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January 3, 1991

To: Members of the Executive Board

From: The Secretary

Subject: Colombia - Staff Report for the 1990 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1990 Article IV consultation discussions with Colombia, which will be brought to the agenda for discussion on a date to be announced.

Mr. L. Perez (ext. 7154) or Mr. Valdivieso (ext. 8389) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

COLOMBIA

Staff Report for the 1990 Article IV Consultation

Prepared by the Staff Representatives for the  
1990 Consultation with Colombia

Approved by S. T. Beza and Eduard Brau

December 28, 1990

<u>Contents</u>	<u>Page</u>
I. Introduction	1
II. Background	2
III. Developments Under the 1990 Program and Policy Discussions	4
1. Fiscal policy	6
2. Monetary policy	8
3. Prices and wages	12
4. External sector policies	13
IV. Medium-Term Outlook	16
V. Staff Appraisal	23
Text Tables	
1. Selected Economic Indicators	3
2. Operations of the Nonfinancial Public Sector	7
3. Banco de la Republica Accounts	9
4. Financial System Accounts	10
5. Balance of Payments	14
6. Comparative Assumptions for Selected External Sector Variables	18
7. Operations of the Nonfinancial Public Sector in the Medium Term	20
8. Macroeconomic Flows	21
9. Medium-Term Balance of Payments	22
10. Medium-term External Debt and Debt Service	24

	<u>Contents</u>	<u>Page</u>
Attachments		
I.	Fund Relations	28
II.	Selected Economic and Financial Indicators	30
III.	Statistical Issues	31
IV.	Proposed Structural Reforms	33
V.	Social Indicators	34
VI.	IBRD Operations	35
Statistical Appendix Tables		
11.	Operations of the Consolidated Nonfinancial Public Sector	36
12.	Operations of the Central Administration	37
13.	Merchandise Exports	38
Charts		
1.	Real and Nominal Effective Exchange Rates	2a
2.	Money, Prices and Covered Interest Rate Differentials	8a
3.	Total and Nonfood Consumer Prices Indices	12a

## I. Introduction

The 1990 Article IV consultation discussions were conducted in Bogota during the period October 15-November 2, 1990. The representatives of Colombia in the discussions included the Ministers of Finance, Energy and Mines, and Labor, the General Manager of the Banco de la Republica, the Head of the National Planning Department, the Advisors of the Monetary Board and the Fiscal Policy Council, and other senior government officials. 1/

The 1989 Article IV consultation was concluded by the Executive Board on December 11, 1989 (SM/89/233, 11/13/89 and SM/89/246, 11/22/89). 2/ At that time Executive Directors commended the authorities for the economic policies they had pursued during the 1980s. In particular, Directors were encouraged by the measures being implemented by the authorities to limit the negative effects of the sharp decline in coffee export prices which had occurred in mid-1989. They felt, however, that more substantial progress was needed in the area of inflation reduction. Directors encouraged the authorities to reduce exchange and trade restrictions and noted the need for adopting over the medium term additional fiscal measures and structural reforms to strengthen savings and attract foreign investment.

Under a procedure established consistent with the guidelines of Fund/Bank collaboration, and in the absence of a Fund-supported program, the Fund staff is evaluating Colombia's economic policies in a medium-term context twice a year during the period that the World Bank is extending quick-disbursing adjustment loans to Colombia. 3/ The first staff report under this procedure was circulated to Directors on June 15, 1990 (EBS/90/109) and was transmitted to Bank staff at the same time. At the request of the Colombian authorities and in the absence of objections from Executive Directors, that report also was made available to the staff of the Inter-American Development Bank (IDB). Under a decision adopted by the Executive Board at the time of the 1989 Article IV consultation, the authorities of Colombia will release the present staff report to creditor banks that participated in a US\$1.65 billion loan to the Republic of Colombia signed in June 1989. As is customary, the views of Executive Directors noted above will be excerpted from this report before its release to the banks.

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1/ The staff representatives were Messrs. Perez (Head), Arbulu-Neira, Hoffmaister and Valdivieso (all WHD), Mr. Valderrama (ETR), and Mrs. Menza (Assistant-STAT). Ms. Hallberg and Mr. Ramirez from the World Bank were in Colombia for discussions at the time of the mission.

2/ Colombia continues to avail itself of the transitional arrangements of Article XIV (Attachment I).

3/ Executive Directors were informed of this procedure in EBM/90/57, 4/11/90, and Buff 90/74, 4/12/90.

In December 1990 the Executive Boards of the World Bank and the IDB approved requests for quick-disbursing loans in support of Colombia's public sector reforms. Each loan is for an amount of about US\$300 million to be disbursed in three equal tranches beginning in early 1991. Further drawings in 1992 and 1993 are expected to be made provided that Colombia pursues adequate macroeconomic policies and that public sector reforms progress as scheduled. The Colombian authorities have requested that this and future staff reports also be made available to the IDB staff while the IDB is cofinancing World Bank quick-disbursing loans to Colombia.

## II. Background

The Colombian economy has performed satisfactorily in recent years. With the successful implementation of adjustment programs in 1985-86 and favorable international coffee prices, the public finances improved, overall domestic savings recovered, and the balance of payments strengthened. Real GDP growth peaked at close to 6 percent in 1986, net international reserves rose to the equivalent of over six months of imports of goods and services, but inflation remained above 20 percent a year (Table 1).

During 1987-88 the Colombian economy was affected by a decline in the price of coffee to the pre-1986 levels, and the fiscal and balance of payments positions weakened. As a result, net international reserves fell in 1987 but recovered in 1988 with the assistance of a US\$1 billion loan from foreign commercial banks to cover most amortization payments to banks in 1987-88. Real GDP growth decelerated over those two years and inflation rose to above 25 percent a year.

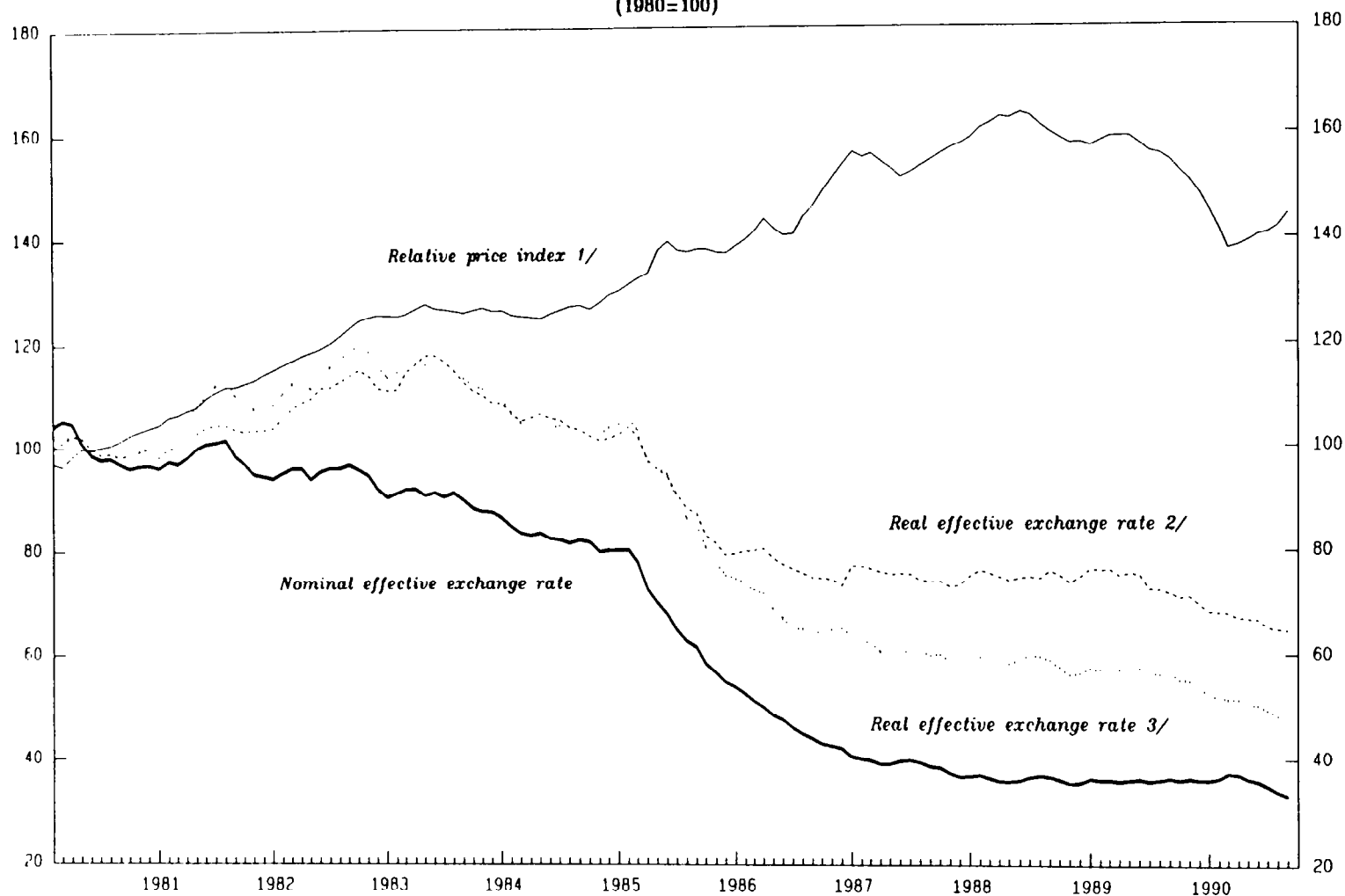
During the year starting in mid-1988 the authorities implemented tight financial policies and achieved a reduction in the 12-month inflation rate from 30 percent in June 1988 to 24 percent in June 1989. However, the collapse of the International Coffee Agreement in July 1989 (which led to a 50 percent decline in the world price of coffee) and a disruption of public order (following the Government's stepped-up efforts against the illegal drug trade) interrupted this progress and led to a further slowing in the rate of growth of real GDP and to a rise in the 12-month inflation rate (to 26 percent at end-1989).

As part of the strategy to deal with a deteriorating external environment, the authorities accelerated the rate of devaluation of the peso and adopted measures to strengthen the public finances. The peso depreciated by 7 percent in real effective terms in 1989 (Chart 1). <sup>1/</sup>

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<sup>1/</sup> As measured by the Banco de la Republica. The corresponding depreciation as measured by the Fund's Information Notice System is estimated at 5 percent over the same period.

CHART 1  
COLOMBIA  
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES  
(1980=100)



Sources: Information Notice System (IMF); and the Banco de la Republica.

1/Relative prices measured by seasonally adjusted consumer price indices.

2/Trade-weighted index calculated by the Banco de la Republica; increases mean appreciation.

3/Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increases mean appreciation (calculated by the INS-IMF).





Table 1. Colombia: Selected Economic Indicators

	1986	1987	1988	Prel. 1989	Est. 1990	Proj. 1991
<u>(Annual percentage changes)</u>						
Real GDP	5.8	5.4	3.7	3.2	3.5	3.3
Nominal GDP	36.7	30.0	31.8	29.7	33.2	29.0
GDP deflator	29.2	23.4	27.1	25.6	28.7	24.9
CPI (end of period)	20.9	24.0	28.1	26.1	30.0	22.0
Terms of trade (deterioration -)	22.0	-22.9	0.7	-12.9	-4.3	2.1
<u>(In percent of GDP)</u>						
<u>Overall nonfinancial public</u>						
<u>sector deficit (-)</u>	0.6	-1.8	-2.7	-2.0	-2.0	-1.0
Foreign financing	2.1	-0.7	1.3	0.7	0.3	0.1
Domestic financing	-2.7	2.5	1.4	1.3	1.7 <sup>1/</sup>	0.9 <sup>1/</sup>
<u>Central administration</u>						
<u>deficit (-)</u>	-1.3	-0.4	-1.4	-1.4	-1.8	-0.8
<u>Gross domestic investment</u>	18.0	20.0	21.9	19.7	18.9	20.3
Fixed investment	17.8	17.4	18.9	18.8	18.2	19.6
Private	11.1	11.3	12.5	12.1	11.8	12.3
Public <sup>2/</sup>	6.7	6.1	6.4	6.7	6.4	7.3
Changes in stocks <sup>3/</sup>	0.3	2.6	3.0	0.9	0.7	0.7
<u>Gross national saving</u>	19.5	19.9	21.4	19.9	19.7	20.2
Public sector <sup>4/</sup>	7.4	5.5	5.0	5.0	5.1	7.1
Private sector	12.1	14.4	16.4	14.9	14.6	13.1
<u>Current account of the</u>						
<u>balance of payments</u>	1.5	-0.1	-0.5	0.2	0.8	-0.1
<u>(In millions of U.S. dollars)</u>						
<u>Overall balance of payments</u>	1,360	-211	388	149	400	249

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

<sup>1/</sup> Includes changes in domestic arrears.

<sup>2/</sup> Public sector investment excludes net lending operations.

<sup>3/</sup> Reflect mostly changes in stocks of the National Coffee Fund, but it also includes changes in inventories held by some segments of the private sector.

<sup>4/</sup> Public sector savings are defined as current revenue minus current expenditure. Discrepancies between the overall public sector deficit and the public sector investment/saving gap is accounted for by capital revenue and net lending operations.

The fiscal measures included the phasing out of certain subsidies granted by the National Coffee Fund together with a reduction in the producer price of coffee of 2.5 percent in real terms and the scaling down of the public investment program. As a result of these measures and increases in hydrocarbon and coal export revenues of the petroleum and coal state companies (ECOPETROL and CARBOCOL), the overall deficit of the nonfinancial public sector narrowed from 2.7 percent of GDP in 1988 to 2 percent of GDP in 1989, while public sector savings remained constant in relation to GDP. However, in an attempt to arrest a slowdown in the private sector activity, credit policy was eased and the financial system credit to the private sector expanded by 33 percent in 1989 compared with 26 percent in 1988. 1/

The current account of the balance of payments shifted from a deficit of 0.5 percent of GDP in 1988 to a small surplus in 1989, as the increase in hydrocarbon exports (42 percent) and nontraditional exports (15 percent) more than offset the decline in coffee exports (9 percent). In addition, imports stopped rising in response to the real depreciation of the peso, the tightening of fiscal policy, and some slowdown in the growth of economic activity. While there was a recovery in direct foreign investment (mostly in the energy sector), net capital inflows declined sharply because of high net amortization by the private sector. Net foreign borrowing by the public sector in 1989 included about half of the proceeds from a new US\$1.65 billion loan facility extended by foreign commercial banks to cover the 1989-90 period. 2/ Overall, net international reserves rose by about US\$150 million in 1989.

### III. Developments Under the 1990 Program and Policy Discussions

The consultation discussions focused on the implementation of the economic program for 1990 and the medium-term policy plans for 1991-94 of the Administration of President Gaviria that assumed office in August 1990. Particular attention was paid to the policies required to reverse the rise of inflation that was occurring in 1990.

The previous Administration's program for 1990 aimed at achieving real GDP growth of 3 percent, a reduction in the rate of inflation from 26 percent to 24 percent, and a moderate overall balance of payments surplus. To these ends, the nonfinancial public sector deficit was to be held at 2.3 percent of GDP and its domestic financing requirement limited so as to leave room for credit to the private sector to grow by

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1/ In relation to total liabilities to the private sector at the beginning of the period, excluding the effect of changes in the exchange rate. In real terms total credit extended by the financial system grew by 6.5 percent in 1989 compared with a decline of 1 percent in 1988.

2/ This loan followed two previously syndicated loans granted by foreign commercial banks to Colombia during 1985-88.

about 30 percent (a rate somewhat higher than the projected increase in nominal GDP). The peso was expected to depreciate moderately in real effective terms during 1990 in the context of an import liberalization program.

The 1990 program responded to an external environment which was expected to be dominated by the adverse effects of declines in coffee export price coupled with a rise of imports. The effects of these developments on the balance of payments were expected to be offset by an increase in hydrocarbon exports (mostly as a result of higher export volume because the oil export price was expected to rise only marginally to US\$17.60 a barrel), and a rise in net capital inflows associated in large part with net borrowing by the public sector from multilateral institutions, bilateral creditors, and suppliers.

Based on partial information relating to developments through October 1990, the growth and balance of payments objectives are likely to be exceeded, but the 12-month rate of inflation may be above 30 percent by year-end (as of the end of November the 12-month rate of inflation was 31 percent). These results have occurred amidst significant changes in external and domestic conditions. On the external front, Colombia has benefited from higher than expected oil prices and coffee export volumes (particularly in the second half of the year). In addition, nonpetroleum imports slackened in spite of liberalization measures adopted in March 1990, and they are estimated to be substantially below the original projection. Disbursements on external loans from multilateral and bilateral sources also are estimated to be much smaller than originally projected because of some problems in project implementation and delays in the negotiation of new loans.

On the domestic front, the deficit of the nonfinancial public sector widened during the first half of the year (to about 3 percent of GDP on an annual basis), mostly because of lower than projected revenue from taxes on imports. The shortfall in net external financing combined with the higher than projected fiscal deficit led to an unanticipated increase in domestic financing requirements. In response, the authorities intensified their open-market operations (starting in April 1990) in an effort to restrain credit, and this contributed to an increase in domestic interest rates and a slowdown in the expansion of credit to the private sector. In addition, the new Government adopted several measures to strengthen the public finances, including an increase in gasoline prices in August 1990, a modification of the structure of electricity tariffs in October 1990, and a reduction in planned investment outlays. More recently, in November 1990, the authorities increased the discount rate of the Banco de la Republica and raised reserve requirements. Moreover, the Government has announced that windfall oil revenues resulting from recent increases in world oil prices would be saved, and for this purpose a petroleum-financed stabilization fund is to be established.

1. Fiscal policy

The authorities' revised program for 1990 envisages a nonfinancial public sector deficit of 2 percent of GDP, compared with 2.3 percent of GDP in the original program and 2 percent of GDP in 1989 (Table 2). 1/ Increases in the operating surplus of nonfinancial public enterprises and in nontax revenue are estimated to offset a deterioration in the operating balance of the National Coffee Fund and a shortfall in import tax revenue (Statistical Appendix Table 11). The improvement in the operating surplus of the public enterprises is accounted for by ECOPETROL (0.4 percent of GDP, resulting from the higher than projected oil export prices and increases in domestic gasoline prices of 24 percent in January 1990 and of 10 percent in August 1990), 2/ and by the electricity companies (resulting from the average increase in tariff rates of about 40 percent). The estimated deterioration in the National Coffee Fund's operating balance (from equilibrium to a deficit of 0.3 percent of GDP) reflects the full-year impact of the drop in coffee export prices and a lower than planned reduction in real terms in domestic prices paid to coffee growers. 3/

Total nonfinancial public sector expenditure and net lending is estimated to decline in 1990 in relation to GDP, mainly as a result of lower capital outlays. 4/ On the financing side, the shortfall in foreign financing would be offset by an increase in domestic financing from 1 percent of GDP projected earlier in the year to 1.7 percent of GDP (including domestic arrears amounting to 0.5 percent of GDP).

The mission stressed the importance of implementing the expenditure cutting measures decided by the Government in August and urged the authorities to reduce further the overall deficit of the nonfinancial public sector in light of the shortfall in external financing and the recent rise in inflation. It also noted that the relatively large increases in wages and salaries earlier in the year (26 percent for employees of the Central Administration and higher increases for

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1/ The deficit is projected to be 1.5 percent of GDP in 1990 measured from the financing side. However, if an increase in central government arrears to private sector suppliers is taken into account the deficit is estimated to be about 2 percent of GDP. Deficit estimates prior to 1990 do not take into account the changes in central government arrears because of lack of information.

2/ Despite these adjustments, gasoline prices in Colombia are projected to fall to the equivalent of nearly 65 percent of international prices by the end of 1990, from about 87 percent at the end of 1989.

3/ Producers' prices were increased by 12 percent in nominal terms in early September 1990, and as a result the projected decline in real terms is estimated at about 4 percent for 1990.

4/ Treating as expenditure the unidentified items net.

Table 2. Colombia: Operations of the Nonfinancial Public Sector

(In percent of GDP)

	1986	1987	1988	Prel. 1989	Est. 1990	Proj. 1991
<u>Total revenue</u>	<u>23.8</u>	<u>22.1</u>	<u>22.0</u>	<u>22.0</u>	<u>22.2</u>	<u>24.1</u>
Tax revenue	15.3	14.9	14.7	14.6	14.2	15.3
Operating surplus	6.7	4.5	4.8	5.8	6.0	6.9
Other	1.8	2.7	2.5	1.6	2.0	1.9
<u>Total expenditure and net lending</u>	<u>24.1</u>	<u>24.1</u>	<u>24.2</u>	<u>24.5</u>	<u>24.2</u>	<u>25.1</u>
Current expenditure	16.2	16.3	16.7	16.7	16.8	16.5
Interest payments	3.1	4.0	4.2	3.7	3.8	3.8
Other	13.1	12.3	12.5	13.0	13.0	12.7
Capital expenditure	7.6	7.7	7.4	7.6	7.1	8.2
Of which: fixed capital formation	6.7	6.1	6.4	6.7	6.4	7.3
Net lending	0.3	0.1	0.2	0.3	0.3	0.5
<u>Unidentified items (net) 1/</u>	<u>0.9</u>	<u>0.2</u>	<u>-0.4</u>	<u>0.5</u>	<u>--</u>	<u>-0.3</u>
<u>Overall balance</u>	<u>0.6</u>	<u>-1.8</u>	<u>-2.7</u>	<u>-2.0</u>	<u>-2.0</u>	<u>-1.0</u>
<u>Domestic arrears</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>0.5 2/</u>	<u>-0.4 2/</u>
<u>Overall financing</u>	<u>-0.6</u>	<u>1.8</u>	<u>2.7</u>	<u>2.0</u>	<u>1.5</u>	<u>1.4</u>
Foreign financing	2.1	-0.7	1.3	0.7	0.3	0.1
Domestic financing	-2.7	2.5	1.4	1.3	1.2	1.3
<u>Memorandum item</u>						
Public sector savings	7.4	5.5	5.0	5.0	5.1	7.1

Source: Statistical Appendix Table 11.

1/ Reflects reporting lags and statistical discrepancies.

2/ Information on domestic arrears financing is not available for previous years. The authorities plan to pay in 1991 all domestic arrears accumulated during 1990.

employees of the public enterprises) had affected the management of the public finances in 1990. The mission encouraged the authorities to carry out their plans to pay off in 1991 central government domestic arrears accumulated in 1990 and to avoid this form of financing in the future.

The clearing of arrears in 1991 would be consistent with the planned reduction in the overall nonfinancial public sector deficit from 2 percent of GDP in 1990 to 1 percent of GDP in 1991 as explained further in Section IV below.

## 2. Monetary policy

The rapidly changing circumstances noted above led the authorities to revise their monetary program for 1990. The monetary program described in EBS/90/109 assumed that financial system liabilities to the private sector would grow by about 30 percent during the year (about 5 percent in real terms) and that the net domestic assets of the Banco de la Republica would expand by about 13 percent. <sup>1/</sup> This program was considered to be consistent with a reduction in inflation to 24 percent, to provide for an adequate growth of financial system credit to the private sector, and to allow for an accumulation of net international reserves of about US\$150 million.

To contain inflationary pressures, the authorities tightened credit policy in the middle of 1990, and under the revised monetary program the net domestic assets of the Banco de la Republica are estimated to decline by 8 percent for the year as a whole, <sup>1/</sup> while financial system credit to the private sector would decline by at least 5 percent in real terms (Tables 3 and 4). This policy stance was expected to raise interest rates in the last quarter of the year. Financial system liabilities to the private sector were projected to grow by 31 percent in nominal terms (roughly constant in real terms) for the year as a whole, reflecting the rather weak performance during the first part of 1990 (Chart 2). Net external reserves were expected to increase by at least US\$400 million.

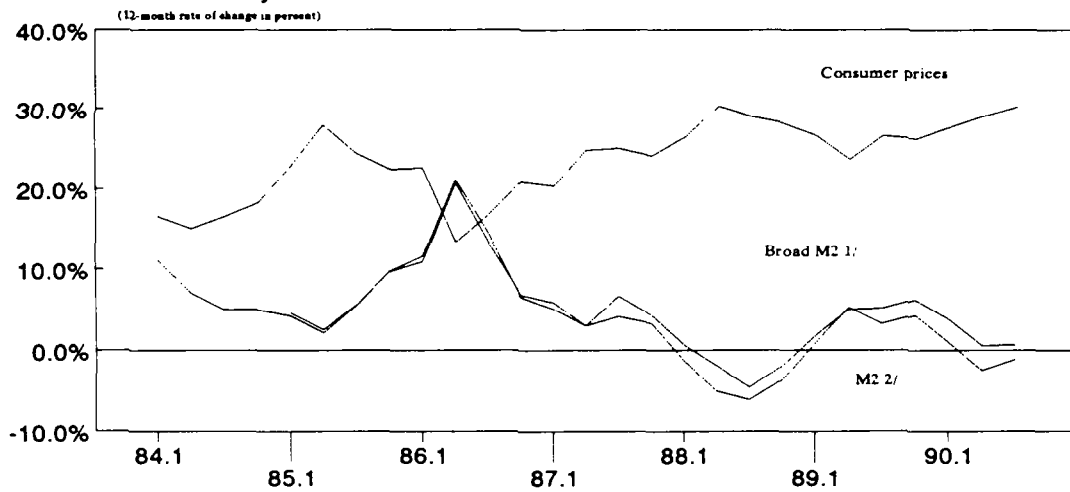
During the first nine months of the year, nominal interest rates paid on 90-day deposits increased by 2 1/2 percentage points to a compound annual rate of 36 percent. This increase kept the rates positive in real terms (if compared with contemporaneous inflation), but was not sufficient to reverse an ex post interest rate differential of about 5 percentage points in favor of foreign assets (see Chart 2). Average lending rates increased from 43 percent at the end of December 1989 to 46 percent by the end of September 1990.

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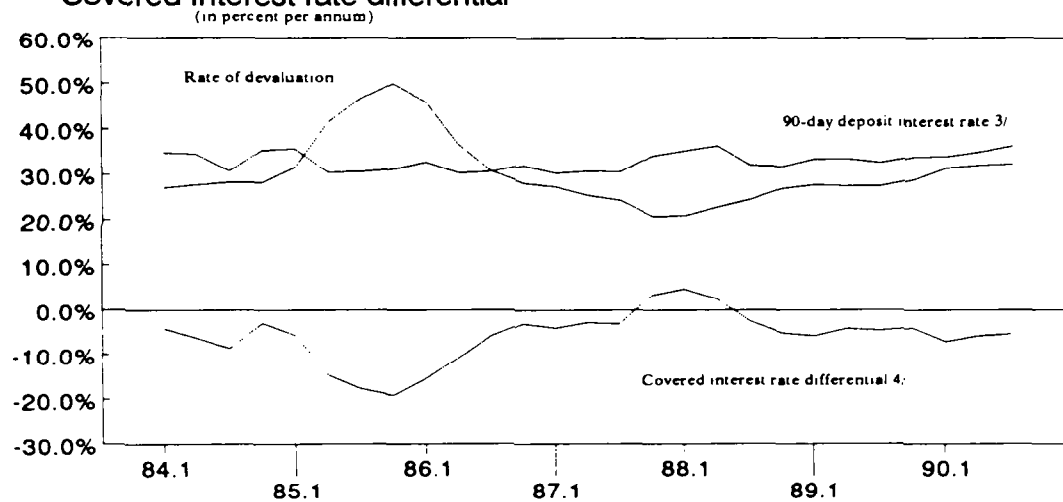
<sup>1/</sup> In relation to currency at the beginning of the period.

## Chart 2 Colombia

### Trends in Money and Prices



### Covered Interest rate differential



Sources: Banco de la Republica; and Fund staff estimates

1/ Includes currency, demand deposits, term deposits in the financial system, banks' acceptances, and term deposits in commercial financial corporations and cooperatives

2/ Includes currency, demand deposits, and term deposits in the financial system only

3/ Effective rate on term deposits

4/ Calculated as the percentage difference between the effective interest rate paid on 90-day deposits in local currency minus the corresponding LIBOR adjusted for the rate of devaluation during the period





Table 3. Colombia: Banco de la Republica Accounts

(In billions of Colombian pesos)

	1985 (Col\$190=US\$1)	1986 (Col\$240=US\$1)	1986 (Col\$240=US\$1)	1987 (Col\$327=US\$1)	1987 (Col\$327=US\$1)	1988 (Col\$420=US\$1)	1988 (Col\$420=US\$1)	1989 (Col\$500=US\$1)	1989 (Col\$500=US\$1)	Est. 1990 (Col\$500=US\$1)
<u>Net international reserves</u>	<u>391.2</u>	<u>649.7</u>	<u>853.9</u>	<u>800.5</u>	<u>1,162.9</u>	<u>1,289.7</u>	<u>1,594.3</u>	<u>1,656.7</u>	<u>1,942.6</u>	<u>2,142.7</u>
<u>Net domestic credit</u>	<u>-114.8</u>	<u>-313.4</u>	<u>-517.6</u>	<u>-360.8</u>	<u>-723.2</u>	<u>-741.3</u>	<u>-1,045.9</u>	<u>-963.1</u>	<u>-1,249.0</u>	<u>-1,304.3</u>
Net credit to the public sector	395.8	226.7	197.7	348.6	305.5	336.9	264.3	369.2	316.3	405.3
Central Administration	413.9	378.1	363.0	448.5	414.6	421.4	357.2	496.0	453.9	...
Rest of the public sector	-18.1	-151.4	-165.3	-99.9	-109.1	-84.5	-92.9	-126.8	-137.6	...
Net credit to financial institutions	-71.0	-91.4	-91.0	-122.9	-122.9	-196.9	-196.6	-259.4	-259.1	-355.9
Credit to private sector	-146.3	-187.7	-198.0	-230.5	-240.1	-296.2	-309.2	-330.3	-338.2	-482.1
Medium- and long-term foreign liabilities	-67.9	-86.6	-109.4	-118.9	-162.0	-169.8	-218.1	-230.7	-274.7	-280.2
Net unclassified assets	35.4	9.1	16.5	20.3	45.8	-20.8	-7.0	-10.5	-10.1	-10.6
Adjustment account <u>1/</u>	-260.8	-183.5	-333.4	-257.4	-549.5	-394.5	-579.3	-501.4	-683.2	-580.8
<u>Currency issue</u>	<u>276.4</u>	<u>336.3</u>	<u>336.3</u>	<u>439.7</u>	<u>439.7</u>	<u>548.4</u>	<u>548.4</u>	<u>693.6</u>	<u>693.6</u>	<u>838.4</u>
<u>Memorandum item</u>										
Changes in net domestic assets in relation to currency at beginning of period (in percent) <u>2/</u>		-71.9		46.6		-4.1		15.1		-8.0

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

1/ Includes counterpart of the Special Exchange Account, allocation of SDRs, and adjustment for exchange rate valuation account.2/ Excluding the impact of changes in the exchange rate.

Table 4. Colombia: Financial System Accounts

	1984	1985	1985	1986	1986	1987	1987	1988	1988	Prel.	1989	Est.
	(Col\$139=US\$1)	(Col\$139=US\$1)	(Col\$190=US\$1)	(Col\$190=US\$1)	(Col\$240=US\$1)	(Col\$240=US\$1)	(Col\$327=US\$1)	(Col\$327=US\$1)	(Col\$420=US\$1)	(Col\$420=US\$1)	(Col\$503=US\$1)	(Col\$503=US\$1)
(End of period stock; in billions of Colombian pesos)												
Net international reserves	62.0	99.8	148.7	516.2	685.4	642.5	943.9	1,006.1	1,230.1	1,312.4	1,530.3	1,758.8
Domestic credit	1,785.4	2,265.3	2,341.7	2,507.7	2,552.7	3,312.7	3,366.9	4,269.6	4,325.8	5,793.0	5,830.4	7,562.7
Public sector	414.5	439.1	445.7	267.5	258.8	440.7	397.5	551.5	478.8	718.7	865.8	938.8
Central Administration (net)	399.5	437.7	432.7	403.5	388.4	483.4	449.5	477.7	413.4	565.3	523.2	...
Rest of public sector (net)	15.0	1.4	13.0	-136.0	-129.6	-42.8	-51.9	73.8	65.4	153.4	142.6	...
Private sector	1,482.3	1,838.0	1,900.5	2,320.0	2,365.2	3,103.8	3,173.4	4,058.0	4,172.1	5,485.2	5,574.7	6,894.4
Net unclassified assets 1/	-111.3	-11.8	-4.5	-79.8	-71.3	-231.8	-204.0	-339.9	-325.2	-410.9	-410.2	-320.6
Intersystem transactions	-5.0	5.6	-6.6	-1.5	-15.0	77.4	59.0	5.2	2.4	42.3	36.4	...
Credits	586.6	710.6	724.3	...	967.9	1,243.5	1,254.3	1,535.0	1,554.6	1,970.8	1,985.8	...
Deposits	591.6	704.9	731.0	...	982.9	1,166.1	1,195.3	1,529.8	1,552.2	1,928.4	1,949.3	...
Adjustment account (liability) 2/	200.2	225.2	273.0	186.4	320.3	286.2	511.5	418.0	542.3	502.6	602.2	580.9
Medium- and long-term foreign liabilities	92.1	88.4	122.0	210.1	265.4	281.8	384.0	476.7	612.3	684.1	817.6	862.2
Liabilities to private sector	1,550.0	2,057.1	2,088.8	2,625.9	2,637.4	3,464.6	3,474.3	4,386.2	4,403.7	5,954.3	5,982.0	7,828.4
(In millions of U.S. dollars)												
Memorandum item												
Change in net official international reserves (decrease -)		267.0		1,360.0		-211.0		388.0		149.0		400.0
(In billions of Colombian pesos)												
Flow of credit to												
Public sector (net)		24.6		-178.2		181.9		153.9		239.9		273.0
Private sector		355.7		419.5		738.6		884.6		1,313.1		1,319.7
(Percentage change) 3/												
Credit to private sector		25.7		22.1		31.2		27.9		31.5		23.7
Liabilities to private sector		32.7		25.7		31.4		26.2		35.4		30.9

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

1/ Includes official capital and surplus.

2/ Includes counterpart of the Special Exchange Account, allocation of SDRs, and adjustment for exchange rate valuation.

3/ Excluding the impact of changes in the exchange rate.

In November 1990, the Banco de la Republica's rediscount rate was increased by 10 percentage points to about 47 percent and reserve requirements were raised across the board by 1 percentage point to reinforce the authorities' efforts to control the growth of credit, which until then had been effected through open-market operations. As a result of these operations, the outstanding stock of open-market instruments outside the Banco de la Republica rose to Col\$406 billion by end-October 1990, or about 38 percent of the monetary base. However, the authorities expressed concern about the effectiveness of these operations. In their view, the resulting upward pressures on domestic interest rates were likely to encourage capital inflows and hence limit the net absorption of liquidity by these operations. The mission acknowledged the authorities' concern, but noted that in the absence of additional fiscal adjustment tightening credit was needed to contain inflation.

The authorities drew attention to their attempts to neutralize the impact of unplanned changes in net international reserves upon the monetary base by taking steps to facilitate payments abroad. On a temporary basis, they have shortened the period between import orders and import payments by streamlining some of the administrative requirements, and they are allowing selective private sector external debt prepayments provided that they were conducted directly by the debtor and at a discount. <sup>1/</sup> The coverage for foreign service payments (e.g., shipping) had been extended and absolute limits on purchases of foreign exchange for traveling, medical care, and costs of education abroad also had been relaxed, with bona fide requests that exceed these limits being approved.

During 1990 the authorities continued to take actions to improve the efficiency of the domestic financial system. Forced investments affecting some 10 1/2 percent of demand deposits in commercial banks were eliminated for all new deposits effective May 1, 1990. The outstanding stock of Banco de la Republica liabilities on account of these investments was converted into medium- or long-term bonds (3 to 15 years' maturity) to avert a liquidity effect. As the process of eliminating forced investments continues, interest rates charged on directed credits financed by these investments have become variable and increased to approach market rates (see below). In recent years, lending rates on most lines of directed credit, including those outside the Banco de la Republica, have been linked to a reference interest rate on time deposits (DTF) which is market determined. Lending rates applicable to the industrial sector already have reached (and, on occasions exceeded) the DTF rate, whereas lending rates on credit for agriculture and export promotion are at about 85 percent and 93 percent of the DTF, respectively. As of the end of September 1990, average lending rates on directed credits weighted by the size of the portfolio ranged

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<sup>1/</sup> Foreign commercial bank claims on Colombia have been selling at about US\$0.60-0.65 to a dollar in the secondary market in recent months.

from 32 percent for credit to small farmers to 47 percent for industrial sector credit lines. These rates compared with an average lending rate of 46 percent charged by commercial banks on their free portfolio.

Measures were taken in 1990 to enable banks to lengthen the maturity structure of their loan portfolio, to underwrite private bond issues, and to disclose the terms and conditions on their loans and deposits. In addition, draft legislation for a financial reform submitted for the consideration of Congress places particular emphasis on policies geared to strengthening competition and facilitating foreign investment. 1/

The financial situation of eight of the nine financial institutions that have received assistance from the Fondo de Garantías since 1985 has improved as indicated by rising profits and a reduction in their non-performing portfolio. 2/ On December 5, 1990, the authorities issued new regulations which provide for greater flexibility as regards ownership rules and which give the Fondo de Garantías more powers to decide on the terms and conditions for the sale of these institutions. In addition, the draft legislation referred to above contemplates new minimum capital requirements for entrants in the financial system and may render the purchase of these institutions more attractive because their selling prices are likely to be below the capital requirements for new institutions.

### 3. Prices and wages

The authorities expressed concern with the recent upward trend in general consumer prices as well as the increase in nonfood prices observed since 1987 (Chart 3). They attributed the inflationary pressures earlier in 1990 to a combination of credit expansion in the second half of 1989, the increase in the public sector deficit earlier in 1990, and the difficulties in offsetting the monetization of the unexpected increase in net international reserves. In addition, the price increases reflected corrective factors resulting from the liberalization of certain controlled prices early in the year (e.g., medicines) and from the adjustment of public sector prices (most notably gasoline and electricity). Also, the authorities noted that prices were affected by the real depreciation of the peso in anticipation of the trade reform measures adopted in March 1990.

As regards wage policy, the authorities observed that increases in the minimum wage and in public sector wages granted in January 1990 were in line with the rate of inflation observed in 1989 (26 percent). Wage increases in some public sector enterprises, however, exceeded the rate

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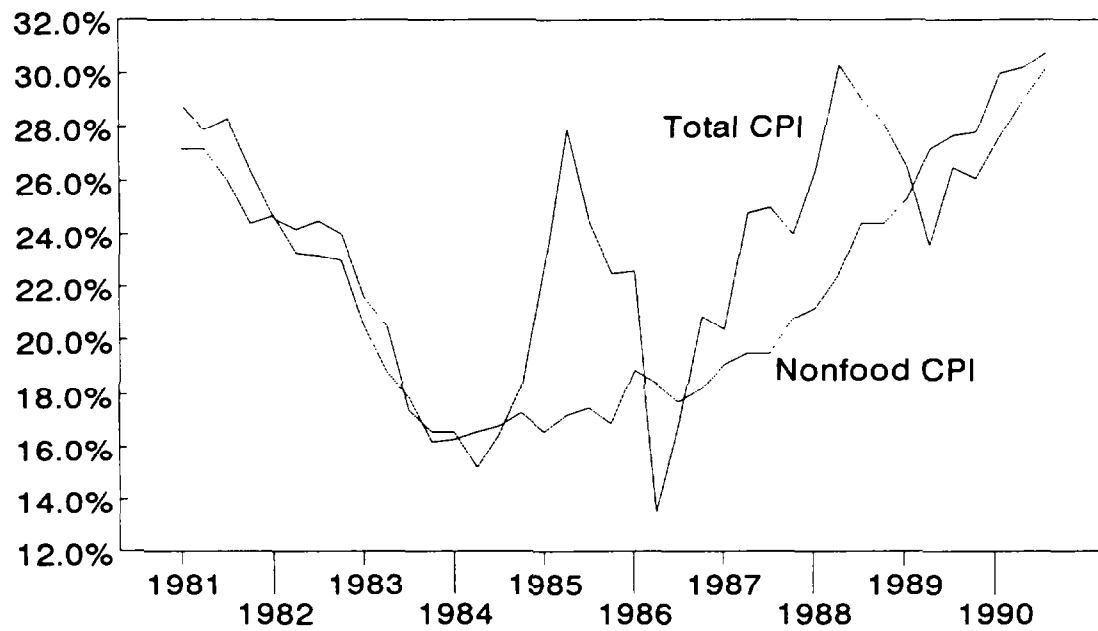
1/ The main features of their reform proposals are described in an attachment to the accompanying report on recent economic developments.

2/ One institution was liquidated in 1985, shortly after being intervened.

Chart 3  
**Colombia**

**Total and Nonfood Consumer Price Indices**

(End of period; 12-month rate of change in percent)



Source: Banco de la Republica



of inflation because of the effect of retroactive severance payments. Most recent collective wage negotiations in the private sector have averaged 30 percent, or close to the rate of inflation. Public sector and minimum wage negotiations for 1991 will take place early next year and the authorities expressed their intention to contain the increase in the minimum wage consistent with the targeted inflation of 22 percent; however, they indicated that it might be difficult to keep the increase to less than 25 percent.

The authorities emphasized the need to maintain an adequate salary structure within the public sector in order to enhance productivity. In this connection, they are exploring ways of reducing employment in the public sector so as to achieve savings and provide room to change the wage structure. They were concerned, however, about the heavy cost of severance payments in reducing public employment.

The authorities expressed the view that indexation of wages to past inflation had not been a major factor limiting efforts to lower inflation because indexing was not as generalized a phenomenon as was usually thought. The mission noted with concern the prominent role played by contemporaneous inflation in the outcome of recent wage negotiations and stressed the importance of linking wage increases to productivity gains and to objectives regarding the reduction of inflation. Thus, if the inflation target is to be achieved, wage settlements should take into account this objective.

#### 4. External sector policies

The current account of the balance of payments is estimated to show a surplus of 0.8 percent of GDP in 1990, compared with a deficit of 1.9 percent of GDP originally projected and a surplus of 0.2 percent of GDP in 1989 (Table 5). The rises in international petroleum prices and in coffee export volume in the second half of the year, the strong performance of nontraditional exports, and the above-mentioned weaker than expected growth of imports have been important factors behind this change in the current account. The deficit in the services account is estimated to widen in line with expected higher profit remittances and other petroleum-related service payments, while private transfer receipts are estimated to remain relatively constant instead of declining as had been expected earlier.

Net capital inflows are estimated at about US\$55 million in 1990 compared with US\$975 million projected earlier in the year. Net foreign borrowing by the public sector may reach US\$200 million in 1990, significantly below the projected US\$730 million; half of this shortfall is attributable to lower than expected net borrowing from multilaterals; such borrowing is estimated at only US\$10 million in 1990 compared with US\$300 million originally projected. The shortfall from multilaterals is associated with the above-mentioned delays in loan negotiations (a quick-disbursing loan in support of public sector reform with expected

Table 5. Colombia: Balance of Payments

	1985	1986	1987	1988	Prel. 1989	Est. 1990
(In millions of U.S. dollars)						
<u>Current account</u>	<u>-1,596</u>	<u>535</u>	<u>-50</u>	<u>-197</u>	<u>100</u>	<u>344</u>
Trade balance	109	2,024	1,461	827	1,481	1,874
Exports, f.o.b.	3,782	5,433	5,255	5,343	6,030	6,894
Coffee	1,702	2,742	1,633	1,621	1,477	1,393
Hydrocarbons	409	619	1,342	988	1,400	1,962
Others	1,671	2,072	2,280	2,733	3,153	3,539
Imports, f.o.b.	3,673	3,409	3,794	4,515	4,549	5,020
Services (net)	-2,166	-2,274	-2,512	-1,988	-2,408	-2,580
Interest (net)	-1,212	-1,213	-1,196	-1,200	-1,233	-1,187
Others (net)	-954	-1,061	-1,317	-788	-1,175	-1,393
Transfers (net)	461	785	1,001	964	1,028	1,050
<u>Capital account</u>	<u>1,863</u>	<u>825</u>	<u>-160</u>	<u>585</u>	<u>48</u>	<u>56</u>
Public sector (net)	1,386	800	-179	616	408	199
Medium- and long-term (net)	1,147	1,879	-43	620	403	174
Disbursements	1,793	2,807	1,202	2,247	2,109	2,033
Amortization	646	928	1,245	1,627	1,707	1,858
Short-term (net)	239	-1,079	-136	-4	5	25
Nonfinancial private sector (net)	495	560	86	-236	-325	-86
Direct foreign investment	1016	562	287	179	546	344
Long-term (net)	193	189	-59	45	-180	-11
Short-term and other (net) 1/	-714	-191	-142	-460	-692	-420
Rest of financial sector (net)	-18	-535	-68	205	-34	-57
<u>Overall balance 2/</u>	<u>267</u>	<u>1,360</u>	<u>-211</u>	<u>388</u>	<u>149</u>	<u>400</u>
(In percent of GDP) 3/						
Current account balance	-5.0	1.5	-0.1	-0.5	0.2	0.8
Overall balance	0.8	3.9	-0.6	1.0	0.4	0.9
(In months of imports of goods and services)						
Gross international reserves	4.0	6.1	5.6	5.6	5.6	5.7

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

1/ Includes errors and omissions.

2/ Overall balance as measured by changes in net international reserves of the Banco de la Republica, adjusted to account for the actual transaction value of gold and the main foreign currencies.

3/ GDP in U.S. dollars adjusted by an index of the real effective exchange rate.



disbursements in 1990 of US\$200 million from the World Bank and the IDB together were not completed in time) and difficulties in drawing from existing loans in the electricity and urban development sectors. Similarly, credits from bilaterals and suppliers are estimated to be about US\$200 million compared with a previous projection of US\$490 million, mostly because of delays in completing the negotiations for the financing of the Metro of Medellin. Outflows of both short- and long-term private capital are estimated to have declined sharply in 1990, partly in response to the tightening of credit. With the strengthened current account, net international reserves are estimated to increase by at least US\$400 million and gross reserves to 5.7 months of imports of goods and services.

The authorities stressed their commitment to trade reform and drew attention to the recent acceleration in its implementation. The thrust of their policy remains essentially the same as that indicated in the import liberalization program initiated in March 1990. <sup>1/</sup> The original program was divided into two phases, with the first (during 1990-91) aimed at replacing quantitative restrictions by import tariffs and the second (during 1992-94) directed at reducing the level and dispersion of nominal tariff rates, with a view to bringing the average nominal tariff rate down to 25 percent (including an import surcharge of 10 percent) by 1994 from an average of 45 percent (including an import surcharge of 18 percent) at the beginning of 1990.

Under the first phase of trade liberalization, the number of tariff positions free of prior import licensing requirements was raised from 40 percent to 56 percent of the total import positions and the number of general tariff rates was reduced from 22 to 14. In addition, foreign exchange was allocated for certain previously prohibited imports which were subject to a tariff premium determined by periodic auctions. As part of the changes to the trade system, an antidumping law was put into effect in July 1990.

The streamlining of licensing requirements has continued and by the end of September 1990 the share of import items free of prior licensing requirements in relation to the number of total import positions had increased to 76 percent. In addition, prohibitions on imports were abolished in July 1990; the import tariff surcharge was reduced from 18 percent to 16 percent in March, and to 13 percent in September 1990.

The authorities abolished the prior import license requirement for all but 3 percent of import tariff positions (which include certain agricultural goods, medicines, and weapons) in November 1990. The auction system for imports subject to a tariff premium was eliminated

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<sup>1/</sup> The main features of this program were described in Attachment I of EBS/90/109, 6/15/90, and a review of its implementation is presented in an attachment to the accompanying recent economic developments report.

and the prior import license requirements for these products canceled (in effect advancing by one year the completion of the first phase of the reform). In addition, the number of general tariff categories was reduced from 14 to 10. Some nominal import tariffs also were reduced--mainly tariffs on capital goods--and the authorities have announced that they will continue to lower the level and dispersion of tariffs in 1991.

To complement their trade liberalization efforts, the authorities have maintained a flexible exchange rate policy based on a crawling peg. During the first eight months of 1990, the authorities devalued the peso by 7 percent in real effective terms to compensate for the effects of the trade liberalization that was being pursued. In general, the authorities regarded the country's competitive situation as satisfactory.

During 1990 significant progress was made in reducing exchange restrictions. Recently, the foreign exchange budget was eliminated for all goods not subject to prior import licensing. Because all bona fide applications for foreign travel as well as for educational and medical expenses abroad are being granted, exchange restrictions effectively have been eliminated. Operations under the bilateral payment agreements with Poland and Romania continued to be wound down during 1990 following their elimination in November 1989.

A number of practices remain, however, which give rise to multiple currency practices subject to Fund jurisdiction under Article VIII, Section 3. These result from the existence of taxes on profit and income remittances abroad, advance deposits for import payments and travel, an exchange tax on coffee, and tax credit certificates for nontraditional exports. Moreover, on November 21, 1990 the Monetary Board issued a resolution under which the Banco de la Republica would not redeem before an 80-day period exchange certificates issued against service and transfer receipts of Colombia residents, in effect creating a different exchange rate for these services of foreign exchange. This measure is to be in effect until the end of March 1991.

The authorities indicated to the staff that draft legislation affecting the exchange system had been submitted to Congress (Attachment IV). The new law would permit the banks to assume a more direct role in foreign exchange operations and would permit the liberalization of the exchange system which the authorities intend to carry out. The mission encouraged the authorities to move forcefully in this direction, noting that the favorable external prospects provided an opportunity for introducing a more transparent and efficient exchange system.

#### IV. Medium-Term Outlook

The present Administration has endorsed the main thrust of the medium-term macroeconomic policy framework designed by the previous government, but it has targeted a lower rate of inflation for the

1991-94 period. The revised medium-term program for 1991-94 aims at a gradual rise in the rate of growth of real GDP to 5 percent by 1994, while maintaining a viable external position and reducing the 12-month rate of inflation from about 30 percent at the end of 1990 to 22 percent in 1991 and to 14 percent in 1994. Attainment of these objectives is to be based on the continued pursuit of prudent financial policies, the maintenance of an adequate exchange rate, and the implementation of reforms in the public sector, exchange and trade, financial, and labor fields. These reforms are expected to lead to further diversification of the productive base and to bring about significant gains in efficiency and employment. 1/

To assure fiscal discipline, the Government's medium-term framework is based on a more conservative outlook for Colombia's major commodity export prices (coffee and oil) than envisaged in the World Economic Outlook (WEO) projections of early October 1990. For similar considerations, the authorities also have scaled back significantly the projection of oil production over the medium term from the levels envisaged by the previous government. At the same time, they are utilizing rather optimistic external financing assumptions. The mission said it understood the reasons behind the set of assumptions utilized by the authorities, but it also indicated that a quantified analysis based on current commodity market forecasts and capital market conditions might provide a more realistic basis for policy design. As regards the projected level of oil production, the mission noted that it might appropriately be increased, as the capital expenditure plans and the projected capital account of the balance of payments used by the authorities assumed implicitly that the construction of a new oil pipeline (an important constraint to increase petroleum production) would be finished by mid-1991.

Based on the above, the authorities agreed to discuss Colombia's medium-term outlook using the assumptions suggested by the mission. The authorities were keen to ensure that the resulting projections provided for the savings of the windfall in oil revenues associated with oil prices higher than US\$20.70 a barrel during 1991-94. 2/ In addition to differences in export prices for oil and coffee, the mission projected higher levels of oil export volume over the medium term, reflecting the operation of the oil pipeline starting in 1992, as well as lower flows of external financing in line with recent trends and the lending plans of multilateral institutions. Table 6 presents the difference on the

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1/ A number of reform proposals which have recently been submitted to Congress are summarized in Attachment IV.

2/ The Government has decided that during the period 1991-94, the revenues resulting from an average oil export price between US\$19.50 a barrel (the authorities' baseline oil export price assumption) and US\$20.70 a barrel will finance exploration expenditures, while revenues associated with oil prices higher than US\$20.70 a barrel will be saved by the petroleum fund.

Table 6. Colombia: Comparative Assumptions for  
Selected External Sector Variables

	Est. 1990	1991	1992	1993	1994
<u>(U.S. dollars a barrel: period average)</u>					
<u>Crude oil</u>					
<u>Export prices</u>					
Colombian authorities	20.5	18.2	19.0	19.9	20.8
WEO projections as of October 4, 1990 <u>1/</u>	22.1	25.8	24.0	25.0	26.0
Mission projections	21.7	22.5	22.0	23.0	24.0
<u>(Thousands of barrels a day)</u>					
<u>Export volume (thousands of barrels a day) <u>2/</u></u>					
Colombian authorities	261	259	266	269	232
Mission projections	261	249	300	328	353
<u>(U.S. dollars a pound: period average)</u>					
<u>Coffee prices (ex-dock)</u>					
Colombian authorities	0.91	0.95	1.00	1.05	1.10
Mission projections <u>3/</u>	0.91	1.02	1.06	1.11	1.18

Sources: Colombian authorities; and Fund staff estimates.

1/ Adjusted to make comparisons possible with Colombian crude export qualities. Because of the decline in world oil prices that has taken place since the mission, the new WEO projections for oil prices over the medium term result in an average over this period that is similar to that assumed by the mission.

2/ Includes the crude equivalent of total exports of crude, fuel oil, and diesel.

3/ WEO projections as of October 4, 1990.

price and volume assumptions between the scenario prepared by the mission for the discussions and those of the Colombian authorities.

The scenario discussed with the authorities involves a reduction of the nonfinancial public sector deficit from 2 percent of GDP in 1990 to 1 percent of GDP in 1991, and a shift into small surpluses starting in 1993 (Table 7). Public sector savings would increase from 5 percent of GDP in 1990 to 8 percent of GDP in 1994 as a result of a rise in tax revenues in the early part of the period (stemming from a planned increase in the value-added tax rate from 10 percent to 12 percent in 1991, higher international trade tax collections associated with the opening of the economy, and better tax administration). In addition, nontax revenue would increase reflecting improvements in the operational surpluses of the nonfinancial public sector enterprises. On the expenditure side, planned reductions in current transfers in line with the regional decentralization of public finances and a constant wage bill in relation to GDP would contribute to a rise in public sector savings.

The improvement in the public finances over the medium term also is expected to result from the implementation of a public sector reform program, especially in the area of public enterprises. This program, to be supported by the recently approved IBRD/IDB quick-disbursing loans, is aimed at streamlining (and whenever possible, privatizing) the operations of the Port Authority (COLPUERTOS), the Agricultural Marketing Corporation (IDEMA), the public institutions involved in the low-income housing sector, and the railway companies. The improved savings of the nonfinancial public sector would permit a temporary increase in public investment in infrastructure projects while still being consistent with declining deficits in 1991-92 and small surpluses subsequently.

On the basis of this fiscal policy scenario, gross domestic savings would rise from almost 20 percent of GDP in 1990 to about 24 percent GDP in 1994; gross domestic investment would rise from almost 19 percent of GDP in 1990 to 22.5 percent of GDP in 1994 (Table 8).

The faster increase in domestic savings over domestic investment would be mirrored in a steady strengthening of the external current account to a surplus of 1.6 percent of GDP by end-1994 (Table 9). The rise in total exports assumes a strong performance of nontraditional exports as well as of hydrocarbon and coal exports which would more than offset a deceleration in the rate of growth in coffee, nickel, and other traditional exports (Statistical Appendix Table 13). Although the price of oil is projected to decline in real terms over the period 1991-94, petroleum exports receipts would continue to rise as a result of the increased export volume made possible by the enlarged pipeline facilities mentioned earlier. Imports also would grow as a result of the opening of the economy and the implementation of some large public sector investment projects in infrastructure. By 1994, the degree of

Table 7. Colombia: Operations of the Nonfinancial  
Public Sector in the Medium Term

(As percent of GDP)

	Est. 1990	Projected			
		1991	1992	1993	1994
<u>Total revenue</u>	<u>22.2</u>	<u>24.1</u>	<u>24.0</u>	<u>24.0</u>	<u>24.0</u>
<u>Total expenditure and</u>					
<u>net lending</u>	<u>24.2</u>	<u>25.1</u>	<u>24.7</u>	<u>23.7</u>	<u>22.7</u>
Current expenditure	16.8	16.5	16.6	16.4	15.6
Interest payments	3.8	3.8	3.9	4.0	3.7
Other	13.0	12.7	12.7	12.4	11.9
Capital expenditure	7.1	8.2	8.1	7.1	7.0
Of which: fixed capital					
expenditure	6.4	7.3	7.3	6.4	6.3
Net lending	0.3	0.5	0.1	0.1	0.1
<u>Overall balance</u>	<u>-2.0</u>	<u>-1.0</u>	<u>-0.7</u>	<u>0.3</u>	<u>1.3</u>
<u>Required measures (+) or</u>					
<u>excess financing (-)</u>	<u>--</u>	<u>--</u>	<u>0.3</u>	<u>--</u>	<u>--</u>
<u>Domestic arrears 1/</u>	<u>0.5</u>	<u>-0.4</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Overall financing</u>	<u>1.5</u>	<u>1.4</u>	<u>0.4</u>	<u>-0.3</u>	<u>-1.3</u>
Foreign financing	0.3	0.1	0.1	0.2	-0.4
Domestic financing	1.2	1.3	0.3	-0.5	-0.9
<u>Memorandum items</u>					
Public sector savings	5.1	7.1	7.0	7.0	8.0
Total expenditure 2/ net of interest payments	20.4	21.1	20.8	19.4	18.8

Sources: Ministry of Finance; National Department of Planning; Banco de la Republica; and Fund staff estimates based on information provided by the authorities.

1/ Domestic arrears accumulated during 1990 are assumed to be fully repaid in 1991.

2/ Including net lending.

Table 8. Colombia: Macroeconomic Flows

(In percent of GDP)

	Prel.	Projected				
	1989	1990	1991	1992	1993	1994
<u>External current account</u>	<u>0.3</u>	<u>0.8</u>	<u>-0.1</u>	<u>0.3</u>	<u>1.0</u>	<u>1.6</u>
<u>Gross domestic investment</u>	<u>19.6</u>	<u>18.9</u>	<u>20.3</u>	<u>20.8</u>	<u>21.2</u>	<u>22.5</u>
Public	6.7	6.4	7.3	7.3	6.4	6.3
Private <u>1/</u>	12.9	12.5	13.0	13.5	14.8	16.2
<u>Gross domestic savings</u>	<u>19.9</u>	<u>19.7</u>	<u>20.2</u>	<u>21.1</u>	<u>22.2</u>	<u>24.1</u>
Public	5.0	5.1	7.1	7.0	7.0	8.0
Private	14.9	14.6	13.1	14.1	15.1	16.1
<u>Memorandum item</u>						
Real GDP growth (in percent)	3.2	3.5	3.3	3.7	4.5	5.0

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

1/ Includes changes in inventories.

Table 9. Colombia: Medium-Term Balance of Payments

	Est. 1990	Projected			
		1991	1992	1993	1994
(In millions of U.S. dollars)					
<u>Current account</u>	344	-52	186	563	1,023
Trade balance	1,874	1,709	2,076	2,604	3,141
Exports, f.o.b.	6,894	7,438	8,433	9,592	10,868
Coffee	1,393	1,493	1,560	1,644	1,761
Hydrocarbons	1,962	1,943	2,311	2,654	2,992
Coal	565	626	701	857	1,007
Gold	371	400	430	463	498
Nickel	138	129	129	128	127
Nontraditional exports	2,465	2,847	3,303	3,848	4,482
Imports, f.o.b.	5,020	5,729	6,357	6,989	7,727
Of which: nonpetroleum	4,770	5,479	6,067	6,678	7,361
Services (net)	-2,580	-2,761	-2,895	-3,041	-3,118
Factor payments (net)	-2,178	-2,287	-2,453	-2,591	-2,697
Nonfactor payments (net)	-402	-447	-442	-450	-456
Transfers (net)	1,050	1,000	1,000	1,000	1,000
<u>Capital account</u>	56	301	370	106	-149
Public sector (net)	199	253	350	213	-67
Disbursements	2,033	2,130	2,040	1,941	1,733
Amortization	1,858	1,831	1,671	1,708	1,780
Short term (net)	25	-45	-20	-20	-20
Nonfinancial private sector (net)	-86	-18	-37	-168	-150
Direct investment (net)	344	380	472	338	332
Long-term loans (net)	-11	-16	-103	-81	-39
Other (net) <sup>1/</sup>	-420	-382	-407	-426	-443
Financial private sector (net)	-57	65	57	61	68
<u>Overall balance</u>	400	249	551	669	874
Of which:					
Petroleum Fund	--	177	123	143	163
(In percent of GDP)					
<u>Memorandum items</u>					
Current account	0.8	-0.1	0.3	1.0	1.6
Nontraditional exports plus nonpetroleum imports	15.8	16.8	17.5	18.1	18.6
(In months of imports of goods and services)					
<u>Gross international reserves</u>					
Excluding Petroleum Fund	5.7	5.2	5.3	5.4	5.7
Including Petroleum Fund	5.7	5.4	5.6	5.8	6.2

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

<sup>1/</sup> Includes errors and omissions and short-term capital.



openness of the Colombian economy (measured by the ratio of nontraditional exports <sup>1/</sup> plus non-oil imports to GDP) would reach 19 percent of GDP compared with a ratio of 16 percent in 1990.

Net capital inflows are projected to average US\$260 million over the period 1991-93 and to change into net repayments starting in 1994. The public sector would continue to play a key role in securing foreign financing resources. Short-term private capital outflows would remain large to reflect the growth of the financing of nontraditional exports by the private sector.

In this scenario, the medium- and long-term exposure of foreign bank creditors declines at an annual average rate of about 2.5 percent over the 1991-94 period, including the effect of the agreement in principle reached in late November 1990 on a financing package which would refinance over 90 percent of the principal payments falling due to banks during that period. The exposure of the World Bank, Colombia's major creditor, would decline marginally in nominal terms while that of the IDB, bilateral creditors and suppliers would increase at an average rate of 6-7 percent a year over the same period. Under these projections, there would be a reduction in Colombia's total external debt from an average of 40 percent of GDP in 1989-90 to under 30 percent of GDP in 1994; over this period the total debt service ratio would decline from around 45 percent to 27 percent (Table 10).

The strength of the current account and the continued, albeit reduced, reliance on foreign financing would allow for a moderate accumulation of official net international reserves throughout the period 1991-94. Gross official reserves in terms of imports of goods and services are expected to increase from the equivalent of 5.7 months in 1990 to 6.2 months in 1994. However, there is a large degree of uncertainty regarding these projections because of the sensitivity of Colombia's external sector to changes in commodity prices and external interest rates. Cumulative foreign exchange earnings during the period 1991-1994 would change by about US\$760 million for every US\$0.10 a pound movement in the export price of coffee; by US\$244 million for every US\$1 a barrel in the price of crude oil and by US\$173 million for every 10,000 barrels a day in the export volume of crude oil. Over the same period, cumulative payments would change by US\$288 million for every 1 percentage point difference in interest rates.

#### V. Staff Appraisal

The pursuit of prudent economic and external debt policies has enabled Colombia to address effectively its adjustment problems in the face of changing external circumstances. Cautious financial policies

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<sup>1/</sup> Excludes hydrocarbon, coal, coffee, gold, and nickel exports.

Table 10. Colombia: Medium-Term External Debt and Debt Service

	Prel. 1989	Est. 1990	Projected			
			1991	1992	1993	1994
(In millions of U.S. dollars)						
<u>Public sector debt outstanding</u>	14,036	14,235	14,509	14,878	15,111	15,064
Medium-term <u>1/</u>	13,800	13,974	14,273	14,642	14,875	14,828
Short-term	236	261	236	236	236	236
<u>Private sector debt outstanding</u>	2,987	2,919	3,067	3,114	3,190	3,319
Medium-term <u>2/</u>	1,304 <u>3/</u>	1,293	1,277	1,175	1,093	1,054
Short-term	1,683	1,626	1,790	1,939	2,097	2,265
<u>Total debt outstanding</u>	17,023	17,154	17,576	17,992	18,301	18,383
Medium-term	15,104	15,267	15,550	15,817	15,969	15,882
Short-term	1,919	1,887	2,026	2,175	2,332	2,501
<u>Total debt service</u>	3,476	3,527	3,453	3,343	3,400	3,454
Public sector	2,918	3,103	3,087	2,953	3,017	3,098
Amortization <u>4/</u>	1,707	1,858	1,831	1,671	1,708	1,780
Interest	1,211	1,244	1,255	1,283	1,309	1,317
Private sector	558	425	367	390	382	357
Interest	281	236	226	238	247	259
Amortization <u>4/</u>	277	199	141	152	135	98
(In percent of GDP)						
<u>Total debt</u>	41.1	38.3	36.3	34.3	32.0	29.3
Public sector	33.9	31.8	30.0	28.4	26.4	24.0
Private sector	7.2	6.5	6.3	5.9	5.6	5.3
(In percent of exports of goods and nonfactor services)						
<u>Total debt service</u>	47.6	42.9	38.9	33.6	30.3	27.3
Public sector	39.9	37.8	34.8	29.7	26.9	24.5
Private sector	7.6	5.2	4.1	3.9	3.4	2.8
(Annual changes in percent)						
<u>Medium-term debt of the</u>						
public sector <u>2/</u>	0.1	1.2	2.1	2.5	1.5	-0.3
Multilateral organizations	0.8	0.2	1.7	2.9	3.5	1.3
Bilaterals	-3.0	0.4	13.2	11.3	5.3	-0.3
Commercial banks <u>5/</u>	-0.3	-0.9	-4.5	-3.3	-3.0	-2.4
Suppliers	9.5	25.2	7.9	1.8	-2.4	-1.5

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

1/ Excluding publicly guaranteed private sector debt.

2/ Includes publicly guaranteed private sector debt.

3/ Incorporates a reduction of US\$142.6 million due to a debt reduction operation.

4/ Amortization of medium- and long-term external debt.

5/ Includes bonds.

have been accompanied since the mid-1980s by structural reforms which have helped strengthen the domestic financial system, improve the tax structure, and reduce trade distortions. On this basis, Colombia has been able to achieve sustained economic growth, to maintain a comfortable external position, and to retain access to international capital markets. The continued implementation of sound policies in 1989 helped cushion the effects of the collapse of the international coffee price agreement and the repercussions of the Government's war on the illegal drug trade.

Despite the progress achieved, inflation has remained a problem and has accelerated in recent months. The new Administration has taken steps to curb inflation by tightening fiscal and credit policies and increasing the pace of import liberalization.

To avoid putting undue pressure on credit policy and running the risk of holding back private investment in the effort to combat inflation, it is important to avoid slippages in the implementation of the planned tightening of fiscal policy and that consideration be given to strengthen the fiscal adjustment further. A review of domestic gasoline pricing policies would appear appropriate in this connection, in light of the widening gap between domestic and international prices that has developed this year. It should be noted that the projected rise of public sector saving in 1991, part of which is to help cover an increase in public investment, is based on an improvement in tax revenue, the saving of oil revenue above a baseline price, and the exercise of restraint over the growth of the public sector wage bill. In addition, care needs to be given to avoiding a recourse to domestic arrears accumulation as a form of financing.

The decision of the authorities to reduce their reliance on forced investments and reserve requirements on the banking system is a welcome one, although it should be noted that there was a temporary step backward this year when reserve requirements had to be increased. Also, it is important that the authorities take steps to adjust to market levels all lending rates on lines of credit of the Banco de la Republica and on other sources of directed credit so as to minimize distortions in the allocation of credit. Such distortions become particularly troublesome when credit conditions need to be tightened as occurred in 1990. The recent measures to make more flexible the rules for privatizing financial institutions are helpful as the eventual sale of these institutions can be expected to contribute to the efficiency of the financial system.

Pursuit of a cautious wage policy is of critical importance if the authorities are to succeed in reducing inflation as they plan. To meet this objective, wage settlements in the public sector for 1991 should be forward looking, particularly in view of the acceleration of inflation over the past 12 months. The critical importance of such an approach needs to be emphasized to the managements of certain public sector enterprises which have granted unduly large wage increases in the

past. Restraint in the adjustment of the minimum wage also will need to be practiced if there is to be a significant turnaround in the course of inflation.

The acceleration of the import liberalization program is commendable. It can be expected to contribute to an improvement in resource allocation and greater export diversification. The steps already taken need to be followed by further reductions in the level and dispersion of import duty rates, while avoiding an increase in the effective rate of protection in the transitional period. Care should be taken to ensure that the ample degree of discretion for assessing unfair trade practices under the antidumping law is not used as a protectionist tool.

Over the years Colombia has pursued an exchange rate policy that has served it well, assisting it in maintaining export growth and avoiding external debt difficulties. Exchange rate policy as pursued in the period ahead will need to take into account the effects of the financial and trade liberalization policies that have been set into motion, and to be carried out in the context of a fiscal and credit policy framework aimed at reducing inflation.

The authorities have formulated a medium-term strategy that aims at achieving higher economic growth and lower inflation while preserving a satisfactory external position. The policies proposed to attain these objectives include a sustained improvement in the public finances and national savings, the continued careful control over credit, the maintenance of an adequate level of competitiveness, and a deepening of structural reform. Both structural reform and higher savings would serve to strengthen growth, and a successful implementation of the strategy would be consistent with a reduction in the external debt burden over time.

The policies that are envisaged seem to be appropriate for the attainment of the objectives of the authorities, but in the staff's view the authorities should be more ambitious in seeking the reduction of inflation. The authorities are aiming to bring inflation down to under 15 percent by 1994, but the gains from higher saving and increased efficiency through structural reform would come through more fully if inflation were brought down to a lower rate sooner. Because of the sensitivity of the external sector and the public finances to commodity market developments and interest rate levels, the authorities need to stand ready to take compensatory policy actions in the unfavorable external developments.

Colombia has continued to make progress in removing exchange restrictions. Restrictions on invisible payments and those that arise in connection with the use of a foreign exchange budget have been eliminated de facto and the staff would encourage the authorities to make this policy permanent. In addition, the remaining bilateral payments agreements with Fund members have been cancelled. However, the temporary adoption of a practice under which the Banco de la Republica does

not redeem immediately exchange certificates issued against service and transfer receipts of Colombian residents has introduced a new multiple currency practice subject to Article VIII. The staff recommends that this practice, as well as the other long-standing multiple currency practices, be eliminated as soon as possible in the context of the prudent macroeconomic and structural reform policies the authorities intend to pursue.

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

Colombia - Fund Relations  
(As of November 30, 1990, unless otherwise indicated)

I. Membership Status

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

A. Financial Relations

II. General Department (General Resources Account)

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

III. SDR Department

- (a) Net cumulative allocation: SDR 114.3 million.
- (b) Holdings: SDR 114.2 million
- (c) Current designation plan: None.

B. Nonfinancial Relations

- IV. Exchange rate arrangement: The exchange rate for the Colombian peso is adjusted in small amounts at relatively short intervals taking into account movements in a set of indicators. Exchange surrender and foreign payments are generally effected through the medium of exchange certificates which are traded in the official market at the official rate. Exchange certificates are also traded in the stock exchange at varying rates of discount. On November 30, 1990, the rate in the official market for the U.S. dollar, the intervention currency, was Col\$556.53 per U.S. dollar. Several other multiple currency practices result in separate effective exchange rates. Colombia's exchange restrictions and multiple currency practices subject to approval under Article VIII, Sections 2 and 3, have not been approved.

- V. Last Article IV consultation and recent contacts: The 1989 Article IV consultation discussion was completed on December 11, 1989 (EBM/89/160 and EBM/89/161; the relevant documents were SM/89/233 and SM/89/246). More recently in the absence of a Fund program and in accordance with the guidelines on Fund/Bank collaboration, procedures were set up whereby the staff will evaluate twice a year the authorities' economic policies in a medium-term context during the period which the Bank extends quick-disbursing policy-based loans to Colombia. A mission visited Bogota in April/May 1990 and the first staff report called for by the procedures was circulated for the information of Executive Directors on June 15, 1990. This staff report is the second report under such procedures.

- VI. Technical assistance: The Fiscal Affairs Department has continued to provide technical assistance in the area of customs administration. Since February 1989 an FAD panel expert has been in Bogota. Early in November 1990 another expert was assigned to the Customs Department and a third one is expected to arrive early in 1991. In the field of statistics, there was a mission in June of 1988 in the area of Government Finance, and more recently, in July 1990, WHD and STAT provided technical assistance in the area of money and banking.
- VII. Statistical Data: The currentness and coverage of Colombia's statistical data in the IFS is considered reasonably adequate at this time.

## Colombia: Selected Economic and Financial Indicators

	1986	1987	1988	1989	Est. 1990	Proj. 1991 <sup>1/</sup>
(Percentage changes)						
National income and prices						
Real GDP	5.8	5.3	3.7	3.2	3.5	3.3
GDP deflator	29.2	22.8	27.1	25.7	28.7	24.9
Consumer prices (end of period)	20.9	24.0	28.1	26.1	30.0	22.0
Consumer prices (average)	18.9	23.3	28.1	25.9	28.7	24.9
External sector (on the basis of U.S. dollars)						
Exports (f.o.b.)	43.7	-3.3	1.7	12.9	14.3	7.9
Imports (f.o.b.)	-7.2	11.3	19.0	0.7	10.4	14.1
Terms of trade (deterioration -)	22.0	-22.9	0.7	-12.9	-5.0	1.6
Nominal effective exchange rate (end of period, depreciation -) <sup>2/</sup>	-29.8	-17.1	-7.2	1.7	-6.1	...
Real effective exchange rate (end of period, depreciation -) <sup>3/</sup>	-7.6	0.3	2.1	-6.9	-10.6	...
Central Administration						
Total revenue	46.8	42.7	29.2	27.0	31.7	38.7
Total expenditure	28.9	31.1	39.9	30.7	33.3	26.2
Money and credit						
Domestic credit <sup>4/</sup>	7.9	28.8	26.0	33.3	28.1	26.1
Nonfinancial public sector (net)	-8.5	6.9	4.4	5.4	4.6	4.0
Private sector	20.1	28.0	25.5	29.8	22.1	22.6
Money and quasi-money	27.5	30.2	22.9	32.1	32.4	26.9
Income velocity of M2	3.0	3.0	3.2	3.2	3.2	3.2
Interest rate (effective annual rate, 90-day certificate of deposit)	32.1	34.2	31.8	33.7	36.4 <sup>5/</sup>	...
(In percent of GDP)						
Nonfinancial public sector deficit <sup>6/</sup>	0.6	-1.8	-2.7	-2.0	-2.0	-1.0
Domestic financing	-2.7	2.5	1.4	1.3	1.7 <sup>7/</sup>	0.9 <sup>7/</sup>
Foreign financing	2.1	-0.7	1.3	0.7	0.3	0.1
Nonfinancial public sector savings	7.4	5.5	5.0	5.0	5.1	7.1
Central Administration (deficit -)	-1.3	-0.4	-1.4	-1.7	-1.8	-0.8
Gross domestic investment	18.0	20.0	21.9	19.7	18.9	20.3
Gross national savings	19.5	19.9	21.4	19.9	19.7	20.2
Current account (deficit -)	1.5	-0.1	-0.5	0.2	0.8	-0.1
External debt	44.9	47.1	45.8	41.1	38.3	36.3
Of which: public	36.2	38.3	36.8	33.9	31.8	30.0
(In percent of goods and nonfactor services)						
Debt service <sup>8/</sup>	38.5	43.1	47.5	47.6	42.9	38.9
Of which: public	28.8	36.8	41.7	39.9	37.8	34.8
Interest payments <sup>8/</sup>	20.5	21.4	21.4	20.4	17.9	16.7
Of which: public	14.7	17.3	17.3	16.6	15.1	14.2
(In millions of U.S. dollars)						
Overall balance of payments	1,360	-211	388	149	400	249
Gross official reserves (in months of imports of goods and services)	6.1	5.6	5.6	5.6	5.7	5.4

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

<sup>1/</sup> Preliminary projections by the Colombian authorities.<sup>2/</sup> Non-oil trade weighted vis-a-vis 18 partner countries prepared by IMF Information Notice System. Based on relative consumer price indices. Data shown for 1990 is as of August 31, 1990.<sup>3/</sup> Index calculated by the Banco de la Republica. Based on relative wholesale price indices for 18 main trading partners (1986 trade weights; excludes coffee). Data shown for 1990 is as of August 31, 1990.<sup>4/</sup> In relation to liabilities to the private sector at the beginning of the period. Parts do not add up to total as they exclude unclassified net assets. Changes are exclusive of valuation adjustments.<sup>5/</sup> As of September 30, 1990.<sup>6/</sup> Measured in terms of financing.<sup>7/</sup> Data shown for 1990 include financing through the accumulation of domestic arrears, information for which is not available for previous years. Furthermore, it is assumed that domestic arrears accumulated during 1990 are fully cleared during 1991.<sup>8/</sup> Includes interest on short-term debt.



Colombia--Statistical Issues

1. Outstanding statistical issues

a. Government finance

Annual data in IFS cover consolidated central government and are the same as those in the GFS database. Data for consolidated central government financing are not available while data for domestic and external debt are only current through 1985 and 1986, respectively. Quarterly and monthly IFS data cover only budgetary central government.

b. Monetary accounts

A joint Western Hemisphere Department/Bureau of Statistics statistical mission found that while data collection procedures were adequate, additional information from financial institutions was required to achieve a full sectorization of accounts. The statistical mission left the authorities with specific recommendations on how to resolve this issue.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Colombia in the November 1990 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banco de la Republica which, during the past year, have been provided regularly, except for MBS and part of GFS.

Status of IFS Data

Sector	Series	Latest Data in November 1990 IFS
Real	- National accounts	1989
	- Prices: WPI	July 1990
	CPI	August 1990
	- Production: gold	April 1990
	petroleum	May 1990
	- Employment	n.a.
Government Finance	- Earnings	n.a.
	- Deficit/surplus	June 1990
	- Financing	June 1990
Monetary Accounts	- Debt	Q3 1989--partial
	- Monetary authorities	June 1990--partial
	- Deposit money banks	Q4 1988
	- Other banking institutions	Q4 1988--partial
Interest Rates	- Discount rate	July 1990
	- Bank deposit/lending rates	July 1990
	- Bond yields	n.a.
External	- Merchandise trade:	
	Values	May 1990
	Prices	July 1990
	- Balance of payments	1989
	- International reserves	July 1990
	- Exchange rates	September 1990

Proposed Structural Reforms

Congressional approval of a proposed foreign trade law would consolidate the institutional framework in support of the import liberalization program and the export promotion policies. In addition, the bill proposes the conversion of the Export Promotion Fund (PROEXPO) into a foreign trade bank under which PROEXPO would no longer obtain its funding from import surcharge revenues and would not be responsible for paying the tax credit certificates to exporters. Under the proposed law the new institution would be capitalized with its existing loan portfolio and could receive deposits in the future. The Foreign Trade Institute (INCOMEX) would be mainly in charge of administering the antidumping code.

Congress is currently considering draft legislation to reform the financial sector, aimed at diversifying the financial institutions in Colombia by means of reducing the barriers to entry (including foreign participation) and exit and better delineating the regulations (including minimum capital requirements) for different types of institutions. The proposal envisages the maintenance of a strong supervisory rule for the Superintendency of Banks. The authorities indicated that this reform should be viewed as supplementary to their continuing efforts to raising the financial system's efficiency through further reductions of effective reserve requirements and of the scope of forced investments.

In the area of the exchange system, draft legislation is being considered whereby the commercial banking system would assume a more prominent role in the conduct of foreign exchange operations. These operations would be conducted at a reference exchange rate to be established by the Banco de la Republica for foreign exchange operations with private banks. It is envisaged that banks would periodically settle with the central bank their foreign exchange positions in excess of their legal limits. As is the case now, the new law would give the authority to the Monetary Board to liberalize the exchange system (e.g., the abolishment of advance import deposits for import payments and the liberalization of regulations on foreign investment and profit remittances).

Finally, Congress has been presented with draft legislation aimed at reforming the Labor Code with a view to introducing greater flexibility in the labor market. Attention has focussed on ways to define more clearly in the labor legislation the concept of labor compensation so that the effective labor costs can be identified, to reduce the barriers to hiring new entrants to the labor force, and to lower the cost of the system of severance payments.

Colombia--Social Indicators  
(Data for 1988 unless otherwise indicated)

Area	1,139 thousand sq. km.
Population density	26.3 per sq. km.
Population	30.0 million
Rate of population growth	1.8 percent
Life expectancy at birth	65.7 years
Infant mortality rate	46.0 per thousand
Child death rate (under 5 mortality rate)	59.0 per thousand
Population per hospital bed	600
Urban population with access to safe water (1985)	89.0 percent
Calorie intake as percent of requirements	109.7 percent
Primary school enrollment rate	114.0
Unemployment rate (1989 yearly average)	9.8 percent
<u>GDP (1989)</u>	SDR 32,317 million
	US\$41,422 million
	Col\$15,089 billion
<u>GDP per capita (1989)</u>	SDR 1077

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Source: IBRD, Social Indicators of Development, 1989, John Hopkins University Press, September 1989.

Colombia--IBRD Operations

The IBRD is Colombia's most important creditor. As of September 30, 1990 outstanding loans totaled US\$3.9 billion, or the equivalent of about one fourth of Colombia's total public sector external debt. If the speed of execution of existing projects in the pipeline does not change significantly, net disbursements from the IBRD to Colombia would be negative by about US\$36 million a year during 1990-94. As the pipeline of investment loans is rebuilt, net disbursements would increase to about US\$50 million in 1995.

Table 11. Colombia: Operations of the Consolidated Nonfinancial Public Sector

(As percent of GDP)

	1985	1986	1987	1988	1989	Est. 1990	Proj. 1991
<u>Total revenue</u>	<u>21.0</u>	<u>23.8</u>	<u>22.1</u>	<u>22.0</u>	<u>22.0</u>	<u>22.2</u>	<u>24.1</u>
Current revenue	20.7	23.6	21.8	21.7	21.7	21.8	23.6
Tax revenue	13.7	15.3	14.9	14.7	14.6	14.2	15.3
Nontax revenue	7.6	9.5	7.4	7.6	8.6	8.7	9.3
Property income	1.3	1.0	0.9	1.1	0.8	0.9	0.9
Other	2.2	1.8	2.0	1.7	2.0	1.8	1.5
Operating surplus	4.1	6.7	4.5	4.8	5.8	6.0	6.9
Current transfers	0.1	--	--	0.5	0.3	0.3	0.2
Adjustment for transfers <sup>1/</sup>	-0.7	-1.2	-0.5	-1.0	-1.8	-1.3	-1.3
Capital revenue	0.3	0.2	0.3	0.3	0.4	0.4	0.5
Capital transfers	0.1	0.1	--	--	0.1	0.1	0.2
Other capital revenue	0.2	0.1	0.3	0.3	0.3	0.3	0.3
<u>Total expenditure and net lending</u>	<u>24.5</u>	<u>24.1</u>	<u>24.1</u>	<u>24.2</u>	<u>24.5</u>	<u>24.2</u>	<u>25.1</u>
Current expenditure	15.3	16.2	16.3	16.7	16.7	16.9	16.5
Wages and salaries	6.3	5.9	5.7	5.7	5.8	5.7	5.6
Goods and services	1.7	2.7	2.7	2.7	2.8	2.7	2.5
Interest	2.9	3.1	4.0	4.2	3.7	3.8	3.8
External debt	2.0	2.3	2.9	3.0	2.7	2.6	2.7
Domestic debt	0.9	0.9	1.1	1.2	1.0	1.2	1.1
Current transfers	3.9	3.7	3.5	3.6	3.9	3.9	3.8
Other current expenditure	0.5	0.7	0.4	0.5	0.5	0.7	0.7
Capital expenditure	9.1	7.6	7.7	7.4	7.6	7.1	8.2
Fixed capital formation	8.3	6.7	6.1	6.4	6.7	6.4	7.3
Capital transfers	0.2	0.2	0.8	0.5	0.4	0.3	0.3
Other capital expenditure	0.6	0.7	0.8	0.6	0.5	0.4	0.6
Net lending	0.1	0.3	0.1	0.2	0.3	0.3	0.5
<u>Net residual <sup>2/</sup></u>	<u>-0.7</u>	<u>0.9</u>	<u>0.2</u>	<u>-0.4</u>	<u>0.5</u>	<u>--</u>	<u>--</u>
<u>Overall balance</u>	<u>-4.2</u>	<u>0.6</u>	<u>-1.8</u>	<u>-2.7</u>	<u>-2.0</u>	<u>-2.0</u>	<u>-1.0</u>
<u>Domestic arrears</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>0.5 <sup>3/</sup></u>	<u>-0.4 <sup>3/</sup></u>
<u>Overall financing</u>	<u>4.2</u>	<u>-0.6</u>	<u>1.8</u>	<u>2.7</u>	<u>2.0</u>	<u>1.5</u>	<u>1.4</u>
Foreign financing	3.8	2.1	-0.7	1.3	0.8	0.3	0.1
Disbursement	4.7	7.1	3.0	5.1	4.9	4.2	4.1
Amortization	-1.7	-2.5	-3.2	-3.8	-4.2	-4.0	-3.8
Short term	0.8	-2.5	-0.5	--	--	0.1	-0.1
Domestic financing	0.4	-2.7	2.5	1.4	1.3	1.2	1.3
Banco de la Republica	0.6	-2.5	1.7	0.3	0.7	0.4	0.2
Rest of financial system	-0.1	-0.1	0.4	1.0	0.9	0.9	1.1
TAN bonds	0.2	0.1	--	--	-0.1	--	--
TAC bonds	--	0.4	0.3	--	-0.2	-0.1	--
Suppliers' credit	0.4	-0.4	0.1	--	--	--	--
Other bonds	-0.7	-0.2	--	0.1	--	--	--
<u>Memorandum items</u>							
Current account balance	5.4	7.4	5.5	5.0	5.0	5.1	7.1
Operating balance of the Coffee Fund	0.9	2.1	-0.7	-0.1	--	-0.3	-0.3
Operating balance of ECOPETROL	1.2	1.6	2.3	2.3	2.7	3.1	3.4

Sources: Ministry of Finance; National Planning Department; and Banco de la Republica.

<sup>1/</sup> Statistical discrepancies resulting from differences in intersectoral transfers.<sup>2/</sup> Reflects reporting lags and statistical discrepancies.<sup>3/</sup> Information on domestic arrears financing is not available for previous years. Moreover, it is assumed that all domestic arrears accumulated during 1990 are cleared in 1991.

Table 12. Colombia: Operations of the Central Administration

(In billions of Colombian pesos)

	1985	1986	1987	1988	Prel. 1989
<u>Total revenue</u>	<u>446.5</u>	<u>655.5</u>	<u>935.5</u>	<u>1,209.1</u>	<u>1,536.1</u>
<u>Current revenue</u>	<u>446.5</u>	<u>655.5</u>	<u>924.4</u>	<u>1,195.7</u>	<u>1,509.2</u>
Tax revenue	427.5	612.4	851.0	1,125.4	1,435.3
Income tax	155.2	213.6	306.3	402.0	532.2
Goods and services	161.7	224.7	309.4	410.3	531.8
International trade	87.0	142.5	210.5	282.9	332.6
Other taxes	23.7	31.5	24.7	30.2	38.7
Nontax revenue	19.0	30.6	46.4	46.9	69.0
Property income	6.5	11.7	14.9	17.5	17.9
Fees and fines	12.5	18.9	31.5	29.3	51.1
Current transfers	--	12.6	27.0	23.4	4.9
<u>Capital receipts</u>	<u>--</u>	<u>--</u>	<u>11.1</u>	<u>13.4</u>	<u>26.8</u>
<u>Total expenditure and net   lending</u>	<u>578.3</u>	<u>745.5</u>	<u>977.0</u>	<u>1,366.5</u>	<u>1,786.5</u>
<u>Current expenditure</u>	<u>431.7</u>	<u>565.2</u>	<u>767.8</u>	<u>1,116.9</u>	<u>1,416.5</u>
Wages and salaries	98.8	128.8	168.0	220.7	288.6
Goods and services <u>1/</u>	42.7	55.8	69.3	104.1	150.8
Interest	49.6	68.1	115.2	211.3	205.1
Foreign	36.9	52.3	83.2	152.7	148.4
Domestic	12.7	15.8	32.0	58.6	56.7
Transfers	240.6	312.5	415.3	580.8	772.0
<u>Capital expenditure</u>	<u>141.0</u>	<u>148.9</u>	<u>206.7</u>	<u>229.7</u>	<u>311.7</u>
Fixed capital formation	23.0	16.3	19.8	19.5	35.6
Transfers	118.0	132.6	174.4	210.2	276.1
Other capital expenditure	--	--	12.5	--	--
<u>Net lending</u>	<u>5.6</u>	<u>31.4</u>	<u>2.5</u>	<u>19.9</u>	<u>58.3</u>
<u>Overall balance</u>	<u>-131.8</u>	<u>-90.0</u>	<u>-41.5</u>	<u>-157.4</u>	<u>-250.4</u>

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

1/ Includes military expenditure financed in U.S. dollars.

Table 13. Colombia: Merchandise Exports

	1988	Prel. 1989	Est. 1990	Projected			
				1991	1992	1993	1994
(In millions of U.S. dollars)							
<u>Total</u>	<u>5,339</u>	<u>6,030</u>	<u>6,894</u>	<u>7,438</u>	<u>8,433</u>	<u>9,592</u>	<u>10,868</u>
Coffee <sup>1/</sup>	1,621	1,477	1,393	1,493	1,560	1,644	1,761
Volume (millions of 60-kg. bags)	9.8	10.8	13.5	12.7	12.7	12.7	12.7
Unit value (US\$/lb.)	1.25	1.03	0.81	0.92	0.96	1.01	1.08
Hydrocarbons	988	1,400	1,962	1,943	2,311	2,654	2,992
Volume (millions of bbls.)	76.1	83.7	95.3	90.9	109.5	119.7	128.8
Unit value (US\$/bl.)	12.9	16.7	20.6	21.4	21.1	22.2	23.2
Coal	304	457	565	626	701	857	1,007
Volume (millions of tons)	10.8	12.6	14.5	15.4	16.5	19.3	21.7
Unit value (US\$/ton)	28.2	36.3	38.9	40.7	42.5	44.4	46.4
Nonmonetary gold	413	365	371	400	430	463	498
Nickel	161	188	138	129	129	128	127
Nontraditional exports	1,856	2,144	2,465	2,847	3,303	3,848	4,482
(As percent of total merchandise exports)							
<u>Memorandum items</u>							
Coffee	30	24	20	20	18	17	16
Petroleum	18	23	28	26	27	28	28
Coal	6	8	8	8	8	9	9
Nontraditional exports	35	36	36	38	39	40	41

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

<sup>1/</sup> Includes a balance of payments adjustment.