

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

REPORT ON THE 1985 CONSULTATION WITH COLOMBIA

1. The Committee consulted with Colombia on 3 December 1985, in accordance with its terms of reference, pursuant to Article XVIII:12(a) of the General Agreement and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205). The consultation was held under the Chairmanship of Ambassador P.-L. Girard (Switzerland). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic document by Colombia	BOP/256
Secretariat background paper	BOP/W/90
IMF report "Colombia - Recent Economic Developments", dated 14 June 1985	
Notifications by Colombia:	
- Import measures	L/5542 & Add.1-7
- Export regulations	L/5806 & Add.1

Opening Statement by the representative of Colombia

3. The representative of Colombia noted that this consultation was the first since her country had acceded to the GATT. She said that, as a developing country, Colombia faced balance-of-payments difficulties caused by structural problems in its domestic economy and by its heavy dependence on exports of a few primary products. She recalled that the Working Party which had examined Colombia's request for accession had been of the view that Colombia's foreign trade regulation, the legal basis of which was Decree - Law 444 of March 1967 was in accordance with the GATT. Import licensing and other measures affecting imports maintained by Colombia were taken pursuant to Article XVIII of the General Agreement.

4. Since 1981 Colombia had been seriously affected by negative economic developments in the world economy. Between 1982 and 1984 net international reserves declined to US\$1.8 billion, or 32 per cent of their 1981 level. In 1981, 1982 and 1983 the trade balance showed deficits of US\$2.2, 2.4 and 1.9 billion, respectively. The balance on the capital account fell from US\$2 billion in 1981 to US\$1.1 billion in 1982 and to US\$946 million in 1984. The rate of economic growth declined from an average of 5.5 per cent during the 1970s to 2.3 per cent in 1981, 0.9 per cent in 1982 and 1 per cent in 1983. The unemployment rate in the seven principal cities of Colombia increased from 8.1 to 13.3 per cent between September 1981 and September 1984. Over the same period industrial employment fell by 17 per cent.

5. The domestic recession and external disequilibrium were caused by both external and internal factors. External factors included the severe reduction in trade among Latin American countries in 1983, the sudden interruption of international capital flows in 1982, the world wide increase in interest rates and hardening of credit terms, protectionist measures affecting products of special interest to Colombia, the loss of competitiveness of Colombian exports brought about by the rise of the US dollar, and the decline in Colombia's terms of trade which had resulted from falling prices for major exports such as coffee and sugar.

6. With respect to internal factors which had aggravated Colombia's economic situation, the representative of Colombia pointed to the liberal import policy that had been pursued in the second half of the past decade, and to the fact that the exchange rate had become overvalued.

7. In 1982, the Colombian authorities took a number of measures with the aim of achieving a more efficient use of foreign exchange, stimulating economic development and employment, and stabilizing prices. As from the second half of 1982 the pace of devaluation was accelerated, tariffs were increased, a monthly foreign exchange budget was introduced, and a more restrictive import licensing policy was adopted. These measures resulted in a decline of the trade deficit between 1982 and 1984. However, given the persistence of the trade deficit, the continuing decline of the level of international reserves and the increase of the fiscal deficit, it was clear that the adjustment process had to be accelerated. In 1984, a new economic adjustment policy was adopted, the aims of which were to redress the fall of international reserves, to increase and diversify exports, to reduce the fiscal deficit, to limit monetary expansion and to achieve a gradual liberalization of imports. This programme is being monitored by the IMF and the IBRD. Measures adopted under this programme included the restructuring of public investment and reduction of current government expenditure, tax increases, tight monetary policy, the establishment of an appropriate exchange rate, investment measures directed towards the extension of production of petroleum and coal with a view to increasing exports, promotion of foreign investment, simplification of export procedures and expansion of the import-export systems, gradual liberalization of the import licensing régime and reduction of tariff differentials, and elimination of barter trade.

8. The improvement in the balance-of-payments situation during the first half of 1985 made it possible to reduce substantially the number of products subject to prohibition or prior licencing. The list of freely importable products as at December 1985 covered 1,159 tariff lines or 23 per cent of the total, as against 23 tariff lines in December 1984; prohibited items now covered 69 tariff lines (1.4 per cent) as compared with 828 lines in December 1984.

9. Prospects for further import liberalization measures depended on the availability of foreign exchange which would determine the size of the import budget. In this respect, the representative of Colombia drew attention to the urgent need for improved access to markets of industrialized countries

for Colombian exports. She recalled in this connection, the statement made by Colombia at the November 1984 meeting of the GATT Council (C/M/183, page 70).

Statement by the representative of the International Monetary Fund

10. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the full text of which is reproduced in the Annex.

11. Commenting on the statement made by the representative of the IMF, the representative of Colombia stated that when considering the deterioration of the economic situation in Colombia in the period 1980-1983, one should recognize that due to policy measures taken by Colombia, a further aggravation had been prevented. With respect to the increase of Colombian external debt in this period, she stressed that in view of the structure and volume of this debt, the Colombian situation was less critical than the situation of some other countries. Finally, the recent volcanic eruption could have negative effects on the balance of payments for example through the loss of valuable agricultural land, decline in investment, scarcity of and higher cost of labour for production of coffee, rice, cotton, fruit and meat.

12. Commenting on the background paper prepared by the GATT secretariat, the representative of Colombia provided some clarification with respect to the rôle of the Foreign Trade Council. Because of the interministerial nature of this body, policies formulated by the Council were fully integrated with Colombia's domestic economic policies. She also explained the establishment of the foreign exchange budget by the Monetary Board and pointed out that this was not an additional import restrictive measure but rather an overall assessment of Colombia's foreign exchange resources in order to establish priorities for their efficient use. Any importer who had obtained an import licence could always obtain the necessary foreign exchange. Regarding the granting of import licences she said that, while they were granted on a case-by-case basis, this was done in the light of general priorities which were published and well known to importers. With respect to the advance import payment deposit which had been abolished in November 1983, she stated that this measure had been applied for monetary reasons, and was not a trade policy instrument.

Balance-of-Payments position and prospects - alternative measures to restore equilibrium

13. One member of the Committee expressed satisfaction with the adjustment policies adopted by Colombia since 1984 aiming to achieve adjustment through fiscal and monetary policy and import liberalization. He asked for further clarification with regard to the recent evolution of fiscal and monetary policy, the policy regarding foreign investment, the exchange rate and the internal prices for petroleum. Another member posed questions concerning the latest forecasts for Colombia's trade balance in 1985 and 1986, the considerations behind the management of the exchange rate, the internal effects of the current stabilization programme, the measures taken to diversify exports, the increase of the debt service ratio, and the impact of the current adjustment measures on government procurement.

14. In reply, the representative of Colombia provided detailed information on the aims of the fiscal and monetary policies pursued by her authorities and the results achieved so far. Fiscal and monetary policies were now restrictive, and the targets established in the programme for 1985 were being achieved. In 1985 the public sector deficit had been reduced significantly. No further decline of the net level of international reserves had occurred in 1985 and reserves were expected to increase in 1986. Concerning the management of the exchange rate, the representative of Colombia said that Colombia was applying a crawling-peg system providing for periodic exchange rate changes; under this system the Colombian peso had been devalued by over 40 per cent in 1985 to date while inflation for the year was expected to be around 22-23 per cent. The movement of the United States dollar was not the only factor taken into account in the management of the exchange rate. Other important factors were the evolution of trade with other countries, and the inflation rate at home and abroad. The exchange rate target established was at a level which would increase the competitiveness of Colombian exports. Important progress towards the achievement of this target had been made. With respect to the increase of Colombia's indebtedness she said that Colombia maintained a careful and selective borrowing policy. Borrowed funds were used for projects to increase Colombia's export earnings. Diversification of exports was of great importance. However, efforts toward greater export diversification had been hampered by the fall in terms of trade and by protectionist measures taken by other countries. Regarding the promotion of foreign investment the Colombian government was bound to observe Decision 24 of the Andean Group; she recalled that this decision was in the process of revision by the member states. In so far as Colombia had been able to take individual measures to attract foreign investment, it had done so. The current adjustment policies had directly affected government procurement, for example, by the postponement of public investment projects. Present forecasts for 1986 indicated a significant increase in income from exports of coffee, coal and oil.

15. In reply to a question concerning the relationship between the adjustment of the exchange rate and the increases of tariffs, the representative of Colombia stated that initially across-the-board tariff increases had been applied in order to compensate for the import subsidy element inherent in the over-valuation of the exchange rate. As an appropriate exchange rate was now being achieved, tariffs had already been reduced and rationalized to reduce dispersion.

Systems, methods and effects of restrictive import measures

16. One member asked whether the Colombian government had already taken a decision on specific measures to be taken in 1986 to continue the process of trade liberalization. He also asked for more precise information with regard to the simplification of administrative procedures. Concerning the export promotion measures applied by Colombia, he wished to know whether these measures reflected a long-term policy objective. Finally, he enquired whether barter trade was still used by Colombia.

17. Another member stated that in his view Colombia maintained a rather complex system of trade restrictions and that there was room for simplification. He referred to the simultaneous application of import licence requirements, exchange licence deposits and requirements regarding minimum import financing periods and to the fact that licence applications were considered on a case-by-case basis. These elements entailed uncertainty for importers. He also asked whether, as had been stated in the Colombian basic document, 55 per cent of the value of imports was now imported freely.

18. In reply, the representative of Colombia stated that the measures taken by her government to diversify and promote exports had to be seen in conjunction with the evolution of the exchange rate. When the exchange rate had reached the desired level, there would be less need for export incentives. With regard to the simplification of administrative procedures, she said that the number of products subject to prior approval for export had been reduced significantly. Regarding further trade liberalization measures, she stated that the global import budget for 1986, which had recently been established, was substantially larger than the budget for 1985. Another recent liberalization measure concerned the reduction of the minimum import financing periods. In value terms, 55 per cent of Colombian imports would be admitted freely as of December 1985. This figure covered imports of articles on the free list and imports from countries with which regional trade liberalization agreements were in force. Further, the process of revising tariffs would continue. The barter system had been abolished in July 1985. She stressed that the economic programme pursued by Colombia sought to increase trade and to rely more on an appropriate exchange rate to regulate imports and exports than on import controls. Nevertheless, if markets for Colombia's products were closed and if the terms of trade continued to fall as in the past year, Colombia's balance of payments problems would inevitably increase, leading once again to restrictions being applied. She pointed out that Colombian foreign trade regulations did not entail uncertainty for importers. Firstly, importers knew the size of the foreign exchange budget and the criteria and priorities established by the Foreign Trade Council concerning the issuance of import licences. Secondly, any importer who had obtained an import licence would always obtain the necessary foreign exchange for it. For monetary policy reasons, importers were required to make a deposit; however, this did not affect their access to the necessary foreign exchange, nor did it apply retroactively when the measure was applied. She added that the processing of licence applications had recently been computerized, with the result that applications could now be processed within two and a half months.

19. In reply to a question concerning the import surcharge introduced in December 1984, the representative of Colombia stated that, as envisaged at the time when this measure was adopted, the surcharge would be abolished no later than December 1986.

Conclusions

20. The Committee noted that Colombia's domestic economic situation, as well as its trade and current account balances, had deteriorated sharply in the period 1981-83. This deterioration was due to a number of internal and external factors, including, as regards the former, the budgetary deficit and

the level of exchange rate, and as regards the latter, unfavourable world markets for Colombia's principal exports, stagnation of import demand in its regional trading partners and restrictive import measures affecting products of export interest to Colombia in a number of markets.

21. The Committee, while noting the concurrent application of a number of import restrictions, which might be a source of uncertainty for traders, welcomed the clarifications given by Colombia in this regard, which alleviated some of its concerns regarding the complexity of the system.

22. The Committee appreciated the efforts being made by Colombia to restore internal and external equilibrium through fiscal, monetary and exchange rate policies as well as its efforts to stimulate the growth and diversification of exports. It recognized that the success of these policies would depend partly on the evolution of world commodity markets and of the economic and commercial situation in Colombia's trading partners. The Committee welcomed the announcement by Colombia that the process of import liberalization initiated in 1985 would be continued and strengthened.

ANNEX

Statement by the Representative of
the International Monetary Fund

After a period of solid economic growth and balance of payments surpluses in the second half of the 1970s, Colombia experienced a substantial deterioration in its overall economic and financial situation in the early 1980s. From 1980 to 1983, real GDP growth decelerated from 4 percent to 1 percent, unemployment rose from 9 percent to over 12 percent, and the overall balance of payments moved from a surplus of US\$1.2 billion to a deficit of US\$1.8 billion. The rate of inflation averaged 23 percent a year during 1980-83.

The current account of the balance of payments moved from a small surplus in 1980 to a deficit of almost US\$3 billion (about 10 percent of GDP) in 1983. Exogenous factors, such as a relatively weak international coffee market and depressed demand in neighboring countries and other markets for Colombia's non-coffee exports, adversely affected export earnings, which declined by about US\$1 billion from 1980 to 1983. The negative impact of these factors was compounded by expansionary domestic demand policies that attempted to reverse the recessionary trends in the economy.

As a result of expansionary fiscal policy, the overall public sector deficit increased from 2.6 percent of GDP in 1980 to 7.6 percent of GDP in 1983. Although a reform of the income tax and the state and local taxes was introduced in 1983, the continued growth of expenditure led to a further increase in the public sector deficit in 1983. Public sector outlays reached 27 percent of GDP in 1983, compared with 20 percent in 1980.

Monetary policy also became increasingly expansionary during the 1982-83 period. The Banco de la Republica released funds that had been sterilized in the form of special reserve requirements imposed during the coffee export boom of 1975-77, eased its rediscount facilities, and broadened the role of the special funds it administers with the aim of promoting economic activity. These actions, together with the increased financing needs of the public sector, led to a significant acceleration in the growth of the net domestic assets of the Banco de la Republica. For the financial system as a whole, the expansion of net domestic assets accelerated from 29 percent in 1981 to over 37 percent in 1983.

Economic activity improved in 1984, with real GDP growing by about 3 percent. However, the rate of unemployment increased further to more than 13 percent. Despite further improvement in revenue performance in 1984, the public sector deficit remained unchanged relative to GDP because of the continued growth of outlays. While there was some slowdown in the pace of credit expansion in 1984, policy in this area continued to be expansionary.

To contain the deterioration in the balance of payments, the Colombian authorities resorted to intensified exchange and trade restrictions beginning in 1982. They also accelerated the rate of depreciation of the peso in August 1982 and October 1983. These actions contributed to a decline in 1984 in the current account balance of payments deficit to US\$1.9 billion (6.5 percent of GDP). In particular, due in part to a recovery in world trade, exports rose by 16 percent in 1984, after having dropped for three consecutive years, while imports continued the decline that had started in 1983. Nonetheless, a further weakening in private capital flows and a reduction in trade credit lines from foreign commercial banks led to an overall balance of payments deficit of US\$1.4 billion in 1984. By end-1984, gross official international reserves had declined to US\$1.8 billion, equivalent to four months of imports of goods and nonfactor services.

Colombia's total external debt has risen significantly in recent years, and the debt service ratio more than doubled over the 1980-84 period. As of end-1984 total outstanding debt, including short-term debt, amounted to US\$11.5 billion, equivalent to 40 percent of GDP. Debt service payments in 1984 constituted 45 percent of exports of goods and services.

Colombia has maintained a complex exchange and trade system for a number of years, involving, inter alia, exchange restrictions and multiple currency practices, import prohibitions, and prior approval requirements for imports. During 1983 and 1984, the exchange and trade system became more restrictive. In the face of the deteriorating external situation, the authorities intensified exchange restrictions by, inter alia, reducing limits on the sale of foreign exchange for a variety of purposes, including for travel and study abroad. In November 1983, one multiple currency practice was terminated by eliminating an advance import deposit required before clearing customs. However, another multiple currency practice continues to result from a 95 percent exchange license deposit for import payments to be made prior to the issuance of the corresponding exchange license. In 1983-84, the authorities also instituted across-the-board increases in import tariffs, the requirement of a prior import license was extended to virtually all imports, and a large number of imported goods were placed in the prohibited category. Also, special import-export arrangements in the form of barter, clearing, and triangular trade operations were instituted for a small group of products. In addition to customs duties, imports are subject to an ad valorem tax of 5 percent, with certain exceptions; a temporary import surcharge of 8 percent was introduced in December 1984.

To deal with the internal and external imbalances, the Colombian authorities have formulated a comprehensive adjustment program for 1985, and they intend to continue this effort in 1986. In July 1985, the Fund's Executive Board endorsed the authorities' 1985 program and agreed to monitor this program as well as the program to be formulated for 1986. The main objective of the 1985 program is to limit the loss of net official international reserves to US\$75 million. This target is based on a reduction in the current account deficit to US\$1.4 billion (4.8 percent of GDP), based on a projected increase in exports to US\$4 billion together with the projected maintenance of imports at that level. This objective is being achieved through the tightening of monetary policy and through the reduction of the deficit of the nonfinancial public sector to 4.9 percent of GDP in 1985. These policies of restraint are being accompanied by an exchange rate policy that aims to restore the level of external competitiveness that prevailed in the mid-1970s, as well as by steps to liberalize the exchange and trade system. These policies are expected to be consistent with modest growth in output in 1985 and a 12-month rate of inflation slightly above 20 percent by the end of 1985.

Available indicators for 1985 suggest that real GDP is growing by about 2 percent, while inflation has subsided to an annual rate of around 25 percent in recent months, after rising sharply in the first five months of the year due to weather-related damage to food production. The overall balance of payments has been close to equilibrium so far this year as a result of the tight fiscal and monetary policies pursued and the sizable real depreciation of the Colombian peso. According to preliminary customs data through May 1985, exports appear to be rising by 6 percent over their 1984 level (measured in terms of U.S. dollars), while imports appear to be falling by more than 14 percent.

In 1985 the authorities initiated a process of simplification and liberalization of the exchange and trade system. Imports are being transferred from the prohibited and prior approval lists to the free list, and it is expected that by the end of 1985 over 55 percent of the value of imports will be on the free list, compared with about 25 percent as of September 1984. In addition, a rationalization of the tariff structure has been initiated. In June 1985, the barter trade system was eliminated and the minimum financing requirements for imports were reduced from three years to two years for capital goods, and from 18 months to 11 months for intermediate goods. Moreover, administrative measures to reduce impediments to exports have been adopted.

The Fund welcomes the efforts being made by the Colombian authorities to address economic and financial imbalances, and hopes that these adjustment efforts will be continued to allow for a further liberalization of the exchange and trade system.