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July 20, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Colombia - Staff Report for the 1993 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1993 Article IV consultation with Colombia, which is tentatively scheduled for discussion on Friday, August 27, 1993.

Mr. Neuhaus (ext. 37154) or Mr. Rubli-Kaiser (ext. 37155) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation 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 GATT Secretariat, and the Inter-American Development Bank (IDB), following its consideration by the Executive Board.

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COLOMBIA

Staff Report for the 1993 Article IV Consultation

Prepared by the Staff Representatives for the 1993 Consultation with Colombia

Approved by S. T. Beza and J. Pujol

July 19, 1993

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I. Introduction

The 1993 Article IV consultation discussions were held in Bogota during May 13-25, 1993. The Colombian representatives included the Ministers of Finance, Development, Agriculture and Foreign Trade; the Director of the Planning Department; the General Manager and Directors of the Governing Board of the Banco de la Republica; and other senior officials. The staff representatives were Messrs. Neuhaus (Head), Garza, Gil-Diaz, Rubli-Kaiser, and Young (all WHD), and Ms. Livingston (Assistant-SEC). Mr. Jaramillo, Alternate Executive Director for Colombia, participated in the discussions.

The 1992 Article IV consultation was concluded by the Executive Board on June 1, 1992 (SM/92/93 and Supplement 1, and SM/92/103). The report on the 1992 semiannual Article IV discussions (SM/92/218, 12/11/92) was issued for the information of Executive Directors. It is proposed to discontinue the semiannual Article IV consultation discussions (and the corresponding reports) that have been conducted since 1990 while the IBRD was disbursing policy-based loans, as these disbursements will be virtually completed by mid-1993. The authorities concur with this proposal.

At the conclusion of the 1992 Article IV consultation, Executive Directors expressed satisfaction with the prudent policies of recent years and noted the significant exchange and trade liberalization that had taken place. At the same time, they encouraged the authorities to adopt a more ambitious path to reduce inflation and stressed the need for tightening fiscal and wage policies, particularly by eliminating de facto wage indexation. Directors also encouraged the authorities to abolish the few remaining multiple currency practices.

II. Background

Colombia has pursued prudent financial policies in recent years and implemented important reforms in the exchange, trade, and financial systems, public sector operations and labor markets. This has permitted the country to sustain economic growth with a strong balance of payments. However, pervasive indexation has been an obstacle to reducing inflation below 25-30 percent over the past decade. Like in other Latin American, macroeconomic management has been complicated since 1991 by a surge in private capital inflows, although these inflows have been decreasing since mid-1992. 1/

1/ In the case of Colombia, capital inflows may have been bolstered by interest rate differentials (adjusted for exchange rate expectations) and an income tax amnesty granted in 1991 to holders of assets abroad. For further details on the experience of countries in Latin America and elsewhere, see the papers by G. Calvo, L. Leiderman, and C. Reinhart (IMF Working Papers WP/92/62 (August 1992) and WP/92/85 (October 1992)), and the report on Recent Experiences with Surges in Capital Inflows (SM/93/113, 5/21/93).

The main objectives of the authorities' economic program for 1992 were to lower inflation to 22 percent (from 27 percent during 1991), assuming real GDP growth of 3 percent and a balance of payments surplus of just over US$1 billion. These outcomes were premised on a halving of the combined public sector deficit to 0.5 percent of GDP and a 6-7 percent real appreciation of the peso, without breaking away from practices of backward-looking indexation of minimum wages and public salaries.

In spite of the adverse effects on farm output and power generation of a drought in early 1992, real GDP grew by 3.5 percent during the year. The rise of output stemmed in part from a decline in domestic interest rates that spurred private expenditure and boosted activity in the construction and manufacturing sectors (Chart 1 and Statistical Appendix Table 11).

The 12-month rate of change in consumer prices declined slightly to around 25 percent by end-1992, in spite of the drought-related rise in food prices; excluding food items, the CPI rose by 23.8 percent in 1992 (Table 1). The decline in inflation as measured by wholesale prices (which tend to reflect trends in tradable goods) was more pronounced, from 23 percent at end-1991 to around 18 percent at end-1992, owing in part to substantial trade liberalization and the 6 1/2 percent real effective appreciation of the currency during 1992 (Chart 2). There was a 26 percent increase in minimum wages in early 1992 and a 26.8 percent across-the-board increase in public salaries (the public wage bill rose by 36 percent after adjustments for grading and seniority).

The combined public sector deficit, including quasi-fiscal losses of the Banco de la Republica (BR), narrowed marginally to 0.9 percent of GDP in 1992 as a result of a drop in the BR's interest payments on its domestic debt. 1/ The nonfinancial public sector (NFPS) deficit increased slightly to 0.4 percent of GDP, despite a sharp increase in collections of domestic taxes and a lower interest bill (Table 2 and Statistical Appendix Table 7). The finances of the NFPS were affected adversely by losses of oil output stemming from recurrent sabotage of the pipeline; a drought-related shortfall in electricity revenue; losses of the Coffee Fund owing to the sharp drop in world coffee prices; and a substantial increase in investment.

Domestic interest rates fell by about 15 percentage points during the first seven months of 1992 as the BR slowed its net placement of domestic debt (the authorities also imposed a temporary cap on bank lending rates from May 1992 to January 1993). This was accompanied by a substantial

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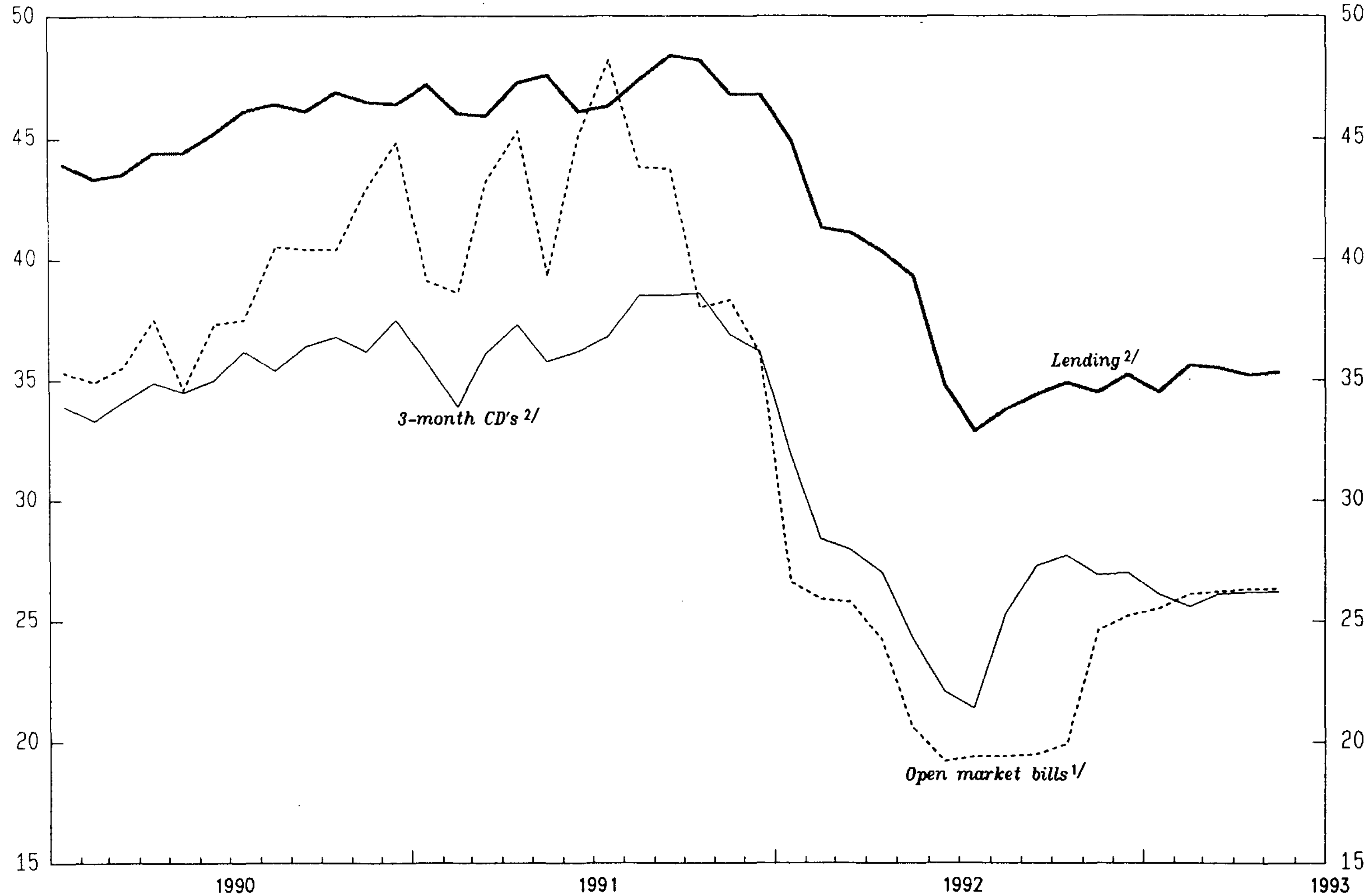
1/ Data from the financing side, however, indicate that the overall public sector borrowing requirement (PSBR) increased from 0.7 percent of GDP in 1991 to 1.4 percent of GDP in 1992. Nevertheless, the data are subject to a considerable margin or error because of problems in breaking down holdings of government bonds and bank deposits between private and public sector agents.

CHART 1

COLOMBIA

NOMINAL INTEREST RATES

(Percent per annum)



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

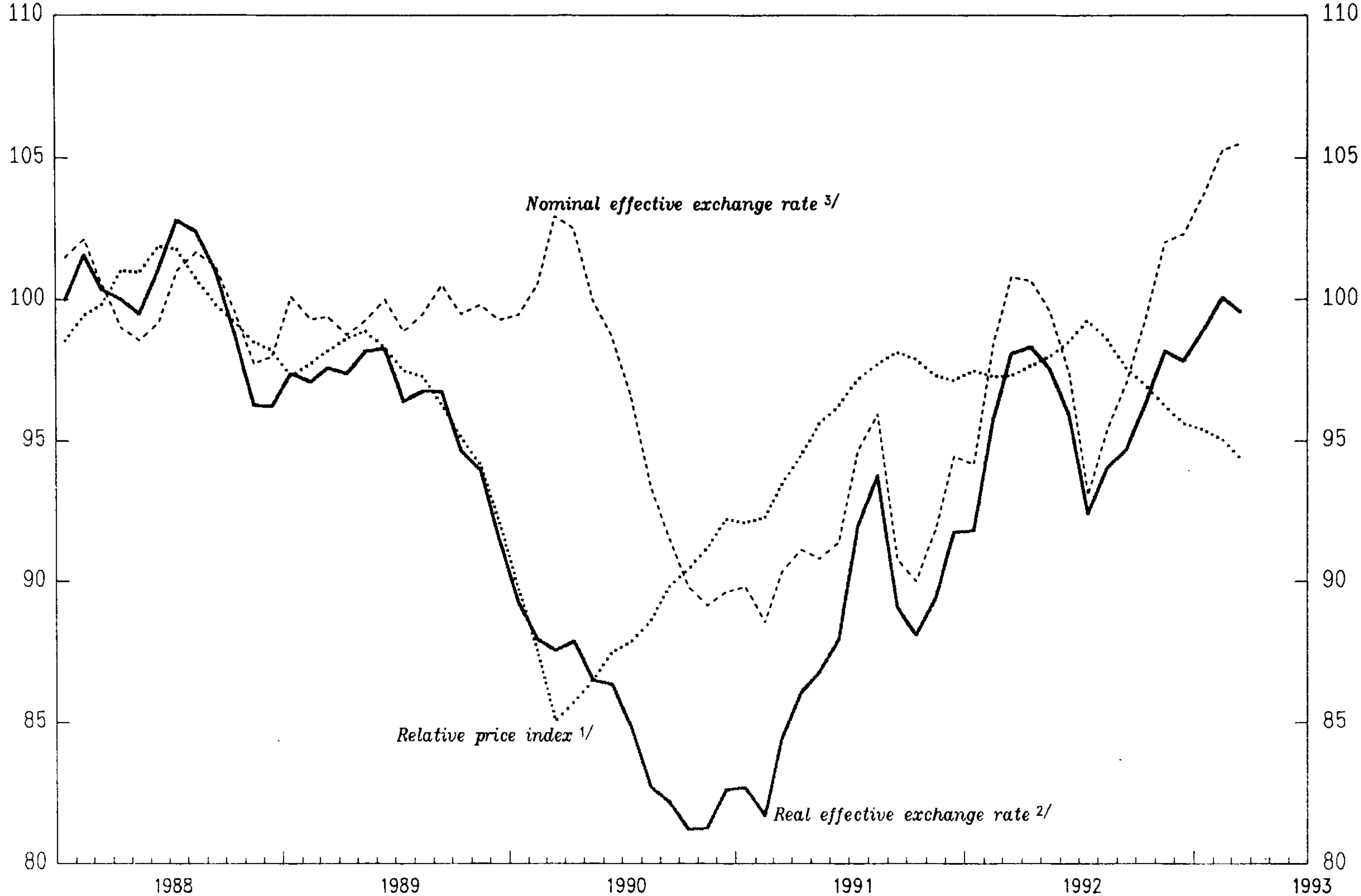
1/ Weighted average of weekly rates on 3-month bills.
2/ Average monthly rates based on survey of financial intermediaries.

CHART 2

COLOMBIA

EXCHANGE RATE DEVELOPMENTS

(1988=100)



Source: IMF Information Notice System.

1/ Relative prices measured by seasonally adjusted consumer price indices.
2/ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increase means appreciation.
3/ Trade-weighted index of nominal exchange rates; increase means appreciation.

increase in credit to the private sector and faster growth of the monetary aggregates. In the latter part of the year, however, interest rates rose somewhat, owing in part to pressures on the credit markets from more rapid government bond placements, and the pace of liquidity growth slowed.

The external current account surplus declined from 5.4 percent of GDP in 1991 to 1.6 percent of GDP in 1992, owing to a sharp increase in imports in the wake of trade liberalization and a sluggish performance of exports (the terms of trade dropped by 12 percent). 1/ The capital account was bolstered by private capital inflows that more than offset an increase in net public outflows associated with external debt prepayments. The balance of payments continued to register a large surplus, although the surplus fell from US$2 billion in 1991 to US$1.3 billion in 1992.

To take advantage of the decline in international interest rates, Colombia refinanced US$440 million of external public debt in 1992 with the proceeds of dollar-denominated domestic bond placements; about half of the debt prepayments were to the IBRD. There are no immediate plans for further debt refinancing. As a first step toward increased voluntary financing, in April 1993 the Government issued US$125 million in Eurobonds and in May two state-owned companies raised a total of US$200 million in Euronotes. Separately, Standard and Poor's recently assigned an investment grade rating to Colombia, the second Latin American country (Chile was the first) to obtain this rating.

The reference rate for the dollar-denominated exchange certificates, which are issued against most foreign exchange receipts and are used for most foreign payments, continues to be set on the basis of a crawling peg; the crawl takes into account foreign and domestic inflation rates, although it does not necessarily offset the difference. Exchange certificates can be redeemed after one year at the reference rate, or earlier at an annual discount of up to 12.5 percent. The actual market discount (and consequently the spot exchange rate) is determined on the basis of interest and exchange rate expectations. From January to April 1993 the peso remained virtually unchanged in real effective terms.

The 12-month rate of consumer price inflation has declined to 21.4 percent in June in 1993, aided by an easing of food prices after last year's drought; wholesale price inflation fell to 13 percent. Wage settlements in 1993 continued to be based on past inflation, and a 25 percent increase in minimum wages and in basic public salaries was announced early in the year.

Activity continued to rise rapidly during the first half of 1993, especially in the nontradables sector, and there are indications that the

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1/ However, the authorities estimate that certain capital inflows may have been misclassified as transactions in the current account. Adjusting for these transactions, the current account surplus would have been 3.1 percent of GDP in 1991 and 0.4 percent of GDP in 1992.

demand for credit has remained strong as nominal interest rates have changed little in 1993 (after the sharp drop of last year). Net official international reserves rose by nearly US$100 million during the first half of 1993.

III. Policy Discussions

The consultation discussions focused on macroeconomic and structural policies for the remainder of the present administration (a new President will be elected in May 1994 and will take office in August). The economic program for 1993 seeks to limit the 12-month rate of inflation to 22 percent. This is seen as consistent with real GDP growth of 4.5 percent (based on a recovery of farm output and continued expansion in construction and manufacturing), and a US$0.6 billion gain in net international reserves.

The mission noted that fiscal consolidation and wage discipline would be key to securing a lasting reduction of inflation without jeopardizing competitiveness. The authorities remarked that it would be difficult to aim at more ambitious fiscal and wage policies in the near term, but hoped to pave the way for a further reduction of inflation in 1994. The discussions also touched on Colombia's longer-term prospects, including the policy implications of growing revenue-sharing with local governments, sizable recent oil discoveries, and financial imbalances of the social security system.

1. Fiscal policy

Official projections for 1993 point to a nonfinancial public sector (NFPS) deficit of about 1 1/4 percent of GDP, but the authorities indicated they would seek to contain outlays below budgetary authorizations to limit the deficit to about 1.1 percent of GDP. Despite a slight drop in the BR's quasi-fiscal losses in 1993 reflecting the full-year effect of the decline in interest rates since 1992, the combined public sector deficit would rise from 0.9 percent of GDP in 1992 to around 1 1/2 percent of GDP in 1993. Because of the discrepancy between the data from above and below the line for 1992 noted earlier, the PSBR may increase only marginally in 1993. Foreign financing would rise markedly, as there would be no debt prepayments and loan disbursements would rise.

Total public outlays would rise by 2 1/2 percentage points of GDP in 1993, more than offsetting the gains in revenue discussed below. The increase in spending would reflect mainly (i) construction of power plants and basic infrastructure and increased investments by ECOPETROL to develop the new oil fields; (ii) higher security outlays including 35-60 percent wage increases to the armed forces and the judiciary; (iii) severance payments for some 32,000 public employees, or nearly 5 percent of the public work force (however, the reduction in civilian employment would be offset by military recruitment); and (iv) higher social outlays in the wake of the increased revenue-sharing with local governments mandated by the 1991 constitutional amendment. There also are pressures for additional spending of about 0.1-0.3 percent of GDP a year to mitigate the effect on farmers of low commodity prices, but the authorities said that any such outlays would be offset by expenditure cuts elsewhere.

The authorities felt they had no leeway in the short run for slowing the growth of spending. In that connection, they pointed to the unsettled security situation, the onset of the electoral campaign, and the public's expectations of benefits from expanded oil production from the new Cusiana fields (see Section IV below). However, they were seeking approval of legislation to transfer certain expenditure responsibilities to local governments along with the revenue-sharing mandated by the Constitution. 1/ They also were trying to establish conditions for efficient use of this revenue by the local governments, for example, by setting conditions for central government cofinancing of local projects. However, they cautioned that legislation before Congress on the distribution of mineral royalties might further boost the spending capacity of local governments.

Public revenue is projected to increase by some 1 3/4 percent of GDP in reflection of the tax reform package that took effect in January 1993 and an improvement in the operating balance of the parastatals. The new tax measures, which will be in effect through end-1997, comprise modifications to the VAT and the income tax. 2/ Moreover, the authorities plan to reduce tax evasion by implementing the recommendations of a recent FAD mission, which emphasized more effective tax audits and better cross-checking of tax returns. Meanwhile, the mission encouraged the authorities to start identifying permanent measures (such as a further broadening of the tax base) to replace the temporary ones that have been adopted.

The finances of the public electricity companies are being strengthened by more rapid monthly adjustments of power rates and a reduction of subsidies to low-income groups as from May 1993, aimed at closing the 20 percent gap between average rates and long-run marginal costs by end-1996. Moreover, the deficit of the National Coffee Fund is projected to decline as a result of the reduction of the gap between domestic support and international coffee prices, on the premise that the Government will resist pressures from coffee growers for an increase in support prices later this

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1/ Legislation to that end was approved in June 1993, but Congress raised the staggered structure of revenue-sharing coefficients proposed by the Executive Branch (the ratio for the year 2001 was raised from 41 percent to 46.5 percent of central administration revenue).

2/ Specifically, an increase in the VAT rate from 12 to 14 percent and the inclusion of certain services in the base, albeit with broader exemptions for certain goods. Modifications to the income tax included adoption of a 7.5 percent surcharge on the tax on corporate income, and replacement of the 5 percentage point surcharge on the personal income tax by a 25 percent surcharge on the rate that applies to each income bracket.

year. 1/ However, there are no immediate plans to close the gap between domestic and international prices of petroleum derivatives (estimated to have a fiscal cost of at least 0.6 percent of GDP a year), which the mission had recommended for efficiency and fiscal reasons.

The authorities remain committed to the privatization of a number of enterprises and financial institutions. The nonfinancial public sector expects to receive US$100 million in 1993 (0.2 percent of GDP), evenly divided between sales of coffee fund assets and a power plant. Negotiations also continue for the divestiture of a major public bank and the sale of shares of the state-owned Industrial Development Institute (IFI) in a number of industrial firms, but any proceeds from these sales would be used to capitalize the deposit insurance scheme or for additional development lending by IFI.

Preliminary official estimates suggest that the new findings of oil at the Cusiana and Cupiagua fields (a joint venture of the state-owned oil company and a private consortium led by British Petroleum) would raise Colombia's oil reserves by at least 2 billion barrels, from about 1.7 billion barrels of proven reserves at present. It will take some time for the authorities and their private partners to refine the estimates of the findings and to decide on the size, timing and financing of investments needed to develop the fields. 2/ The discussions focussed on the implications for fiscal and investment policies if the new revenues were to be utilized in a way that would limit the loss of competitiveness and would preserve benefits for future generations.

Colombia's social security system suffers from serious financial imbalances. The authorities estimate that the system's actuarial deficit (i.e., the present discounted value of the system's net financial position over time) is close to 30 percent of GDP. The Government recently has proposed to Congress measures to reform the system, including an optional shift of participants to individual capitalization accounts, an increase in social security contributions, some cuts in benefits, and an extension of certain benefits to the poor. The proposal was expected to stem the accrual of further net social security losses in the longer term, although the transition to the new system tentatively was estimated to have a fiscal cost in the next several years of close to 1 percent of GDP a year.

The original proposal has been modified by congressional committees, making it unlikely that the social security system will be able to avoid

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1/ Despite a cumulative 25 percent reduction in U.S. dollar terms since early 1992, coffee producer prices in 1993 would remain some 10 percent above the break-even level of the National Coffee Fund (based on staff projections of an average coffee export price of US$0.68/lb).

2/ It is estimated that the Central Government would capture as taxes or royalties about 40 percent of the gross revenues from the new fields, after costs and revenue-sharing with local governments.

further accumulation of potential debts. However, a discussion of the issue by the full Congress will only start in late July when it reconvenes from its recess. The mission raised the possibility of using part of the revenue from the forthcoming increase in oil exports to help settle the social security system's existing debt, provided that measures were taken to avoid the accumulation of new debts.

2. The incidence of poverty and its alleviation

The mission overlapped with a World Bank team that is working with the Government on a detailed report on poverty issues. The preliminary findings are that Colombia has experienced a significant reduction in poverty since the late 1970s, although nearly one fifth of the population still lives below the poverty line; the incidence of poverty is particularly acute in rural areas and small cities. There also has been over the past several decades a sustained improvement in basic social indicators such as life expectancy, infant mortality, literacy, and child nutrition.

The Bank regards poverty alleviation as a key policy challenge for Colombia in the coming years. To that end, it is recommending an increased provision of social services to the poor and reallocation of social spending toward priority areas (including nutrition, basic health care, and primary education for the poor); the adoption of a cost-effective and economically efficient social safety net to protect vulnerable groups; and the elimination of barriers to employment and earning opportunities. The Bank is working with the authorities to design financial incentives and administrative controls at the central and local government levels that would improve the delivery of social services.

3. Monetary policy

Congress approved a new charter for the Banco de la Republica in late 1992, increasing the Bank's freedom in the conduct of monetary policy and specifying that its main objective is to help achieve price stability. Monetary policy for 1993 assumes the more subdued private capital inflows observed since mid-1992 will continue this year. Policy seeks to limit the growth of narrow money (M1) to 24-30 percent for the year as a whole, assuming financial system liabilities to the private sector would grow by 26 percent during the year (37 percent during 1992). If the fiscal deficit is limited as planned and the growth of financial system credit to the private sector slows somewhat to around 33 percent by year-end, net international reserves would rise by US$0.6 billion during the year (Table 3 and Statistical Appendix Table 10). The authorities do not envisage the need for significant net placements of central bank securities during the year.

Interest rates are determined largely by the market, although the BR occasionally dampens their volatility through open market operations. With a comfortable cushion of international reserves, the BR no longer sets specific limits on the growth of its net domestic assets. Nonetheless, the mission recommended a closer monitoring of developments in the credit markets (including shortening the reporting lag), and made the point that the authorities should stand ready to tighten credit conditions if there were signs of overheating in the economy or an upsurge in inflation.

The mission recognized that a gradual reduction of average reserve requirements from their high levels might be desirable over the medium term, but cautioned against the sharp reduction in reserve requirements on demand deposits that was being discussed by the BR. In particular, it noted that the proposed reduction would spur credit expansion and require offsetting operations that would raise the BR's quasi-fiscal deficit. The mission suggested, instead, an initial reduction in the dispersion of reserve requirements across different types of deposits with no liquidity effect, followed by a more gradual reduction in reserve ratios as permitted by the monetary and fiscal situation.

After the mission's departure, the authorities lowered reserve requirements on time deposits from 10 percent to 3 percent on maturities of less than 6 months, and from 5 percent to 2 percent on maturities of 6 to 12 months. They estimate the ensuing monetary effect to be small, but indicated they may use open market operations to control liquidity. 1/

Barriers to entry into the financial industry have been virtually eliminated over the past several years, and steps have been taken to reduce market segmentation. Also, the authorities are considering the elimination of floors on the foreign asset position of banks, which have tended to raise intermediation costs. The mission suggested additional steps to lower the costs of intermediation such as further deregulation and changes in labor legislation and other impediments to mergers of financial institutions. The authorities plan to request technical assistance from the Fund to strengthen bank supervision and to examine the development of derivatives markets.

4. External sector policies

The external current account is projected to move into a deficit of 2.4 percent of GDP in 1993, as the trade balance shifts to a deficit and private transfers return to their historical level after a sizable increase over the past two years (Table 4). Despite continued weakness in commodity prices, the value of exports would recover somewhat owing to a sustained increase in volumes, especially of nontraditional goods and oil. Imports would continue to increase rapidly reflecting the lagged effect of trade liberalization and the real effective appreciation of the currency, as well as the growth of activity and domestic investment.

1/ Reserve obligations on these deposits previously could be met in part through reserve-substituting holdings of agricultural development bonds, an option that is being discontinued. Reserve ratios on time deposits of more than one year were lowered from 5 percent to 1 percent in March 1993.

After the collapse in March 1993 of talks to renegotiate the International Coffee Agreement, Colombia and other Latin American coffee producers reached an accord in early July aimed at reducing export volumes by 20 percent as from October 1993. Preliminary estimates of the authorities are that the value of coffee exports in 1993 would change little from the projections discussed with the mission. The authorities may revise their projections for the period after 1993, depending on the reactions of the market to the new accord and the outcome of further discussions among coffee-producing countries in August.

The monetary authorities were of the view that Colombia's external competitiveness continued to be satisfactory. They noted that the BR's real effective exchange rate index in May 1993 was still about 7 percent more depreciated than the average of 1988, which they regarded as a good benchmark in light of the terms of trade and current account position prevailing at that time. (As of April 1993, the latest available date, the INS real effective exchange rate index was 2 1/4 percent more depreciated than its average 1988 level.) The staff said the currency's value had been bolstered in recent years by sizable private transfers and capital inflows; however, an assessment of competitiveness also had to take into account factors such as the substantial trade liberalization and the sharp drop in the terms of trade that have taken place since 1988.

Against this background, the monetary authorities indicated that they were counting on fiscal discipline to avoid a major real appreciation of the currency in the near term, although they also were using the pace of the exchange rate crawl to influence inflation expectations. They noted, however, that some further real appreciation of the currency probably was inevitable over the medium term once output from the newly discovered oil fields reached full capacity.

The stock of exchange certificates has been declining rapidly from its peak in late 1992, and the authorities forecast a virtual winding down of the stock of certificates by year-end (as a result of the sizable amortizations coming due and the public's expectation of a more attractive yield on peso-denominated instruments). The future of the system of exchange certificates will be examined in the context of a broader review of the country's exchange regulations, as discussed below.

Over the past several months there has been a resurgence of protectionist demands by certain groups, fueled by rapid import penetration in the wake of the trade liberalization and the appreciation of the currency, as well as the adverse effect on farm incomes of low commodity prices. The authorities stated that there would be no major reversal of trade liberalization. However, they had felt a need to take steps, which they regarded as consistent with internationally accepted practices, to increase protection to certain sectors (particularly agriculture and livestock) where import penetration had been particularly strong. These measures were implemented in mid-June 1993 (Appendix II).

Moreover, the authorities said that tax credit certificates for nontraditional exports (CERTs) would be maintained in the case of agricultural goods, but would be replaced at the end of the year by a duty-drawback scheme in the case of nonagricultural items. In any event, they indicated that Colombia would continue to work in international fora to maintain an open international trade regime and, in particular, to press for the elimination of EC quotas on imports of bananas from Latin America that took effect on July 1, 1993.

Colombia continues to avail itself of the transitional arrangements of Article XIV. Exchange restrictions were eliminated during 1990-91, but the system continues to involve multiple currency practices (MCPs) subject to approval under Article VIII, Section 3, resulting from taxes on profits and income remittances and the issuance of tax credit certificates for nontraditional exports; these MCPs have not been approved by the Fund.

The mission encouraged the authorities to eliminate the remaining MCPs and to accept the obligations of Article VIII. As noted above, the authorities have postponed the planned elimination of the CERTs in the case of agricultural goods, and they indicated that the tax on profits and income remittances has been maintained for fiscal reasons (in accordance with the 1992 tax reform the rates will be reduced in steps from 19 percent in 1992 to 7 percent by 1996). However, the authorities have indicated that they intend to consider the elimination of the MCPs and the possible acceptance of the obligations of Article VIII within the context of a broader review of exchange regulations that has been initiated.

IV. Medium-Term Outlook

Colombia's external prospects will improve significantly with the recent large oil discoveries, on the assumption that the new wealth is used productively and the country maintains prudent macroeconomic policies. Continuing to open the economy, implementing further structural reforms to increase efficiency, strengthening domestic security, and reducing poverty also will be key to achieving sustained and equitable growth. The official projections are for an average growth of real GDP of 4 3/4 percent during 1993-98, with a gradual reduction of inflation to 20 percent during 1994 and to around 14 percent by 1998.

Whether more ambitious price objectives in 1995 and beyond are feasible will depend on the policies of the incoming administration. The staff has made projections on the assumption that macroeconomic policies would aim at reducing inflation to around 9 percent by 1998 with a slightly higher average GDP growth rate (5 percent a year); non-oil output would rise by an average 4.5 percent a year (Table 5). These projections assume the adoption of forward-looking wage guidelines.

The main qualitative changes from the medium-term outlook presented in SM/92/218 reflect: (i) revisions of commodity price projections (upward for coffee and downward for coal); (ii) higher international interest rates; (iii) an upward revision for oil exports from the new discoveries starting in 1995; and (iv) the adverse effect of the imposition of quotas on banana imports by the EC as from July 1993 (bananas represented 11 percent of Colombia's nontraditional exports in 1992). The projections of oil exports are preliminary and are based on certain working assumptions regarding investments to develop the new fields that will be reviewed by the authorities over the next several months.

The forecast is for a sustained growth of nontraditional and non-oil mineral exports throughout the projection period, despite a likely small real effective appreciation of the currency from 1995 onward; the share of petroleum products in total exports would rise from 21 percent in 1993 to about 37 percent in 1998 (Statistical Appendix Table 12). Exports would be bolstered by further steps toward economic integration with Colombia's regional trading partners and the consolidation of recent customs unions agreements with Ecuador and Venezuela.

Under the staff's assumptions, the external current account would register a deficit of 1 1/4 percent of GDP in 1994, owing in part to sizable imports associated with the development of the Cusiana fields. As oil output from the new fields picks up (more than offsetting the decline in output from existing wells), the current account subsequently would show surpluses averaging 0.5 percent of GDP in 1995-96 and 3 1/2 percent of GDP in 1997-98 (Table 6). Domestic savings would rise from 18 percent of GDP in 1993 to around 25 percent of GDP by 1998, on the expectation that the public sector saves a significant portion of the added oil income. After completion of the large oil-related investments, the nonfinancial public sector would register surpluses in the outer years; part of the fiscal dividend from Cusiana could be used to finance a fundamental reform of the social security system and help reduce the system's large potential imbalances.

Current account deficits in 1993-94 would be financed in part by sizable direct foreign investment by ECOPETROL's private partners in Cusiana and by net external public borrowing averaging US$0.5 billion during 1994-96. In the outer years, it is assumed that the public sector would make sizable net external debt amortizations while continuing to accumulate international reserves, although at a declining proportion of imports over time. Debt and debt-service indicators would improve substantially from 1993 to 1998 (Statistical Appendix Table 13).

The projections are sensitive to fluctuations in export prices of crude oil and coffee and international interest rates. A US$1 variation in the average export price per barrel of crude oil would change the external current account by an average 1.1 percent of GDP a year. A US$0.05 change in the average export price per pound of coffee would change the current account by an average 0.6 percent of GDP a year, while a 1 percentage point increase in LIBOR would worsen the current account by an annual average of 0.15 percent of GDP.

V. Staff Appraisal

Prudent macroeconomic policies and important structural reforms have helped Colombia to foster the growth of output and to maintain a strong balance of payments over the past decade. While pervasive indexation has been a major factor keeping inflation in the range of 25-30 percent for a number of years, the underlying rate of inflation appears to have slowed somewhat over the past 18 months.

A key task for the authorities in the period leading to the mid-1994 presidential elections is to continue sound macroeconomic management and to keep underlying inflation on a declining trend. The authorities envisage a further reduction of inflation in 1994 (by 2 percentage points), but it should be noted that small planned reductions can be swamped by exogenous adverse factors. To achieve a more rapid decline of inflation it would seem necessary to take steps to eliminate indexation, together with a strengthening of fiscal and credit policies.

Fiscal consolidation in the period ahead needs to emphasize actions to curb the growth of public spending, including postponing or canceling nonpriority outlays. However, keeping expenditure in check on a lasting basis also will require devolving expenditure responsibilities to local governments and avoiding further increases in their spending capacity. On the revenue side, it will be necessary to reduce tax evasion, broaden the tax base further, and consider whether the temporary tax surcharges introduced last year (but which are slated to expire by end-1997) should be made permanent. While the present Administration should pursue the strengthening of fiscal policy in all ways feasible in its remaining 12 months in office, some of the actions necessary for this purpose obviously will fall to the next Administration.

A number of structural problems in public sector operations remain to be addressed in the period ahead. These include seeking passage of a social security reform to reduce its large potential imbalances, introducing safeguards for productive and sustainable utilization of the new mineral wealth, proceeding with the programs of privatization and public employment reduction, and improving the delivery of social services to reduce poverty.

The authorities are to be commended for accelerating the monthly increases in electricity tariffs as from May 1993. Nonetheless, it would be advisable to strengthen public pricing policies further by raising domestic petroleum prices to international levels and avoiding increases in coffee producer prices until the National Coffee Fund breaks even.

Approval of a new charter in late 1992 has given the Banco de la Republica a greater degree of independence in the conduct of monetary policy, and this should prove helpful in the achievement of a better performance on inflation and in protecting the country's international reserves. However, monetary policy cannot be expected to bear the brunt of the task of lowering inflation if adverse repercussions on output, employment, and competitiveness are to be minimized. In any event, the Banco de la Republica should stand ready to tighten credit if there should be indications that inflation is turning up rather than continuing on its current downward path. The staff welcomes the elimination earlier this year of the temporary caps on interest rates and recommends the phasing out of floors on the foreign asset position of banks imposed in 1991, as well as further steps to deregulate the financial system and strengthen supervision.

To enhance its growth prospects and adjust smoothly to the significant increase in oil income that is in prospect, Colombia will need to consolidate the important strides made in recent years in the area of trade liberalization. The recent measures to slow import penetration are therefore a source of some concern, and they should be phased out as soon as possible. However, if easing the burden of resource mobility is regarded by the authorities as requiring direct attention, they could consider programs to retrain workers or to create temporary jobs that at the same time are cost effective.

Colombia's efforts to maintain an outward-looking growth strategy would be facilitated by an open international trade regime, including for primary products. Of importance in this regard are the adverse effects of the actions taken by the EC in respect of banana imports as from July 1, 1993. However, it also will be important to limit any further erosion of Colombia's external competitiveness. To achieve this objective while bringing down inflation will require policies of fiscal and wage restraint.

Colombia has liberalized significantly the exchange and trade system in recent years, but continues to maintain multiple currency practices subject to Fund approval under Article VIII. The staff would encourage the authorities to eliminate these practices as soon as possible. Meanwhile, it takes note of the authorities' intentions to conduct a broad review of the country's exchange regulations, including the future of the system of exchange certificates, as well as prospects for eliminating multiple currency practices and possibly accepting the obligations of Article VIII. In the meantime, and considering the absence of a firm timetable for the elimination of the existing multiple currency practices, approval of their retention by Colombia is not recommended.

It is recommended that the next Article IV consultation be held within the standard 12-month cycle.

Table 1. Colombia: Selected Economic Indicators

	1988	1989	1990	1991	Prel. 1992	Proj. 1993
	(Annual percentage changes)					
Real GDP	4.1	3.4	4.3	2.1	3.5	4.5
GDP deflator	27.8	24.7	28.2	27.1	22.8	20.7
CPI (end of period)	28.1	26.1	32.4	26.8	25.1	22.0
Wholesale prices (end of period)	29.5	25.6	29.9	23.1	17.9	...
Terms of trade (deterioration -)	0.9	-20.9	-3.2	-3.0	-12.0	-0.3
Nominal effective exchange rate (end of period, depreciation -) 1/	-7.2	0.4	-9.8	5.4	8.3	...
Real effective exchange rate (end of period, depreciation -) 1/	-3.2	-4.9	-9.7	11.1	6.5	...
	(In percent of GDP)					
Combined public sector balance	-1.8	-2.0	-0.7	-1.0	-0.9	-1.5
Revenue	21.8	22.6	23.7	25.0	26.2	28.0
Expenditure	23.7	24.6	24.3	25.2	26.7	29.2
Quasi-fiscal operations of Banco de la Republica	...	...	-0.1	-0.8	-0.5	-0.4
Gross domestic investment	22.0	20.0	18.5	16.8	17.8	20.5
Fixed investment	19.5	18.1	16.6	14.2	15.3	18.3
Private	12.7	11.1	10.2	7.7	8.4	10.0
Public 2/	6.8	7.0	6.4	6.5	6.9	8.3
Changes in stocks	2.5	1.9	1.9	2.6	2.5	2.3
Gross national saving	21.3	19.6	20.0	22.2	19.4	18.1
Public sector 3/	5.4	5.7	6.7	6.0	6.4	6.9
Private sector	15.9	13.9	13.3	16.2	13.0	11.2
Current account of the balance of payments	-0.7	-0.4	1.4	5.4	1.6	-2.4
Total external debt	45.2	45.1	43.4	39.4	33.8	33.6
External public debt	36.9	38.0	36.8	34.0	27.9	28.0
	(In millions of U.S. dollars)					
Overall balance of payments	388	149	597	2,049	1,326	600

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

1/ Prepared by the Information Notice System.
2/ Public sector investment excludes net lending operations.
3/ Includes the balance of the quasi-fiscal operations of Banco de la Republica.

Table 2. Colombia: Summary Operations of the Nonfinancial Public Sector

(In percent of GDP)

	1988	1989	1990	1991	Prel. 1992	Proj. 1993
Total revenue	21.8	22.6	23.7	25.0	26.2	28.0
Tax revenue	14.6	14.9	14.9	16.1	16.8	18.0
Operating surplus of public enterprises	4.9	5.9	6.4	6.5	6.0	6.7
Other	2.3	1.8	2.4	2.4	3.4	3.3
Total expenditure	23.7	24.6	24.3	25.2	26.7	29.2
Current expenditure	16.2	16.7	16.8	18.1	19.1	20.5
Wages and salaries	5.8	5.9	6.5	6.0	6.4	6.8
Interest	3.8	3.6	3.9	4.2	3.8	3.9
Transfers	3.6	3.7	3.5	4.7	5.6	6.2
Other	3.1	3.5	2.9	3.2	3.2	3.6
Capital expenditure and net lending	7.5	8.0	7.5	7.1	7.6	8.7
Fixed capital formation	6.8	7.0	6.4	6.5	6.9	8.3
Other 1/	0.7	1.0	1.1	0.6	0.7	0.4
Overall balance	-1.8	-2.0	-0.6	-0.2	-0.4	-1.1
Financing	1.8	2.0	0.6	0.2	0.4	1.1
Foreign	1.2	0.8	-0.5	-1.0	-1.9	0.9
Domestic	0.6	1.2	1.1	1.2	2.3	0.2
Financial system	1.3	1.6	0.7 2/	0.5	0.4	-0.8
Bonds	0.1	-0.3	-0.1	0.2	2.1	1.2
Other 3/	-0.8	-0.1	0.5	0.6	-0.2	-0.2
Memorandum item						
Nonfinancial public sector savings	5.4	5.7	6.8	6.8	6.9	7.2

Sources: Ministry of Finance; National Department of Planning; Banco de la Republica; and Fund staff estimates and projections.

1/ Includes net lending and unclassified expenditure related to the changes in floating debt.
2/ Figure is not comparable with data from Tables 3 and 10 because of changes in the methodology of the financial accounts.
3/ Includes residual differences between items above and below the line.

Table 3. Colombia: Summary Accounts of the Financial System 1/

	1988	1989	1990	1991	1992	Proj. 1993
	(Annual percentage changes) 2/					
	I. Financial System 3/					
Net international reserves	1.8	1.9	-1.9	24.8	4.9	4.1
Net domestic assets	24.5	33.5	58.1	19.8	32.0	22.0
Credit to public sector	4.4	5.4	33.4	2.1	1.4	-2.3
Quasi-fiscal deficit	...	...	0.4	3.1	1.7	1.1
Credit to private sector	25.5	29.8	33.8	14.3	26.8	24.7
Other (net)	-5.4	-1.7	-9.4	0.3	2.1	-1.5
Liabilities to private sector	26.2	35.4	56.2	44.6	36.8	26.1
Of which: money (M1)	25.8	29.1	32.3	28.6	39.4	27.5
quasi-money	26.4	38.1	59.0	48.3	33.8	25.6
	II. Banco de la Republica 4/					
Net international reserves	28.8	11.4	47.4	140.5	79.9	31.5
Net domestic assets	-4.1	15.1	-11.5	-110.1	-47.1	-3.5
Credit to public sector	7.1	19.1	29.3	38.8	30.1	-2.5
Bonds and certificates 5/	-0.2	-3.4	-24.7	-104.9	-39.3	-5.8
Credit to financial system	-16.8	-11.4	-26.8	-60.0	-51.2	-1.7
Other (net)	5.8	10.8	10.7	16.0	13.3	6.5
Currency issue	24.7	26.5	35.9	30.4	32.8	28.0
Memorandum items						
	(Flows in millions of U.S. dollars)					
Net official international reserves	387.5	148.6	597.1	2,048.9	1,326.1	600.0
	(Flows in billions of pesos)					
Credit to public sector	153.9	239.9	1,433.7	139.8	135.9	-319.0
Quasi-fiscal deficit of Banco de la Republica	...	...	19.0	207.9	168.7	152.0
	(Annual percentage change)					
Private sector credit	27.9	31.5	30.4	15.2	35.4	32.7
	(In percent of GDP)					
Liabilities to private sector	37.4	39.4	33.2	36.8	40.1	40.9
Of which: money (M1)	11.2	11.3	8.8	8.7	9.5	9.7
quasi-money	26.1	28.2	23.2	26.4	28.2	28.7
	(Nominal GDP/liabilities to private sector)					
Velocity of broad money	2.7	2.5	3.1	2.7	2.5	2.5

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

1/ The financial accounts were revised substantially in 1989 and again in 1990. Therefore, data before and after these dates are not strictly comparable.
2/ All annual changes in foreign currency stocks valued at a constant exchange rate.
3/ Changes in relation to private sector liabilities at the beginning of the period. The rates of growth of money and quasi-money are with respect to themselves.
4/ Changes in relation to currency issue at the beginning of the period.
5/ Corresponds to the sum of the stock of open-market bills and exchange certificates.

Table 4. Colombia: Summary of Balance of Payments

	1988	1989	1990	1991	Prel. 1992	Proj. 1993
	(In millions of U.S. dollars)					
Current account	-268	-153	581	2,306	781	-1,245
Trade balance	825	1,481	1,975	2,961	1,342	-173
Exports, f.o.b.	5,341	6,039	7,082	7,509	7,458	7,990
Coffee	1,621	1,476	1,402	1,325	1,379	1,273
Petroleum products	986	1,407	1,951	1,460	1,467	1,705
Others	2,733	3,155	3,729	4,723	4,612	5,011
Imports, f.o.b.	4,515	4,558	5,108	4,548	6,116	8,163
Services (net)	-2,057	-2,532	-2,420	-2,352	-2,217	-1,972
Interest (net)	-1,220	-1,288	-1,289	-1,170	-1,083	-913
Other services (net)	-836	-1,244	-1,131	-1,182	-1,133	-1,059
Transfers (net)	964	898	1,027	1,697	1,656	900
Capital account	655	302	16	-257	545	1,845
Public sector (net)	605	563	-182	-329	-851	622
Nonfinancial public sector	483	315	-204	-436	-915	463
Medium and long term (net)	487	250	-144	-438	-716	91
Disbursements	1,971	1,783	1,498	1,375	1,419	1,812
Amortization	1,484	1,533	1,642	1,813	2,135	1,721
Short term (net)	-4	65	-60	2	-199	372
Financial public sector (net)	123	248	21	106	64	159
Nonfinancial private sector (net)	375	-173	1,024	-357	2,192	1,338
Direct foreign investment	158	547	484	433	742	1,151
Medium and long term (net)	55	-296	-176	-10	215	100
Short term (net) 1/	162	-424	716	-779	1,235	87
Financial private sector (net)	-325	-88	-826	430	-796	-114
Overall balance	388	149	597	2,049	1,326	600
	(In percent of GDP)					
Current account balance	-0.7	-0.4	1.4	5.4	1.6	-2.4
Overall balance	1.0	0.4	1.5	4.8	2.7	1.2
	(In months of imports of goods and services)					
Gross international reserves	7.0	6.8	7.5	11.7	11.3	10.0

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

1/ Includes errors and omissions.

Table 5. Colombia: Medium-Term Outlook

	Prel. 1992	Projections 1993	1994	1995	1996	1997	1998
	(Percentage change)						
Real GDP growth	3.5	4.5	5.0	5.2	4.3	5.4	5.0
Oil sector	1.0	16.3	14.6	20.7	0.1	25.6	26.8
Non-oil sector	3.6	4.0	4.5	4.5	4.5	4.5	4.5
Consumer prices (period average)	27.0	22.2	20.6	17.8	15.0	12.2	9.4
Terms of trade	-12.0	-0.3	3.1	4.3	3.6	2.5	3.5
Export volume	11.0	6.7	10.4	10.8	2.9	12.8	13.4
Oil sector	3.0	15.0	21.7	33.1	-0.4 1/	39.9	39.9
Non-oil sector	14.6	4.7	6.7	4.3	3.9	4.0	2.4
Import volume	27.7	35.1	7.8	7.0	9.2	7.7	6.7
	(In percent of GDP, unless otherwise indicated)						
Total external debt	33.8	33.6	34.0	32.8	31.8	28.8	24.1
Interest payments	2.2	1.8	1.7	1.8	1.7	1.5	0.8
Total debt service (as percent of exports of goods and nonfactor services)	38.9	34.6	29.0	26.7	25.7	21.3	26.1
National savings	19.4	18.2	19.9	21.2	21.0	22.7	25.5
External savings	-1.6	2.4	1.2	-0.7	-0.2	-2.1	-4.8
Gross domestic investment	17.8	20.6	21.1	20.5	20.8	20.6	20.7

Sources: Colombian authorities; and Fund staff estimates.

1/ The decline in oil exports in 1996 is attributed to a projected decline in production from existing wells.

Table 6. Colombia: Medium-Term Balance of Payments

	Prel.	Projections					
	1992	1993	1994	1995	1996	1997	1998
(In billions of U.S. dollars)							
Current account	0.8	-1.2	-0.7	0.4	0.1	1.4	3.4
Trade balance	1.3	-0.2	0.4	1.6	1.3	2.6	4.3
Exports, f.o.b.	7.5	8.0	9.3	11.4	12.2	14.5	17.2
Of which: coffee	1.4	1.3	1.5	1.7	1.9	2.0	2.2
petroleum products	1.5	1.7	2.1	2.9	3.0	4.4	6.3
nontraditional	3.6	4.0	4.6	5.4	5.9	6.6	7.3
Imports, f.o.b.	6.1	8.2	9.0	9.8	10.9	11.9	12.9
Services (net)	-2.2	-2.0	-2.0	-2.2	-2.3	-2.4	-2.2
Factor payments (net)	-2.0	-1.9	-1.9	-2.2	-2.2	-2.3	-2.1
Interest (net)	-1.1	-0.9	-0.9	-1.0	-1.0	-1.0	-0.6
Of which: public sector	-0.7	-0.6	-0.7	-0.8	-0.8	-0.7	-0.6
Other factor payments (net)	-0.9	-1.0	-1.0	-1.1	-1.2	-1.3	-1.6
Nonfactor payments (net)	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Transfers (net)	1.7	0.9	1.0	1.1	1.2	1.2	1.3
Capital account	0.5	1.8	1.4	0.4	0.7	-0.5	-2.5
Public sector (net)	-0.9	0.6	0.9	0.4	0.3	-0.9	-2.6
Nonfinancial public sector	-0.9	0.5	0.7	0.2	0.1	-1.2	-2.8
Medium and long term (net)	-0.7	0.1	0.3	-0.2	-0.3	-1.6	-3.4
Short term and other (net) 1/	-0.2	0.4	0.4	0.4	0.5	0.5	0.5
Financial public sector (net)	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Private sector (net) 2/	1.4	1.2	0.4	--	0.4	0.4	0.1
Net international reserves	1.3	0.6	0.7	0.8	0.8	0.9	0.9
(In percent of GDP)							
Current account	1.6	-2.4	-1.2	0.7	0.2	2.1	4.8
Nontraditional exports	7.3	7.9	8.5	9.3	9.5	9.8	10.4
(In months of imports of goods and services)							
Gross international reserves	11.3	10.0	10.0	9.9	9.7	9.7	9.9

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

1/ Includes changes in central administration reserves held abroad.
2/ Includes errors and omissions and short-term capital.

Colombia: Fund Relations
(As of June 30, 1993)

I. Membership Status:
Joined: 12/27/45
Status: Article XIV

II. General Resources Account:	SDR Million	Percent of Quota
Quota	561.30	100.0
Fund holdings of currency	495.63	88.3
Reserve position in Fund	65.67	11.7
Operational budget transfers (net)	10.20	

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	114.27	100.0
Holdings	114.29	100.0

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements: None

VI. Projected Obligations to Fund: None

VII. Exchange Rate Arrangement:

Since June 1991 financial institutions conduct all direct foreign exchange transactions with the private sector while the Banco de la Republica (BR) issues U.S. dollar-denominated negotiable certificates in exchange for most foreign exchange proceeds. The certificates are redeemable after one year at the BR's reference exchange rate, or prior to one year at an annual discount of up to 12.5 percent. Since November 1992 the certificates bear an annual interest rate (currently 7 percent, adjusted quarterly) when held for more than one year. The certificates' market price is effectively the market exchange rate. On June 30, 1993 the reference exchange rate was Col$862.91 per U.S. dollar while the market exchange rate was Col$787.12 per U.S. dollar. Multiple currency practices which result from a tax on profits and income remittances and tax credit certificates for nontraditional exports have not been approved under Article VIII, Sections 2 and 3.

VIII. Last Article IV consultation and recent contacts:

The 1992 Article IV consultation was completed by the Executive Board on June 1, 1992 (SM/92/93 and Supplement 1, SM/92/103) while the interim Article IV consultation report was issued in December 11, 1992 (SM/92/218). The issuance of semiannual Article IV consultation reports, which was customary since 1990 while the IBRD was disbursing policy-based loans, is being discontinued as these disbursements are nearing completion.

IX. Technical Assistance:

Dept.	Purpose	Time of Delivery
FAD	Restructure Customs	February 1989 to April 1992
WHD and STA	Develop reporting system in money and banking statistics	May 1991
FAD	Review value-added tax structure and its administration	June 1991
FAD	Assess effect of tax structure on investment and review the import tariff structure	September/ October 1991
MAE, LEG, and WHD	Draft new charter for the Banco de la Republica	October 1991
STA	Follow-up on development of monetary reporting system	January and August 1992
RES	Management of capital inflows	November 1992
FAD	Reduce tax evasion and follow-up on review of VAT system	March/April 1993

X. Resident Representative: None

Colombia: Recent Commercial Policy Measures

In June 1993 the Government announced a number of measures aimed at protecting certain sectors (especially agriculture and livestock) from rapid import penetration in the wake of trade liberalization in Colombia and a sharp drop in world commodity prices.

The principal measures consisted of:

- imposing minimum import prices on 13 agricultural items based on prices quoted in international commodity exchanges to prevent under-invoicing; the list may be extended to an additional 40 items;

- raising effective protection on certain agricultural goods by modifying the system of price bands ("franjas de precios") agreed with Colombia's Andean Pact partners; in particular, variable surcharges on the basic import tariff (15 percent for most products) are being converted from a specific to an ad valorem basis;

- raising effective protection on some crops by temporarily eliminating import duties on certain agricultural raw materials and intermediate goods;

- establishing "absorption agreements" (convenios de absorcion) that will effectively ban certain imports of farm products so long as domestic supplies are deemed sufficient;

- postponing the scheduled elimination by end-1993 of tax credit certificates (CERTs) in the case of farm goods; by year's end CERTs on non-agricultural items will be replaced by a duty-drawback scheme as originally envisaged;

- introducing safeguard mechanisms (in the form of temporary increases in import duties) against injury to domestic producers from sectoral surges of imports; and

- intensifying sanitary barriers, especially on imports of poultry and dairy products.

Colombia: Statistical Issues

1. Real sector

There is a need to improve the quality and timeliness of production indices and terms of trade data, and it would be desirable to produce overall trade volume measures. (IFS only reports a volume index for coffee exports.)

2. Government finance

Inconsistencies have arisen in respect of fiscal data from the financing and the revenue/expenditure sides (i.e., between the data "below" and "above the line"). Improvements also are needed in the data on intersectoral transfers.

Data published in the Fund's GFS Yearbook have a substantial lag; the 1992 issue contains only data through 1989.

3. Monetary accounts

In spite of progress in sectorizing the monetary accounts under a unified system covering the Banco de la Republica (BR) and the rest of the financial system, monetary data are reported with a considerable lag. Provided the BR now gains access to bank balance sheets at the same time as the Superintendency of Banks, it would be feasible to produce properly sectorized monetary accounts within 45 days after the end of each month.

4. Balance of payments

Problems have arisen recently in the compilation and timeliness of trade data in the wake of the merger of the internal revenue and customs offices.

Colombia: Financial Relations with the World Bank Group

(In millions of U.S. dollars)

	Commitments (Net of Cancellations)	Disbursements	Undisbursed Amounts
I. IBRD Operations (as of June 30, 1993)			
Sectors			
Agricultural and rural development	1,193.2	785.1	408.1
Public sector management	304.0	202.2	101.8
Telecommunications	147.6	147.6	--
Development finance companies	1,088.0	735.1	352.9
Education	144.3	86.3	58.1
Energy	106.9	106.9	--
Industry	115.7	115.7	--
Adjustment lending	329.0	329.0	--
Population, healt , and nutrition	116.5	48.9	67.7
Power 1/	2,059.3	2,010.4	48.9
Transportation	1,181.2	927.7	253.5
Urban development	133.2	87.6	45.6
Water supply and sewerage	541.1	405.1	136.0
Technical assistance	8.0	8.0	--
Total	7,468.0	5,995.5	1,472.5
Repayments 2/		3,440.2	
Total outstanding		2,555.3	

II. IFC Operations (as of December 31, 1992)

	Loans	Equity	Total
Total gross commitments	384.4	47.0	431.4
Net total held by IFC	138.0	14.1	152.1
Total undisbursed IFC	25.3	2.4	27.7

III. IBRD Loan Transactions (calendar year)

	1989	1990	1991	1992	Prog. 1993	Prog. 1994
Disbursements	361.0	213.2	300.8	261.5	301.0	337.0
Repayments	332.4	433.8	491.3	680.6	494.0	495.0
Net lending	28.6	-220.6	-190.5	-419.2	-193.0	-158.0

Source: World Bank.

1/ Includes an exchange rate adjustment of US$427,719 from Loan B007-0.
2/ Includes repayment to third parties.

Table 7. Colombia: Operations of the Overall Public Sector

(In percent of GDP)

	1988	1989	1990	1991	Prel. 1992	Proj. 1993
Total revenue	21.8	22.6	23.7	25.0	26.2	28.0
Current revenue	21.6	22.4	23.6	24.9	26.0	27.7
Tax revenue	14.6	14.9	14.9	16.1	16.8	18.0
Nontax revenue	6.8	7.4	8.1	8.5	8.5	8.8
Property income	1.3	1.1	1.3	1.5	1.4	1.4
Operating surplus of public enterprises	4.9	5.9	6.4	6.5	6.0	6.7
Other	0.6	0.4	0.4	0.5	1.1	0.7
Transfers	0.2	-0.1	0.3	0.3	0.6	0.8
Adjustment for transfers 1/	-0.1	0.2	0.3	--	0.1	0.1
Capital revenue	0.2	0.3	0.1	--	0.2	0.3
Transfers	0.1	--	--	--	--	--
Sale of fixed assets	--	0.1	--	--	--	0.1
Adjustment for transfers 1/	0.1	0.1	0.1	--	0.2	0.2
Total expenditure and net lending	23.7	24.6	24.3	25.2	26.7	29.2
Current expenditure	16.2	16.7	16.8	18.1	19.1	20.5
Wages and salaries	5.8	5.9	6.5	6.0	6.4	6.8
Goods and services	2.9	3.3	2.9	3.2	3.1	3.6
Interest	3.8	3.6	3.9	4.2	3.8	3.9
External	2.7	2.6	2.7	2.6	2.3	1.9
Domestic 2/	1.1	1.0	1.2	1.6	1.5	1.9
Transfers	3.6	3.7	3.5	4.7	5.6	6.2
Other	0.2	0.2	--	0.1	0.1	0.1
Capital expenditure	7.2	7.4	6.9	6.9	7.3	8.7
Fixed capital formation	6.8	7.0	6.4	6.5	6.9	8.3
Transfers	0.4	0.5	0.5	0.4	0.5	0.4
Net lending	0.3	--	0.2	-0.1	--	--
Other expenditure 3/	...	0.5	0.4	0.3	0.2	--
Nonfinancial public sector balance	-1.8	-2.0	-0.6	-0.2	-0.4	-1.1
Quasi-fiscal balance 2/	...	...	-0.1	-0.8	-0.5	-0.4
Overall balance	-1.8	-2.0	-0.7	-1.0	-0.9	-1.5
Statistical discrepancy 4/	-0.8	-0.6	0.1	0.3	-0.5	--
Overall financing	2.6	2.6	0.6	0.7	1.4	1.5
Foreign	1.2	0.8	-0.5	-1.0	-1.9	0.9
Disbursement	5.0	4.5	3.7	3.2	2.9	3.6
Amortization	-3.8	-3.9	-4.1	-4.2	-4.4	-3.4
Short term	--	0.2	-0.1	--	-0.4	0.7
Of which: change in government reserves (increase -)	--	--	--	-0.2	-0.7	0.8
Domestic	1.4	1.8	1.1	1.7	3.3	0.6
Banco de la Republica	0.3	0.7	1.0 5/	1.4	1.1	0.3
Rest financial system	1.0	0.9	-0.2 5/	-0.1	-0.2	-0.7
Bonds	0.1	-0.3	-0.1	0.2	2.1	1.2
Change in floating debt	--	0.5	0.4	0.3	0.2	--
Privatization of assets (increase -)	...	...	...	...	...	-0.2
Memorandum items						
Military expenditure 6/	1.7	1.8	1.6	1.6	1.6	2.1
Public sector savings	5.4	5.7	6.7	6.0	6.4	6.9
Operating balance of the Coffee Fund	0.1	0.1	-0.3	-0.7	-0.7	-0.3
Operating balance of ECOPETROL	1.9	2.9	3.1	3.1	3.1	3.2

Sources: Ministry of Finance; National Department of Planning; Banco de la Republica; and Fund staff estimates and projections.

1/ Discrepancies resulting from differences in intersectoral transfers.
2/ Excludes amount paid by the Central Administration to the Banco de la Republica in 1993.
3/ Expenditure on an accrual basis not included in other outlays.
4/ Includes residual differences between items above and below the line.
5/ Figures are not consistent with financial system accounts due to substantial methodological changes to the latter.
6/ Includes Army and Police wages and purchases of goods and services.

Table 8. Colombia: Operations of the Central Administration

(In percent of GDP)

	1988	1989	1990	1991	Prel. 1992	Proj. 1993
Total revenue	10.3	10.2	10.3	11.9	12.6	13.5
Current revenue	10.3	10.2	10.3	11.9	12.6	13.5
Tax revenue	9.6	9.5	9.4	10.6	11.2	12.3
Net tax on income and profits	3.5	3.6	4.0	5.0	5.3	5.6
Goods and services	3.5	3.5	3.4	3.9	4.7	5.5
Value-added tax	2.8	2.8	2.7	3.2	3.9	4.7
Gasoline tax	0.7	0.7	0.7	0.7	0.8	0.8
International trade	2.4	2.2	1.9	1.6	1.1	1.0
Import tariffs and surcharges	2.3	2.1	1.8	1.5	1.1	1.0
Coffee export taxes	0.1	0.1	0.1	0.1	--	--
Stamp and other taxes	0.2	0.2	0.2	0.2	0.2	0.2
Nontax revenue	0.5	0.5	0.4	0.7	0.8	0.5
Current transfers	0.2	0.2	0.5	0.6	0.6	0.8
Total expenditure and net lending	11.8	11.8	11.2	12.3	14.6	15.5
Current expenditure	9.1	9.4	9.0	9.3	10.1	12.3
Wages and salaries	1.9	1.9	2.2	2.2	2.4	2.7
Goods and services	0.9	1.0	0.9	0.8	0.7	1.2
Interest	1.3	1.4	1.3	1.4	1.2	1.3
External	1.0	1.0	1.0	1.0	0.8	0.8
Domestic	0.4	0.4	0.3	0.4	0.4	0.5
Current transfers	4.9	5.1	4.6	4.9	5.7	7.0
Capital expenditure	2.3	2.1	2.0	2.3	2.4	2.5
Fixed capital formation	1.2	1.2	1.1	1.3	1.3	1.6
Capital transfers	1.1	0.9	0.9	1.0	1.1	0.9
Net lending	0.4	0.4	0.2	0.7	2.1	0.8
Overall balance	-1.5	-1.6	-0.9	-0.4	-1.9	-2.0
Memorandum item						
Current account balance	1.2	0.8	1.3	2.6	2.5	1.2

Source: National Department of Planning.

Table 9. Colombia: Banco de la Republica Accounts 1/

(End of period stocks)

	(Col$420=US$1) 1988	(Col$420=US$1) 1989	(Col$551=US$1) 1989	(Col$551=US$1) 1990	(Col$645=US$1) 1990	(Col$645=US$1) 1991	(Col$740=US$1) 1991	(Col$740=US$1) 1992	(Col$856=US$1) 1992	(Col$856=US$1) Proj. 1993
	(In billions of Colombian pesos)									
Net international reserves	1,594.3	1,656.7	2,140.3	2,469.3	2,954.6	4,276.2	4,908.3	5,889.7	6,709.5	7,223.1
Net domestic assets	-1,045.9	-963.1	-1,446.9	-1,526.9	-2,012.2	-3,047.6	-3,679.8	-4,257.8	-5,077.7	-5,134.4
Public sector	264.3	369.2	288.4	472.9	424.8	582.6	532.1	732.6	714.3	673.2
Central Administration	357.2	496.0	449.4	577.4	532.6	757.5	709.9	901.0	885.3	...
Rest of the public sector	-92.9	-126.8	-161.0	-104.5	-107.8	-174.9	-177.7	-168.4	-171.0	...
Quasi-fiscal account 2/	...	...	...	19.0	19.0	226.9	226.9	395.6	395.6	547.6 3/
Financial institutions	-196.7	-259.4	-264.2	-450.4	-441.7	-997.7	-990.3	-1,619.2	-1,609.9	-1,637.0
Private sector	-307.1	-331.4	-224.2	-420.0	-430.3	-1,262.0	-1,314.9	-1,797.7	-1,986.5	-2,080.5
Of which:										
local currency bonds	-114.9	-122.2	-41.9	-205.7	205.7	-906.7	-906.7	-597.6	-597.6	)-2,079.5
exchange certificates	-32.6	-43.9	-53.3	-60.7	71.1	-359.0	-411.9	-1,204.6	-1,393.4	
Net unclassified assets 4/	-7.0	-10.5	-27.2	-59.0	-54.0	-35.6	-25.1	99.0	113.6	132.0
Adjustment account 5/	-581.3	-500.2	-915.7	-754.5	-1,137.9	-1,162.8	-1,650.7	-1,612.7	-2,177.8	-2,177.8
Medium- and long-term foreign liabilities	-218.1	-230.7	-304.0	-334.9	-392.1	-399.0	-457.8	-455.4	-526.8	-591.8
Currency issue	548.4	693.6	693.6	942.4	942.4	1,228.5	1,228.5	1,631.8	1,631.8	2,088.7
Memorandum items										
Net domestic assets (annual percentage change) 6/		15.1		-11.5		-109.9		-47.1		-3.5
Net international reserves (in millions of U.S. dollars)		3,944.5		4,481.5		6,629.7		7,959.1		8,438.2

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

1/ Banco de la Republica accounts were revised December 1989 and 1990 to improve the sectorization between private and public sector. The series of credit flows to the private and public sectors before and after these dates thus are not strictly comparable.

2/ Estimated by the results of the Special Exchange Account (Cuenta Especial de Cambios), excluding valuation adjustments. Before 1990 the Special Exchange Account was included in the Adjustment Account.

3/ Excludes adjustments of 0.3 percent of GDP referred to the change from cash to accrual accounting as required for the Special Exchange Account liquidation.

4/ Starting in 1990 includes capital of Banco de la Republica.

5/ Includes adjustment for exchange rate valuation account; before 1989 includes capital of Banco de la Republica and Special Exchange Account.

6/ In relation to currency outstanding at beginning of period.

Table 10. Colombia: Financial System Accounts 1/

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

	(Col$420=US$1)		(Col$551=US$1)		(Col$645=US$1)		(Col$740=US$1)		(Col$856=US$1)	
	1988	1989	1989	1990	1990	1991	1991	1992	1992	Proj. 1993
Net international reserves	1,230.1	1,312.4	1,984.9	1,902.2	2,290.8	3,959.6	4,545.2	5,021.3	5,705.0	6,261.4
Net domestic assets	3,173.5	4,649.8	2,312.4	4,810.9	4,438.8	5,772.1	5,249.4	8,380.9	7,904.5	10,903.7
Public sector	478.8	718.7	-610.0	823.7	861.3	1,001.1	1,063.7	1,199.6	1,346.6	1,027.4
Central Admininstration (net)	413.4	565.3	-194.9	536.5	491.7	644.5	597.9	755.2	756.0	...
Rest of public sector(net)	65.4	153.4	-415.1	287.2	369.6	356.6	465.8	444.4	590.5	...
Quasi-fiscal account 2/	...	...	...	19.0	19.0	226.9	226.9	395.6	395.6	547.6 3/
Private sector	4,172.1	5,485.2	4,776.1	6,226.4	6,343.9	7,308.0	7,419.0	10,047.5	10,249.5	13,603.9
Net unclassified assets 4/	-322.8	-368.6	-367.7	-610.1	-600.4	-411.2	-400.8	-254.0	-228.8	-368.9
Adjustment account 5/	-542.3	-501.4	-603.9	-747.7	-1,131.0	-1,168.7	-1,700.9	-1,613.9	-2,245.9	-2,245.9
Medium-and long-term foreign liabilities	-612.3	-684.1	-882.1	-900.4	-1,054.0	-1,184.1	-1,358.5	-1,393.9	-1,612.4	-1,660.4
Liabilities to private sector	4,403.7	5,962.2	4,297.3	6,713.1	6,729.6	9,731.7	9,794.6	13,402.1	13,609.5	17,165.1
Money	1,318.5	1,702.1	1,344.2	1,778.8	1,778.8	2,286.7	2,286.7	3,187.5	3,187.5	4,064.0
Currency in circulation	522.5	646.7	647.2	820.9	820.9	1,031.6	1,031.6	1,397.0	1,397.0	1,781.2
Demand deposits	796.0	1,055.4	697.0	957.9	957.9	1,255.1	1,255.1	1,790.5	1,790.5	2,282.9
Quasi-money	3,085.1	4,260.1	2,953.1	4,696.6	4,707.0	6,982.1	7,035.0	9,411.5	9,600.3	12,053.4
Banco de la Republica	281.3	293.5	208.8	424.7	435.1	1,265.7	1,318.2	1,801.8	1,990.6	2,084.5
Local currency bonds	34.7	41.7	40.2	188.4	188.4	901.5	901.5	592.1	592.1	) 2,079.0
Exchange certificates	56.1	78.2	40.4	60.7	71.1	359.0	411.9	1,204.6	1,393.4	
Other	190.5	173.6	128.2	175.6	175.6	5.2	5.2	5.5	5.5	5.5
Financial intermediaries	2,803.8	3,966.6	2,744.3	4,271.9	4,271.9	5,716.4	5,716.4	7,609.3	7,609.3	9,968.9
Time and savings deposits	2,141.2	2,887.9	2,111.6	3,763.5	3,763.5	4,936.9	4,936.9	6,913.5	6,913.5	9,057.4
Other liabilities	662.6	1,078.7	632.7	508.4	508.4	779.5	779.5	695.8	695.8	911.6
Private bank capital 6/	...	...	...	237.7	243.8	462.9	473.0	803.2	821.7	1,047.6

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

1/ A new reporting system was introduced for financial system accounts starting December 1989 and was adjusted in December 1990. Statistics prior and after these dates are not strictly comparable. Data for end 1990 and 1991 have been adjusted for PROEXPO, which for these two dates is not included in the table on specialized financial institutions.

2/ Estimated by the results of the Special Exchange Account (Cuenta Especial de Cambios), excluding valuation changes.

3/ Exclude adjustments of 0.3 percent of GDP referred to the change from cash to accrual accounting as required for the Special Exchange Account liquidation.

4/ Includes official capital (including Banco de la Republica after 1989) and intersystem transactions.

5/ Includes counterpart of adjustment for exchange rate valuation; before 1990 also includes Special Exchange Account and capital of Banco de la Republica.

6/ Data not available prior to 1990; it is included in "other liabilities."

Table 11. Colombia: Financial Indicators

	(End of period stocks)		(In percent, period average)				
	(Col$ bil.) Open-Market Instruments 1/	(US$ mil.) Exchange Certificates	Discount on Exchange Certificates	Est. Return on Exchange Certificates	Interest Rates: Open-Market Bills 2/	Interest Rates: 3-month CD 3/	Interest Rates: Lending 3/
1990							
December	405	--	...	...	44.8	38.6	46.4
1991							
March	776	--	...	...	43.2	36.1	45.9
June	931	--	...	...	45.1	36.2	46.1
September	1,211	1,061	3.8	53.7	43.7	38.5	48.4
December	1,260	608	9.8	40.1	36.1	36.2	46.8
1992							
March	1,590	714	12.2	30.4	25.8	28.0	41.1
June	1,430	1,412	10.4	28.1	19.2	22.1	34.8
September	1,143	1,634	10.7	28.4	19.5	27.3	34.2
December	948	1,656	9.2	26.1	25.2	27.0	35.2
1993							
March	1,338	1,396	8.2	23.0	26.2	26.1	35.5
June	1,474	557	8.7	23.6	25.5	26.1	35.4

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

1/ Includes holdings of financial intermediaries and some public sector institutions as well as the private sector.
2/ Weighted average of weekly rates on three-month bills.
3/ Average rates based on survey of financial intermediaries.

Table 12 . Colombia: Merchandise Exports

	Prel.	Projections					
	1992	1993	1994	1995	1996	1997	1998
	(In millions of U.S. dollars, unless otherwise indicated)						
Total	7,458	7,990	9,329	11,362	12,179	14,458	17,233
Coffee	1,379	1,273	1,479	1,746	1,863	2,025	2,187
Volume (million bags)	16.0	14.2	14.4	14.2	14.0	14.0	14.0
Unit value (US$/lb)	0.70	0.68	0.78	0.93	1.01	1.09	1.18
Petroleum products	1,467	1,705	2,091	2,914	2,981	4,362	6,308
Of which: crude oil	1,198	1,409	1,800	2,641	2,716	4,095	6,038
Volume (millions of barrels)	66.9	77.9	98.7	138.3	138.4	199.6	284.7
Unit value (US$/barrel)	17.9	18.1	18.2	19.1	19.6	20.5	21.2
Coal	552	516	629	719	799	836	700
Volume (millions of tons)	14.6	17.2	20.9	23.4	25.5	26.2	21.5
Unit value (US$/ton)	37.8	30.0	30.1	30.7	31.3	31.9	32.6
Gold	363	360	379	399	420	441	464
Volume (millions of ounce troy)	1,033	1,000	1,025	1,051	1,077	1,104	1,131
Unit value (US$/ounce troy)	351.3	360.5	370.2	379.8	389.7	399.5	409.8
Nickel	120	107	170	193	206	220	235
Volume (millions of tons)	43.0	43.4	68.8	65.0	65.0	65.0	65.0
Unit value (US$/ton)	2.8	2.5	2.5	3.0	3.2	3.4	3.6
Nontraditional exports	3,577	4,027	4,580	5,391	5,911	6,574	7,340
(percentage change)	1.0	12.6	13.7	17.7	9.6	11.2	11.6
	(As percent of total merchandise exports)						
Memorandum items							
Coffee	18.5	15.9	15.9	15.4	15.3	14.0	12.7
Petroleum products	19.7	21.3	22.4	25.6	24.5	30.2	36.6
Of which: crude oil	16.1	17.6	19.3	23.2	22.3	28.3	35.0
Coal	7.4	6.5	6.7	6.3	6.6	5.8	4.1
Gold	4.9	4.5	4.1	3.5	3.4	3.0	2.7
Nickel	1.6	1.3	1.8	1.7	1.7	1.5	1.4
Nontraditional exports	48.0	50.4	49.1	47.4	48.5	45.5	42.6

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

Table 13. Colombia: External Debt and Debt Service

	Prel. 1992	Projections 1993	1994	1995	1996	1997	1998
	(In millions of U.S. dollars)						
Total debt outstanding	16,547	17,093	18,353	19,081	19,771	19,238	17,036
Medium and long term	14,484	14,880	15,978	16,532	17,037	16,303	13,888
Short term	2,063	2,213	2,375	2,548	2,734	2,934	3,149
Public sector debt outstanding	13,650	14,271	15,181	15,539	15,841	14,897	12,268
Medium and long term 1/	13,478	14,091	14,991	15,340	15,632	14,678	12,038
Short term	172	180	189	199	209	219	230
Private sector debt outstanding	2,897	2,822	3,172	3,542	3,930	4,341	4,768
Medium and long term 2/	1,006	789	987	1,193	1,405	1,626	1,850
Short term	1,891	2,033	2,185	2,349	2,525	2,715	2,918
Total debt service	3,850	3,614	3,506	3,835	3,962	3,829	5,476
Public sector	3,467	3,187	3,071	3,379	3,491	3,350	5,311
Amortization 3/	2,341	1,919	2,034	2,082	2,122	1,996	4,067
Interest	1,126	1,268	1,037	1,297	1,368	1,354	1,245
Private sector	384	427	435	456	471	479	165
Amortization 3/	175	200	200	200	200	200	200
Interest	208	227	235	256	271	279	-35
	(In percent of GDP)						
Total debt	33.8	33.6	34.0	38.8	31.8	28.8	24.1
By debtor							
Public sector	27.9	28.0	28.2	26.7	25.5	22.3	17.4
Private sector	5.9	5.5	5.9	6.1	6.3	6.5	6.7
By maturities							
Medium and long term	29.6	29.2	29.6	28.4	32.4	24.4	19.6
Short term	4.2	4.3	4.4	4.4	4.4	4.4	4.5
	(In percent of exports of goods and nonfactor services)						
Total debt service	38.9	34.6	29.0	26.7	25.7	21.3	26.1
Public sector	35.0	30.5	25.5	23.6	22.7	18.7	25.4
Private sector	3.9	4.1	3.6	3.1	3.0	2.6	0.8

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

1/ Excluding publicly guaranteed private debt.
2/ Including publicly guaranteed private debt.
3/ Amortization of medium- and long-term external debt.