital formation	58.3	43.9	22.0	6.6	21.3
Public sector	54.5	33.5	54.5	34.4	26.8
Private sector	61.4	51.8	0.2	-22.0	11.3
Stockbuilding 1/	1.5	1.3	0.1	0.4	0.5
Domestic demand	37.7	31.7	27.0	21.4	23.3
Foreign balance	-293.5	18.3	35.0	6.9	46.4
Exports of goods and nonfactor services	24.4	27.8	25.9	19.9	19.8
Imports of goods and nonfactor services	62.6	26.5	27.2	18.1	23.2
GDP at market prices	31.0	32.1	26.8	21.8	22.7

Sources: Colombian authorities, and staff estimates.

1/ Changes in percent of preceding year's GDP.

Table 2. Colombia: National Accounts at Constant Prices
(In billions of 1975 Colombian pesos)

	1993	1994	1995	1996	Prel. 1997
(In billions of 1975 Colombian pesos)					
Consumption	607.0	610.3	659.1	682.0	720.9
Private sector	510.5	499.1	539.4	549.8	582.4
General government	96.5	111.2	119.7	132.2	138.4
Gross domestic investment	208.5	264.3	275.4	271.4	280.9
Fixed capital formation	148.1	179.8	186.3	174.1	180.7
Public sector	64.0	72.1	88.2	101.5	117.5
Private sector	84.1	107.7	98.1	72.5	63.1
Stockbuilding	60.4	84.4	89.1	97.3	100.2
Domestic demand	815.6	874.5	934.5	953.4	1,001.7
Foreign balance	6.8	-4.4	-13.6	-13.6	-33.2
Exports of goods and nonfactor services	200.2	222.7	231.6	244.4	272.3
Imports of goods and nonfactor services	193.4	227.1	245.2	258.1	305.5
GDP at market prices	822.3	870.2	920.9	939.8	968.5
(Percentage change in real terms)					
Consumption	4.0	0.5	8.0	3.5	5.7
Private sector	4.1	-2.2	8.1	1.9	5.9
General government	3.4	15.2	7.7	10.4	4.7
Gross domestic investment	38.2	26.7	4.2	-1.4	3.5
Fixed capital formation	36.3	21.4	3.6	-6.6	3.8
Public sector	33.0	12.6	22.2	15.2	15.7
Private sector	38.9	28.1	-8.9	-26.1	-13.0
Stockbuilding 1/	2.3	2.9	0.5	0.9	0.3
Domestic demand	11.0	7.2	6.9	2.0	5.1
Exports of goods and nonfactor services	11.7	11.3	4.0	5.5	11.4
Imports of goods and nonfactor services	44.9	17.4	8.0	5.2	18.4
GDP at market prices	5.4	5.8	5.8	2.0	3.1

Sources: Colombian authorities; and staff estimates.

1/ Changes in percent of preceding year's GDP.

Table 3. Colombia: Aggregate Supply and Demand at Constant Prices

	1993	1994	1995	1996	Prel. 1997
(Annual percentage change at constant 1975 prices)					
Aggregate supply	11.2	8.0	6.3	2.7	6.4
GDP	5.4	5.8	5.8	2.0	3.1
Imports of goods and nonfactor services	44.9	17.4	8.0	5.2	18.4
Aggregate demand	11.2	8.0	6.3	2.7	6.4
Consumption expenditure	4.0	0.5	8.0	3.5	5.7
Private sector	4.1	-2.2	8.1	1.9	5.9
General government	3.4	15.2	7.7	10.4	4.7
Gross domestic investment	38.2	26.7	4.2	-1.4	3.5
Fixed capital formation	36.3	21.4	3.6	-6.6	3.8
Private sector	38.9	28.1	-8.9	-26.1	-13.0
Nonfinancial public sector	33.0	12.6	22.2	15.2	15.7
Stockbuilding 1/	2.3	2.9	0.5	0.9	0.3
Exports of goods and nonfactor services	11.7	11.3	4.0	5.5	11.4
(In percent of GDP)					
Aggregate supply	123.5	126.1	126.6	127.5	131.5
GDP	100.0	100.0	100.0	100.0	100.0
Imports of goods and nonfactor services	23.5	26.1	26.6	27.5	31.5
Aggregate demand	123.5	126.1	126.6	127.5	131.5
Consumption expenditure	73.8	70.1	71.6	72.6	74.4
Private sector	62.1	57.4	58.6	58.5	60.1
General government	11.7	12.8	13.0	14.1	14.3
Gross domestic investment	25.4	30.4	29.9	28.9	29.0
Fixed capital formation	18.0	20.7	20.2	18.5	18.7
Private sector	10.2	12.4	10.7	7.7	6.5
Nonfinancial public sector	7.8	8.3	9.6	10.8	12.1
Stockbuilding	7.4	9.7	9.7	10.4	10.3
Exports of goods and nonfactor services	24.3	25.6	25.1	26.0	28.1

Sources: Colombian authorities; and Fund staff estimates.

1/ Changes in percent of preceding year's GDP.

Table 4. Colombia: Saving and Investment

(In percent of GDP)

	1993	1994	1995	1996	Prel. 1997
Gross national saving	17.2	18.8	16.5	13.7	13.3
Private sector	10.1	10.5	7.2	4.9	5.8
Public sector	7.1	8.3	9.3	8.8	7.5
Gross domestic investment	21.2	23.3	21.9	19.4	19.2
Private sector	13.1	15.0	11.9	8.3	7.8
Fixed capital formation	10.7	12.3	9.7	6.2	5.6
Stockbuilding	2.4	2.8	2.2	2.1	2.2
Public sector fixed capital formation	8.1	8.2	10.0	11.0	11.4
External current account balance	-4.0	-4.5	-5.4	-5.7	-5.9
Financing	4.0	4.5	5.4	5.7	5.9
Capital account (net)	4.3	4.7	5.8	7.6	5.9
Change in net international reserves (increase -)	0.3	0.2	0.4	1.8	0.0

Sources: Colombian authorities; and Fund staff estimates.

Table 5. Colombia: Value of Agricultural Crops 1/

(Percentage changes: at constant 1975 prices)

	1993	1994	1995	1996	Prel. 1997
Total	4.5	-1.8	5.1	0.1	1.3
Coffee	-15.3	-11.8	13.8	-18.3	3.7
Cotton	-41.2	-19.3	0.4	26.7	-44.8
Bananas	11.0	2.0	-18.0	5.3	3.9
Sugar cane	24.7	-15.6	8.1	4.4	0.5
Blond tobacco	9.2	-46.9	-3.3	49.8	-4.6
Black tobacco	5.1	-86.2	-3.4	8.2	-5.9
Corn	7.0	2.8	-12.2	-5.2	4.3
Rice	-8.4	4.2	7.7	-6.9	8.5
Potatoes	25.4	2.7	-1.6	-3.1	0.6
Wheat	28.0	9.2	-29.5	-12.8	-22.6
Barley	29.5	-20.5	-22.1	-11.8	-51.5
Plantains	-2.3	-95.3	0.7	-3.7	-4.7
Cocoa	4.8	-11.9	11.9	-12.4	-4.7
Soybean	17.9	-3.4	-13.2	-38.8	50.0
Sorghum	-15.8	2.5	-14.7	-19.7	-23.8
Vegetables	6.9	2.3	2.3	2.0	4.4

Sources: Ministry of Agriculture; and National Department of Statistics (DANE).

1/ Calculated on the basis of changes in the volume of output as estimated by the Ministry of Agriculture.

Table 6. Colombia: Coffee Stocks, Production, Exports, and Prices

	1994	1995	1996	1997	Jan.-Aug. 1997	Jan.-Aug. 1998
(In thousands of 60-kg bags)						
Opening registered stocks	6,298	4,821	7,350	6,350	4,532	4,144
Derived production	12,031	13,698	11,191	10,704	6,324	7,636
Domestic consumption 1/	1,733	1,391	1,583	1,504	1,036	1,016
Exportable production	10,298	12,307	9,608	9,206	5,292	6,645
Registered exports	11,775	9,778	10,608	10,933	7,106	7,114
To ICO members	9,137	7,026	7,203	7,105	4,264	4,189
To nonmembers	2,638	2,752	3,405	3,829	2,212	2,134
Change in registered stocks	-1,477	2,529	-1,000	-1,727	-1,814	-469
(In Colombian pesos per 125 kg load)						
Domestic purchase price of Coffee Federation	155,863	201,315	208,009	330,187	333,685	324,235
(In U.S. cents per pound)						
International coffee price 2/	157.3	158.4	131.2	201.1	209.0	156.0
Domestic purchase price of Coffee Federation 3/	88.0	102.9	93.4	135.0	144.0	104.0
Memorandum item:						
Average exchange rate (Colombian pesos per U.S. dollar)	826.5	912.5	1,036.7	1,140.5	1,090.3	1,372.7

Sources: International Coffee Organization (ICO); National Federation of Coffee Growers; and Fund staff estimates.

1/ Registered domestic sales of semiprocessed coffee by the Coffee Federation.

2/ As measured by the indicator price for Colombian mild Arabica coffee.

3/ A 125-kg load is equal to 214.34 pounds of green coffee.

Table 7. Colombia: Coffee Output and Exports by Calendar and Coffee Years

(In thousands of 60-kg bags)

	Registered Production	Coffee Federatio	Registered Exports	
			Private Exporters	Total
1993 - Year ended September	14,947	6,426	8,112	14,538
October - December	4,089	1,324	2,492	3,816
Year ended December	13,637	5,712	7,890	13,602
1994 - Year ended September	11,421	4,589	8,101	12,690
October - December	4,698	951	1,925	2,876
Year ended December	12,031	4,240	7,535	11,775
1995 - Year ended September	12,964	3,420	5,924	9,344
October - December	5,431	1,049	2,290	3,339
Year ended December	13,697	3,518	6,260	9,778
1996 - Year ended September	12,927	4,146	6,649	10,795
October - December	3,694	1,170	1,961	3,131
Year ended December	11,190	4,267	6,341	10,608
1997 - Year ended September	10,779	4,116	7,071	11,187
October - December	3,608	953	1,937	2,889
Year ended December	10,704	3,899	7,011	10,910

Source: National Federation of Coffee Growers.

Table 8. Colombia: Volume of Manufacturing Production I/

(Annual percentage change)

	1994	1995	1996	Prcl. 1997	Jan.-June 1997	Jan.-June 1998
Total industrial production	4.9	3.5	-3.4	2.6	-3.0	6.8
Food products	2.2	9.2	2.4	-0.3	-2.3	6.0
Beverages	7.9	8.8	-8.1	2.5	0.5	5.3
Tobacco	-18.2	-15.6	14.6	-5.0	-15.4	1.6
Textiles	2.2	5.2	2.6	-1.1	-7.5	6.7
Footwear and clothing	-18.0	-1.8	5.4	12.4	1.5	49.1
Leather goods	-5.5	-15.7	-24.1	13.9	3.9	7.8
Shoes	-3.6	-9.3	-19.1	-3.2	-5.8	1.1
Wood industry	8.5	-12.1	-28.2	-5.2	-5.1	20.6
Wood furniture	23.5	3.5	-50.3	13.1	12.5	-4.6
Paper and paper products	8.4	8.5	-9.9	0.0	-2.8	18.0
Printing and related products	15.3	-7.9	-4.0	3.9	4.4	8.8
Chemicals industry	1.9	8.8	-8.4	-2.9	-5.3	-3.6
Other chemicals	3.8	2.4	-6.6	5.8	-7.0	9.1
Petroleum derivatives	6.4	1.6	20.3	-2.3	2.8	-10.3
Other petroleum and coal derivatives	16.3	5.2	-7.3	1.1	-3.8	-0.8
Rubber goods	-9.7	-15.5	-13.4	-14.0	-27.8	-2.4
Plastic goods	15.5	-3.3	0.3	4.8	-4.3	5.2
Mud and porcelain goods	10.9	-0.4	-0.5	14.6	-4.0	20.8
Glass and glass products	4.9	3.2	-8.3	11.1	11.3	-4.4
Nonmetallic minerals	6.7	1.0	-11.3	-6.5	-11.2	-1.5
Iron and steel industries	14.9	1.6	-4.1	15.3	10.6	-0.6
Noniron industries	3.8	4.3	-11.7	1.4	-4.6	10.2
Metallic products, excluding machinery	10.2	6.8	-2.3	7.0	3.1	-4.3
Machinery, excluding electric machinery	9.0	0.9	-19.4	3.3	-6.7	5.0
Electric machinery	5.3	-7.7	-4.4	15.1	1.9	13.1
Transport equipment	11.0	1.0	-9.1	7.9	-8.9	24.5
Scientific professional equipment	4.3	33.2	17.6	2.4	-2.7	4.2

Source: National Department of Statistics (DANE).

I/ Excluding the coffee husking process.

Table 9. Colombia: Mining Production

	1994	1995	1996	Prel. 1997	Jan.-Aug. 1997	Jan.-Aug. 1998
(In units as specified)						
Petroleum (millions of barrels)	165.7	213.5	229.3	238.0	132.1	152.4
Gold (thousands of troy ounces)	675.0	194.7	48.9	17.4	11.2	4.6
Platinum (thousands of troy ounces)	36.3	26.7	6.1	7.5	5.0	2.5
Silver (thousands of troy ounces)	187.0	21.5	5.9	2.0	1.4	0.6
Iron ore (thousands of tons)	552.1	571.6	605.7	754.8	498.2	342.1
Coal (millions of tons)	23.5	25.7	30.0	32.6	...	...
Salt (thousands of tons) 1/	135.9	281.4	560.3	374.6	250.4	316.5
(Percentage change)						
Petroleum (millions of barrels)	0.1	28.9	7.4	3.8	...	15.3
Gold (thousands of troy ounces)	-23.4	-71.2	-74.9	-64.5	...	-58.7
Platinum (thousands of troy ounces)	-47.2	-26.6	-77.2	23.5	...	-49.7
Silver (thousands of troy ounces)	-21.4	-88.5	-72.7	-65.8	...	-57.4
Iron ore (thousands of tons)	7.0	3.5	6.0	24.6	...	-31.3
Coal (millions of tons)	10.9	9.4	16.6	8.7	...	...
Salt (thousands of tons)	-23.6	107.1	99.1	-33.1	...	26.4

Sources: ECOPETROL; ECOCARBON; and Ministry of Mines and Energy.

1/ Sea water salt and mineral salt.

Table 10. Colombia: National Production and Consumption of Petroleum Products

	1993	1994	1995	1996	Prel. 1997
(In thousands of barrels per day)					
Total production	453.4	454.0	584.9	626.3	652.2
ECOPETROL	93.7	95.5	112.6	115.7	119.3
Partnerships	323.7	328.2	460.1	495.4	517.5
Concessions	35.9	30.3	12.2	15.2	15.4
Total refinery output	220.5	246.5	249.2	269.2	265.5
Total consumption	283.9	292.2	309.0	321.5	350.5
White products 1/ <i>Of which</i>	198.0	207.5	217.6	226.3	232.3
Gasoline	118.2	123.2	128.6	128.9	131.0
Black products and natural gas 2/	86.0	84.7	91.4	95.2	118.2
(Percentage change)					
Total production	3.4	0.1	28.8	7.1	4.1
ECOPETROL	3.3	2.0	17.9	2.7	3.2
Partnerships	7.1	1.4	40.2	7.7	4.5
Concessions	-20.9	-15.5	-59.9	24.9	1.3
Total refinery output	-4.6	11.8	1.1	8.0	-1.4
Total consumption	2.9	2.9	5.7	4.1	9.0
White products 1/ <i>Of which</i>	3.2	4.8	4.8	4.0	2.6
Gasoline	2.8	4.2	4.4	0.2	1.7
Black products and natural gas 2/	2.3	-1.5	8.0	4.1	24.2

Source: ECOPELROL.

1/ White products include regular and premium gasoline, industrial benzene, kerosene, jet fuel, and propane.

2/ Black products comprise crude oil as fuel and diesel fuel oil; and natural gas expressed in equivalent fuel-oil barrels.

Table 11. Colombia: Structure of Regular Gasoline Prices

(End of period)

	1993	1994	1995	1996	Prel. 1997
(In Colombian pesos per gallon)					
Prices to public	578.0	688.0	812.0	954.0	1,175.0
Prices at refinery	106.0	126.2	345.0	392.4	659.8
Taxes	203.4	262.5	323.4	392.8	294.6
Highway tax	135.4	159.6	188.9	330.0	247.5
Sales tax	45.0	59.6	68.4	62.8	47.1
Department tax 1/	1.2	1.4	1.6	0.0	0.0
Other 1/ 2/	21.9	41.9	64.5	0.0	0.0
Transportation charges	223.1	244.0	70.0	83.0	97.9
Distribution	45.4	55.3	73.7	85.9	122.7
(Annual percentage change)					
Prices to public	25.1	19.0	18.0	17.5	23.2
Prices at refinery	25.0	19.0	173.5	13.7	68.2
Taxes	30.6	29.0	23.2	21.5	-25.0
Transportation charges	15.4	17.9	18.3	74.7	-25.0
Distribution	22.3	32.5	14.8	-8.2	-25.0
(In U.S. cents per gallon)					
Prices to public	72.0	82.8	82.2	94.9	90.8
Prices at refinery	13.2	15.2	34.9	39.0	51.0
Memorandum items:					
Exchange rate (Colombian peso per U.S. dollar)	802.7	831.2	987.7	1,005.3	1,293.6
Ratio of prices to public and at refinery	1.0	1.0	0.1	1.3	0.3

Source: Ministry of Mines and Energy.

1/ These taxes were eliminated with the tax reform of 1995.

2/ Includes contribution for decentralization (established by Law 6 of 1992).

Table 12. Colombia: Indicators of Construction Activity

(Average percentage change, unless otherwise indicated)

	1994	1995	1996	1997	Jun. 97- Jun. 98
Total approved construction licenses (area) 1/	15.2	-10.5	-29.3	11.9	-1.2
Approved licenses for housing construction (area) 1/	14.3	-15.0	-34.4	25.9	7.5
Construction costs (at current prices)	27.0	16.5	19.2	15.3	14.0
Steel	7.1	16.5	1.4	20.8	23.2
Cement	20.2	11.8	22.1	19.4	-19.6
Brick	38.1	16.3	29.0	5.2	12.0
Cement production (volume)	18.3	0.2	-6.9	3.3	1.1
Steel production (volume)	-2.7	14.9	1.3	15.6	-38.9

Sources: Colombian Construction Board (CAMACOL); and National Department of Statistics (DANE).

1/ Construction licenses are no longer required in Bogota, effective 1993.

Table 13. Colombia: Quarterly Survey of Unemployment and Participation Rates

(In percent)

	Total 1/	Barranquilla	Bogota	Cali	Medellin
I. Unemployment Rates					
1993	10.1	11.0	8.4	9.7	13.8
1994	8.4	9.9	6.3	9.1	11.6
1995	8.6	10.5	7.0	9.8	10.5
1996	11.2	11.0	9.3	14.1	12.6
1997	12.4	11.7	10.1	17.3	14.5
1993					
March	9.6	11.2	7.3	8.7	13.2
June	9.1	9.3	7.0	10.8	12.0
September	7.8	9.1	5.2	9.2	10.8
December	7.8	10.1	5.7	7.7	10.5
1994					
March	10.2	11.3	8.1	10.8	13.2
June	9.8	11.8	7.7	10.3	11.9
September	7.6	10.1	4.9	11.3	8.6
December	7.9	8.8	7.2	6.9	8.4
1995					
March	8.0	9.8	6.5	9.1	9.2
June	9.0	8.3	7.8	11.2	9.8
September	8.7	11.2	6.3	10.1	10.9
December	9.5	10.1	7.7	10.8	11.9
1996					
March	10.2	8.2	8.2	13.1	11.6
June	11.4	12.5	9.5	14.4	12.0
September	11.9	12.1	10.3	14.9	13.3
December	11.3	11.2	9.1	14.0	13.6
1997					
March	12.3	12.8	8.5	17.2	16.3
June	13.3	11.4	11.4	18.4	15.3
September	12.1	12.1	9.9	17.0	13.8
December	12.0	10.6	10.6	16.6	12.4
1998					
March	14.4	13.0	12.7	17.9	16.2
June	15.9	13.0	14.8	19.7	16.5
September	15.1	11.6	13.5	20.6	16.0

Table 13. Colombia: Quarterly Survey of Unemployment and Participation Rates

(In percent)

	Total 1/	Barranquilla	Bogota	Cali	Medellin
II. Participation Rates					
1993	60.0	55.0	61.3	61.3	58.7
1994	59.8	54.0	61.9	60.2	57.8
1995	59.9	54.2	62.6	58.9	56.9
1996	59.7	54.1	61.6	58.6	57.4
1997	59.9	54.9	60.5	62.3	58.4
1993					
March	60.1	55.6	61.0	60.9	59.6
June	60.0	54.9	61.0	61.8	58.4
September	60.3	55.1	61.9	60.4	58.9
December	60.0	54.3	61.1	62.1	58.0
1994					
March	60.5	54.3	62.1	60.4	59.7
June	59.8	54.0	61.4	59.9	57.9
September	59.0	53.1	60.6	60.8	56.9
December	60.6	54.5	63.5	59.8	56.8
1995					
March	59.2	55.3	61.3	59.6	55.9
June	59.4	50.7	62.7	58.7	57.1
September	59.4	53.6	62.0	58.8	56.1
December	61.4	57.3	64.3	58.4	58.4
1996					
March	60.6	55.1	63.4	60.0	57.5
June	59.1	54.2	60.6	58.5	56.8
September	59.1	52.6	61.3	57.5	56.9
December	59.8	54.5	61.1	58.3	58.4
1997					
March	58.3	54.7	57.8	59.4	58.7
June	59.9	55.4	60.0	63.2	58.4
September	59.9	53.8	61.5	62.6	57.4
December	61.5	55.6	62.6	63.8	59.1
1998					
March	62.3	57.0	63.6	64.2	60.0
June	62.7	56.6	63.9	64.5	60.8
September	61.0	54.6	61.2	65.3	60.0

Source: National Department of Statistics (DANE).

1/ For seven metropolitan areas (Bogota, Medellin, Cali, Barranquilla, Bucaramanga, Giron, and Manizales).

Table 14. Colombia: Minimum Wages

	Nominal Values (Col\$ per day)	Real Index 1/ (Dec. 1988=100)
1993	2,717.00	106.23
1994	3,290.00	104.97
1995	3,964.45	104.95
1996	4,737.50	103.72
1997	5,733.50	105.13
1993		
January	2,717.00	114.84
December	2,717.00	97.61
1994		
January	3,290.00	114.18
December	3,290.00	95.76
1995		
January	3,964.45	113.31
December	3,964.50	96.58
1996		
January	4,737.50	112.28
December	4,737.50	95.16
1997		
January	5,733.50	113.00
December	5,733.50	97.25
1998		
January	6,794.20	113.05

Source: National Department of Statistics (DANE).

1/ Deflated by the consumer price index for low-income workers.

Table 15. Colombia: Nominal and Real Wage Indicators in Manufacturing 1/

	Nominal Wage	Real Wage 2/	Unit Labor Cost	Nominal Wage	Real Wage 2/	Unit Labor Cost
	(Index: 1990=100)			(Percentage change) 3/		
1993	209.5	103.3	196.0	27.8	4.4	20.1
1994	258.5	103.8	225.7	23.4	0.4	15.2
1995	318.6	105.8	258.1	23.3	1.9	14.4
1996	387.6	106.5	307.1	21.7	0.7	18.9
1997	478.7	111.1	346.0	23.5	4.3	12.7
1993						
March	194.4	103.2	191.8	28.9	3.6	23.7
June	211.1	105.7	199.4	28.4	5.1	18.8
September	210.4	101.2	191.4	28.2	5.9	21.0
December	222.1	103.2	201.4	26.0	3.1	17.1
1994						
March	245.5	105.9	228.7	26.3	2.7	19.3
June	254.8	103.2	225.3	20.7	-2.4	13.0
September	257.8	101.3	215.5	22.5	0.1	12.6
December	275.8	104.7	233.4	24.2	1.5	15.9
1995						
March	292.8	104.3	248.8	19.3	-1.5	8.8
June	323.8	108.1	270.4	27.1	4.8	20.0
September	319.6	103.7	253.8	24.0	2.3	17.7
December	338.2	107.0	259.7	22.7	2.2	11.3
1996						
March	359.2	106.2	291.0	22.7	1.8	17.0
June	393.8	109.6	314.8	21.6	1.4	16.4
September	389.9	104.4	304.2	22.0	0.7	19.9
December	407.7	105.9	318.3	20.5	-1.0	22.6
1997						
March	462.3	114.2	371.1	28.7	7.5	27.6
June	478.5	112.3	346.9	21.5	2.4	10.2
September	464.4	105.5	324.3	19.1	1.0	6.6
December	509.7	112.4	341.5	25.0	6.2	7.3
1998						
March	541.5	113.1	383.2	17.1	-0.9	3.3
June	586.6	114.1	417.1	22.6	1.6	20.2

Source: National Department of Statistics (DANE).

1/ Including only production workers; excluding coffee husking activities.

2/ Nominal wage deflated by consumer price index.

3/ From corresponding period of previous year.

Table 16. Colombia: Producer Price Index

	Total	Consumption Goods	Raw Materials	Capital Goods 1/	Construction Materials
(Annual average percentage changes)					
1993	14.3	17.0	11.9	13.5	22.9
1994	17.1	19.7	16.0	12.6	16.0
1995	18.2	18.3	19.2	13.2	13.6
1996	15.1	16.8	14.0	15.1	14.1
1997	15.4	17.5	14.7	9.9	14.4
(12-month percentage change)					
1993					
March	16.9	21.8	13.8	13.0	21.7
June	13.0	14.8	10.6	14.8	25.3
September	12.8	13.2	11.4	14.6	22.7
December	13.2	15.5	10.9	12.9	22.1
1994					
March	15.5	18.8	13.2	13.0	19.5
June	15.7	19.4	13.7	12.9	14.3
September	18.6	21.3	18.1	12.0	14.3
December	20.7	21.6	21.8	12.7	14.6
1995					
March	18.7	18.2	20.2	13.5	14.1
June	21.5	21.7	23.2	12.9	13.5
September	17.2	17.8	17.7	13.0	13.7
December	15.4	15.8	15.6	14.2	11.7
1996					
March	16.3	18.5	15.1	16.4	11.8
June	13.0	13.2	12.5	15.6	15.0
September	14.4	16.5	12.8	15.0	15.3
December	14.5	17.9	12.5	11.8	14.4
1997					
March	14.0	14.4	14.1	9.6	15.0
June	17.1	17.3	18.4	8.4	13.9
September	16.1	19.5	14.7	8.9	13.2
December	17.5	19.3	16.6	13.3	17.5
1998					
March	18.6	21.4	17.2	13.8	16.8
June	17.6	26.3	12.1	14.7	10.8
September	16.5	18.9	14.9	16.0	13.4

Source: Banco de la Republica.

1/ Excluding construction materials.

Table 17. Colombia: Items Subject to Price Controls 1/
(In percentage weight of middle-income group CPI)

	December 1993		December 1994		December 1995		December 1996		December 1997	
	Direct Controls	Indirect Controls								
Total	30.1	1.5								
Food items	0.0	0.1								
Sugar 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Salt	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1
Carbonated beverages 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Milk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing items	23.8	0.0								
Rent	20.1	0.0	20.1	0.0	20.1	0.0	20.1	0.0	20.1	0.0
Gasoline-diesel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public utilities	3.7	0.0	3.7	0.0	3.7	0.0	3.7	0.0	3.7	0.0
Other items	6.3	1.4								
Drugs	0.0	1.4	0.0	1.4	0.0	1.4	0.0	1.4	0.0	1.4
Bus fares	2.4	0.0	2.4	0.0	2.4	0.0	2.4	0.0	2.4	0.0
Taxi fares	0.7	0.0	0.7	0.0	0.7	0.0	0.7	0.0	0.7	0.0
Beer 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Boarding fees and school tuition	2.5	0.0	2.5	0.0	2.5	0.0	2.5	0.0	2.5	0.0
Gasoline	0.8	0.0	0.8	0.0	0.8	0.0	0.8	0.0	0.8	0.0

Source: Banco de la Republica.

1/ Direct control: the increment in prices has to be approved by the government. Indirect control: the increment in prices is proposed by the producer to the government 15 days in advance of the due date, and the increment in price takes effect if the government does not disapprove the proposal.

2/ Includes both refined and unrefined sugar.

3/ Surveillance over producers, but not consumers.

Table 18. Colombia: Operations of the Combined Public Sector

(In billions of Colombian pesos)

	1993	1994	1995	1996	Prei. 1997
Total revenue	11,944	16,682	21,945	28,819	34,615
Current revenue	11,901	16,682	21,945	28,819	34,615
Tax revenue	7,938	10,450	13,534	17,133	21,594
Nontax revenue	3,929	6,147	8,411	11,689	13,021
Operating surplus of public enterprises	2,355	3,130	3,654	4,756	4,574
<i>Of which</i>					
Ecopetrol	983	1,052	1,658	2,004	2,059
National Coffee Fund	-43	364	-69	160	7
Other	1,574	3,016	4,757	6,930	8,447
Transfers	34	86	0	0	0
Capital revenue	43	0	0	0	0
Total expenditure and net lending	11,929	16,681	22,738	31,150	39,316
Current expenditure	8,422	11,687	15,312	20,984	26,310
Wages and salaries	2,955	4,015	5,029	6,395	7,897
Goods and services	1,469	1,764	2,144	2,949	3,757
Interest	1,420	1,866	2,387	3,543	4,115
External	720	799	814	1,001	1,092
Domestic	700	1,067	1,573	2,543	3,023
Transfers	2,497	3,936	5,521	7,899	9,723
Other local government expenditure 1/	25	0	0	0	659
Expenditure through floating debt 2/	56	106	230	198	159
Capital expenditure	3,648	4,994	7,427	10,131	13,051
Fixed capital formation	3,568	4,762	7,358	9,889	12,544
<i>Of which</i>					
On a cash basis	3,552	4,720	6,945	9,654	12,440
Transfers	81	231	69	242	507
Net lending	-141	0	0	35	-45
Nonfinancial public sector balance	15	2	-793	-2,331	-4,701
Quasi-fiscal balance 3/	-277	-196	225	14	-72
Overall balance	-262	-194	-568	-2,317	-4,772
Statistical discrepancy	-281	69	-1,067	182	-839
Financing	542	126	1,635	2,136	5,611
Foreign	-36	-1,408	862	770	1,778
<i>Of which</i>					
Change in government reserves (increa	134	-1,035	764	-395	274
Domestic	557	63	573	495	2,147
Banco de la Republica	416	151	255	-95	-203
Rest of financial system	87	-145	-384	-48	750
Bonds	-17	-92	59	205	1,763
Change in floating debt	71	149	643	432	-164
Privatization proceeds 4/	21	1,470	200	870	1,686
Memorandum items:					
Military expenditure 5/	1,160	1,425	2,066	2,753	3,425
Overall public sector savings	3,126	4,799	6,859	7,849	8,233
Overall primary balance	1,435	1,868	1,594	1,213	-585

Sources: Ministry of Finance and Public Credit; and Banco de la Republica.

1/ Includes expenditure financed by increase in floating debt and, beginning in 1997 based on financing data, an adjustment for unrecorded local government expenditure.

2/ Expenditure on an accrual basis not included in other outlays.

3/ Balance of Banco de la Republica on a cash basis.

4/ Includes nonrecurrent fees from telecommunications licensing.

5/ Includes army and police wages and pensions, and purchases of goods and services.

Table 19. Colombia: Operations of the Central Administration

(In billions of Colombian pesos)

	1993	1994	1995	1996	Prel. 1997	Jan. - Aug. 1/ 1997 1998	
Total revenue	5,836	7,701	9,524	12,049	15,283	9,894	11,111
Current revenue	5,827	7,685	9,524	11,954	15,283	9,894	11,111
Tax revenue	5,089	6,731	8,185	10,172	13,148	8,476	10,088
Net income tax and profits	2,055	2,813	3,394	3,856	5,341	3,647	4,217
Goods and services	2,451	3,175	3,893	5,378	6,473	4,020	4,706
Value-added tax	2,132	2,769	3,428	4,740	5,837	3,566	4,284
Gasoline tax	320	406	466	637	636	453	422
International trade	554	721	880	913	1,241	724	1,150
Stamp and other taxes	29	23	18	25	93	86	15
Nontax revenue	434	554	935	1,284	1,148	994	746
Property income	195	125	141	298	378	130	190
Other	239	429	794	986	771	865	556
Current transfers	304	400	403	498	986	423	276
Capital receipts	9	16	0	95	0	0	0
Total expenditure and net lending	6,355	8,777	12,106	16,335	19,589	12,594	15,830
Current expenditure	5,129	6,815	8,948	11,895	14,876	10,355	13,892
Wages and salaries	1,166	1,628	2,072	2,295	2,848	1,730	2,217
Goods and services	402	368	533	757	1,149	808	944
Interest	582	780	1,036	1,879	2,463	1,394	2,985
External	339	375	383	467	652	421	734
Domestic	244	405	653	1,411	1,811	973	2,251
Other expenditure 2/	56	106	230	198	159	...	...
Current transfers	2,924	3,933	5,076	6,767	8,258	6,423	7,746
Capital expenditure	988	1,833	2,986	4,020	4,510	2,058	1,799
Fixed capital formation, cash basis	542	807	1,182	1,571	2,225	...	...
Other expenditure 2/	15	43	413	354	-356	...	...
Capital transfers	431	983	1,391	2,094	2,642	...	...
Net lending	237	129	172	420	203	182	139
Overall balance	-519	-1,076	-2,582	-4,286	-4,307	-2,701	-4,719
Memorandum items:							
Current transfers to territorial governments	1,977	2,235	2,792	3,988	4,907	...	...
Current account balance	697	870	576	59	407	-462	-2,781

Source: Ministry of Finance and Public Credit.

1/ Monthly expenditure and nontax revenue data are not fully comparable with annual data, owing to differences in classification. Also, monthly data do not include expenditure financed by floating debt.

2/ Expenditure on an accrual basis not included in other outlays.

Table 20. Colombia: Operations of the Central Administration

(In percent of GDP)

	1993	1994	1995	1996	Prel. 1997	Jan. - Aug. 1/ 1997	1998
Total revenue	13.3	13.3	13.0	13.5	13.9	14.2	13.2
Current revenue	13.3	13.3	13.0	13.4	13.9	14.2	13.2
Tax revenue	11.6	11.6	11.1	11.4	12.0	12.1	12.0
Net income and profits	4.7	4.9	4.6	4.3	4.9	5.2	5.0
Goods and services	5.6	5.5	5.3	6.0	5.9	5.8	5.6
Value-added tax	4.9	4.8	4.7	5.3	5.3	5.1	5.1
Gasoline tax	0.7	0.7	0.6	0.7	0.6	0.6	0.5
International trade	1.3	1.2	1.2	1.0	1.1	1.0	1.4
Stamp and other taxes	0.1	0.0	0.0	0.0	0.1	0.1	0.0
Nontax revenue	1.0	1.0	1.3	1.4	1.0	1.4	0.9
Property income	0.4	0.2	0.2	0.3	0.3	0.2	0.2
Other	0.5	0.7	1.1	1.1	0.7	1.2	0.7
Current transfers	0.7	0.7	0.5	0.6	0.9	0.6	0.3
Total expenditure and net lending	14.5	15.1	16.5	18.2	17.8	18.0	18.8
Current expenditure	11.7	11.8	12.2	13.3	13.5	14.8	16.5
Wages and salaries	2.7	2.8	2.8	2.6	2.6	2.5	2.6
Goods and services	0.9	0.6	0.7	0.8	1.0	1.2	1.1
Interest	1.3	1.3	1.4	2.1	2.2	2.0	3.6
External	0.8	0.6	0.5	0.5	0.6	0.6	0.9
Domestic	0.6	0.7	0.9	1.6	1.6	1.4	2.7
Other expenditure 2/	0.1	0.2	0.3	0.2	0.1	...	...
Current transfers	6.7	6.8	6.9	7.6	7.5	9.2	9.2
Capital expenditure	2.3	3.2	4.1	4.5	4.1	2.9	2.1
Fixed capital formation, cash basis	1.2	1.4	1.6	1.8	2.0	...	...
Other expenditure 2/	0.0	0.1	0.6	0.4	-0.3	...	...
Capital transfers	1.0	1.7	1.9	2.3	2.4	...	...
Net lending	0.5	0.2	0.2	0.5	0.2	0.3	0.2
Overall balance	-1.2	-1.9	-3.5	-4.8	-3.9	-3.9	-5.6
Memorandum items:							
Current transfers to territorial governments	4.3	3.9	3.8	4.5	4.5	...	...
Current account balance	1.6	1.5	0.8	0.1	0.4	-0.7	-3.3

Source: Ministry of Finance and Public Credit.

1/ In percent of estimated GDP of period. Monthly expenditure and nontax revenue data are not fully comparable with annual data, owing to differences in classification. Also, monthly data do not include expenditure financed by floating debt.

2/ Expenditure on an accrual basis not included in other outlays.

Table 21. Colombia: Operations of the Social Security System 1/

	1993	1994	1995	1996	Prel. 1997
(In billions of Colombian pesos)					
Total revenue	1,943	3,364	5,436	7,667	8,862
Current revenue	1,943	3,293	5,338	7,238	8,761
Social security contributions	1,389	1,648	2,929	3,569	4,030
Nontax revenue	236	184	382	788	1,051
<i>Of which</i>					
Fees and charges	43	45	234	483	599
Transfers received	317	1,462	2,027	2,881	3,680
<i>Of which</i>					
From central administration	247	1,321	1,872	2,704	3,462
Capital revenue	0	71	98	429	100
Total expenditure and net lending	1,676	2,668	3,804	5,611	7,369
Current expenditure	1,645	2,649	3,763	5,546	7,267
Wages and salaries	390	213	262	293	475
Goods and services	301	453	665	1,030	1,242
Interest	1	0	0	0	3
Transfers to private sector	953	1,984	2,836	4,223	5,547
Capital expenditure and net lending	30	19	42	64	102
<i>Of which</i>					
Fixed capital formation	30	17	36	52	69
Overall balance	267	696	1,632	2,057	1,492
Memorandum item:					
Current account balance	297	644	1,575	1,692	1,494
(In percent of GDP)					
Total revenue	4.4	5.8	7.4	8.6	8.1
Total expenditure and net lending	3.8	4.6	5.2	6.3	6.7
Overall balance	0.6	1.2	2.2	2.3	1.4

Source: Ministry of Finance and Public Credit.

1/ Includes the social security, CAJANAL, and other funds covering employees of the central administration.

Table 22. Colombia: Operations of the National Decentralized Agencies 1/

	1993	1994	1995	1996	Prel. 1997
(In billions of Colombian pesos)					
Total revenue	873	1,325	1,554	1,990	2,452
Current revenue	560	917	1,113	1,379	1,603
Tax revenue	341	431	548	709	867
Nontax revenue	174	328	378	385	552
Goods and services	113	83	95	61	10
Property income	16	0	0	0	0
Other	45	245	283	324	542
Transfers 2/	45	158	187	285	184
Capital revenue	314	409	441	611	849
Total expenditure and net lending	829	1,178	1,512	1,793	2,400
Current expenditure	426	699	864	997	1,179
Wages and salaries	114	130	177	199	243
Employment contributions	0	9	15	27	34
Income and corporate taxes	0	0	0	8	0
Goods and services	53	212	246	158	161
Interest	42	62	61	55	25
External	40	49	57	7	19
Domestic	2	12	4	49	6
Transfers	216	286	365	550	717
Capital expenditure	403	533	714	888	1,269
Fixed capital formation	400	498	694	824	1,180
Transfers	2	35	19	64	88
Net lending	0	-54	-65	-93	-48
Overall balance	44	147	42	197	52
Memorandum item:					
Current account balance	134	218	250	382	423
(In percent of GDP)					
Total revenue	2.0	2.3	2.1	2.2	2.2
Total expenditure and net lending	1.9	2.0	2.1	2.0	2.2
Overall balance	0.1	0.3	0.1	0.2	0.0

Source: Ministry of Finance and Public Credit.

1/ Includes the Road Construction Fund; and agricultural and social agencies.

2/ Includes statistical discrepancies resulting from differences in intersectoral transfers.

Table 23. Colombia: Operations of the Central Government 1/

	1993	1994	1995	1996	Prel. 1997
(In billions of Colombian pesos)					
Total revenue	8,074	10,504	14,028	18,090	22,076
Current revenue	8,025	10,418	13,930	17,566	21,976
Tax revenue	6,819	8,809	11,663	14,449	18,046
Nontax revenue	844	1,056	1,680	2,422	2,717
Transfers 2/	363	553	587	695	1,214
Capital revenue	49	86	98	524	100
Total expenditure and net lending	8,282	10,765	14,966	20,165	24,916
Current expenditure	6,897	8,687	11,537	15,448	19,678
Wages and salaries	1,670	1,971	2,511	2,787	3,566
Goods and services	757	1,032	1,444	1,945	2,552
Interest	625	842	1,097	1,934	2,490
External	379	425	440	474	671
Domestic	247	417	657	1,460	1,819
Transfers	3,789	4,736	6,254	8,585	10,912
Other current expenditure 2/	56	106	230	198	159
Capital expenditure	1,148	2,002	3,322	4,390	5,083
Fixed capital formation	988	1,365	2,326	2,801	3,118
Transfers	160	637	996	1,589	1,966
Net lending	237	76	107	327	155
Overall balance	-207	-261	-938	-2,075	-2,840
Memorandum item:					
Current account balance	1,128	1,731	2,393	2,118	2,298
(In percent of GDP)					
Total revenue	18.4	18.1	19.1	20.2	20.1
Total expenditure and net lending	18.9	18.6	20.4	22.5	22.7
Overall balance	-0.5	-0.4	-1.3	-2.3	-2.6

Source: Ministry of Finance and Public Credit.

1/ Includes central administration; social security; and national decentralized agencies.

2/ Expenditure on an accrual basis not included in other outlays.

Table 24. Colombia: Operations of the Local Nonfinancial Public Sector 1/

	1993	1994	1995	1996	Prel. 1997
(In billions of Colombian pesos)					
Total revenue	4,532	6,177	8,267	11,719	14,584
Current revenue	4,227	5,757	7,472	10,485	12,987
Tax revenue	1,114	1,641	1,872	2,684	3,316
Nontax revenue	1,098	2,071	3,088	4,426	5,748
Operating surplus	648	357	459	504	694
Other	450	1,715	2,629	3,922	5,054
Transfers	2,014	2,045	2,513	3,375	3,923
<i>Of which</i>					
Central government	1,829	1,820	2,025	2,777	3,311
Capital revenue	306	419	794	1,234	1,597
Total expenditure and net lending	4,219	6,546	8,228	11,948	15,532
Current expenditure	2,836	4,167	5,002	7,017	9,190
Wages and salaries	1,285	2,044	2,519	3,608	4,331
Income and corporate taxes	3	22	33	7	8
Goods and services	712	732	699	1,004	1,206
Interest payments	435	418	656	848	1,055
External	156	103	112	138	154
Domestic	279	316	543	709	901
Transfers	376	790	892	1,371	1,715
Other, including unrecorded expenditure 2/	25	161	203	179	875
Capital expenditure	1,584	2,465	3,274	5,027	6,462
Fixed capital formation 2/	1,430	2,405	3,238	4,971	6,337
Transfers	154	59	36	56	125
Net lending	-201	-86	-48	-96	-120
Overall balance	314	-369	39	-229	-948
Memorandum item:					
Current account balance	1,391	1,590	2,471	3,468	3,797
(In percent of GDP)					
Total revenue	10.3	10.7	11.2	13.1	13.3
Total expenditure and net lending	9.6	11.3	11.2	13.3	14.1
Overall balance	0.7	-0.6	0.1	-0.3	-0.9

Source: Ministry of Finance and Public Credit.

1/ Includes local governments (municipalities, departments, and districts) and local nonfinancial enterprises comprising water, telephone, and electricity companies; and Medellin metro system.

2/ Beginning in 1997, local government balance is measured from financing data; and accounts include estimates of unrecorded expenditure. Data for 1997 not fully comparable with earlier periods.

Table 25. Colombia: Operations of the General Government 1/

	1993	1994	1995	1996	Prel. 1997
(In billions of Colombian pesos)					
Total revenue	10,568	14,236	19,266	25,632	31,529
Current revenue	10,396	14,146	19,141	25,086	31,428
Tax revenue	7,933	10,450	13,534	17,133	21,362
Nontax revenue	1,939	2,944	4,531	6,661	8,241
Operating surplus	648	357	459	504	694
Other	1,291	2,588	4,072	6,158	7,546
Transfers	524	752	1,075	1,291	1,826
Capital revenue	172	90	125	546	100
Total expenditure and net lending	10,493	14,893	20,164	27,918	35,312
Current expenditure	7,877	10,851	14,277	19,500	25,328
Wages and salaries	2,955	4,015	5,029	6,395	7,897
Goods and services	1,469	1,764	2,144	2,949	3,757
Interest	1,061	1,260	1,753	2,781	3,545
External	535	527	553	612	824
Domestic	526	733	1,200	2,169	2,720
Transfers	2,311	3,706	5,121	7,177	9,311
Other local government expenditure	25	0	0	0	659
Expenditure from floating debt 2/	56	106	230	198	159
Capital expenditure	2,578	4,052	5,829	8,187	9,949
Fixed capital formation	2,418	3,770	5,564	7,772	9,455
Transfers	160	281	265	415	494
Net lending	38	-11	59	231	35
Overall balance	75	-656	-899	-2,286	-3,783
Memorandum item:					
Current account balance	2,519	3,294	4,863	5,586	6,100
(In percent of GDP)					
Total revenue	24.1	24.6	26.2	28.6	28.7
Total expenditure and net lending	23.9	25.7	27.4	31.2	32.2
Overall balance	0.2	-1.1	-1.2	-2.6	-3.4

Source: Ministry of Finance and Public Credit.

1/ Includes central government; and local nonfinancial public sector.

2/ Expenditure on an accrual basis not included in other outlays.

Table 26. Colombia: Operations of the Consolidated National Enterprises

(In billions of Colombian pesos)

	1993	1994	1995	1996	Prel. 1997
Total revenue	2,184	3,319	4,085	5,401	5,707
Current revenue	2,115	3,190	3,889	5,090	5,494
Tax revenue	5	0	0	0	232
Nontax revenue	2,045	3,182	3,865	5,062	5,243
Operating surplus	1,707	2,774	3,195	4,252	3,880
Other	339	409	670	810	1,363
Transfers	65	8	24	28	19
Capital revenue	69	129	196	311	213
Total expenditure and net lending	2,274	2,828	4,145	5,424	6,139
Current expenditure	1,240	1,630	2,263	2,689	2,787
Income and corporation taxes	55	78	39	90	362
Employment contributions	0	124	189	225	255
Interest	359	606	634	762	571
External	185	272	262	388	268
Domestic	174	334	372	374	303
Transfers	826	822	1,402	1,611	1,599
Capital expenditure	1,213	1,188	1,940	2,931	3,432
Fixed capital formation	1,150	992	1,794	2,237	3,055
Transfers	64	196	146	695	377
Net lending	-179	11	-59	-196	-80
Overall balance	-90	491	-60	-22	-432
Memorandum items:					
Current account balance	876	1,560	1,626	2,401	2,707
Operating surplus	1,707	2,774	3,195	4,252	3,880
Operating revenue (+)	3,764	5,319	6,610	8,012	10,443
Wages and salaries (-)	-306	-451	-523	-639	-809
Goods and services (-)	-1,751	-2,095	-2,893	-3,121	-5,753

Source: Ministry of Finance and Public Credit.

Table 27. Colombia: Operations of the Consolidated National Enterprises

(In percent of GDP)

	1993	1994	1995	1996	Prel. 1997
Total revenue	5.0	5.7	5.6	6.0	5.2
Current revenue	4.8	5.5	5.3	5.7	5.0
Tax revenue	0.0	0.0	0.0	0.0	0.2
Nontax revenue	4.7	5.5	5.3	5.7	4.8
Operating surplus	3.9	4.8	4.3	4.7	3.5
Other	0.8	0.7	0.9	0.9	1.2
Transfers	0.1	0.0	0.0	0.0	0.0
Capital revenue	0.2	0.2	0.3	0.3	0.2
Total expenditure and net lending	5.2	4.9	5.6	6.1	5.6
Current expenditure	2.8	2.8	3.1	3.0	2.5
Income and corporation taxes	0.1	0.1	0.1	0.1	0.3
Employment contributions	0.0	0.2	0.3	0.3	0.2
Interest	0.8	1.0	0.9	0.9	0.5
External	0.4	0.5	0.4	0.4	0.2
Domestic	0.4	0.6	0.5	0.4	0.3
Transfers	1.9	1.4	1.9	1.8	1.5
Capital expenditure	2.8	2.0	2.6	3.3	3.1
Fixed capital formation	2.6	1.7	2.4	2.5	2.8
Transfers	0.1	0.3	0.2	0.8	0.3
Net lending	-0.4	0.0	-0.1	-0.2	-0.1
Overall balance	-0.2	0.8	-0.1	0.0	-0.4
Memorandum items:					
Current account balance	2.0	2.7	2.2	2.7	2.5
Operating surplus	3.9	4.8	4.3	4.7	3.5
Operating revenue (+)	8.6	9.2	9.0	8.9	9.5
Wages and salaries (-)	-0.7	-0.8	-0.7	-0.7	-0.7
Goods and services (-)	-4.0	-3.6	-3.9	-3.5	-5.2

Source: Ministry of Finance; and Public Credit.

Table 28. Colombia: Operations of Selected Nonfinancial Public Enterprises

	1993	1994	1995	1996	Prel. 1997
(In billions of Colombian pesos)					
I. National Coffee Fund					
Current revenue	112	430	1	274	300
<i>Of which</i>					
Operating balance	-43	364	-69	160	7
Current expenditure	123	167	168	121	105
<i>Of which</i>					
Interest payments	88	109	106	53	22
Current account balance	-11	263	-167	153	195
Capital expenditure and net lending	72	92	13	70	15
<i>Of which</i>					
Fixed capital formation	65	23	13	50	14
Overall balance	-83	171	-181	82	180
II. ECOPETROL					
Current revenue	1,044	1,115	1,775	2,184	2,345
<i>Of which</i>					
Operating balance	983	1,052	1,658	2,004	2,059
Current expenditure	573	654	914	1,249	1,480
<i>Of which</i>					
Interest payments	38	48	41	87	66
Current account balance	471	461	860	935	865
Capital expenditure and net lending	603	406	929	1,217	1,488
<i>Of which</i>					
Fixed capital formation	665	383	911	900	1,568
Overall balance	-132	55	-69	-282	-622
III. CARBOCOL					
Current revenue	76	46	79	124	98
<i>Of which</i>					
Operating balance	53	19	42	89	69
Current expenditure	70	56	68	93	73
<i>Of which</i>					
Interest payments	47	41	55	67	40
Current account balance	6	-10	11	31	25
Capital expenditure and net lending	-45	5	-38	-40	-39
<i>Of which</i>					
Fixed capital formation	4	5	17	17	17
Overall balance	51	-16	49	72	64
IV. Electricity Companies					
Current revenue	831	1,186	1,458	1,794	1,731
<i>Of which</i>					
Operating balance	718	991	1,115	1,417	870
Current expenditure	439	584	705	915	686
<i>Of which</i>					
Interest payments	355	387	393	504	427
Current account balance	391	602	754	879	1,044
Capital revenue	69	88	162	250	101
Capital expenditure and net lending	169	426	591	1,059	1,401
<i>Of which</i>					
Fixed capital formation	363	380	541	923	1,058
Overall balance	292	264	324	70	-256
(In percent of GDP)					
Memorandum items:					
Overall balance of nonfinancial public enterprises	-0.2	0.8	-0.1	0.0	-0.4
<i>Of which</i>					
National Coffee Fund	-0.2	0.3	-0.2	0.1	0.2
ECOPETROL	-0.3	0.1	-0.1	-0.3	-0.6
CARBOCOL	0.1	0.0	0.1	0.1	0.1
Electricity companies	0.7	0.5	0.4	0.1	-0.2

Source: Ministry of Finance and Public Credit.

Table 29. Colombia: Origin, Destination, and Financing of Financial System Credit

(Stocks; in billions of Colombian pesos at end of period)

	(Col\$890=US\$1)		(Col\$1,070=US\$1)		(Col\$1,300=US\$1)		(Col\$1,300=US\$1)	
	December		December		December		June	
	1994	1995	1995	1996	1996	1997	1997	Est. 1998
Origin	21,225.5	26,017.8	27,032.0	35,291.4	36,802.0	42,180.9	38,381.2	43,718.3
Banco de la Republica	-2,584.3	-3,831.7	-3,778.7	-4,729.5	-4,662.5	-7,332.1	-5,417.0	-8,057.2
Commercial banks	10,429.5	12,204.7	12,637.5	16,337.8	17,014.3	24,437.8	17,881.5	26,195.4
Specialized banks	13,380.3	17,644.7	18,173.3	23,683.1	24,450.2	25,075.2	25,916.7	25,580.2
Destination	21,225.5	26,017.8	27,032.0	35,291.4	36,802.0	42,180.9	38,381.2	43,718.3
Central administration (net)	844.9	624.6	662.2	732.2	804.4	911.9	660.9	1,473.7
Rest of public sector (net)	258.7	582.3	865.8	667.4	1,078.5	1,447.2	1,195.1	1,728.0
Quasi-fiscal balance 1/	868.4	580.7	580.7	566.9	566.9	638.5	776.3	188.7
Private sector	21,737.6	28,821.7	29,566.5	36,918.1	37,998.5	45,809.1	40,844.4	49,362.0
Banco de la Republica	52.2	81.7	81.7	105.8	105.8	128.3	114.8	154.4
Commercial banks	10,412.9	13,601.8	14,085.8	17,058.3	17,714.0	23,789.9	18,687.6	25,964.5
Specialized banks	11,272.5	15,138.2	15,399.0	19,754.0	20,178.7	21,890.9	22,042.0	23,243.1
Capital and surplus	-6,802.5	-10,477.7	-10,549.5	-13,089.3	-13,158.5	-18,063.1	-14,750.2	-19,849.9
Net unclassified assets 2/	4,318.4	5,886.3	5,906.3	9,496.2	9,512.2	11,437.3	9,654.7	10,815.8
Financing	21,225.5	26,017.8	27,032.0	35,291.4	36,802.0	42,180.9	38,381.2	43,718.3
Net short-term foreign assets	-4,745.9	-4,692.6	-5,641.6	-6,691.8	-8,130.2	-7,944.7	-8,336.1	-7,030.4
SDR allocation and valuation adjustment	1,820.8	386.2	1,929.1	1,797.6	4,093.1	1,321.3	3,636.7	36.0
Medium- and long-term foreign liabilities	1,719.9	2,069.3	2,487.8	3,030.4	3,681.8	3,580.4	3,631.7	3,271.3
Liabilities to the private sector	22,430.7	28,254.8	28,256.7	37,155.2	37,157.3	45,223.8	39,449.0	47,441.4
Banco de la Republica	2,688.5	3,074.8	3,075.0	3,933.3	3,933.4	4,099.6	4,188.5	3,547.9
Commercial banks	9,179.8	10,765.8	10,767.6	13,773.1	13,775.0	20,800.0	14,478.3	22,611.1
Specialized banks	10,562.4	14,414.1	14,414.1	19,448.8	19,448.8	20,324.1	20,782.1	21,282.4

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

1/ Cash basis.

2/ Includes intrasystem transactions.

Table 30. Colombia: Origin, Destination, and Financing of Financial System Credit

(Annual flows; in billions of Colombian pesos)

	1994	1995	1996	1997	June 1998
Origin	6,334.1	4,792.4	8,259.4	5,378.9	5,337.1
Banco de la Republica	-792.9	-1,247.3	-950.7	-2,669.6	-2,640.3
Commercial banks	2,533.1	1,775.2	3,700.3	7,423.5	8,313.9
Specialized banks	4,593.9	4,264.5	5,509.9	625.0	-336.5
Destination	6,334.4	4,792.4	8,259.4	5,378.9	5,337.1
Public sector	-246.4	-184.5	-142.2	547.8	758.2
Quasi-fiscal balance (surplus -) 1/	54.4	-287.7	-13.8	71.6	-587.6
Private sector	5,681.6	7,084.1	7,351.6	7,810.6	8,517.6
Other assets	844.7	-2,107.2	1,050.0	-2,979.5	-3,938.7
Financing	6,334.1	4,785.6	4,785.6	4,785.6	4,785.6
Net short-term foreign assets	506.4	53.4	-1,050.2	185.5	1,305.8
SDR allocation and valuation adjustment	-34.7	-1,434.5	-131.4	-2,771.8	-3,600.7
Medium- and long-term foreign liabilities	108.9	349.4	542.6	-101.4	-360.4
Liabilities to the private sector	5,753.5	5,824.1	8,898.5	8,066.5	7,992.4
Banco de la Republica	-325.6	386.3	858.4	166.2	-640.6
Commercial banks	2,331.6	1,586.0	3,005.4	7,025.0	8,132.8
Specialized banks	3,747.5	3,851.7	5,034.7	875.3	500.3

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

1/ Cash basis.

Table 31. Colombia: Summary Accounts of the Banco de la Republica

(End of period stocks; in billions of Colombian pesos)

	(Col\$890=US\$1)		(Col\$1,070=US\$1)		(Col\$1,300=US\$1)		(Col\$1,300=US\$1)	
	December		December		December		June	
	1994	1995	1995	1996	1996	1997	1997	Est. 1998
Net international reserves	7,163.7	7,447.0	8,953.1	10,646.5	12,935.0	12,940.0	13,467.0	11,806.4
Assets	7,253.6	7,565.3	9,095.3	10,693.2	12,991.7	12,978.3	13,605.4	13,181.4
Liabilities	89.9	118.3	142.2	46.7	56.7	38.2	138.4	1,374.9
Net domestic credit	-2,584.3	-3,831.7	-3,778.7	-4,729.5	-4,662.5	-7,332.1	-5,417.0	-8,057.2
Central government	1,025.1	1,029.1	1,029.1	997.3	997.3	702.0	756.2	922.7
Assets	1,108.6	1,156.9	1,156.9	1,244.1	1,244.1	1,036.6	1,207.1	1,062.8
Liabilities	83.5	127.8	127.8	246.8	246.8	334.6	450.9	140.1
Rest of public sector	-447.0	29.9	28.0	-21.1	-22.5	-1.4	-16.6	-3.7
Assets	0.0	50.0	50.0	0.0	0.0	0.0	0.0	0.0
Liabilities	447.0	20.1	22.0	21.1	22.5	1.4	16.6	3.7
Quasi-fiscal balance 1/	868.4	580.7	580.7	566.9	566.9	638.5	776.3	188.7
Commercial banks (net)	-2,735.0	-2,251.2	-2,241.0	-2,641.7	-2,628.3	-2,761.9	-2,888.2	-2,570.8
Assets	68.5	234.5	244.8	66.5	79.9	416.6	71.9	298.0
Liabilities	2,803.5	2,485.7	2,485.7	2,708.1	2,708.1	3,178.5	2,960.1	2,868.8
Specialized banks (net)	-453.4	-586.4	-552.7	-933.6	-894.3	-523.8	-710.0	8.4
Assets	350.3	368.8	402.5	409.3	448.6	695.5	584.1	948.8
Liabilities	803.7	955.2	955.2	1,342.9	1,342.9	1,219.3	1,294.1	940.4
Credit to the private sector	52.2	81.7	81.7	105.8	105.8	128.3	114.8	154.4
Net unclassified assets	338.6	207.4	218.4	243.2	258.9	381.9	235.4	332.6
Capital	-1,233.2	-2,922.9	-2,922.9	-3,046.3	-3,046.3	-5,895.8	-3,684.9	-7,089.5
Adjustment account 2/	1,798.3	393.4	1,922.6	1,804.8	4,122.7	1,322.5	3,656.5	27.1
Medium- and long-term foreign liabilities	88.8	146.9	176.6	178.8	217.3	185.9	204.9	174.1
Liabilities to private sector	2,688.5	3,074.8	3,075.0	3,933.3	3,933.4	4,099.6	4,188.5	3,547.9
Currency in circulation	2,300.2	2,870.7	2,870.7	3,216.0	3,216.0	4,098.7	3,186.0	3,547.0
Bonds and certificates	387.9	203.7	203.9	716.9	717.0	0.5	1,002.2	0.6
Bonds in local currency	325.9	203.2	203.2	716.4	716.4	0.4	1,001.8	0.5
Exchange certificates	62.0	0.5	0.7	0.5	0.6	0.1	0.3	0.1
Other	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4

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

1/ As of 1993, estimated on the basis of the profit/loss statement and including cash effects of operations accrued in the previous year and not registered in the bank's profit/loss statement. Also includes in 1993 cash effects of CEC liquidation.

2/ Includes adjustment for exchange rate valuation account.

Table 32. Colombia: Summary Accounts of the Banco de la Republica

(Percentage change) 1/

	1994	1995	1996	1997	June 1998
Net international reserves	3.8	10.5	55.1	0.1	-39.6
Net domestic credit	-23.8	5.9	3.3	0.0	0.0
Central administration (net)	0.9	0.2	-1.0	-7.5	4.0
Rest of public sector (net)	-2.6	17.7	-1.6	0.5	0.3
Quasi-fiscal deficit 2/	1.8	-10.7	-0.4	1.8	-14.0
Rest of financial system (net)	-25.4	13.0	-25.4	6.0	24.7
Credit to the private sector	1.5	1.1	0.8	0.6	0.9
Other items (net) 3/	-0.1	-15.5	0.6	1.9	7.7
Medium- and long-term foreign liabilities	-9.1	2.2	0.1	-0.8	-0.7
Liabilities to private sector	-10.9	14.4	27.9	4.2	-15.3
Currency in circulation	17.3	21.2	11.2	22.4	8.6
Bonds and certificates	-28.2	-6.9	16.7	-18.2	-23.9
Other liabilities	0.1	0.0	0.0	0.0	0.0

Source: Statistical Appendix Table 31.

1/ In relation to the stock of liabilities of the Banco de la Republica to the private sector at the beginning of the period.

2/ As of 1993, estimated on the basis of the profit/loss statement and including cash effects of operations accrued in the previous year and not registered in the bank's profit/loss statement. Also includes in 1993 cash effects of CEC liquidation.

3/ Includes adjustment for exchange rate valuation account.

Table 33. Colombia: Liabilities to the Private Sector

(End of period stocks; in billions of Colombian pesos)

	(Col\$890=US\$1)		(Col\$1,070=US\$1)		(Col\$1,300=US\$1)		(Col\$1,300=US\$1)	
	December		December		December		June	
	1994	1995	1995	1996	1996	1997	1997	1998
Liabilities to the private sector	22,411.3	28,258.7	28,257.0	37,175.1	37,173.3	45,363.0	39,457.3	47,296.8
Money (M1)	5,185.8	6,204.3	6,202.5	7,199.8	7,197.9	8,790.5	6,652.0	7,293.7
Currency in circulation	2,300.2	2,870.7	2,870.7	3,216.0	3,216.0	4,098.7	3,186.0	3,547.0
Demand deposits	2,885.6	3,333.6	3,331.8	3,983.8	3,981.9	4,691.8	3,466.0	3,746.7
Quasi-money and other	17,225.5	22,054.4	22,054.5	29,975.2	29,975.4	36,572.5	32,805.3	40,003.1
Banco de la Republica	392.0	204.3	204.5	717.3	717.4	0.9	1,002.6	1.0
Domestic bonds	325.9	203.2	203.2	716.4	716.4	0.4	1,001.8	0.5
Exchange certificates	62.0	0.5	0.7	0.5	0.6	0.1	0.3	0.1
Other	4.1	0.6	0.6	0.4	0.4	0.4	0.4	0.4
Financial intermediaries	16,833.5	21,850.0	21,850.0	29,257.9	29,257.9	36,571.6	31,802.7	40,002.1
Time and savings deposits	15,056.7	19,564.0	19,564.0	23,829.3	23,829.3	30,043.9	25,883.0	33,420.4
Other liabilities	1,776.8	2,286.0	2,286.0	5,428.6	5,428.6	6,527.7	5,919.7	6,581.7
Fiduciary deposits	25.6	28.2	28.2	31.5	31.5	33.3	38.3	28.0
Bank acceptances	384.1	282.4	282.4	200.2	200.2	136.0	152.6	130.6
Bonds	1,367.1	1,975.4	1,975.4	5,196.9	5,196.9	6,358.4	5,728.8	6,423.1

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

Table 34. Colombia: Summary Accounts of the Commercial Banks

(End of period stocks; in billions of Colombian pesos)

	(Col\$890=US\$1)		(Col\$1,070=US\$1)		(Col\$1,300=US\$1)		(Col\$1,300=US\$1)	
	December		December		December		June	
	1994	1995	1995	1996	1996	1997	1997	1998
Net short-term foreign assets	-1104.0	-1412.5	-1698.1	-2406.1	-2891.8	-3532.2	-3133.8	-3186.0
Assets	450.4	394.0	473.7	422.9	545.4	762.4	349.3	1125.6
Liabilities	1,554.4	1,806.5	2,171.9	2,829.1	3,437.2	4,294.5	3,483.1	4,311.6
Net domestic assets	10,429.5	12,204.7	12,637.5	16,337.8	17,014.3	24,437.8	17,881.5	26,195.4
Central administration (net)	-167.2	-333.2	-297.1	-261.7	-192.4	72.4	-58.3	256.8
Assets	337.5	317.8	353.9	500.8	570.1	1,222.3	1,067.0	1,368.7
Liabilities	504.7	651.0	651.0	762.5	762.5	1,149.9	1,125.3	1,111.9
Rest of public sector (net)	-288.4	-410.9	-405.1	-737.6	-726.2	-96.6	-466.2	550.2
Assets	1,146.7	1,583.5	1,589.3	1,896.2	1,907.6	3,545.4	2,709.2	3,894.9
Liabilities	1,435.1	1,994.4	1,994.4	2,633.8	2,633.8	3,642.0	3,175.4	3,344.7
Monetary authorities (net)	2,761.4	2,532.5	2,534.8	2,636.2	2,627.3	3,247.8	2,802.4	3,234.6
Assets	2,879.3	2,640.7	2,651.5	2,737.1	2,739.1	3,315.7	2,909.2	3,305.7
Liabilities 1/	117.9	108.2	116.7	100.9	111.7	67.9	106.8	71.0
Financial institutions (net)	-722.5	-1,048.9	-1,048.9	-33.1	-33.1	-416.2	-513.3	-899.7
Assets	1,269.0	1,713.0	1,713.0	2,883.0	2,883.0	3,221.7	2,556.4	2,956.1
Liabilities	1,991.5	2,761.9	2,761.9	2,916.1	2,916.1	3,637.9	3,069.7	3,855.8
Official capital and surplus	-1,111.5	-1,282.0	-1,282.0	-1,732.8	-1,732.8	-593.1	-543.5	-614.9
Private capital and reserves	-1,468.6	-1,643.9	-2,155.9	-2,927.2	-2,973.5	-5,253.5	-4,554.6	-5,435.7
Credit to the private sector	10,412.9	13,601.8	14,085.8	17,058.3	17,714.0	23,789.9	18,687.6	25,964.5
Net unclassified assets	1,013.5	789.4	1,205.9	2,335.6	2,330.9	3,687.1	2,527.3	3,139.5
Adjustment account	-50.4	67.9	-58.3	-37.7	-169.1	-5.5	-149.8	-37.7
Medium- and long-term foreign liabilities	95.2	94.3	113.4	120.9	178.4	100.1	119.6	360.6
Liabilities to the private sector	9,179.8	10,765.8	10,767.6	13,773.1	13,775.0	20,800.0	14,478.3	22,611.1
Demand deposits	2,908.7	3,329.9	3,331.7	3,964.0	3,965.9	4,552.5	3,457.7	3,891.4
Term and savings deposits	5,742.5	6,789.6	6,789.6	8,492.6	8,492.6	14,356.6	9,553.1	16,857.6
Other liabilities	528.6	646.3	646.3	1,316.5	1,316.5	1,890.9	1,467.5	1,862.1

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

1/ In early 1991 the accounts of FINAGRO were separated from those of the Banco de la Republica.

Table 35. Colombia: Summary Accounts of the Specialized Banks 1/

(End of period stocks, in billions of Colombian pesos)

	(Col\$890=US\$1)		(Col\$1,070=US\$1)		(Col\$1,300=US\$1)		(Col\$1,300=US\$1)	
	December		December		December		June	
	1994	1995	1995	1996	1996	1997	1997	1998
Net short-term foreign assets	-1313.7	-1342.0	-1613.4	-1548.6	-1913.0	-1463.2	-1997.1	-1590.0
Net domestic assets	13,380.3	17,644.7	18,173.3	23,683.1	24,450.2	25,075.2	25,916.7	25,580.2
Central administration (net)	-12.9	-71.3	-69.8	-3.4	-0.6	137.5	-36.9	294.2
Assets	21.4	17.9	19.4	53.7	56.5	173.7	64.8	312.0
Liabilities	34.3	89.2	89.2	57.1	57.1	36.2	101.7	17.8
Rest of public sector (net)	994.1	963.3	1,243.0	1,426.1	1,827.3	1,545.2	1,677.8	1,181.5
Assets	1,848.3	2,069.3	2,349.0	2,713.0	3,114.2	2,725.7	3,013.7	2,533.4
Liabilities	854.2	1,106.0	1,106.0	1,286.9	1,286.9	1,180.5	1,335.9	1,351.9
Monetary authorities (net)	465.9	848.7	830.5	1,211.5	1,180.7	1,230.1	1,204.0	697.2
Assets	764.2	1,073.1	1,082.1	1,436.2	1,436.4	1,332.9	1,422.4	1,069.4
Liabilities	298.3	224.4	251.6	224.6	255.7	102.8	218.4	372.2
Financial institutions (net)	1,300.5	1,410.2	1,410.2	2,247.0	2,247.0	1,941.5	2,333.1	1,955.0
Assets	3,008.2	3,868.1	3,868.1	4,668.8	4,668.8	5,240.1	5,077.8	5,784.5
Liabilities	1,707.7	2,457.9	2,457.9	2,421.7	2,421.7	3,298.6	2,744.6	3,829.5
Official capital and surplus	-1,385.9	-1,844.2	-1,866.4	-2,378.6	-2,405.5	-2,934.0	-2,714.3	-3,148.1
Private capital and reserves	-1,603.3	-2,784.7	-2,322.3	-3,004.5	-3,000.4	-3,386.6	-3,253.0	-3,561.8
Credit to the private sector	11,272.5	15,138.2	15,399.0	19,754.0	20,178.7	21,890.9	22,042.0	23,243.1
Net unclassified assets	2,349.4	3,984.7	3,549.2	4,431.0	4,423.1	4,650.7	4,663.9	4,919.1
Adjustment account	31.7	-60.6	52.0	44.9	197.7	6.6	169.7	28.9
Medium- and long-term foreign liabilities	1,535.9	1,828.0	2,197.8	2,730.7	3,286.1	3,294.5	3,307.2	2,736.7
Liabilities to the private sector	10,562.4	14,414.1	14,414.1	19,448.8	19,448.8	20,324.1	20,782.1	21,282.4
Term and savings deposits	9,314.2	12,774.4	12,774.4	15,336.7	15,336.7	15,687.3	16,329.9	16,562.8
Other liabilities	1,248.2	1,639.7	1,639.7	4,112.1	4,112.1	4,636.8	4,452.2	4,719.6

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

1/ Comprises development finance corporations, commercial finance companies, savings and loan institutions, cooperative institutions, and development banks (BANCOLDEX, FINAGRO, FINDETER).

Table 36. Colombia: Financial Indicators

	Interest Rates				Open Market Operations: Stock of			Monetary and Credit Aggregates 1/						
	Yield on Open Market Bills 4/	Financial System		Spread	Central Bank Paper at End of Period			Currency in Circulation	M1 2/		M3* 3/		Credit to Private Sector	
		Deposit Rate 5/	Lending Rate 6/		Open Market Bills	Exchange Certificates	Total		Sectorized	Non- sectorized	Sectorized	Non- sectorized	Sectorized	Non- sectorized
1994														
December	33.5	37.9	46.6	6.3	994.2	59.0	1,053.2	29.8	23.7	25.3	42.7	43.6	40.4	44.9
1995														
December	30.0	33.4	44.2	8.1	216.1	1.1	217.2	26.6	19.8	20.2	27.2	29.3	35.7	36.2
1996														
March	30.0	33.6	44.3	8.0	140.3	0.9	141.2	21.9	18.2	19.3	25.9	26.3	33.3	33.0
June	28.0	32.1	43.2	8.4	314.4	0.9	315.3	18.6	14.8	15.6	25.5	24.5	30.9	30.7
September	...	28.4	40.2	9.1	451.3	0.8	452.1	13.1	7.7	15.3	23.7	24.1	25.8	28.7
December	25.0	28.1	38.7	8.3	1,263.1	0.8	1,263.9	12.8	16.0	16.5	29.9	29.9	24.9	26.0
1997														
January	25.0	26.5	37.6	8.8	1,950.5	0.8	1,951.3	12.0	14.0	13.9	28.4	28.4	23.4	23.8
February	25.0	25.4	36.5	8.8	2,203.6	0.9	2,204.5	12.3	13.4	14.4	23.8	25.6	23.1	23.8
March	...	25.5	36.1	8.5	2,043.8	0.8	2,044.6	23.3	16.4	14.9	25.3	25.5	22.0	23.6
April	24.0	24.7	34.8	8.0	2,154.1	0.8	2,154.9	20.4	14.1	19.3	25.5	26.8	21.4	22.7
May	23.6	23.6	34.3	8.7	2,336.5	0.7	2,337.2	24.6	18.8	22.1	26.3	26.0	23.3	21.7
June	...	23.2	33.8	8.6	1,951.2	0.7	1,951.9	25.1	20.9	22.5	24.9	27.5	21.0	21.8
July	23.0	23.2	33.8	8.6	2,094.8	0.6	2,095.4	25.0	20.8	23.5	25.6	26.7	22.1	21.6
August	22.9	23.0	33.2	8.3	2,277.1	0.5	2,277.6	24.5	22.8	24.1	25.1	26.5	21.7	21.4
September	22.5	22.9	32.7	8.0	1,978.0	0.6	1,978.6	25.7	24.2	20.4	26.2	26.5	25.3	22.0
October	...	23.2	32.4	7.5	1,578.4	0.6	1,579.0	27.4	29.9	23.9	26.4	27.8	27.5	24.6
November	...	24.0	32.4	6.8	1,026.6	0.6	1,027.2	30.4	30.1	27.5	28.6	29.9	26.6	25.8
December	...	24.3	33.2	7.2	53.8	0.5	54.3	26.6	22.2	21.7	24.5	25.6	20.6	27.0
1998														
January	...	24.6	34.2	7.7	323.0	0.6	323.6	26.4	25.0	22.6	25.3	25.6	21.7	28.2
February	...	25.0	34.5	7.6	203.9	0.6	204.5	25.6	24.0	17.3	28.3	26.0	21.7	29.2
March	...	28.0	37.2	7.2	2.1	0.6	2.7	14.8	13.8	12.2	25.2	25.6	21.7	29.0
April	...	30.7	40.2	7.3	8.6	0.6	9.2	18.5	19.0	8.0	25.3	23.3	22.9	29.3
May	...	31.7	40.0	6.3	1.1	0.6	1.7	16.5	14.4	9.3	24.9	25.4	22.8	30.9
June	...	36.6	50.5	10.2	1.1	0.5	1.7	12.0	9.5	2.2	23.0	25.4	20.9	27.9
July	...	36.4	43.8	5.4	131.4	0.5	131.8	9.8	11.5	2.5	21.4	19.5	19.6	25.7
August	...	34.2	41.2	5.2	106.7	0.5	107.2	10.5	12.9	4.7	20.8	18.9	18.8	24.9

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

1/ "Nonsectorized" data may not exclude all assets and liabilities of the nonfinancial public sector from M1, M3, and credit to the private sector.

2/ Currency in circulation plus demand deposits.

3/ M1 + quasi-money + fiduciary deposits + bank acceptances + bonds issued by financial institutions.

4/ Weighted average of weekly rates on three-month bills. "Not available" refers to periods when no open market operations took place.

5/ Average yield on three-month deposits.

6/ Average rates based on survey of financial intermediaries.

Table 37. Colombia: Requirements for Monetary Reserves, Reserve-Substituting Investments, and Obligatory Investments

(In percent)

	December 1995			December 1996			December 1997			October 1998		
	Monetary Reserve	Marginal Monetary Reserve	Obligatory Investments	Monetary Reserve	Marginal Monetary Reserve	Obligatory Investments	Monetary Reserve	Marginal Monetary Reserve	Obligatory Investments	Monetary Reserve	Marginal Monetary Reserve	Obligatory Investments
Commercial banks												
Sight deposits, private 1/	40	21	7	21	21	7	21	21	7	21	21	7
Sight deposits, public 1/	40	21	7	21	21	7	21	21	7	21	21	7
CDT (time deposits) longer than 18 months 1/2/	1	5	7	5	0	7	5	0	7	0	0	7
CDT (time deposits) between 12 and 18 months 1/2/	1	5	7	5	7	7	5	7	7	3	3	7
CDTs between 6 and 12 months 1/2/	2	5	7	5	7	7	5	7	7	3	3	7
CDTs shorter than 6 months 1/2/	3	10	7	5	7	7	5	7	7	3	3	7
Traditional savings deposits	10	10	7	10	10	7	10	10	7	8	8	7
Fiduciary deposits	40	21	7	21	21	7	21	21	7	21	21	7
Bonds shorter than 18 months	0	0	0	7	0	0	7	0	0	7	0	0
Development finance corporations												
CDTs longer than 18 months 1/2/	1	5	7	5	0	7	5	0	7	0	0	7
CDTs between 12 and 18 months 1/2/	1	5	7	5	7	7	5	7	7	3	3	7
CDTs between 6 and 12 months 1/2/	2	5	7	5	7	7	5	7	7	3	3	7
CDTs shorter than 6 months 1/2/	3	10	7	5	7	7	5	7	7	3	3	7
Savings and loan institutions												
Savings account (UPAC)	10	10	1	10	10	1	10	10	1	8	8	1
CDTs 1-6 months (UPAC)	3	10	1	5	7	1	5	7	1	3	3	1
CDTs 6-12 months (UPAC)	2	5	1	5	7	1	5	7	1	3	3	1
CDTs between 12 and 18 months	1	5	1	5	7	1	5	7	1	3	3	1
CDTs longer than 18 months	1	5	1	5	0	1	5	0	1	0	0	1
Nonindexed deposits	10	10	1	10	10	1	10	10	1	10	10	1
Bonds shorter than 18 months	0	0	0	7	0	0	7	0	0	7	0	0
Fiduciary deposits	0	0	0	21	21	0	21	21	0	21	21	0
Commercial finance companies												
CDTs longer than 18 months 1/2/	1	5	7	5	0	7	5	0	7	0	0	7
CDTs between 12 and 18 months 1/2/	1	5	7	5	7	7	5	7	7	3	3	7
CDTs between 6 and 12 months 1/2/	2	5	7	5	7	7	5	7	7	3	3	7
CDTs shorter than 6 months 1/2/	3	10	7	5	7	7	5	7	7	3	3	7

Source: Banco de la Republica.

1/ Obligatory refers to a 5 percent obligatory investment in Titulos de Desarrollo Agropecuario Class B and 2 percent in Class A (FINAGRO).

2/ The amount held as of April 16, 1991 in FINAGRO Class C and other development bonds was to be used permanently to meet reserve-substituting requirements. This allowed for a gradual conversion of requirements from reserve-substituting into monetary as CDT deposits increased.

Table 38. Colombia: Reserves, Open Market Instruments, and Exchange Certificates

(In billions of Colombian pesos at end of period, unless otherwise indicated)

	1994	1995	1996	1997	June 1998
Monetary reserves	3,364.4	3,393.8	3,387.5	4,184.8	3,636.0
As percent of financial intermediaries total liabilities 1/	16.7	13.0	10.7	10.6	8.3
As percent of monetary base	64.7	54.2	51.1	50.5	50.6
Open market bills of Banco de la Republica	994.2	216.1	1,263.0	53.8	1.1
As percent of monetary base	17.6	3.4	19.1	0.6	0.0
Exchange certificates 2/	59.0	1.1	0.8	0.5	0.1
As percent of monetary base	1.0	0.0	0.0	0.0	0.0
Memorandum item:					
Exchange rate, Colombian pesos per U.S. dollar	829.3	986.8	1,003.5	1,287.1	1,375.5

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

1/ Demand, savings, and time deposits with commercial banks, savings and loans, development finance corporations, and commercial finance companies.

2/ U.S. dollar-denominated certificates valued at exchange rate indicated in memorandum item.

Table 39. Colombia: Sectoral Credit Lines

(In millions of Colombian pesos, end of period)

	1993	1994	1995	1996	Prel. 1997
Fondo Financiero Agropecuario (FINAGRO) 1/					
Gross credit	607,900	822,700	1,183,000	1,043,431	952,683
Forced investment and other resources	623,800	902,000	1,317,600	1,043,431	952,683
Net rediscount of Banco de la Republica	0	0	0	0	0
Fondo de Apoyo a la Vivienda (FAVI)					
Gross credit	26,400	39,000	0	0	0
Forced investment and other resources	337,680	439,000	0	0	0
Net rediscount of Banco de la Republica	-311,280	-400,000	0	0	0
BANCOLDEX 2/					
Gross credit	756,100	1,181,300	1,560,000	1,579,159	1,863,597
Total assets	832,300	1,252,800	1,647,700	1,776,286	2,040,217
Capital and reserves	340,800	436,500	573,700	719,600	846,700
Banco de la Republica credit (net)	-46,300	-6,600	-12,100	0	0
Other sources of funds	537,800	822,900	1,086,100	1,056,686	1,193,517
Memorandum items:					
Total gross credit	1,390,400	2,043,000	2,743,000	2,622,590	2,816,281
As percent of total financial system credit	7.8	8.2	8.0	6.1	5.2

Source: Banco de la Republica.

1/ FINAGRO operates outside the Banco de la Republica since 1991.

2/ BANCOLDEX operates outside the Banco de la Republica since 1993 when it succeeded PROEXPO.

Table 40. Colombia: Lending Rates of Sectoral Credit Funds

(In percent)

	1994	1995	1996	1997	Aug. 1998
Fondo Financiero Agropecuario (FINAGRO) 2/					
Small producers (less than Col\$6 million)	DTF+2	DTF+2	DTF+2	DTF+2	DTF+2
Large producers (more than Col\$6 million)	DTF+6	DTF+6	DTF+6	DTF+6	DTF+6
Fondo de Inversiones Privadas (FIP) 3/4/					
Large cities	...	...	...	...	...
Border cities					
Rest of the country					
Fondo Financiero Industrial (FFI) 3/4/					
Small and medium-sized firms	...	...	...	...	...
Large cities					
Border cities					
Rest of the country					
Capital goods					
Fondo de Capitalizacion Empresarial (FCE) 3/4/					
Acquisition of stocks, convertible bonds	...	...	...	...	...
PROEXPO					
Short term; working capital 5/	DTF+4	DTF+4	DTF+4	DTF+4	DTF+4
Investment					
Small firms	DTF	DTF	DTF	DTF	DTF
Large firms 4/	...	...	...	...
Fondo de Desarrollo Territorial (FINDETER)					
Territorial enterprises	DTF+5	DTF+5	DTF+5	DTF+5	DTF+5
Private education	...	DTF+8	DTF+5	DTF+5	DTF+5

Source: Banco de la Republica.

1/ DTF is the average (effective annual) rate on three-month time deposits in financial system.

2/ FINAGRO operates outside the Banco de la Republica since 1991.

3/ Transferred from the Banco de la Republica to the Industrial Development Institute in 1993.

4/ May be freely set since 1993; not subject to interest rate ceiling.

5/ Short-term preshipment credit in local currency; DTF+4.5 points for medium-term preshipment credit, and six-month LIBOR plus 3.5 points for preshipment credit denominated in U.S. dollars.

Table 41. Colombia: Forced Investments by Instrument

	August 1998	
	Reserve-Substituting Investment	Obligatory Investments
Commercial banks		
<i>All deposits including public sector and fiduciary deposits</i>	9.5 percent in BCH new mortgage bonds	2 percent in Class A FINAGRO agricultural development bonds. 5 percent in Class B FINAGRO agricultural development bonds. This requirement can also be met through Class A agricultural development bonds or new development bonds (to which the old agricultural development bonds (Law 5/73) have been converted).
Certificates of deposit		
	10 percent in Class C FINAGRO agricultural development bonds or new development bonds (Class B)	
All deposits	9.5 percent in BCH new mortgage bonds	2 percent in Class A FINAGRO agricultural development bonds. 5 percent in Class B FINAGRO agricultural development bonds.
Savings and loan institutions		
<i>All deposits</i>	9.5 percent in BCH new mortgage bonds	1 percent in Class A FINAGRO agricultural development bonds.
Commercial finance companies		
<i>All deposits</i>	9.5 percent in BCH new mortgage bonds.	2 percent in Class A FINAGRO agricultural development bonds. 5 percent in Class B FINAGRO agricultural development bonds.

Source: Banco de la Republica.

Table 42. Colombia: Net International Reserves of the Banco de la Republica

(In billions of U.S. dollars)

	1994	1995	1996	1997	Mar. 1998	June 1998
I. Stock at End of Period						
Gross reserves	8,104	8,457	9,939	9,911	10,164	10,092
Gold	112	103	93	130	130	130
IMF position	127	201	237	369	445	476
SDRs	170	177	176	183	186	190
Foreign exchange	7,454	7,725	9,184	8,953	9,127	9,210
Other	241	251	249	276	276	276
Total liabilities	101	133	44	29	813	1,058
Net international reserves	8,003	8,324	9,895	9,882	9,351	9,034
II. Change During Year						
Gross reserves	172	353	1,482	-28	253	181
Net international reserves	134	321	1,571	-13	-531	-848
Less: valuation adjustment	6	3	-11	-17	1	24
Change in net international reserves adjusted for valuation changes	128	318	1,583	4	-532	-872

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

Table 43. Colombia: Merchandise Exports

	Percent of total in 1997	1994	1995	1996	Prel. 1997	Jan.-Jul. 1997	Jan.-Jul. 1998
(In millions of U.S. dollars, unless otherwise indicated)							
Total exports	100.0	8,749	10,222	10,651	11,681	6,621	6,361
(percent change)		17.8	16.8	4.2	9.7	9.7	-3.9
Volume, percent change 1/		5.0	6.0	3.6	10.8	...	...
Unit value, percent change		12.2	10.3	0.6	-1.0	...	...
Coffee	19.3	1,991	1,832	1,577	2,259	1,291	1,170
(percent change)		74.6	-8.0	-13.9	43.3	44.6	-9.4
Volume (million bags)		11.8	9.1	9.9	10.3	6.5	6.3
Unit value, f.o.b. (US\$/lb)		1.3	1.5	1.2	1.7	1.5	1.4
Petroleum products	23.2	1,313	2,185	2,892	2,707	1,499	1,301
(percent change)		-0.8	66.4	32.4	-6.4	-4.2	-13.2
Crude oil		1,017	1,897	2,436	2,338	1,262	1,166
Volume (1,000 bpd)		189.3	311.0	317.0	343.1	312.1	422.4
Unit value (US\$/bbl)		14.7	16.7	21.0	18.7	11.1	7.6
Refined petroleum products		296	288	456	370	236	135
<i>Of which</i>							
Fuel oil		215	227	283	255	...	...
Coal	7.6	553	595	849	886	537	546
(percent change)		-2.5	7.5	42.9	4.3	16.4	1.7
Volume (million tons)		17.9	17.8	24.6	25.6	15.6	17.2
Unit value (US\$/ton)		30.9	33.4	34.5	34.7	34.3	31.8
Nonmonetary gold	2.0	305	266	268	234	60.0	16.0
(percent change)		-2.5	-12.6	0.7	-12.7	-58.9	-73.4
Volume (1,000 oz troy)		792.9	693.0	690.9	720.0	174.3	53.8
Price (US\$/oz)		384.2	384.1	387.9	325.0	343.9	296.6
Nickel	1.4	119	185	169	161	99	77
(percent change)		16.5	55.7	-8.7	-5.0	0.1	-21.8
Volume (million lbs)		48.5	57.8	51.2	52.6	31.1	33.2
Price (US\$/lb)		2.4	3.2	3.3	3.0	3.2	2.3
Emerald	1.2	422.3	452.2	174.5	141.4	84.0	45.5
(percent change)			7.1	-61.4	-19.0	-21.4	-45.8
Nontraditional exports	45.3	4,047	4,708	4,721	5,293	3,051	3,207
(percent change)		12.9	16.3	0.3	12.1	10.3	5.1
Volume, percent change		10.7	9.3	3.5	19.3	...	...
Unit value, percent change		2.0	6.4	-3.1	-6.0	...	...
Agricultural products		1,239	1,227	1,233	1,306	807	802
Manufactured goods		2,752	3,432	3,413	3,935	2,209	2,375
Mining products		56	49	76	51	35	31

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

1/ Excluding emerald.

Table 44. Colombia: Nontraditional Exports 1/

(In millions of U.S. dollars)

	1994	1995	1996	1997	Jan.-Jul. 1997	Jan.-Jul. 1998
Total nontraditional exports 2/	4,046.7	4,707.9	4,721.1	5,292.8	3,051.2	3,206.9
Agriculture and fisheries	1,239.0	1,226.9	1,232.7	1,306.1	807.2	801.7
Bananas	489.7	431.0	459.5	502.6	296.2	260.7
Flowers	426.3	475.8	509.5	544.5	351.0	360.3
Seafoods	168.7	175.4	156.7	163.2	103.2	81.8
Cotton	3.0	12.8	12.3	1.2	1.2	0.4
Meat	1.9	3.1	1.8	1.8	1.0	3.6
Cocoa	5.9	0.5	1.3	1.5	...	...
Tobacco	16.0	13.4	19.4	19.4	17.5	12.7
Fruits and vegetables	39.9	45.8	20.6	20.6	12.8	12.6
Rice	0.9	0.2	0.0	0.0	0.0	0.0
Other agricultural products	86.7	68.9	51.6	51.3	24.3	69.7
Industrial and manufacturing products	2,752.0	3,432.1	3,412.9	3,935.4	2,209.0	2,374.5
Chemicals 3/	544.8	828.0	895.2	1,087.0	618.0	633.3
Garments	577.5	621.9	530.5	504.2	284.4	283.3
Paper products	214.1	254.6	223.0	251.0	144.8	153.9
Textiles	153.0	220.7	219.8	217.3	136.1	110.4
Leather products (excluding footwear)	163.1	161.6	97.4	103.4	55.6	67.2
Coffee extracts	100.6	112.9	125.8	157.9	87.4	97.0
Machinery and equipment	164.0	190.8	191.1	255.5	130.9	157.9
Metals and metal products	126.1	170.0	167.3	207.1	110.1	123.6
Cement	45.3	49.7	61.6	65.1	39.0	40.6
Plastics and rubber	78.8	115.0	121.7	131.3	71.3	77.7
Sugar and molasses	61.6	91.8	191.1	239.3	143.8	201.9
Footwear	63.3	41.1	28.7	24.7	11.9	10.7
Wood products	13.8	16.6	24.9	16.7	8.5	13.4
Glass	17.6	16.4	14.7	17.1	9.4	8.7
Transportation equipment	45.8	87.8	120.0	206.4	102.6	110.3
Other industrial products	382.6	453.2	400.1	451.4	255.3	284.6
Mineral products	55.7	48.9	75.5	51.3	35.0	30.7
Platinum	45.7	15.0	9.1	2.7	1.8	2.0
Others	10.0	33.9	66.4	48.6	33.1	28.7
Memorandum items:						
Total merchandise exports	8,748.5	10,222.4	10,634.5	11,680.9	6,620.6	6,361.4
Nontraditional exports as a percentage of total exports	46.3	46.1	44.4	45.3	46.1	50.4

Source: National Department of Statistics (DANE).

1/ Traditional exports comprise coal, gold, coffee, petroleum products, nickel, and emerald.

2/ In 1992 some items of Chapters 96, 97, and 98 of the foreign trade classification were excluded.

3/ Excludes petroleum derivatives.

Table 45. Colombia: Tax Credit Certificates for Exports

	Value of Certificates Issued	Exchange Surrenders for Minor Exports	Tax Credit Rate 1/
	(In millions of Colombian pesos)		(In percent)
1993	58,760	2,539,819	2.3
I	18,522	539,369	3.4
II	15,528	629,949	2.5
III	14,227	649,882	2.2
IV	10,483	720,619	1.5
1994	65,877	2,784,799	2.4
I	10,730	763,472	1.4
II	11,519	686,364	1.7
III	23,668	658,858	3.6
IV	19,960	676,105	3.0
1995	78,724	3,126,462	2.5
I	19,311	732,010	2.6
II	17,151	742,932	2.3
III	20,427	777,057	2.6
IV	21,835	874,463	2.5
1996	86,620	3,023,261	2.9
I	22,805	786,776	2.9
II	19,227	774,963	2.5
III	17,236	729,699	2.4
IV	27,352	731,823	3.7
1997	71,217	3,416,767	2.1
I	23,853	723,404	3.3
II	13,843	774,513	1.8
III	7,062	909,577	0.8
IV	26,459	1,009,273	2.6

Source: Banco de la Republica.

1/ Value of certificates issued in relation to value of exchange surrenders for minor exports.

Table 46. Colombia: Exports by Country of Destination

(In percent of total)

	1994	1995	1996	Prel. 1997	Jan.-Jun. 1997	Jan.-Jun. 1998
Total	100.0	100.0	100.0	100.0	100.0	100.0
Western Hemisphere	60.5	66.0	69.3	68.6	67.2	68.6
United States and Canada	37.6	36.4	40.9	39.1	38.8	38.3
CACM and CARICOM	2.3	2.4	3.2	3.1	2.9	2.9
LAIA 1/	17.4	23.8	21.7	23.0	22.1	24.6
<i>Of which</i>						
Andean Group	13.2	19.7	17.4	18.4	17.7	20.2
Venezuela	6.3	9.3	7.4	8.6	7.7	10.6
Ecuador	3.8	4.1	4.0	4.7	4.4	5.2
Other	3.0	6.3	6.0	5.1	5.6	4.3
Other	3.2	3.3	3.5	3.5	3.4	2.8
Europe	31.8	26.1	24.3	24.5	25.9	24.7
EU	28.2	23.4	21.5	21.3	22.3	21.9
Bilateral payments agreements	0.3	0.3	0.6	1.0	0.9	0.8
Other	3.3	2.4	2.2	2.2	2.7	2.1
Asia	6.7	6.4	4.9	5.1	4.4	3.9
Rest of the world	1.0	1.6	1.5	1.8	2.5	2.8

Source: National Department of Statistics (DANE).

1/ Latin American Integration Association.

Table 47. Colombia: Imports by Economic Category

(In millions of U.S. dollars)

	1994	1995	1996	Prel. 1997	Jan.-Jun. 1997	Jan.-Jun. 1998
Total imports, c.i.f.	11,927	13,853	13,684	15,378	7,045	7,908
Consumer goods	1,969	2,689	2,331	2,969	1,307	1,504
Durable	1,046	1,451	995	1,297	533	677
Nondurable	923	1,238	1,337	1,672	774	827
Intermediate goods	4,880	6,128	6,159	6,575	3,145	3,334
Fuel, other petroleum products	308	372	353	439	208	159
Agricultural inputs	346	343	447	463	220	237
Industrial inputs	4,226	5,413	5,359	5,673	2,717	2,938
Capital goods	5,069	5,027	5,182	5,827	2,590	3,066
Construction industry	274	261	421	391	205	177
Agriculture	91	75	59	56	25	26
Manufacturing industry	2,832	3,356	3,485	3,796	1,700	2,034
Transportation equipment	1,872	1,335	1,217	1,585	659	828
Unidentified goods	8	10	11	8	3	3
Cost, insurance, and freight	-847	-932	-890	-969	-453	-488
Total imports, f.o.b.	11,080	12,921	12,794	14,409	6,591	7,420

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

Table 48. Colombia: Imports by Country of Origin

(In millions of U.S. dollars)

	1994	1995	1996	Prel. 1997	Jan.-Jun. 1997	Jan.-Jun. 1998
Total	100.0	100.0	100.0	100.0	100.0	100.0
Western Hemisphere	65.5	67.2	68.9	70.4	72.2	67.0
United States and Canada	40.7	41.7	43.6	43.9	45.0	41.0
CACM and CARICOM	0.4	0.4	0.3	0.3	0.4	0.3
LAIA 1/	21.2	22.3	22.5	23.1	23.9	23.0
<i>Of which</i>						
Andean Group	13.1	13.2	13.1	13.9	14.5	13.5
Venezuela	9.6	9.8	9.2	10.0	10.6	10.2
Ecuador	2.2	2.0	2.4	2.6	2.5	2.1
Other	1.2	1.4	1.4	1.4	1.4	1.3
Other	3.1	2.7	2.5	3.0	2.8	2.7
Europe	21.3	20.7	21.4	20.1	19.4	22.1
EU	16.8	16.4	17.4	15.7	15.0	17.4
Bilateral payments agreements	0.3	0.2	0.2	0.4	0.3	0.4
Other	4.2	4.1	3.9	4.0	4.1	4.3
Asia	12.0	11.3	8.8	8.5	7.1	8.9
Rest of the world	1.3	0.8	0.9	1.1	1.3	1.9

Source: National Department of Statistics (DANE).

1/ Latin American Integration Association.

Table 49. Colombia: Balance of Payments

	1993			1994			1995		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
	(In millions of U.S. dollars)								
Goods and services	10,510	13,869	-3,359	12,817	16,839	-4,022	14,670	19,714	-5,044
Merchandise, f.o.b. 1/	7,116	9,086	-1,970	8,444	11,080	-2,636	9,956	12,921	-2,965
Nonmonetary gold	313	0	313	305	0	305	266	0	266
Freight and insurance	187	487	-300	215	638	-422	239	709	-470
Other transportation	804	452	352	987	524	462	1,212	604	608
Travel	755	696	60	806	758	48	859	822	37
Interest	482	1,221	-739	511	1,560	-1,049	791	1,880	-1,089
Dividends and profits	66	1,022	-956	190	1,289	-1,099	64	1,729	-1,665
Other services	787	905	-119	1,360	990	370	1,283	1,049	234
Oil sector transactions	221	237	-16	760	202	558	618	241	377
Other transactions	566	669	-103	600	789	-189	665	808	-143
Transfers	1,350	212	1,138	1,055	193	862	861	182	679
Current account balance			-2,221			-3,160			-4,365
Medium- and long-term public capital	1,857	1,983	-126	2,323	2,584	-261	1,922	1,839	83
Nonfinancial public sector	1,479	1,657	-178	1,820	2,150	-329	1,331	1,443	-112
Central administration	495	805	-310	1,203	1,092	111	916	703	213
Rest of nonfinancial public sector	984	852	132	617	1,057	-440	415	740	-325
Financial public sector	378	327	51	503	434	69	591	396	195
Banco de la Republica	48	198	-150	89	288	-200	71	3	68
Rest of financial public sector	330	129	201	414	146	268	521	394	127
Short-term public capital	224		224		1,082	-1,082	1,209		1,209
Nonfinancial public sector			132			-1,374			1,056
Central administration			279			-1,039			582
Rest of nonfinancial public sector			-147			-335			474
Financial public sector			93			291			152
Banco de la Republica			11			34			26
Rest of financial public sector			82			257			127
Nonfinancial private sector	2,706	791	1,915	5,185	1,514	3,671	5,509	2,771	2,738
Direct investment	960	240	720	1,652	152	1,500	2,227	284	1,943
Leasing finance	0	0	0	579	0	579	428	179	249
Long-term loans	1,297	501	796	2,600	841	1,759	2,609	961	1,648
Portfolio investment, net	145		145	31		31		559	-559
Short-term capital	304	50	254	323	521	-198	245	788	-543
Financial private sector (net)	756	55	701	381	0	381	642	0	642
Subscriptions to nonmonetary international organizations	0	12	-12	0	36	-36	0	88	-88
Capital account balance	5,543	2,841	2,702	7,889	5,215	2,673	9,282	4,699	4,583
Net errors and omissions			-328			614			100
Net international reserves (increase-)			-153			-128			-318

Table 49. Colombia: Balance of Payments

	1996			1997		
	Credit	Debit	Net	Credit	Debit	Net
(In millions of U.S. dollars)						
Goods and services	15,449	20,927	-5,478	16,991	23,235	-6,244
Merchandise, f.o.b. 1/	10,383	12,794	-2,411	11,447	14,409	-2,962
Nonmonetary gold	268	0	268	234	0	234
Freight and insurance	239	682	-443	308	771	-462
Other transportation	1,200	691	508	1,353	753	601
Travel	905	908	-3	955	958	-4
Interest	760	2,112	-1,352	1,005	2,358	-1,354
Dividends and profits	98	2,069	-1,971	99	2,121	-2,022
Other services	1,595	1,671	-76	1,590	1,866	-275
Oil sector transactions	805	294	511	884	261	623
Other transactions	790	1,377	-587	707	1,605	-898
Transfers	701	170	532	752	140	612
Current account balance			-4,946			-5,632
Medium- and long-term public capital	3,488	1,910	1,578	3,186	1,977	1,209
Nonfinancial public sector	2,541	1,402	1,139	2,780	1,332	1,448
Central administration 2/	1,736	711	1,026	1,645	675	970
Rest of nonfinancial public sector	804	691	113	1,135	656	478
Financial public sector	947	508	439	406	645	-239
Banco de la Republica	23	12	11	5	16	-10
Rest of financial public sector 3/	924	495	429	400	630	-229
Short-term public capital		686	-686	51		51
Nonfinancial public sector			-396			111
Central administration			-430			323
Rest of nonfinancial public sector			34			-212
Financial public sector			-290			-59
Banco de la Republica			-90			-15
Rest of financial public sector			-200			-44
Nonfinancial private sector	8,523	2,229	6,294	10,655	5,741	4,914
Direct investment	3,276	68	3,208	5,692	791	4,902
Leasing finance	443	224	218	531	320	211
Long-term loans	3,960	1,352	2,608	4,093	2,628	1,465
Portfolio investment, net	208		208	286		286
Short-term capital	637	585	52	53	2,003	-1,950
Financial private sector (net)	0	180	-180	273	93	180
Subscriptions to nonmonetary international organizations	0	37	-37	0	37	-37
Capital account balance	12,011	5,042	6,969	14,165	7,848	6,317
Net errors and omissions			-441			-681
Net international reserves (increase-)			-1,582			-4

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

1/ Excludes border trade estimates, which are included in travel.

2/ National debt and portfolio investment.

3/ Banks and financial corporations.

Table 50. Colombia: Tariff Rate Indicators

(In percent)

	1993	1994	1995	1996	Prel. 1997
Average effective tariff protection	20.4	19.7	19.8	19.1	19.7
Consumer goods	35.8	35.1	34.4	34.3	34.9
Intermediate goods	16.4	15.2	15.0	14.8	15.5
Capital goods	14.6	13.8	12.8	13.3	13.0
Average nominal tariff protection	11.6	11.6	11.5	11.6	11.6
Standard deviation					
Excluding import surcharge	6.4	6.4	6.5	6.4	6.4
Including import surcharge	6.4	6.4	6.5	6.4	6.4
Number of tariff categories 1/	5	3	3	4	4

Source: National Planning Department.

1/ Excludes automobiles and agricultural products.

Table 51. Colombia: External Public Loans 1/

In Millions o	In Millions of U.S. Dollars					Average Interest Rate 2/ (Percent per annum)					Average Maturity in Years				
	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
	All loans	1,526	1,715	1,715	3,489	2,331	6.9	7.3	6.8	8.0	8.0	12.2	10.9	9.1	8.5	10.6
By sector															
Communications	43	82	49	18	0	7.4	5.2	5.9	7.2	...	8.6	9.1	12.9	7.9	...
Power	548	607	171	1,057	232	5.8	7.1	7.0	7.6	8.2	5.7	13.3	6.7	7.5	6.7
Industry	100	0	105	125	0	7.4	...	9.1	8.4	...	17.0	...	3.6	5.0	...
Transportation	305	177	2	101	0	7.5	6.0	7.8	7.8	...	19.8	11.5	5.0	9.9	...
Water and sewerage	11	0	0	0	0	4.8	...	...	...	...	20.0	...	...	...	...
Other 3/	520	849	1,387	2,188	2,099	7.7	7.6	6.7	8.2	7.9	13.9	9.3	9.7	9.2	9.2
By borrower															
Central government	605	824	1,145	1,711	1,612	7.4	7.6	6.4	8.4	8.1	15.7	9.4	9.9	9.9	12.6
Departments and municipalities	71	861	224	402	509	4.2	6.6	7.7	7.5	7.5	10.1	12.5	11.4	4.1	5.5
Rest of public sector 4/	850	30	345	1,376	210	6.8	9.3	7.6	7.7	7.9	9.9	7.5	5.1	8.1	8.0
Banco de la Republica	0	0	0	0	0	...	...	...	...	...	...	...	...	...	...

Source: Banco de la Republica.

1/ On a commitment basis.

2/ Interest rates for loans based on LIBOR were estimated as the sum of individual interest spreads plus the average daily rate on six-month deposits in the year the loan was contracted.

3/ Includes general purpose loans.

4/ Includes publicly guaranteed loans.