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August 22, 1988

To: Members of the Executive Board  
From: The Secretary  
Subject: Colombia - Staff Report for the 1988 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1988 Article IV consultation with Colombia, which has been tentatively scheduled for discussion on Friday, October 14, 1988. A draft decision appears on page 21.

Mr. Bonangelino (ext. 7148) 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 1988 Article IV Consultation

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations,  
Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by S. T. Beza and Helen B. Junz

August 18, 1988

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## I. Introduction

The 1988 Article IV consultation discussions were initiated in Bogota in the period May 11-26, 1988, continued at headquarters on June 20-21, 1988, and concluded in Bogota in the period July 13-20, 1988. The representatives of Colombia in the discussions included the Ministers of Finance, Agriculture, Economic Development, Labor, and Mines and Energy, the General Manager of the Banco de la Republica, the Head of the National Planning Department, and senior officials of the Ministry of Finance and the Banco de la Republica. 1/

The last Article IV consultation was concluded by the Executive Board on December 23, 1987. Colombia continues to avail itself of the transitional arrangements of Article XIV. Under a decision adopted at the time of the 1987 Article IV consultation, the authorities of Colombia may release the present staff report to its creditor banks.

## II. Recent Developments

In 1985 and 1986 Colombia successfully implemented adjustment programs that were supported by a monitoring arrangement from the Fund, under which the Fund endorsed Colombia's economic program, monitored policy implementation, and authorized Colombia to release staff reports to its bank creditors. During this period the overall deficit of the public sector was eliminated (on the basis of a strong growth in revenue occasioned in part by the rise of coffee prices as well as a significant reduction in total expenditure in relation to GDP), monetary policy was tightened, and the peso was depreciated by close to 40 percent in real effective terms (Table 1). The balance of payments moved into overall surplus reflecting the improvement in economic policies as well as a 48 percent increase in the export price of coffee in 1986. The growth of real GDP decelerated somewhat to 3.1 percent in 1985 but rose to 5.1 percent in 1986, while the inflation rate averaged about 22 percent on an end-of-period basis during those two years.

With economic policies continuing to be prudent, performance remained strong in 1987 and real GDP grew by 5.4 percent, the highest growth rate since 1978. The rate of unemployment declined from a peak of nearly 15 percent in mid-1986 to about 10 percent at the end of 1987, in part as a result of a boom in private construction. The strengthening of economic activity was accompanied by an increase in the rate of inflation from 20.9 percent during 1986 to 24 percent during 1987.

The overall position of the public sector shifted from a small surplus in 1986 to a deficit of 1.8 percent of GDP in 1987. The change

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1/ The staff representatives were Messrs. Bonangelino (Head-WHD), Leipold (ETR), Leme (WHD), and Rado (INST), Ms. Swiderski (WHD), and Mrs. Bustillo (Secretary-WHD). Mr. Rodlauer (ETR) replaced Mr. Leipold in the visit to Bogota of July 13-20, 1988.

Table 1. Colombia: Selected Economic Indicators

	1984	1985	1986	Prel. 1987	Proj. 1988
<u>(In percentage change)</u>					
Real GDP	3.4	3.1	5.1	5.4	5.0
Nominal GDP	26.3	28.8	34.9	31.0	32.3
GDP deflator	22.2	24.9	28.4	24.4	26.0
CPI (end of period)	18.3	22.5	20.9	24.0	26.0
<u>(In percent of GDP)</u>					
<u>Overall nonfinancial public</u>					
<u>sector deficit (-) 1/</u>	<u>-6.8</u>	<u>-4.2</u>	<u>0.6</u>	<u>-1.8</u>	<u>-3.0</u>
Foreign financing	1.9	3.8	2.1	-0.7	2.3
Domestic financing	4.9	0.4	-2.7	2.5	0.7
<u>Central administration</u>					
<u>deficit (-)</u>	<u>-4.3</u>	<u>-2.7</u>	<u>-1.3</u>	<u>-0.5</u>	<u>-1.3</u>
<u>Gross domestic investment</u>	<u>19.0</u>	<u>19.0</u>	<u>18.0</u>	<u>19.3</u>	<u>19.6</u>
<u>Gross national saving</u>	<u>11.4</u>	<u>14.1</u>	<u>19.3</u>	<u>19.0</u>	<u>17.8</u>
Public sector	3.3	5.7	8.3	5.1	4.0
Private sector	8.1	8.4	11.0	13.9	13.8
<u>Current account of the</u>					
<u>balance of payments</u>	<u>-7.6</u>	<u>-4.9</u>	<u>1.3</u>	<u>-0.3</u>	<u>-1.8</u>
<u>(In millions of U.S. dollars)</u>					
<u>Overall balance of payments</u>	<u>-1,426</u>	<u>267</u>	<u>1,360</u>	<u>-200</u>	<u>200</u>

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

1/ Measured from the financing side.

largely reflected a swing into deficit of the National Coffee Fund (equivalent to 3.8 percentage points of GDP) caused by an almost 50 percent drop in coffee export prices. Excluding the National Coffee Fund, the overall deficit of the public sector narrowed from 2.6 percent of GDP in 1986 to 1.1 percent of GDP in 1987, mostly as a result of stronger revenue. Petroleum exports by the state oil company ECOPETROL more than doubled, taxes on international trade were buoyant, a tax amnesty was implemented, and certain other back taxes were collected. These improvements contained the fall in total public sector revenue to the equivalent of about 3 percentage points of GDP (to 19.9 percent of GDP). Despite larger interest payments, total public sector expenditure also fell in relation to GDP (from 22.9 percent in 1986 to 21.5 percent in 1987) as the execution of the investment program was slower than programmed because of delays in obtaining foreign financing and non-interest current expenditure was restrained.

Net foreign financing was negative in 1987, partly because financing from commercial banks for 1987-88 began to be disbursed only in mid-1988. Domestic financing of the fiscal deficit gave rise to an expansion of 70 percent in the financial system's outstanding net credit to the public sector. In addition, financial system credit to the private sector rose by 28 percent, even though in the last quarter of the year the authorities raised reserve requirements, increased open market sales, and exercised moral suasion to induce commercial banks to refrain from further expanding credit. In all, the net domestic assets of the financial system rose by 33 percent in 1987, compared with an annual average increase of 17 percent in the previous two years. Net international reserves declined by a small amount in 1987, and the level of gross reserves as of the end of the year was still equivalent to about 11 months of merchandise imports.

Despite the sharp decline in coffee export prices, the U.S. dollar value of total exports experienced only a minor reduction in 1987 as other exports rose strongly in reflection of the authorities diversification policy. Following large investments in the early 1980s, petroleum and coal production and exports rose rapidly, and nontraditional exports were bolstered by the real effective depreciation of the peso in 1985-86. <sup>1/</sup> However, there was a significant rise in imports and, despite a large increase in net private transfers, the current account of the balance of payments shifted from a surplus equivalent to 1.3 percent of GDP in 1986 to a deficit of 0.3 percent of GDP in 1987. The observed swing in the capital account, from net inflows of about US\$900 million in 1986 to net outflows of about US\$80 million in 1987, was due mainly to lower net disbursements from multilateral institutions <sup>2/</sup> and

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<sup>1/</sup> On the basis of a revised index prepared by the Banco de la Republica the peso was maintained roughly constant in real effective terms during 1987.

<sup>2/</sup> For a detail of IBRD operations, see Attachment V.

to delays in finalizing the arrangement with foreign commercial banks for a US\$1 billion loan. <sup>1/</sup>

### III. Policy Discussions

The 1988 consultation discussions focused on the implementation of the authorities' economic program for this year and their policy plans for the medium term. The main policy objectives of the authorities for 1988 are to achieve a rate of growth of real GDP of about 5 percent while keeping the rate of inflation at about 26 percent. The authorities are pursuing fiscal, monetary, and exchange rate policies that are expected to be consistent with these objectives and with a small accumulation of net international reserves. Over the medium term, the authorities intend to implement economic policies which would result in a gradual reduction of inflation, a decline in the external current account deficit from 1.8 percent of GDP in 1988 to about 0.5 percent of GDP by 1993, and some accumulation of net international reserves. These policies are expected to be consistent with economic growth at about the rate projected for this year.

#### 1. Fiscal policy

The authorities' economic program envisages an increase in the overall public sector deficit from the equivalent of 1.8 percent of GDP in 1987 to about 3 percent in 1988 (Table 2 and Statistical Appendix Table 9). This reflects both less buoyant revenues (which are expected to decline by the equivalent of about 1 percentage point of GDP mainly as a result of a drop in oil prices and the nonrecurrent nature of some sources of revenue in 1987) as well as a stepped up public investment program and higher interest payments. Despite a sizable increase in defense-related expenditure, noninterest current expenditure are expected to increase no faster than nominal GDP. In contrast to 1987, when net foreign financing was negative, the 1988 deficit is expected to be largely financed from external sources as the financing for the two-year period 1987-88 is disbursed.

The overall deficit of the Central Administration is projected to widen from 0.5 percent of GDP in 1987 to 1.3 percent in 1988 (Statistical Appendix Table 10). For the first time since 1983, revenues are expected to increase marginally less than GDP as a result of a decline in transfers from the rest of the public sector and the one-time nature of various revenue sources in 1987 (the tax amnesty, collection of other back taxes and fines due by petroleum companies and not covered by the amnesty, and the effect of raising income tax withholding rates). Total

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<sup>1/</sup> It had been expected that the loan from commercial banks for US\$1 billion would be disbursed in the last quarter of 1987, but it was signed only in early 1988 and the first two disbursements for a total of US\$845 million did not take place until May-June 1988.

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

(As percent of GDP)

	1984	1985	1986	Prel. 1987	Proj. 1988
<u>Total revenue</u>	<u>19.2</u>	<u>21.0</u>	<u>23.1</u>	<u>19.9</u>	<u>19.0</u>
Tax revenue	12.4	13.7	14.5	13.6	13.4
Operating surplus	3.7	4.1	6.3	4.5	3.9
Other	3.1	3.3	2.3	1.8	1.7
<u>Total expenditure</u>	<u>25.5</u>	<u>24.5</u>	<u>22.9</u>	<u>21.5</u>	<u>22.0</u>
Current expenditure	15.9	15.3	14.8	14.8	15.0
Interest payments	2.4	2.9	3.0	3.8	4.0
Other	13.5	12.4	11.8	11.0	11.0
Capital expenditure	9.6	9.2	8.1	6.7	7.0
Of which: fixed capital formation	8.8	8.3	6.7	5.8	6.1
<u>Overall balance</u>	<u>-6.3</u>	<u>-3.5</u>	<u>0.2</u>	<u>-1.6</u>	<u>-3.0</u>
<u>Net residual 1/</u>	<u>-0.5</u>	<u>-0.7</u>	<u>0.4</u>	<u>-0.2</u>	<u>--</u>
<u>Overall financing</u>	<u>6.8</u>	<u>4.2</u>	<u>-0.6</u>	<u>1.8</u>	<u>3.0</u>
Foreign financing	1.9	3.8	2.1	-0.7	2.3
Domestic financing	4.9	0.4	-2.7	2.5	0.7
<u>Memorandum items</u>					
Public sector savings	3.3	5.7	8.3	5.1	4.0
Overall balance of:					
Central Administration	-4.3	-2.7	-1.3	-0.5	-1.3
ECOPETROL	0.1	-1.2	-0.2	1.0	-0.2
CARBOCOL	-0.8	-0.7	-0.6	-0.5	-0.4
Coffee Fund	0.4	1.4	3.2	-0.6	-0.3

Sources: Statistical Appendix Table 10.

1/ Reflects reporting lags and statistical discrepancies.



expenditure by the Central Administration is projected to rise by 0.7 percentage point of GDP, mainly in reflection of higher outlays for defense and social programs and an increase in net lending.

The financial position of the rest of the nonfinancial public sector is expected to weaken in 1988 by the equivalent of nearly 0.5 percentage point of GDP, as a large swing into deficit of ECOPETROL would be offset only in part by improvements in several other areas of the public sector, including CARBOCOL (the state coal company) and the Coffee Fund. The deterioration in the performance of ECOPETROL is largely attributable to a decline in world oil prices and sporadic interruptions recently experienced in the operation of the major oil pipeline (Caño Limon) as a result of acts of sabotage. Revenue from coal exports are projected to grow by nearly 80 percent as a result of increased production and some strengthening in the international price.

The overall deficit of the Coffee Fund is expected to narrow owing primarily to the termination of transfers to the Central Administration associated with the 1986 Coffee Agreement. 1/ While the average export price of coffee has strengthened, export earnings are not expected to increase because of the reduction in export volumes associated with the reintroduction of the quota system by the International Coffee Organization in October 1987. The authorities said that they intended to resist pressures for an additional increase in the price of coffee paid to domestic producers for the remainder of the year, and on that basis the operating deficit of the Coffee Fund would remain at about its 1987 level. 2/ In their view, however, it was possible that the 1988 harvest would be exceptionally large, which could result in an increase in the operating deficit as coffee purchases might exceed the projected level.

Commenting on the increase in the nonfinancial public sector deficit projected for 1988, the authorities remarked that it reflected a rise in defense-related expenditure and a recovery in capital outlays. Some of the increase in the latter was associated with implementation of projects postponed in the previous year as a result of the delays in foreign loan disbursements. The authorities stressed that their 1988 investment program addressed the pressing need to increase the amount of resources directed toward the poorer regions of the country so as to improve health and education services and to develop infrastructure. They also noted that there continued to be strong pressures for increased capital spending in the energy, transportation and telecommunications sectors, where expenditure plans had already been scaled

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1/ The agreement between the Government and the Coffee Federation stipulated, inter alia, that a large part of the additional revenue generated by the increased export price of coffee in 1986 would be saved at the Banco de la Republica and that about Col\$29 billion would be transferred to the Central Administration during 1986-87.

2/ The increases already granted in the price of coffee to domestic producers would result in an average increment of about 19 percent for the year as a whole.

down in 1988 in order to conform to the authorities' fiscal program. Overall, however, they felt that further delays in obtaining foreign financing in the first half of the year had slowed down the execution of the investment program, and it was therefore possible that the overall deficit in 1988 would be somewhat below the projected level of 3 percent of GDP.

## 2. Monetary policy

The authorities said that the aim of monetary policy in 1988 would be to limit the expansion of the monetary aggregates to rates consistent with the inflation target. Based on the fiscal projections and the prospective use of foreign financing, the authorities estimated that the growth of net credit to the public sector from the Banco de la Republica would be negligible in 1988 (Table 3). Net credit to the public sector by the financial system would increase by about 13 percent (mainly financing extended by the National Electricity Financial Corporation, Table 4). On the basis of a projected growth of private sector financial savings somewhat below the rate of growth of nominal GDP, the authorities' monetary program would allow for an expansion in financial system credit to the private sector approximately in line with the expected rate of inflation.

The authorities reported that a tax auditing measure enacted in December 1987 had threatened to jeopardize earlier in the year the objectives of the monetary program but that the situation had been corrected. The tax auditing decree law passed in December 1987 allowed for the investigation of taxpayers' deposit accounts with the financial system. Economic agents responded by switching from financial system deposits (which fell by the equivalent of about 0.8 percent of GDP during the first five months of the year) into currency and foreign exchange, giving rise to reserve deficiencies by banks. Secondary effects included upward pressures on interest rates and the re-emergence of a spread between the official and the parallel market exchange rates. An amendment to the December tax measure approved in April 1988 had virtually eliminated the monetary and exchange rate disturbances caused by this measure.

The interest rate on 30-day certificates of deposit, which is market determined, rose from about 31 percent in January 1987 to almost 37 percent in April 1988. The authorities were confident that nominal interest rates would decline with inflation during the remainder of the year, which could be expected to help alleviate recent pressures for establishing interest rate controls. The spread between the average lending and borrowing rates remained high, at about 10 percentage points, in part reflecting the large share of low yielding assets in the financial system's portfolio. The authorities reported progress in reducing subsidized credits to the private sector from official funds

Table 3. Colombia: Operations of the Banco de la Republica

(In billions of Colombian pesos)

	1984 (Col\$139=US\$1)	1985 (Col\$139=US\$1)	1985 (Col\$190=US\$1)	1986 (Col\$190=US\$1)	1986 (Col\$240=US\$1)	Prel. 1987 (Col\$240=US\$1)	Prel. 1987 (Col\$298=US\$1)	1988 (Col\$298=US\$1)
Net international reserves	240.1	277.2	391.2	649.7	851.3	800.5	1,055.2	1,117.5
Net domestic credit	-21.1	-0.8	-114.8	-313.4	-515.0	-360.9	-615.5	-559.1
Net credit to the public sector	374.9	404.3	395.8	226.7	197.7	348.6	320.1	324.6
Central Administration	383.9	419.0	413.9	378.1	363.0	448.5	426.1	...
Rest of the public sector	-9.0	-14.7	-18.1	-151.4	-165.3	-99.9	-106.0	...
Net credit to financial institutions	-25.4	-67.4	-71.0	-91.4	-91.0	-122.9	-122.9	-160.3
Net credit to private sector	-103.4	-118.6	-146.3	-187.7	-198.0	-230.5	-236.9	-291.9
Medium- and long-term foreign liabilities	-47.8	-49.7	-67.9	-86.6	-109.4	-118.9	-147.4	-156.4
Net unclassified assets	8.4	29.4	35.4	9.1	16.5	20.3	41.3	50.0
Adjustment account <u>1/</u>	-227.8	-198.8	-260.8	-183.5	-330.8	-257.5	-469.7	-325.0
Currency issue	219.0	276.4	276.4	336.3	336.3	439.6	439.7	558.4

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.

Table 4. Colombia: Financial System Accounts

	1983 (Col\$76=US\$1)	1984 (Col\$139=US\$1)	1984 (Col\$139=US\$1)	1985 (Col\$190=US\$1)	1986 (Col\$190=US\$1)	1986 (Col\$240=US\$1)	Prel. 1987 (Col\$240=US\$1)	Prel. 1987 (Col\$298=US\$1)	Proj. 1988 (Col\$298=US\$1)	
(End of period stock; in billions of Colombian pesos)										
Net international reserves	117.4	33.9	62.0	99.8	148.7	516.2	682.9	641.8	857.9	952.1
Domestic credit	1,351.8	1,693.1	1,785.4	2,265.3	2,341.7	2,507.7	2,552.2	3,288.1	3,329.6	4,162.7
Public sector	232.2	408.3	414.3	439.1	445.7	267.5	258.8	437.7	409.2	462.2
Central Administration (net)	240.5	399.5	399.5	437.7	432.7	403.5	388.4	482.5	460.1	...
Rest of public sector (net)	-8.3	8.8	15.0	1.4	13.0	-136.0	-129.6	-44.8	-50.9	...
Private sector	1,171.7	1,397.8	1,482.3	1,838.0	1,900.5	2,320.0	2,365.2	3,028.1	3,075.7	3,900.3
Net unclassified assets 1/	-52.1	-113.0	-111.3	-11.8	-4.5	-79.8	-71.3	-177.7	-153.3	-199.8
Intersystem transactions	6.7	15.0	-5.0	5.6	-6.6	-1.5	-15.0	90.3	77.7	77.7
Credits	437.3	574.5	586.6	710.6	724.3	...	967.9	1,299.5	1,236.6	...
Deposits	430.6	559.5	591.6	704.9	731.0	...	982.9	1,139.2	1,558.9	...
Adjustment account (liability) 2/	178.2	170.5	200.2	225.2	273.0	186.4	317.7	312.1	483.3	344.0
Medium- and long-term foreign liabilities	39.0	50.4	92.1	88.4	122.0	210.1	265.4	281.1	384.4	419.5
Liabilities to private sector	1,258.8	1,521.1	1,550.0	2,057.1	2,088.8	2,625.9	2,637.4	3,427.0	3,433.4	4,429.1
(In millions of U.S. dollars)										
Memorandum item										
Change in net official international reserves (decrease -)		-1,426		267.0		1,360.0		-200.0		200.0
(In billions of Colombian pesos)										
Flow of credit to										
Public sector (net)		176.1		24.6		-178.2		178.9		53.0
Private sector		226.7		355.7		419.5		662.9		824.6
(In percentage change)										
Credit to private sector		17.6		25.7		22.1		28.0		26.8
Liabilities to private sector		20.8		32.7		25.7		29.9		29.0

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.

administered by the Banco de la Republica (accounting for about 8 percent of total financial system credit to the private sector). <sup>1/</sup> Moreover, the authorities plan to allocate in the Central Administration's budget for 1989 the funds needed to cover the interest rate subsidy which is presently being granted by the Banco de la Republica's Agrarian Fund (FFAP).

The authorities noted that the strengthening in economic activity over the last two years contributed to improving bank profitability and reducing the share of nonperforming loans and the average risk of commercial banks' portfolio. However, they acknowledged a further need for capitalization in the case of some private financial institutions. Most institutions which have received the support of the Fondo de Garantias <sup>2/</sup> also reported financial improvements, and some are now entering a stage in which privatization may be considered. An important element in this process would be a new law to be submitted soon for congressional approval that would permit foreign ownership of up to 49 percent of any Colombian financial institution. The authorities also anticipated further lending and capitalizations by the Fondo de Garantias during this year, which would be funded by contributions from banks and individuals to a new deposit insurance scheme introduced in May 1988. Some legal problems have delayed the full implementation of this scheme, but the authorities are presently working to remove such impediments.

### 3. External policies

The current account deficit of the balance of payments is projected to widen by 1.5 percentage points of GDP in 1988 to 1.8 percent of GDP, with reductions in the trade surplus and in private transfers contributing in broadly equal measure to the outcome (Table 5). Coffee exports are projected to remain unchanged, with the contraction in volume following the reimposition of export quotas being offset by higher prices. The share of coffee in total exports is projected to decline to an all time low of 29 percent in 1988 compared with an average of close to 50 percent in the 1980-86 period. Oil export earnings are projected to decline because of lower prices; export volume would remain unchanged as the planned increase in production from the Cravo Norte oilfield is not materializing because of acts of sabotage to the Caño Limon pipeline. The value of other exports is projected to grow by around 21 percent, with a particularly strong expansion in coal and

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<sup>1/</sup> As described in SM/87/278, in 1987 the Monetary Board raised the interest rates charged by the most important financial funds administered by the Banco de la Republica and established a link between those rates and market determined rates.

<sup>2/</sup> The Fondo de Garantias was created in December 1985 to provide capital and loans to private financial institutions in difficulties. It provided support for two additional institutions in 1987 which raised the total of institutions in need of support from the Fondo to seven.

Table 5. Colombia: Summary of Balance of Payments

	1984	1985	1986	Est. 1987	Proj. 1988
(In millions of U.S. dollars)					
<u>Current account</u>	<u>-2,088</u>	<u>-1,586</u>	<u>463</u>	<u>-118</u>	<u>-704</u>
Trade balance	-404	109	1,922	1,417	1,098
Exports, f.o.b.	3,623	3,782	5,331	5,292	5,493
Coffee	1,734	1,702	2,742	1,572	1,570
Others	1,889	2,080	2,589	3,720	3,923
Imports, f.o.b.	-4,027	-3,673	-3,409	-3,874	-4,395
Services (net)	-1,983	-2,156	-2,244	-2,536	-2,552
Interest	-1,070	-1,202	-1,183	-1,250	-1,318
Other services	-913	-954	-1,061	-1,286	-1,234
Transfers (net)	299	461	785	1,002	750
<u>Capital account</u>	<u>662</u>	<u>1,853</u>	<u>897</u>	<u>-82</u>	<u>904</u>
Public sector (net)	994	1,380	855	-235	1,039
Medium-term (net)	1,214	1,141	1,880	-53	824
Disbursements	1,764	1,793	2,807	1,202	2,584
Amortizations	-550	-652	-927	-1,255	-1,697
Short-term (net)	-220	239	-1,025	-182	152
Nonfinancial private					
sector (net)	-39	470	577	117	-18
Long-term (net) <u>1/</u>	608	1,209	751	254	306
Short-term and other					
(net) <u>2/</u>	-647	-739	-174	-137	-324
Rest of financial sector (net)	-293	3	-535	36	-117
<u>Overall balance <u>3/</u></u>	<u>-1,426</u>	<u>267</u>	<u>1,360</u>	<u>-200</u>	<u>200</u>
(In percent of GDP)					
Current account balance	-7.6	-4.9	1.3	-0.3	-1.8
Overall balance	-5.2	0.8	3.9	-0.6	0.5

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

1/ Includes direct investment.

2/ Includes errors and omissions.

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

nickel exports and continued dynamism in nontraditional exports. The rate of growth of imports was relatively high in the early months of 1988, and is projected to average some 13 percent for the year as a whole, reflecting the continued expansion in economic activity and further liberalization.

The services balance is projected to remain virtually unchanged, mainly because a reduction in dividend and profit remittances related to the decline in oil exports is expected to offset an increase in interest payments. Net transfers--which are particularly difficult to project as they apparently include earnings from unrecorded trade activities as well as unrequited transfers proper--are estimated to decline from the record level of US\$1 billion reached in 1987 to a still relatively high level of US\$750 million. Preliminary indications from data on foreign exchange cash transactions through June 1988 are consistent with this projection.

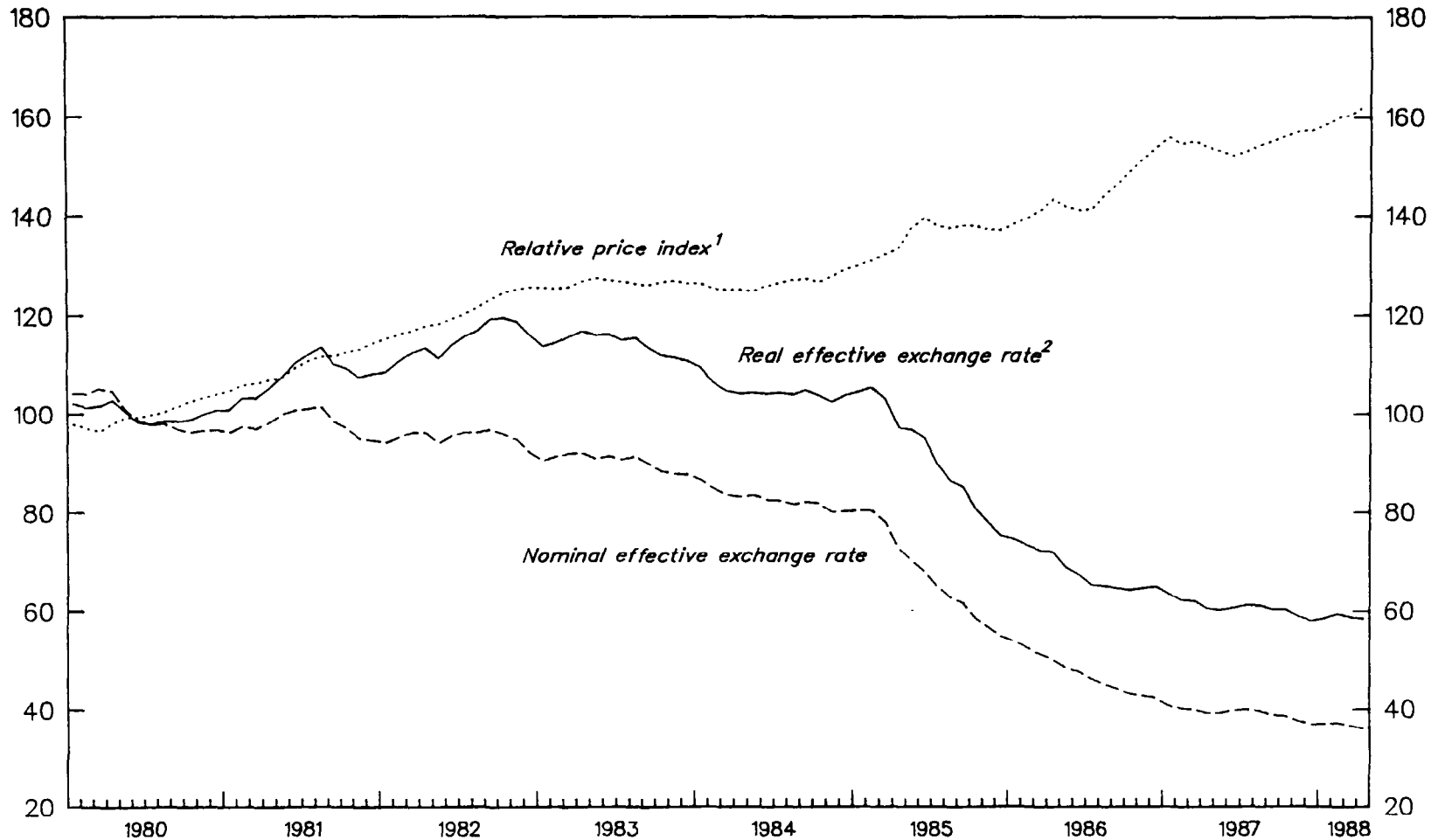
The capital account is expected to shift from a small deficit of 1987 to a surplus of US\$900 million in 1988, reflecting the disbursement of the US\$1 billion loan from commercial banks and higher net inflows from other sources. The projected capital inflows would cover the current account deficit and allow for an increase in net official international reserves of about US\$200 million.

Although the authorities' exchange rate policy objective is to maintain the real effective exchange rate at about the level of end-1987, the peso appreciated somewhat in real effective terms during January-February 1988. The authorities have since accelerated the rate of depreciation of the peso against the U.S. dollar, and the real effective exchange rate is now at around the end-1987 level (see Chart).

The authorities have continued the process of import liberalization and the reform of import tariffs initiated in 1985. At the beginning of the process, which has been supported by two sectoral loans from the World Bank, the trade regime was characterized by extensive import restrictions as well as high and disparate rates of effective protection. Since then, the list of prohibited items has been reduced from 17 percent of all tariff positions to 1 percent, and that of items subject to prior license from 83 percent to 60 percent, raising the proportion of freely importable items from 0.5 percent to 39 percent of total tariff positions. The bulk of freely importable items consists of raw materials, intermediate products and consumer goods which are not produced domestically.

Despite the liberalization measures adopted in recent years, Colombia's exchange and trade system remains complex, involving multiple currency practices, exchange restrictions, and bilateral payments agreements with Fund members, many of which are subject to Fund jurisdiction

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



Source: Information Notice System.

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

<sup>2</sup>Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increases mean appreciation.





under Article VIII, Sections 2(a) and 3. <sup>1/</sup> The staff stressed the importance of eliminating these restrictive practices and of extending liberalization to imports which compete directly with domestically produced goods, and noted that a further liberalization of imports could be expected to have beneficial effects on efficiency and price performance. The authorities drew attention to the important progress that had been made in following up on the 1985 tariff reform, with measures taken to reduce the numerous and complex exemptions and to narrow further the dispersion of import duties and the average level of effective protection. <sup>2/</sup> To date, the measures had concentrated on capital goods but it was envisaged that the reform would be extended to cover raw materials and finally consumer goods.

#### 4. Price and wage policy

There was agreement in the discussions that the recent upward trend of inflation, which reached 30 percent over the 12-month period ended June 1988, was a cause for concern, and that reducing uncertainties associated with inflation would strengthen domestic financial intermediation and enhance the prospects for sustained growth over the medium term.

The authorities were confident that inflation would decline during the second half of the year. In their view, the recent acceleration of inflation reflected to a large extent the effect on food prices of a serious drought and the lack of adequate imports of food staples. An improvement in the supply of agricultural products in the second half of the year, through better harvests and increased imports, was expected to have a dampening effect on inflation. Given developments through June, however, the authorities indicated that it would not be realistic to expect inflation to be brought below 26 percent for the year as a whole. It was observed that the nonfood component of inflation (22.4 percent as of June 1988) also had exhibited an upward trend, and the authorities indicated that it was their intention to keep monetary policy under tight control to ensure that inflation declines during the remainder of the year.

In the discussion of measures to bring down inflation there was agreement that it would be important to support financial policies with a prudent wage policy. It was noted that wage negotiations in January of this year had resulted in an increase of 25 percent in minimum wages, and that at the same time public sector wages were raised 23.5 percent on average. While the authorities recognized that it would be helpful to reduce the degree of indexation implicit in wage setting arrangements, they viewed this option as being politically difficult. They saw the process of bringing down inflation as a gradual one, which would

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<sup>1/</sup> See the 1987 Annual Report on Exchange Arrangements and Exchange Restrictions, and the recent economic developments (1988) for a description of these exchange and trade practices.

<sup>2/</sup> See recent economic developments (1988) for details.

need to be based on the pursuit of prudent financial policies with the support of a more liberal import policy. These policies would contribute also to the maintenance of conditions favorable to private investment, which was viewed as necessary to reduce bottlenecks and more generally to improve supply.

#### IV. Medium-Term Outlook

The mission discussed a medium-term scenario with the authorities which was based on the pursuit of financial policies consistent with a gradual reduction in the rate of inflation and on the maintenance of the real effective exchange rate at its end-1987 level (Table 6).

The medium-term outlook points to a period of strong export growth, particularly for petroleum, coal, and nontraditional products (Statistical Appendix Table 11). Non-oil imports are projected to remain virtually constant in relation to GDP (at about 11 percent of GDP, the projected 1988 level). This should make possible a gradual decline in the external current account deficit from the equivalent of 1.8 percent of GDP in 1988 to about 0.5 percent of GDP by 1993. Net capital inflows are projected to average about US\$540 million (or about 1.1 percent of GDP) during the 1989-93 period; this assumes that the exposure by commercial banks to Colombia remains broadly constant throughout the period. Under this scenario, the authorities would be able to accumulate a total of about US\$600 million in net international reserves and gross reserves would stabilize at a level equivalent to around eight months of merchandise imports. Colombia's total external debt would decline from about 45 percent of GDP in 1988 to 35 percent by 1993 (Table 7). The debt-service ratio would peak at slightly over 50 percent of exports of goods and nonfactor services in 1989, essentially reflecting high amortization payments to banks, and then decline gradually to about 36 percent by 1993.

The medium-term scenario just described would be consistent with growth of real GDP of about 4.5 percent a year and shows a viable and strengthening external payments position over the medium term. The scenario shows a need to reduce gradually the overall deficit of the public sector to make room for the financing requirements of the private sector while diminishing Colombia's reliance on foreign savings and bringing down inflation. While this scenario is obviously sensitive to changes in basic assumptions, moderate changes in them do not seem to

Table 6. Colombia: Medium-Term Balance of Payments

	Prel. 1987	1988	1989	Projection			
				1990	1991	1992	1993
(In millions of U.S. dollars)							
<u>Current account</u>	-118	-704	-682	-568	-318	-320	-228
Trade balance	1,417	1,098	1,394	1,716	2,220	2,368	2,617
Exports, f.o.b.	5,292	5,493	6,153	6,937	7,893	8,483	9,153
Coffee	1,572	1,570	1,647	1,719	1,759	1,837	1,918
Hydrocarbons	1,336	1,027	1,373	1,705	2,307	2,547	2,710
Coal	251	359	459	515	535	551	609
Gold	384	404	429	455	483	512	544
Nickel	70	204	74	122	122	81	122
Other	1,678	1,930	2,171	2,421	2,687	2,956	3,251
Imports, f.o.b.	3,874	4,395	4,758	5,221	5,672	6,115	6,537
Nonpetroleum imports	3,778	4,247	4,627	5,071	5,458	5,875	6,267
Services (net)	-2,536	-2,552	-2,877	-3,084	-3,338	-3,488	-3,645
Credits	1,439	1,571	1,662	1,742	1,839	1,941	2,023
Factor	230	271	281	270	265	271	275
Nonfactor	1,210	1,299	1,381	1,472	1,574	1,670	1,748
Debit	3,976	4,123	4,539	4,826	5,177	5,429	5,667
Factor 1/	2,246	2,235	2,548	2,706	2,918	3,050	3,182
Of which: public	1,169	1,252	1,404	1,473	1,527	1,566	1,596
private	255	260	298	292	288	286	286
Nonfactor	1,729	1,888	1,990	2,120	2,259	2,379	2,485
Transfers (net)	1,002	750	800	800	800	800	800
<u>Capital account</u>	-82	904	682	568	468	520	478
Public sector (net)	-235	1,039	727	631	429	354	186
Disbursements	1,202	2,584	2,790	2,627	2,389	2,185	1,992
Amortization	1,255	1,697	2,018	2,037	1,960	1,831	1,806
Short term (net)	-182	152	-45	40	--	--	--
Nonfinancial private sector (net)	117	-18	-64	-92	-1	116	232
Direct investment (net)	312	275	380	360	300	300	350
Long term (net)	-58	31	-91	-81	-69	-65	-50
Other (net) 2/	-137	-324	-354	-372	-232	-119	-68
Financial private sector (net)	36	-117	20	30	40	50	60
<u>Overall balance (surplus +)</u>	-200	200	--	--	150	200	250
(As percent of GDP)							
<u>Memorandum items</u>							
Current account	-0.3	-1.8	-1.6	-1.3	-0.7	-0.6	-0.4
Exports	14.6	14.1	14.6	15.3	16.2	16.2	16.2
Nonpetroleum imports	10.4	10.9	11.0	11.2	11.2	11.2	11.1
(In months of merchandise imports)							
Reserves	11.1	10.3	9.6	8.7	8.3	8.1	8.1

Sources: Banco de la Republica; and staff projections.

1/ A LIBOR rate of 8 percent has been assumed for the period 1989-93.

2/ Includes errors and omissions and short-term capital.

Table 7. Colombia: External Debt and Debt Service

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
(In millions of U.S. dollars)										
<u>Public sector debt outstanding</u>	<u>8,531</u>	<u>10,762</u>	<u>12,651</u>	<u>13,916</u>	<u>14,602</u>	<u>15,328</u>	<u>15,959</u>	<u>16,388</u>	<u>16,742</u>	<u>16,928</u>
Medium term <u>1/</u>	7,792	9,546	12,423	13,823	14,357	15,128	15,719	16,148	16,502	16,688
Short term	739	1,216	228	93	245	200	240	240	240	240
<u>Private sector debt outstanding</u>	<u>3,595</u>	<u>3,481</u>	<u>3,039</u>	<u>3,159</u>	<u>3,073</u>	<u>2,982</u>	<u>2,922</u>	<u>2,883</u>	<u>2,858</u>	<u>2,858</u>
Medium term <u>2/</u>	1,511	1,642	1,657	1,600	1,631	1,540	1,450	1,391	1,326	1,276
Short term	2,084	1,839	1,382	1,559	1,442	1,442	1,462	1,492	1,532	1,582
<u>Total debt outstanding</u>	<u>12,126</u>	<u>14,243</u>	<u>15,690</u>	<u>17,075</u>	<u>17,675</u>	<u>18,311</u>	<u>18,881</u>	<u>19,271</u>	<u>19,600</u>	<u>19,785</u>
Medium term	9,303	11,188	14,080	15,423	15,988	16,669	17,179	17,539	17,828	17,963
Short term	2,823	3,055	1,610	1,652	1,687	1,642	1,702	1,732	1,772	1,822
<u>Total debt service</u>	<u>1,980</u>	<u>2,131</u>	<u>2,494</u>	<u>2,819</u>	<u>3,360</u>	<u>3,893</u>	<u>4,033</u>	<u>3,995</u>	<u>3,899</u>	<u>3,888</u>
Public sector	1,277	1,529	1,891	2,425	2,949	3,423	3,510	3,487	3,398	3,402
Amortization (net)	549	652	927	1,256	1,697	2,018	2,037	1,960	1,831	1,806
Interest	728	877	964	1,169	1,252	1,404	1,473	1,528	1,566	1,596
Private sector	703	602	603	394	411	471	524	507	501	486
Interest	450	416	351	255	260	298	292	288	286	286
Amortization (net)	253	186	252	139	151	173	232	219	215	200
(As a percent of GDP)										
<u>Total debt</u>	<u>44.1</u>	<u>44.2</u>	<u>45.5</u>	<u>47.2</u>	<u>45.3</u>	<u>43.5</u>	<u>41.7</u>	<u>39.5</u>	<u>37.4</u>	<u>35.0</u>
Public sector debt	31.0	33.4	36.7	38.5	37.4	36.4	35.2	33.6	31.9	30.0
Private sector debt	13.1	10.8	8.8	8.7	7.9	7.1	6.5	5.9	5.4	5.1
(As a percent of exports of goods and nonfactor services)										
<u>Total debt service</u>	<u>43.4</u>	<u>45.9</u>	<u>38.6</u>	<u>43.4</u>	<u>49.5</u>	<u>51.7</u>	<u>48.0</u>	<u>42.2</u>	<u>38.4</u>	<u>35.7</u>
Public sector debt service	28.0	32.9	29.3	37.3	43.4	45.4	41.7	36.8	33.5	31.2
Private sector debt service	15.4	13.0	9.3	6.1	6.1	6.2	6.2	5.4	4.9	4.5

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

1/ Excluding publicly guaranteed private sector debt.2/ Includes publicly guaranteed private sector debt.

call into question the outlook for a satisfactory external payments position over the medium term. 1/

The Colombian authorities are in the process of requesting from commercial banks financing for about US\$1.8 billion to help cover amortization payments to banks totaling around US\$2 billion falling due in the 1989-90 period (disbursements of about US\$0.2 billion are expected from bank loans already in the pipeline). In support of this request, the authorities have prepared an economic program for 1989-90, which is consistent with the medium-term scenario discussed above.

The main objectives of the authorities' program for 1989-90 are to maintain the rate of growth of real GDP at 4.5 percent a year, to reduce the rate of inflation to 22 percent in 1989 and 20 percent in 1990, and to achieve overall balance of payments equilibrium. Consistent with these objectives, the program calls for an increase in public sector savings and a reduction of the overall deficit of the public sector from a projected 3 percent of GDP in 1988 to about 2.5 percent of GDP in 1989 and about 2 percent of GDP in 1990 (Table 8). The projected amount of foreign financing in the program is consistent with a decline in Colombia's outstanding external debt by nearly 4 percentage points of GDP; nonetheless, it assumes significant borrowing from sources other than commercial banks.

The authorities intend to offset any shortfalls in foreign financing that may occur with either revenue measures and/or a reduction in expenditure to keep the level of domestic financing of the public sector within the amounts projected. Such financing is consistent with an increase in credit to the private sector at a pace slightly below the expected growth in nominal GDP and with overall balance of payments equilibrium, on the assumption that private sector financial savings grow in line with GDP. The authorities will continue to permit interest rates to be market determined and to pursue a flexible exchange rate policy with the objective of preserving the present level of external competitiveness.

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1/ A decline in coffee export prices of US\$0.10 a pound or in petroleum prices of US\$1 a barrel, or a 1 percentage point rise in international interest rates, relative to the values projected in the medium-term scenario, would all have a broadly commensurate impact on the current account deficit, raising the average deficit for the 1989-93 period from 0.9 percent to 1.2 percent of GDP. The debt service ratio would increase by about 1 percentage point in each of the cases of lower export prices of coffee or oil, and by 2 percentage points in the case of higher interest rates.

Table 8. Colombia: Operations of the Consolidated Public Sector,  
Projection 1989-90

(As percent of GDP)

	Prel. 1987	Projections		
		1988	1989	1990
<u>Total revenue</u>	<u>19.9</u>	<u>19.0</u>	<u>20.0</u>	<u>20.6</u>
<u>Total expenditure</u>	<u>21.5</u>	<u>22.0</u>	<u>22.6</u>	<u>22.7</u>
Current expenditure	14.8	15.0	15.3	15.2
Interest payments	3.8	4.0	4.4	4.4
Other	11.0	11.0	10.9	10.8
Capital expenditure	6.7	7.0	7.3	7.5
Of which: fixed capital formation	5.8	6.1	6.6	6.7
<u>Overall balance</u>	<u>-1.6</u>	<u>-3.0</u>	<u>-2.6</u>	<u>-2.1</u>
<u>Net residual 1/</u>	<u>-0.2</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Overall financing</u>	<u>1.8</u>	<u>3.0</u>	<u>2.6</u>	<u>2.1</u>
Foreign financing	-0.7	2.3	1.7	1.4
Domestic financing	2.5	0.7	0.9	0.7

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

1/ Reflects reporting lags and statistical discrepancies.

#### V. Staff Appraisal

In 1985 and 1986 Colombia successfully implemented adjustment programs by tightening fiscal and credit policies and depreciating the currency in real effective terms by a substantial amount. Aided by an improvement in the terms of trade, these policies helped restore external balance and provided the basis for the recovery of economic growth. These gains were consolidated in 1987 through the continued pursuit of satisfactory economic policies. The rate of growth of output picked up to 5.4 percent, unemployment fell, and the external current account was cushioned from the drop in world coffee prices by the success of the export diversification policies. However, inflation increased somewhat.

The authorities' program for 1988 aims at maintaining the basic thrust of recent policies, including prudent fiscal and monetary policies and an exchange rate policy that is intended to preserve the gains in external competitiveness achieved in the past few years. The policies that are being pursued would seem to be consistent with the maintenance of a satisfactory rate of economic growth and the achievement of a small balance of payments surplus, while limiting inflation during the year to 26 percent. Given the acceleration of prices that occurred in the first half of the year, the objective for inflation requires a substantial deceleration in coming months.

The overall nonfinancial public sector deficit is projected to rise in 1988 largely because of a decline in revenue resulting from the fall in oil prices and the nonrecurrent nature of certain sources of revenue in 1987; a projected increase in investment in the wake of a slowdown in project implementation in 1987 associated with delays in foreign loan disbursements also is a factor. In any case, the domestic financing requirements of the public sector are consistent with an overall credit policy that should provide reasonable accommodation of the needs of the private sector, while making possible the achievement of the balance of payments and price objectives of the authorities' program. However, given the costs that would be incurred if inflation were to continue to rise, fiscal and monetary developments will need to be kept under close review, and the authorities should stand ready to take additional action to ensure that inflation is brought under control. In this context, it would be particularly important to act on the side of expenditure.

The authorities have prepared an economic program for 1989-90 that is aimed at a gradual but significant reduction of inflation, while maintaining overall balance of payments equilibrium. The achievement of these objectives will require that the authorities implement fully their plans to reduce the fiscal deficit over 1989-90 and secure the foreign financing for the public sector envisaged in the program. If shortfalls in foreign financing were to occur, action in the form of either revenue-raising measures or expenditure reductions, as intended by the authorities, will be essential to keep the level of domestic financing within margins consistent with the achievement of the program's objectives. A cautious wage policy, including a reduction in the degree of wage indexation, and a more rapid pace of exchange and trade liberalization also would be important in this regard.

The medium-term outlook for the balance of payments points to a period of strong export growth, particularly for petroleum, coal, and nontraditional products. This favorable export outlook, combined with the implementation of adequate financial and exchange rate policies, would be expected to result in a steady decline of the external current account deficit to a very small size over the next several years. If Colombia maintains access to capital markets in terms similar to recent years, some accumulation of net international reserves would be achieved permitting the maintenance of gross official reserves at an adequate level. This medium-term scenario would be consistent with sustained



economic growth and a gradual reduction in the external debt service burden.

Despite recent efforts made by the authorities to reduce exchange and trade restrictions, Colombia continues to maintain a complex and restrictive exchange and trade system. The authorities would be well advised to ease further the restrictiveness of the exchange and trade system in order to improve resource allocation and encourage private investment. The large real depreciation of the peso over the last four years has brought the real effective exchange rate to a level that would seem appropriate in present circumstances. It should be borne in mind, however, that the liberalization of trade and payments arrangements would have implications for the exchange rate, and the authorities should thus follow closely balance of payments developments and competitiveness indicators to assess the continuing adequacy of the exchange rate. Because an early elimination of all restrictions is not envisaged, the authorities are not requesting, and the staff is not proposing, Fund approval of Colombia's exchange restrictions and multiple currency practices subject to Article VIII.

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

VI. Proposed Decision

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

1. The Fund takes this decision relating to Colombia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1988 Article XIV Consultation with Colombia, in the light of the 1988 Article IV Consultation with Colombia conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).
2. Colombia's exchange practices are maintained in accordance with Article XIV, except that it continues to maintain a complex system of restrictions on certain payments and transfers for current international transactions and multiple currency practices as described in SM/88/ , that are subject to approval under Article VIII, Sections 2(a) and 3. The Fund urges the authorities of Colombia to simplify the exchange system as soon as possible, including eliminating bilateral payments agreements with three Fund members.

Colombia - Fund Relations  
(As of July 31, 1988, 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 114.3 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 July 31 1988, the rate in the official market for the U.S. dollar, the intervention currency, was Col\$305.03 per U.S. dollar and the rate in the parallel market was Col\$304 per U.S. dollar. Several other multiple currency practices establish 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: The 1987 Article IV consultation discussion was completed on December 23, 1987 (SM/87/278 and SM/87/285). The decision was: .

A. 1987 Consultation

1. The Fund takes this decision relating to Colombia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1987 Article XIV consultation with Colombia, in the light of the 1987 Article IV consultation with Colombia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Colombia's restrictive practices are maintained pursuant to Article XIV, except that it continues to maintain a complex system of restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/87/278, that are subject to approval under Article VIII, Sections 2(a) and 3. The Fund welcomes the process of simplification of the exchange system initiated in the recent past and urges the authorities of Colombia to continue this process. The Fund notes that Colombia maintains bilateral payments agreements with two Fund members and encourages Colombia to eliminate them as soon as possible.

B. Release of Staff Reports

The Fund approves the request of Colombia to transmit to its creditor banks and other creditor financial institutions party to the US\$1,060 million loan to Colombia, the staff reports for the 1987 and 1988 annual Article IV consultations with the Fund, on the understanding that the recipients of the reports will have assured Colombia that the reports will not be used for any purposes other than those of that loan to Colombia, and will be kept confidential, and that the 1988 staff report shall not be transmitted by Colombia earlier than two weeks after its circulation to members of the Executive Board.

- VI. Technical assistance: The Fiscal Affairs Department provided technical assistance to improve tax administration during the 1986-87 period. The first missions from the Fiscal Affairs Department visited Bogota during the period March 4-21 and July 7-25, 1986 to develop a plan that identified priorities and proposed guidelines for action over the medium and long term. A report was delivered to the authorities in July 1987. During the period December 14-18, 1987 a follow-up technical assistance mission returned to Bogota. A technical assistance mission on government finance statistics from the Bureau of Statistics also visited Bogota during the period April 4-15, 1988. The purpose of this mission was to train national officials in the compilation and reporting of government finance data.
- 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

	1984	1985	1986	Prel. 1987	Proj. 1988
(Percentage change)					
National income and prices					
Real GDP	3.4	3.1	5.1	5.4	5.0
GDP deflator	22.2	24.9	28.4	24.4	26.0
Consumer prices (end of period)	18.3	22.5	20.9	24.0	26.0
Consumer prices (average)	16.2	24.0	18.9	23.2	26.3
External sector (on the basis of U.S. dollars)					
Exports (f.o.b.)	15.1	4.4	41.0	-0.7	3.8
Imports (f.o.b.)	-9.8	-8.8	-7.2	13.6	13.4
Terms of trade (deterioration -)	3.5	-1.0	21.8	-22.7	...
Nominal effective exchange rate (end of period, depreciation -) <sup>1/</sup>	-8.5	-18.5	-29.9	-17.2	...
Real effective exchange rate (end of period, depreciation -)	-6.8	-28.5	-8.2	0.3	...
Central Administration					
Total revenue	31.4	45.2	46.8	42.7	31.6
Total expenditure	31.8	22.0	28.9	31.1	41.2
Money and credit					
Domestic credit <sup>2/</sup>	27.8	31.6	8.2	31.9	24.3
Nonfinancial public sector (net)	14.0	1.6	-8.5	6.8	1.5
Private sector (gross)	18.0	22.9	20.1	25.1	24.0
Money and quasi-money	22.2	33.2	25.3	29.2	29.0
Income velocity of M2	3.0	3.0	3.1	3.0	3.1
Interest rate (effective annual rate, 90-day certificate of deposit)	34.5	35.9	32.1	34.2	...
(In percent of GDP)					
Nonfinancial public sector deficit <sup>3/</sup>	-6.8	-4.2	0.6	-1.8	-3.0
Domestic financing	4.9	0.4	-2.7	2.5	0.7
Foreign financing	1.9	3.8	2.1	-0.7	2.3
Nonfinancial public sector savings	3.3	5.7	8.3	5.1	4.0
Central Administration (deficit -)	-4.3	-2.7	-1.3	-0.5	-1.3
Gross domestic investment	19.0	19.0	18.0	19.3	19.6
Gross national savings	11.4	14.1	19.3	19.0	17.8
Current account deficit	-7.6	-4.9	1.3	-0.3	-1.8
External debt	44.1	44.2	45.5	47.2	45.3
Of which: public	31.0	33.4	36.7	38.5	37.4
(In percent of exports of goods and nonfactor services)					
Debt service <sup>4/</sup>	43.4	45.9	38.6	43.4	49.5
Of which: public	28.0	32.9	29.3	37.3	43.4
Interest payments <sup>4/</sup>	25.8	27.9	20.3	21.9	22.3
Of which: public	16.0	18.9	14.9	18.0	18.4
(In millions of U.S. dollars, unless otherwise specified)					
Overall balance of payments	-1,426.0	267.0	1,360.0	-200.0	200.0
Gross official reserves (in months of merchandise imports)	5.3	7.5	12.6	11.1	10.3

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

<sup>1/</sup> Calculated from the Information Notice System from the Fund. This series is based on a different methodology than the one used by the Banco de la Republica, and therefore is not comparable to the real effective exchange rate series below.

<sup>2/</sup> In relation to liabilities to the private sector at the beginning of the period.

<sup>3/</sup> Measured in terms of financing.

<sup>4/</sup> Includes interest on short-term debt.

Colombia--Statistical Issues

1. Outstanding statistical issues

a. Government finance

A technical assistance mission took place on April 1988. As a result of the mission, the correspondent agreed to provide consolidated central government data for 1985 for the 1988 Government Finance Statistics Yearbook, as well as 1986 and 1987 provisional figures. It was also agreed that monthly data for the budgetary central government would be reported regularly for publication in IFS. Monthly budgetary central government data for 1987 were received by the mission and have been incorporated in IFS.

b. Monetary accounts

Until now there have been some problems in maintaining the currentness of the data in IFS. However, during the mission the authorities agreed to review the present reporting procedures and it is expected that within the next two months the proposed procedural improvements will be implemented so that the currentness of the monetary data on the IFS page for Colombia will be significantly improved.

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 August 1988 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banco de la Republica.

Status of IFS Data

		<u>Latest Data in August 1988 IFS</u>
Real Sector	- National accounts	1987
	- Prices: CPI	April 1988
	WPI	April 1988
	- Production: Crude petroleum	December 1987
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/surplus	December 1987
	- Financing	December 1987
	- Debt	December 1987
Monetary Accounts	- Monetary authorities	Q3 1986
	- Deposit money banks	Q2 1986
	- Other financial institutions	Q2 1985

Interest Rates	- Discount rate	March 1988
	- Bank lending/deposit rates	March 1988
	- Bond yields	n.a.
External Sector	Merchandise trade:	
	Values: Total exports	February 1988
	Coffee exports	March 1988
	Total imports	February 1988
	Prices:	April 1988
	- Balance of payments	1987
	- International reserves	June 1988
	- Exchange rates	June 1988

Colombia--Social Indicators

<u>Area</u>	1,141,748 sq. km.
Population density	26.0 per sq. km.
Population	29.7 million
Rate of population growth	1.7 percent
Life expectancy at birth	64.7 years
Infant mortality rate	48.4 per thousand
Child death rate	2.7 per thousand
Population per hospital bed	600
Population with access to safe water	92.0 percent
Calorie intake as percent of requirements	109.7 percent
Primary school enrollment rate	120.0 percent
Unemployment rate	10.2 percent
<u>GDP (1987)</u>	SDR 27,985 million
	US\$36,187 million
	Col\$8,779 billion
<u>GDP per capita (1987)</u>	SDR 943



Colombia---IBRD Operations

The IBRD is Colombia's most important creditor. As of June 1988 total outstanding credits totaled US\$4.3 billion, or the equivalent of about almost one fourth of Colombia's total public sector external debt. In 1987 net disbursements by the Bank fell to one fourth of the previous year level, to about US\$65 million. These disbursements reflect in large part loans for the energy, public housing, water supply and sewerage sectors. In 1988 net disbursements by the IBRD are estimated to amount to about US\$200 million, including US\$120 million corresponding to the last tranche of the trade and agricultural sector loan of 1986. The first tranche of a US\$300 million power sector loan was disbursed in June, which allowed for the release of US\$160 million of the US\$1 billion loan from commercial banks subject to the terms of a co-financing agreement. Through project lending as well as policy loans, the IBRD expects to disburse about US\$450 million a year on average to Colombia over the 1989-93 period, provided that adequate actions to accelerate project preparation are taken by the authorities.

A. New Commitment and Disbursements 1/

	New Commitments			
	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Total</u>	708	700	180	465
Agriculture	--	114	--	15
Industry	130	--	--	--
Nonproject	300	250	--	--
Energy	130	171	--	300
Transportation				
Urban development	--	105	180	--
Education	--	37	--	--
Water supply	148	24	--	150
Other	--	--	--	--

B. World Bank Disbursements (net) 2/

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Net disbursements</u>	198	338	418	319	65	166
<u>Disbursements</u>	291	463	590	529	364	510
<u>Repayments</u>	93	125	172	210	299	344

Source: World Bank.

1/ Fiscal year.

2/ Calendar year.

Table 9. Colombia: Operations of the Consolidated Public Sector  
(As percent of GDP)

	1984	1985	1986	1987	1988
<u>Total revenue</u>	19.2	21.0	23.1	19.9	19.0
Current revenue	19.0	20.7	22.9	19.6	18.7
Tax revenue	12.4	13.7	14.5	13.6	13.4
Nontax revenue	6.9	7.6	9.6	7.4	6.4
Property income	1.0	1.3	1.3	1.2	1.0
Other	2.3	2.3	2.0	1.7	1.5
Operating surplus	3.7	4.1	6.3	4.5	3.9
Current transfers	0.1	0.1	0.1	—	0.1
Adjustment for transfers <u>1/</u>	-0.5	-0.7	-1.3	-1.4	-1.2
Capital revenue	0.2	0.3	0.2	0.3	0.3
Capital transfers	—	0.1	0.1	0.1	0.1
Other capital revenue	0.2	0.2	0.1	0.2	0.2
<u>Total expenditure and net lending</u>	25.5	24.5	22.9	21.5	22.0
Current expenditure	15.9	15.3	14.8	14.8	15.0
Wages and salaries	6.9	6.3	5.9	5.6	5.4
Goods and services	1.8	1.7	1.6	1.6	1.7
Interest	2.4	2.9	3.0	3.8	4.0
External debt	1.6	2.0	2.3	2.9	3.0
Domestic debt	0.8	0.9	0.7	0.9	1.0
Current transfers	4.4	3.9	3.6	3.3	3.3
Other current expenditure	0.4	0.5	0.7	0.5	0.6
Capital expenditure	9.6	9.1	7.8	6.6	6.9
Fixed capital formation	8.8	8.3	6.7	5.8	6.1
Capital transfers	0.1	0.2	0.3	0.3	0.3
Other capital expenditure	0.7	0.6	0.8	0.5	0.5
Net lending	—	0.1	0.3	0.1	0.1
<u>Overall balance</u>	-6.3	-3.5	0.2	-1.6	-3.0
<u>Net residual <u>2/</u></u>	-0.5	-0.7	0.4	-0.2	—
<u>Overall financing</u>	6.8	4.2	-0.6	1.8	3.0
Foreign financing	1.9	3.8	2.1	-0.7	2.3
Disbursement	3.8	4.7	7.1	3.0	5.9
Amortization	-1.3	-1.7	-2.5	-3.2	-4.0
Short term	-0.6	0.8	-2.5	-0.5	0.4
Domestic financing	4.9	0.4	-2.7	2.5	0.7
Banco de la Republica	3.9	0.6	-2.5	1.7	—
Rest of financial system	0.7	-0.1	-0.1	0.3	0.4
TAN bonds	0.1	0.2	0.1	—	0.1
TAC bonds	—	—	0.4	0.3	—
Suppliers' credit <u>3/</u>	—	0.4	-0.4	0.1	0.1
Other bonds	0.2	-0.7	-0.2	—	0.1
<u>Memorandum items</u>					
Current account balance	3.1	5.4	8.1	4.9	3.7
Operating surplus of the Coffee Fund	0.5	0.9	2.1	-0.7	-0.5
Operating surplus of ECOPETROL	1.1	1.2	1.8	2.9	2.0

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

1/ Statistical discrepancies resulting from differences in intersectoral transfers.

2/ Reflects reporting lags and statistical discrepancies.

3/ Short-term credit to ECOPETROL from concession operators for the purchase of domestically produced crude.

Table 10. Colombia: Operations of the Central Administration

(As percent of GDP)

	1984	1985	1986	Prel. 1987	Proj. 1988
<u>Total revenue</u>	<u>8.0</u>	<u>9.0</u>	<u>9.8</u>	<u>10.7</u>	<u>10.6</u>
<u>Current revenue</u>	<u>8.0</u>	<u>9.0</u>	<u>9.8</u>	<u>10.5</u>	<u>10.4</u>
Tax revenue	7.6	8.6	9.1	9.7	9.9
Income tax	3.1	3.1	3.2	3.5	3.7
Goods and services	2.8	3.3	3.4	3.5	3.5
International trade	1.3	1.8	2.2	2.4	2.4
Other taxes	0.4	0.4	0.3	0.3	0.3
Nontax revenue	0.4	0.4	0.5	0.5	0.4
Property income	0.1	0.1	0.2	0.1	0.1
Fees and fines	0.3	0.3	0.3	0.4	0.3
Current transfers	--	--	0.2	0.3	0.1
<u>Capital receipts</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>0.2</u>	<u>0.2</u>
<u>Total expenditure and net lending</u>	<u>12.3</u>	<u>11.6</u>	<u>11.1</u>	<u>11.2</u>	<u>11.9</u>
<u>Current expenditure</u>	<u>9.6</u>	<u>8.7</u>	<u>8.4</u>	<u>8.8</u>	<u>9.2</u>
Wages and salaries	2.2	2.0	1.9	1.9	1.9
Goods and services	1.0	0.9	0.8	0.8	1.1
Interest payments	1.0	1.0	1.0	1.3	1.4
Foreign	0.7	0.7	0.8	0.9	1.0
Domestic	0.3	0.3	0.2	0.4	0.4
Transfers	5.5	4.8	4.7	4.8	4.8
<u>Capital expenditure</u>	<u>2.7</u>	<u>2.8</u>	<u>2.2</u>	<u>2.4</u>	<u>2.4</u>
Fixed capital formation	0.2	0.5	0.2	0.1	0.2
Transfers	2.4	2.4	1.7	2.2	2.2
Other capital expenditure	--	--	0.3	--	--
<u>Net lending</u>	<u>--</u>	<u>0.1</u>	<u>0.5</u>	<u>--</u>	<u>0.3</u>
<u>Overall surplus or deficit (-)</u>	<u>-4.3</u>	<u>-2.6</u>	<u>-1.3</u>	<u>-0.5</u>	<u>-1.3</u>
<u>Overall financing</u>	<u>4.3</u>	<u>2.7</u>	<u>1.3</u>	<u>0.5</u>	<u>1.4</u>
Foreign financing	0.7	1.0	1.5	-0.3	1.3
Disbursement	1.3	1.7	2.5	1.2	3.0
Amortization	-0.6	-0.8	-1.0	-1.5	-1.7
Domestic financing	3.7	1.7	-0.2	0.8	0.1
Banco de la Republica	2.2	0.8	0.9	0.5	0.3
Rest of financial institutions	0.1	0.1	0.1	0.1	0.1
TAN Bonds	1.6	1.0	0.8	0.3	0.3
Other public sector	--	0.3	0.2	0.1	--
Other private sector	-0.2	-0.5	-2.2	-0.2	-0.6

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

Table 11. Colombia: Merchandise Export Projections

	1986	Est. 1987	Projected					
	1988	1989	1990	1991	1992	1993		
(In millions of U.S. dollars)								
<u>Total</u>	<u>5,331</u>	<u>5,292</u>	<u>5,493</u>	<u>6,153</u>	<u>6,937</u>	<u>7,893</u>	<u>8,483</u>	<u>9,154</u>
Coffee <sup>1/</sup>	2,742	1,572	1,570	1,647	1,719	1,759	1,837	1,918
Volume (millions of bags)	11.4	11.3	9.4	9.8	9.9	10.1	10.2	10.3
Unit value	1.99	1.07	1.26	1.27	1.31	1.35	1.39	1.43
Hydrocarbons	619	1,336	1,027	1,373	1,705	2,307	2,547	2,710
Volume (millions of bbls.)	51.2	77.0	76.7	98.0	116.2	150.0	159.0	163.2
Unit value	12.1	17.4	13.4	14.0	14.7	15.4	16.0	16.6
Coal	201	251	359	459	515	535	551	609
Volume (millions of tons)	5.5	9.6	12.2	15.1	16.5	16.6	16.6	17.8
Unit value	36.5	26.2	29.5	30.4	31.3	32.2	33.2	34.2
Nonmonetary gold	359	384	404	429	453	483	512	544
Nickel	48	70	204	74	122	122	81	122
Nontraditional	1,363	1,678	1,930	2,171	2,420	2,687	2,956	3,251
(As percent of total merchandise exports)								
<u>Memorandum items</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Coffee	51	30	29	27	25	22	22	21
Petroleum	12	25	19	22	25	29	30	30
Coal	4	5	7	8	7	7	7	7
Nontraditional products	26	32	35	35	35	34	35	36

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

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

