GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

BOP/W/126
6 October 1989

Limited Distribution

Committee on Balance-of-Payments Restrictions

1989 CONSULTATION WITH COLOMBIA UNDER ARTICLE XVIII:12(b) (SIMPLIFIED PROCEDURES)

Background paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205) to assist the Committee in taking the decision referred to in paragraph 8 of that Declaration.

I. Previous consultations with Colombia

2. The Committee held a full consultation with Colombia on 3 December 1985 under the provisions of Article XVIII:12(a). This was the first consultation since Colombia acceded to the General Agreement in 1981.

3. At the December 1985 meeting, 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. 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. 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.

4. A simplified consultation was held in June 1987 (BOP/R/166).

II. Measures taken by Colombia since the last consultation

(a) Import licensing and prohibitions

5. In the Secretariat's background paper for the full consultation (BOP/W/90), it was noted that, following a tightening-up of import licensing policy in 1983-84 when import licensing was introduced on some 3,300 tariff lines and temporary prohibitions placed on 834 lines, some relaxation had taken place in the period up to October 1985. At end-October 1985, 916 tariff lines (18 per cent of the total) were importable freely, 89 lines (1.8 per cent) prohibited and 4,006 lines (80 per cent) were subject to prior licensing. Lists of the prohibited and freely importable goods at that time were annexed to the Colombian basic document for the 1985 full consultations (BOP/256).[1]

6. During the latter part of 1985, further liberalization was made under Resolutions Nos. 42 and 46 of the Foreign Trade Council. The former moved some 30 additional tariff headings, relating to preserved fish products, fruit juices, leather goods and toys from prohibited to prior licensing status. The latter liberalized imports of 203 tariff headings, including animal hair, vanilla, chalk and asbestos, a variety of chemicals including hydrocarbon derivatives, certain acids and compounds, antibiotics, essential oils, photographic film, carbon, certain plastic and rubber materials, cork, paper, silk and articles, certain classes of yarn of manmade fibres, some glass products, lead bars, certain hand tools, internal combustion and other engines, pumps, agricultural machinery of various types, taps and valves, bearings and transmissions, certain types of electrical and electronic equipment and switchgear, tractors, certain aircraft parts, weighing machines and drawing instruments. (See L/5542/Add.8). According to the Colombian statement for the last simplified consultation (BOP/270), 467 items of machinery and equipment were again transferred to "free import" in 1986 under Foreign Trade Council Resolutions Nos. 1, 5 and 12: leaving at present 3,163 tariff headings or 62.7 per cent of the total under prior licensing, 56 headings (1.1 per cent) prohibited and 1,823 headings freely importable. Under Resolution 37 of the same year, 13 positions relating to alcohol were moved from prohibited to prior licensing status.

7. Data contained in the IMF's recent annual report on Exchange Arrangements and Exchange Restrictions show that the proportion of tariff lines subject to prior import licensing had fallen to 60.3 per cent of the total and those under free entry risen to 38.7 per cent by end-1988. In September 1987 four items were moved from prior to free lists; the lists were again modified in March and June 1988, increasing the number of free entry items through subdivision of tariff lines and in August 1988 a temporary six-month licensing régime was established for the coal industry. Further modifications took place in April and September 1989. It is also

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[1] For a description of the system of import licensing in force in Colombia, see BOP/W/90, paragraphs 6 and 7, and Colombia's own background paper for the 1985 consultations (BOP/256), section I.B.1.

reported that the Government is in the process of considering provisions for further opening of the economy and trading system and that consultants have been appointed to study the restructuring of five major industrial sectors: agro-industry, motorvehicles, leather, textiles and clothing and steel.

8. Colombia has recently sent a notification for the GATT Integrated Data Base showing the status of tariffs and imports as of 1988. This does not, however, include any information on non-tariff measures.

(b) Allocation of foreign exchange

9. On 1 April 1986, the annual foreign exchange quota, which is allocated monthly, was increased from US$3.6 billion to US$4.14 billion (L/6087): the ratios for the distribution of the foreign exchange budget were changed to allow up to 50 per cent of the monthly distribution to be allocated to "free list" products, and not less than 50 per cent to products under prior licensing. On 27 May 1987 the foreign exchange quota was raised further to US$4.74 billion. On 3 June 1987, the monthly distribution of foreign exchange was raised to 53 per cent for the free list and 47 per cent for prior licensing items. (Foreign Trade Council Resolution No. 12.) The foreign exchange budgets for 1988 and 1989 were set at US$4.95 billion and US$5.6 billion respectively.[2]

(c) Import deposits and exchange deposits

10. The rate of consignación, or refundable deposit in local currency which must be lodged before applying for a foreign-exchange licence for the payment of imports, remained at 95 per cent until 31 May 1989, when it was reduced to 85 per cent. The list of products exempted from this requirement also remained in effect; it comprises medicines, consumption foodstuffs, books, gasoline, subscriptions to technical publications and imports financed with special credit lines from the Central Bank or the national budget.

(d) "Special trade" arrangements, including barter

11. Under Decree No. 1459 of 6 May 1986, the systems of special trade (barter, clearing trade and triangular trade) established in 1984 and suspended in July 1985 (BOP/W/90) were abolished. The IMF annual report on Exchange Arrangements and Exchange Restrictions notes that bilateral payment agreements exist with Bulgaria, Hungary and Poland and reciprocal credit arrangements with China, Cuba, Dominican Republic, Spain and the USSR. In addition, payments within LAIA are made through special bilateral accounts.

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[2]The increase of imports into Colombia in 1988 and 1989 is noted in Section III.2 of the Colombian statement (BOP/290).

(e) Tariffs

12. Colombia has been progressively reducing its tariffs. In November 1987, duties on non-locally produced capital goods were reduced to a range of 5-15 per cent. In April and September 1988 duties were lowered, resulting in a reduction in the overall unweighted average tariff rate to 30 per cent, as against 61 per cent in 1984. (The weighted average is estimated to be 27 per cent.)

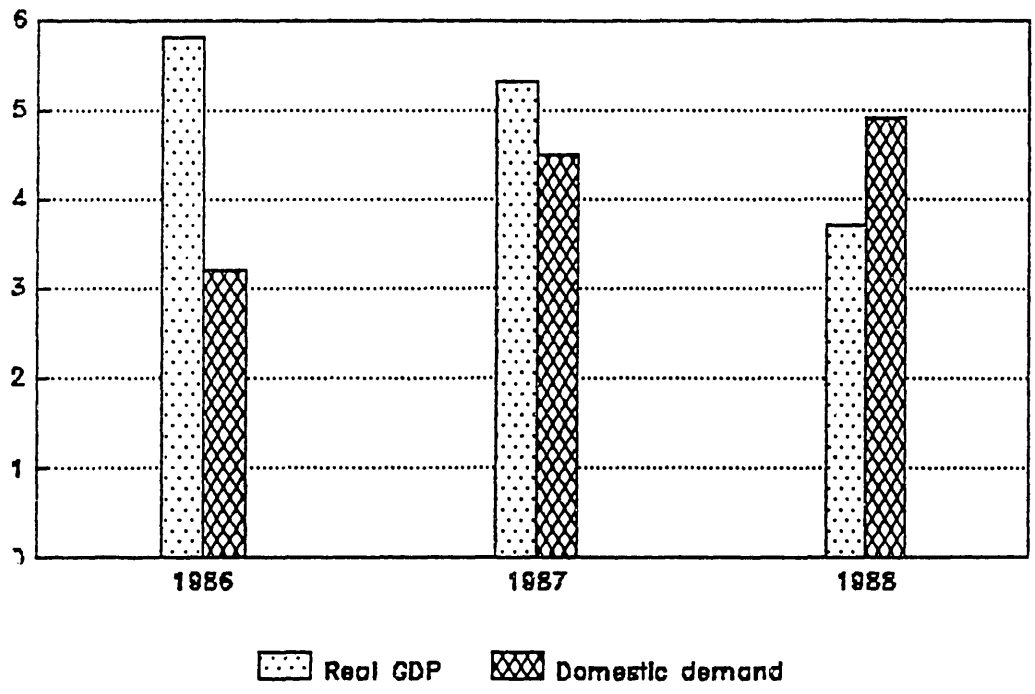
III. Economic and trade developments

Production and investment

13. The Colombian economy grew by 5.3 per cent in 1987, the second successive year of growth in excess of 5 per cent (Graph 1). This can be traced in part to structural reforms implemented in 1985-86. In 1987, investment expanded by 5.1 per cent, after years of negative growth, helped by a tax reform which reduced the tax pressure on share dividends, and favoured the substitution of equities for liabilities. Unemployment dropped to 10.2 per cent in 1987, its lowest level in five years.

Graph 1

REAL GDP AND DOMESTIC DEMAND
(Annual percentage change)



14. In 1987, economic growth was well balanced. Manufacturing output (excluding coffee processing) was up by 6.2 per cent, and the agricultural and livestock sector (excluding coffee) grew by some 5 per cent. The fastest growth was recorded in industries producing basic non-ferrous metals, wood, transport, scientific and professional equipment, glass, clay, porcelain, machinery, paper, iron and steel, petroleum derivatives, textiles and clothing. Despite the decline of international coffee prices from their 1986 high, coffee output grew 12 per cent. Mining and energy production were boosted by strong gains in petroleum and coal production. In the services sector, retail trade and commerce grew by 5.6 per cent. Construction activity, however, fell by 4.2 per cent.

15. During 1988, output growth slowed to 3.7 per cent. This resulted in part from the unexpectedly from position of the central bank with respect to credit policy. Domestic demand, in contrast, continued to accelerate. Stimulated by the expansion of public consumption, consumption spending increased by around 4 per cent. Investment spending also increased faster than output, reaching over 20 per cent of GDP compared with 19½ per cent in 1987. Wage increases lagged behind inflation in 1988, helping to limit the growth of private consumption, but also helping unemployment to remain at around 10 per cent during 1988 despite the slower growth of production.

16. In 1988, the non-coffee agricultural sector (including livestock) is estimated to have grown by 5.0 per cent, and the coffee sector declined by 4.6 per cent. The former sector, in particular, was affected by a severe drought at the beginning of 1988, and flooding during late summer. The crops mostly affected were cotton, rice, soya, corn and bananas. Mining and energy did better than in 1987 (13.5 per cent growth) despite a marginal fall in petroleum production. The rapid expansion of coal mining and other minerals production was the major factor behind the sector's performance. Trade and commerce grew by 3.6 per cent. Manufacturing growth slowed to 2.3 per cent, while construction activity recovered to grow by around 1 per cent.

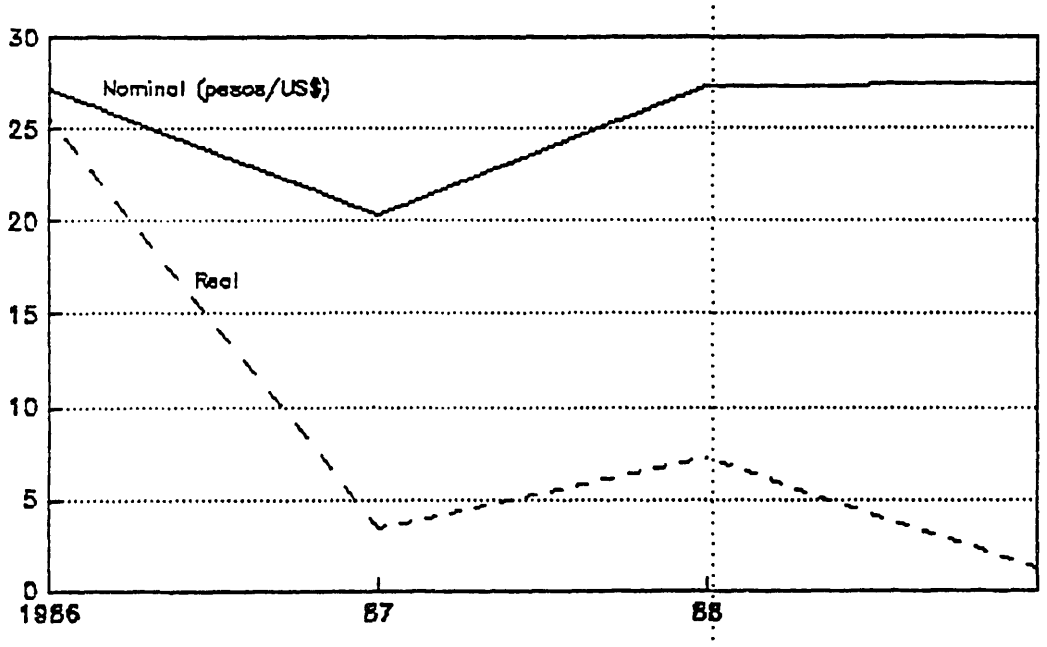
Monetary and fiscal policy

17. The money supply (M1) grew by 33 per cent in 1987 against 23 per cent the previous year. This increase in liquidity was partly the result of a sharp increase in credit to the public sector, resulting from delays in obtaining foreign financing. This came about partly through credits by the Foreign Currencies Fund to public companies indebted in foreign currency; partly through the incomplete sterilization by the Central Bank of export earnings and the redemption of government bonds by the National Coffee Fund. Credit to the private sector also increased. Inflation was 23.3 per cent in 1987 as measured by the consumer price index. At the end of the year 1987, in order to slow the expansion of the money supply, the central bank undertook open market operations, reduced transfers to the treasury, and raised commercial banks' reserve requirements. It also induced banks to refrain from expanding credit to the private sector by exercising moral suasion. The resulting increase in interest rates contributed to the slowdown in economic growth in the second part of 1988.

18. Between January and April 1988, liquidity was further reduced by a run on commercial banks due to a new law obliging banks to report deposits of more than 6 million pesos. As interest rates increased again (commercial loan rates went as high as 45 per cent), the government started in August 1988 fixing interest rates administratively. This measure, together with expectations of a depreciation of the peso, may explain the rise in capital outflows that took place in the second half of 1988 (Graph 2). Monetary policy succeeded in curbing growth in the narrowly defined money supply (M1) to 26 per cent in 1988. However, bank loan allocations increased by a similar rate following the relaxation of minimum reserve requirements during the second half of the year. Despite the tightening of credit carried out by the central bank, inflation accelerated moderately to 28.1 per cent during 1988, partly as a result of higher food prices related to weather conditions. The average rate of inflation registered during the first quarter of 1989 was lower than in the same period of the previous year.

Graph 2

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES
(Annual % change;end of period)



Note: A decline in the RER reflects an improvement of the country's international price competitiveness.

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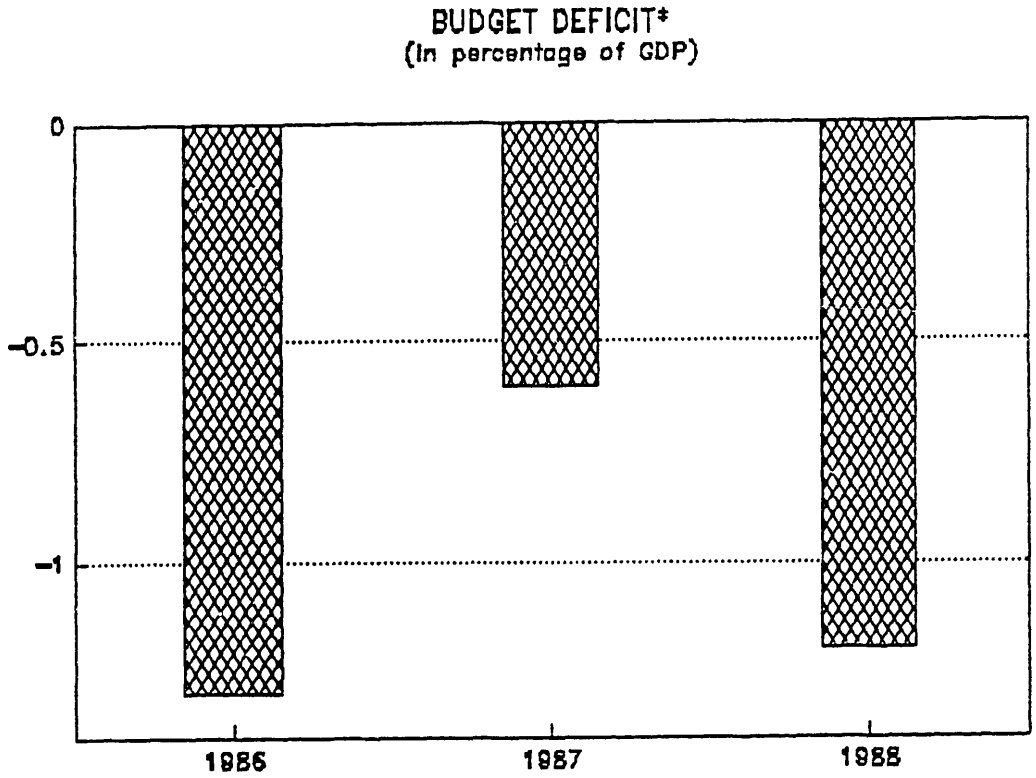
19. Fiscal management in 1987 remained conservative. In real terms, central government spending (including transfers to decentralized public sector entities) increased 7.9 per cent, while revenues went up by 15.7 per cent. The strong rise of revenues was the result both of the expansion of the economy and of the 1986 tax reform, in particular a one-time tax amnesty. Central government operations showed a deficit of 0.6 per cent of GDP compared to 1.3 per cent in 1986 (Graph 3). However, the consolidated public sector deficit - which includes the operations of state owned companies such as the oil company ECOPETROL - was 1.8 per cent of GDP compared to a surplus of 0.6 per cent the previous year. The main loss-making sector remained the electric power utilities.

Graph 3



*Excludes transactions of extrabudgetary units and social security funds

20. In 1988, cutbacks in public spending fell on investment by public sector companies, notably petroleum, energy and communications. But while government spending grew about 15.6 per cent in real terms (reflecting increased allocations to social development programmes and to security), revenues grew 4.3 per cent in real terms. As a result, the central government deficit in 1988 more than doubled trebled to 1.2 per cent of GDP. The consolidated budget deficit is reported to have risen to

2.8 per cent of GDP last year. The pressure on monetary aggregate targets resulting from the deficit was partly alleviated by increased external financing during 1988.

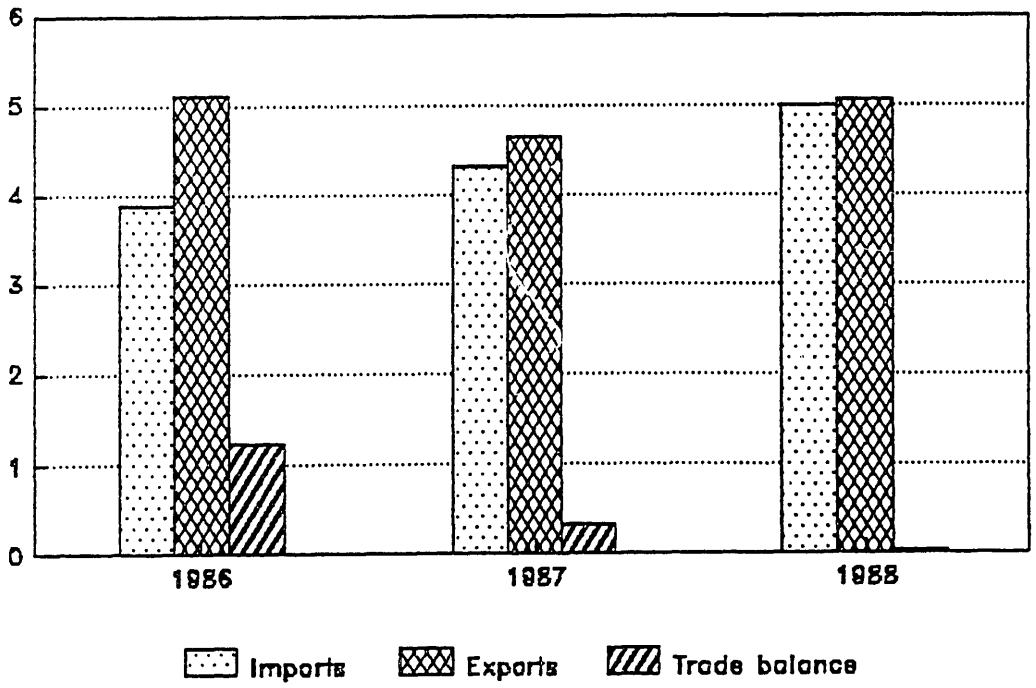
Balance of payments

The trade and current accounts

21. IMF data show that Colombia's trade surplus fell in 1987 from a peak of $2 billion in 1986 to $1.5 billion (Table 1; see also Graph 4, which presents data on a customs basis) largely reflecting a sharp drop in coffee prices (Graph 5) as well as higher imports due to the continuation of import liberalization policy through lower tariffs and faster import licence authorization procedures. Despite a drop in coffee earnings to $1.6 billion (against $2.7 billion in 1986), total exports rose to $5.3 billion. The loss of export earnings from coffee was offset by a rise in oil receipts, which more than doubled to $1.3 billion, and by the significant increase in exports of coal, gold and other products. The continued depreciation of the real effective exchange rate helped to maintain Colombian export price competitiveness during 1987. Table 2 shows that Colombian exports to North America and Latin America have recorded the fastest growth between 1985 and 1987.

Graph 4

VALUE OF MERCHANDISE TRADE
(Billion US dollars)



Source: IFS, on a customs basis.

22. The current account moved into a deficit of $21 million (0.1 per cent of GDP) from a surplus of $565 million (1.6 per cent) in 1986, mainly due to a widening in the services account deficit (Graph 6).

Graph 5

COFFEE INTERNATIONAL PRICE INDEX
(1980=100;US cents/pound)
(Annual percentage change)

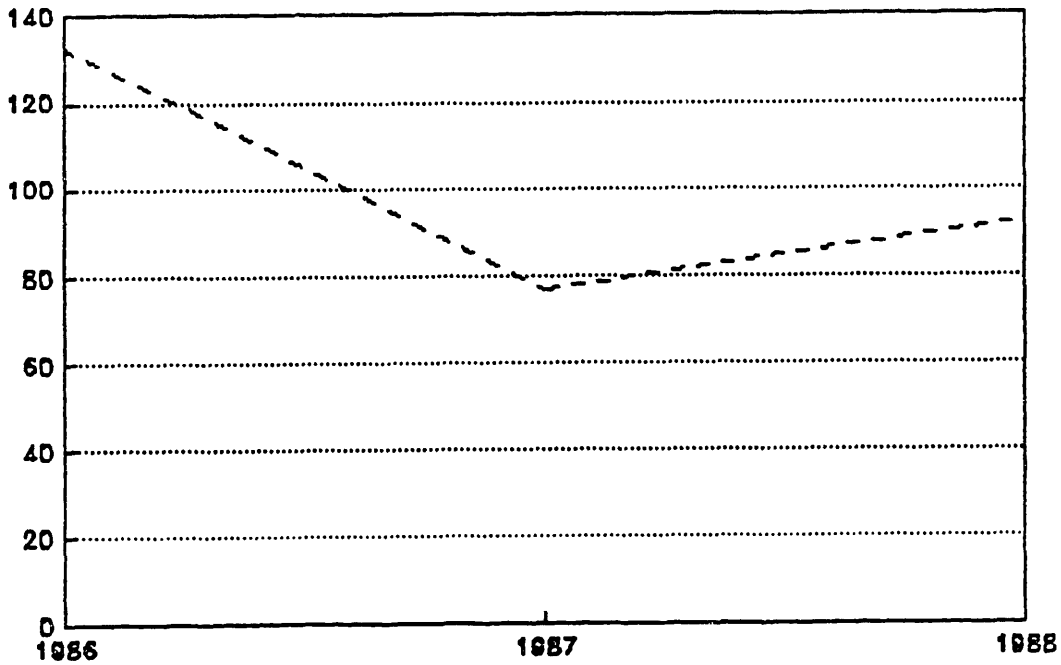


Table 1
Colombia: Balance of Payments, 1984-88

	1984	1985	1986	1987	Prel. 1988
	(In millions of US$)				
Current account	-2,088	-1,586	565	-21	-353
Trade balance	-404	109	2,024	1,461	824
Exports, f.o.b.	3,623	3,782	5,433	5,254	5,339
Coffee	1,734	1,702	2,742	1,633	1,621
Hydrocarbons	445	409	619	1,341	985
Other	1,444	1,671	2,072	2,280	2,733
Imports, f.o.b.	-4,027	-3,673	-3,409	-3,794	-4,515
Services (net)	-1,983	-2,156	-2,244	-2,482	-2,142
Interest (net)	-1,070	-1,202	-1,183	-1,166	-1,185
Other services (net)	-913	-954	-1,061	-1,371	-957
Transfers (net)	299	461	785	1,001	965
Capital account	662	1,853	795	-190	725
Nonfinancial public sector (net)	994	1,386	800	-179	703
Medium- and long-term (net)	1,214	1,147	1,879	-43	620
Disbursements	1,764	1,793	2,807	1,202	2,247
Amortization	-550	-646	-928	-1,245	-1,627
Short term (net)	-220	239	-1,079	-136	83
Nonfinancial private sector (net)	-39	485	530	57	-189
Long term[1]	608	1,209	751	228	231
Short term and other (net)[2]	-647	-724	-221	-171	-420
Rest of financial sector (net)	-293	-18	-535	-68	211
Overall balance[3]	-1,426	267	1,360	-211	372
	(In percent of GDP)[4]				
Current account balance	-7.6	-4.9	1.6	-0.1	-0.9
Overall balance	-5.2	0.8	3.9	-0.6	1.0

Source: IMF.

[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 República, adjusted to account for the actual transaction value of gold and the main foreign currencies.

[4] GDP in US dollars adjusted by a real effective exchange rate index.

Graph 6

CURRENT ACCOUNT BALANCE
(In percentage of GDP)

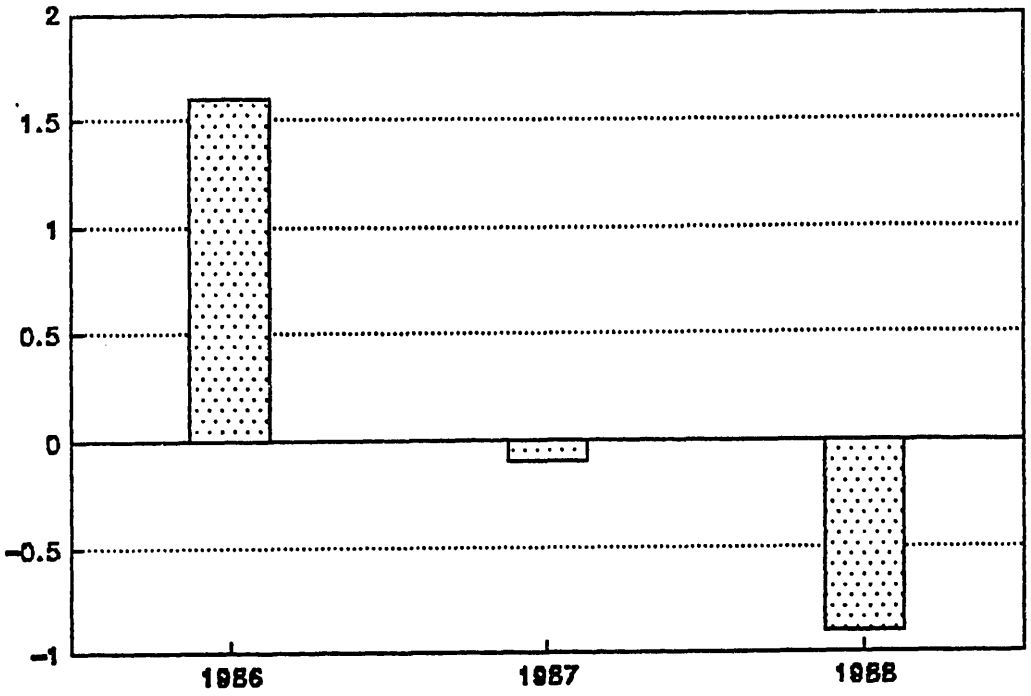


Table 2 - Direction of merchandise trade, 1985/87
(In million of US dollars)

Countries/Regions	Exports (f.o.b.)		Imports (c.i.f.)	
	% change 1987/85	1987	% change 1987/85	1987
North America	71.3	2 064.8	4.5	1 689.2
Western Europe	8.2	1 572.4	20.0	1 164.8
Latin America	72.9	871.4	-18.9	816.6
Japan	35.9	203.7	-9.9	386.2
Eastern Europe and USSR	26.5	106.8	18.6	49.8
Rest of the World	31.8	205.3	79.3	121.4
TOTAL	41.5	5 024.4	2.4	4 228.0

23. In 1988, the trade balance was halved to $824 million by a fall in petroleum export revenues (caused both by declining prices and by supply shortfalls) and a 19 per cent rise in imports resulting from the acceleration of domestic demand and the import liberalization (including tariff reductions) in progress. The quantity of coffee exported fell by 15 per cent during 1988 but was almost fully offset by rising prices. Provisional data suggest that coal, nickel and "non-traditional" exports grew substantially. The current account deficit is estimated to have risen to some $353 million. According to national sources, in 1988, imports of raw materials continued to grow rapidly at almost 24 per cent, and imports of capital goods grew at 15 per cent. In contrast, imports of consumption goods fell by about 11 per cent. In 1988, Colombian exports to industrial countries represented 77 per cent of the total, almost the same as the share of Colombian imports from that origin. Exports to developing (non-socialist) economies were 20 per cent of the total while imports represented 23 per cent.

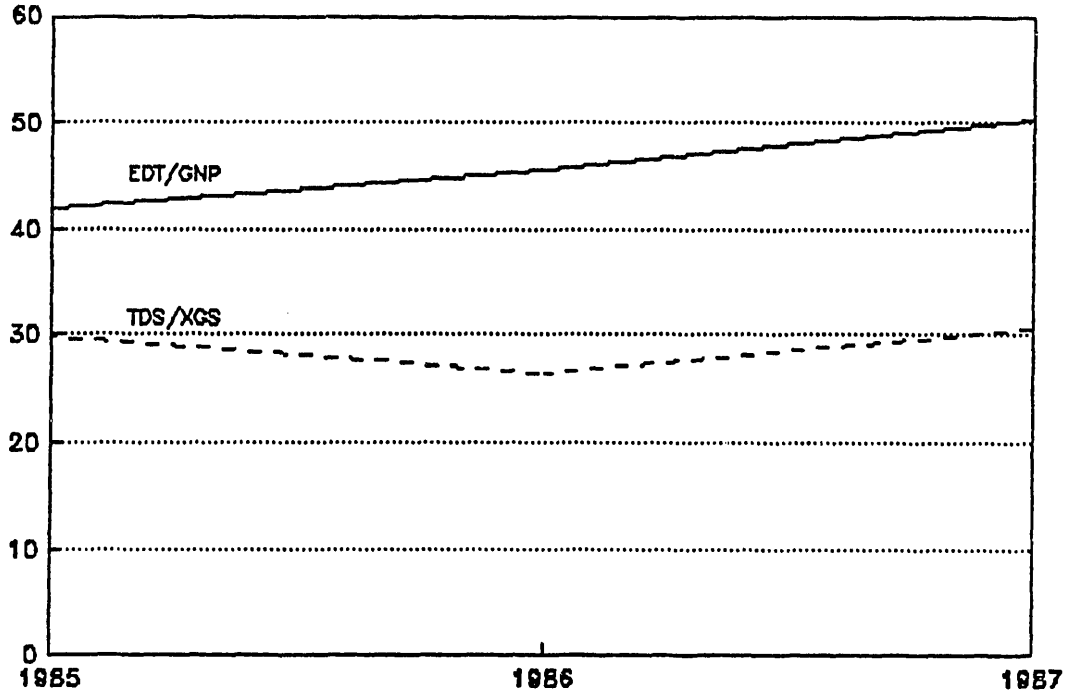
The capital account and foreign indebtness

24. In 1987, net repayments of medium and long-term public debt of US$179 million, and the net short-term balance added another $132 million to the outflow. Following the completion of projects in mining and energy, net direct investment inflows continued the downward trend, evident since their peak in 1985, to $287 million. Total reserves (excluding gold) were $3.1 billion at the end of 1987, equal to about ten months of imports. During 1988, the capital account shifted to an estimated surplus of $725 million resulting in a moderate rise in total international reserves to $3.2 billion, helped by the $1 billion disbursed from the "Concorde" loan (a syndicated private bank loan of $1.00 billion, negotiated in January 1988, undertaken by the Government to roll over amortization payments accruing between 1987 and 1988). The growth of foreign direct investment is reported to have slowed down in 1988. By June of this year reserves had declined to $2.9 billion, although new bank loans during the rest of 1989 are expected to help increase the reserve position.

25. According to World Bank data, Colombia's total external debt was $17 billion at the end of 1987, of which 81 per cent was public and publicly guaranteed. In 1987, the rise in the stock of debt raised the ratio of total foreign debt to GNP to 50.2 per cent from 45.6 in 1986 (Graph 7). The ratio of debt service to exports of goods and non-factor services grew to 30.7 per cent because of large amortization payments and the rise in international interest rates (Graph 8). Total Colombian external debt at the end of 1988 is estimated to have reached approximately $17.6 billion, with short-term debt increasing by 19 per cent.

Graph 7

EXTERNAL DEBT INDICATORS
(Percentages)



Graph 8

LIBOR ON US DOLLAR DEPOSITS
6 MONTHS
(Percentage per annum; period average)