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CONFIDENTIAL

January 13, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Colombia - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Colombian peso.

Mr. Belanger (ext. 8671) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

COLOMBIA

Real Effective Exchange Rate--Information Notice

Prepared by the Western Hemisphere Department and the
Exchange and Trade Relations Department

(In consultation with the Legal Department and the Research Department)

Approved by S. T. Beza and Manuel Guitián

January 13, 1986

The recent evolution of the real effective exchange rate for the Colombian peso, as measured by the index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of October 1985 the Colombian peso had depreciated in real effective terms by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss exchange rate developments in Colombia--the Article IV consultation in July 1985. The depreciation is estimated to have amounted to 11.3 percent in the period July 1985 to October 1985. 1/

For some years, the Colombian authorities have followed the policy of adjusting the value of the peso vis-à-vis the U.S. dollar in small amounts at relatively short intervals, taking into account the movements of Colombian prices versus the movements in the prices of its major trading partners, balance of payments indicators, and the level of international reserves. The real effective exchange rate remained relatively stable during the 1978-80 period, but appreciated by 20 percent during 1981-82 when the depreciation in relation to the U.S. dollar was not sufficient to offset the effect of the appreciation of the dollar in international markets. Following a period of large accumulation of foreign reserves, the balance of payments began to weaken in 1981. In response, the authorities decided in October 1982, and again in August 1983, to accelerate the rate of depreciation of the peso, which led to a real depreciation of the peso of about 10 percent during 1983-84. These actions were not sufficient, however, to avoid a further weakening of the balance of payments.

1/ The index used for the information notice is based on a weighting scheme that takes into account Colombia's bilateral non-oil trade flows. A different index--limited to Colombia's trade with its partners other than in coffee--has been used as the indicator to monitor changes in the real exchange rate of the Colombian peso under the Fund's monitoring of Colombia's economic program. That index shows a cumulative depreciation of 9.9 percent in the period July 1985 to October 1985.

In late 1984 the authorities designed a comprehensive adjustment program aimed at re-establishing virtual external payments equilibrium in 1985. As part of the program, the authorities again accelerated the pace of depreciation of the peso with a view to restoring by the end of 1985 the real effective exchange rate that prevailed in 1975, which was considered to have provided an adequate degree of competitiveness. This objective was reached by the end of September 1985, and it is estimated that by the end of 1985 the real effective exchange rate was somewhat lower than in 1975. Together with this exchange rate policy the authorities have implemented measures aimed at reducing the restrictiveness of the exchange and trade system.

Preliminary results indicate that the authorities have been successful in achieving their objectives under their 1985 program. As of mid-December, the level of net international reserves was significantly higher than the target for the end of the year, and the credit ceilings under the program were being met with comfortable margins. Economic growth in 1985 appears to have been somewhat stronger than had been envisaged, while inflation appears to have been in line with the projection.

Table 1. Colombia: Real Effective Exchange Rate and Related Series

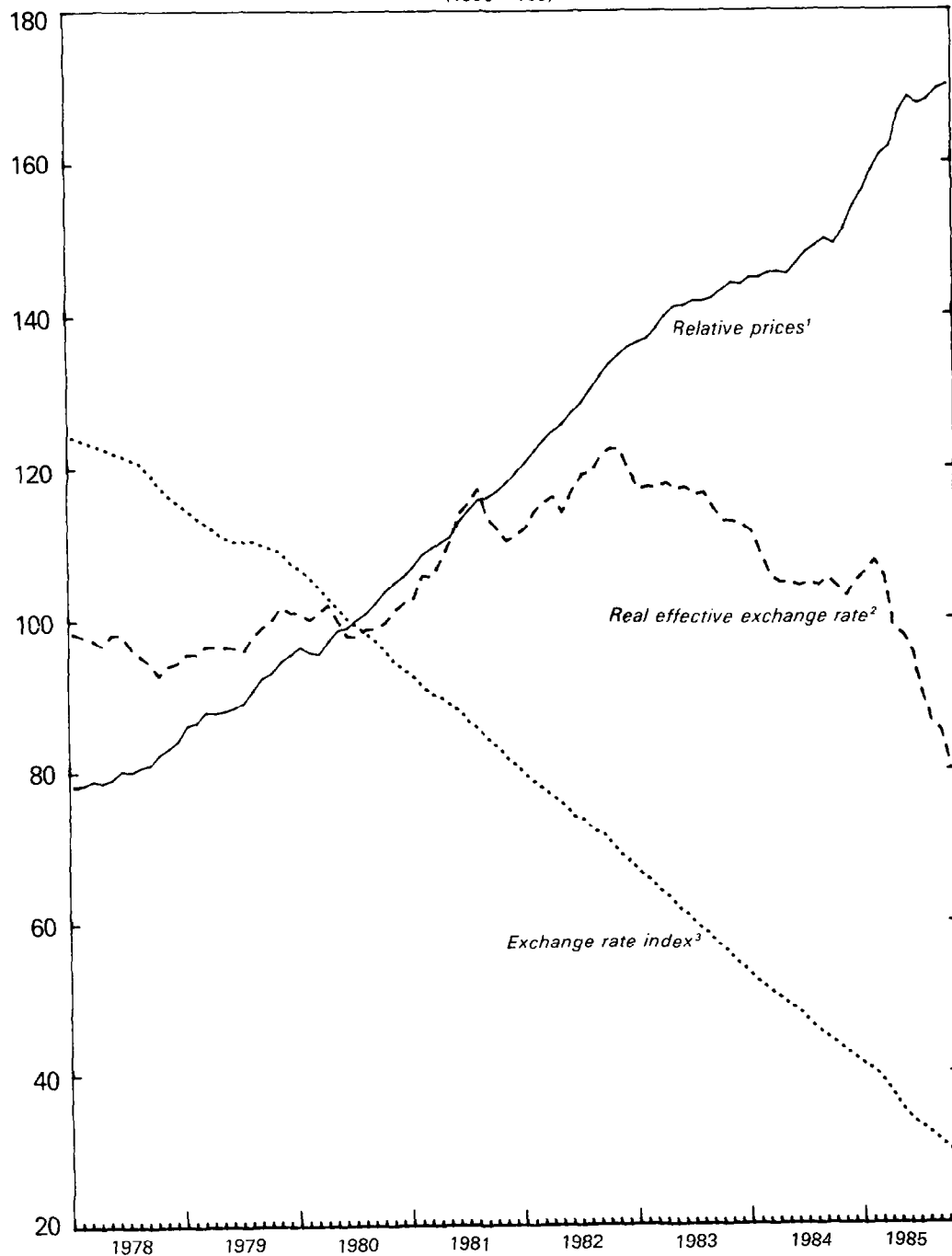
(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Yearly						
1978	96.2	119.6	80.5	120.9	63.4	63.4
1979	97.8	108.5	90.1	111.0	79.0	79.0
1980	100.0	100.0	100.0	100.0	100.0	100.0
Quarterly						
1981						
I	104.8	96.6	108.3	91.3	116.6	115.7
II	110.8	99.3	111.4	88.8	123.3	125.0
III	115.4	99.8	115.5	85.3	131.8	132.2
IV	111.2	94.0	118.1	81.9	138.2	137.1
1982						
I	114.0	93.1	122.2	78.4	146.0	144.8
II	115.8	91.9	125.9	75.4	153.7	155.7
III	120.0	92.0	130.3	72.6	163.3	163.7
IV	121.5	90.0	134.8	69.1	172.2	170.9
1983						
I	117.3	85.3	137.3	65.5	178.4	177.1
II	117.5	83.4	140.8	62.0	187.1	189.6
III	116.0	81.6	142.0	58.4	193.4	193.9
IV	112.8	78.3	143.9	54.9	201.6	200.1
1984						
I	108.6	74.7	145.1	51.5	208.8	207.1
II	104.7	71.7	145.9	48.6	215.0	217.8
III	104.9	70.3	148.9	45.3	224.7	225.2
IV	104.1	68.7	151.4	42.6	235.1	233.2
1985						
I	106.5	67.1	158.6	39.6	252.9	250.9
II	97.3	58.7	165.7	34.8	271.8	275.5
III	87.2	51.8	168.4	31.3	280.8	281.3
Monthly						
1985						
Jan.	106.2	67.9	156.1	40.8	246.5	243.4
Feb.	107.7	67.7	158.8	39.8	253.0	250.7
Mar.	105.7	65.6	161.0	38.2	259.1	258.5
Apr.	98.7	60.8	162.0	36.4	263.4	265.7
May	97.8	58.6	166.6	34.6	273.3	277.8
Jun.	95.6	56.7	168.5	33.4	278.6	282.9
Jul. <u>3/</u>	90.2	53.8	167.6	32.3	278.3	281.2
Aug.	86.5	51.4	168.1	31.3	280.4	280.1
Sept.	85.1	50.1	169.5	30.3	283.8	282.6
Oct.	80.0	47.0	170.1	29.3	286.2	285.2
Percentage change						
July 1984-						
Oct. 1985	-11.3	-12.6	1.5	-9.2	2.9	

Source: Information Notice System.

1/ Increases mean appreciation.2/ Using seasonally adjusted price indices.3/ Date of latest consideration by Executive Board.

CHART
COLOMBIA
EXCHANGE RATE DEVELOPMENTS
(1980=100)



Source: Information Notice System.

¹Seasonally adjusted relative consumer prices.

²Trade-weighted index of nominal exchange rates deflated by relative consumer price; increases mean appreciations.

³U.S. dollars per Colombian peso.