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CRISIS AND ECONOMIC POLICY IN COLOMBIA, 1980 - 1985

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Colombia has been regarded in the international community as an exception to the disequilibria and mismanagement which have characterized the Latin American countries in the last decade. This conception contains an important element of truth. Indeed, Colombia has lower debt ratios, more moderate fiscal deficits and has experienced smaller contractions of real income per capita in the 1980s than most countries in the region. This situation reflects, in turn, both a tradition of prudent economic management --which includes a long experience with the crawling peg, exchange regulations, import controls and export promotion policies-- and favorable external conditions in the second half of the 1970s, which allowed the country to face the 1980s with an unquestionably strong net debt position.

Nonetheless, as other Latin American countries, Colombia has experienced a substantial external and internal deterioration in the early 1980s. Moreover, it has undergone in the last few years the typical phases on the Latin American crisis : a period of increasing disadjustment between 1980 and 1982, a phase of domestic corrections of disequilibria with some heterodox elements in 1983 and the first half of 1984 and a period of orthodox policies with increasing external conditionality since mid 1984. In contrast to many other countries, the current crisis cannot be viewed, however, as a developmental or structural crisis, but rather as a strong short-term downturn. Indeed, the prospects for recovery in the second half of the decade are quite good, based on the gestation

of long-run energy investments.

The paper is divided in five sections. We first sketch the "initial conditions" -- i.e., the state of the economy in 1980. In part II, performance in terms of economic growth, inflation and employment in the 1980s is reviewed. In parts III and IV, external and fiscal conditions in the first half of the 1980s are analyzed. A final section presents the major conclusions of the paper and the prospects for recovery.

I. The initial conditions

As a reflection of the foreign exchange boom which started in 1975, Colombia experienced five years of current account surplus between 1976 and 1980 (Table I). Coffee prices in the early years and high export volumes of the same staple since 1978 were largely responsible for this outcome. The coffee boom was reinforced by the rapid growth of trade with Venezuela, the increasing remittances of Colombian emigrants and the drug trade.[1] The external surpluses of these years were sufficient to induce a radical change in the net debt position of the country. Indeed, by late 1980 the debt of Colombia, net of international reserves, was only $880 million -- 21% of the exports of goods and services. This situation was in open contrast to that which prevailed in the early 1970s, when this ratio was close to 250% (Villar, 1983). Very few Latin American countries (in fact, only Venezuela, as a net investor in the rest of the world) faced such favorable conditions at the outset of the 1980s.

The years of foreign exchange boom were also of satisfactory economic growth (Table 2). Nonetheless, GDP growth between 1975 and 1979 (5.7% in annual terms)

was only similar to the average rate of growth of the Colombian economy in the post-war period and lower than that experienced during the previous boom (1970-1974). Moreover, the slowdown was quite evident in 1980, particularly in the manufacturing sector. Thus, the rate of growth in that year (4.1%) was significantly lower than the post war average.

Several symptoms of economic deterioration were in fact building up during the boom years. Foremost, for the first time since the 1920s, industrial expansion lagged behind GDP growth, reflecting weak investment ratios, slow productivity improvements and the increasing competition of legal and illegal imports (Echavarría et. al., 1983; Chica, 1983; Kalmanovitz, 1984). Food production also lagged behind in the growth process, leading to rising relative foodstuffs prices in the 1970s. The diversification of the export base, which had proceeded rapidly in the late 1960s and early 1970s, was reversed, as the export subsidies were significantly cut in 1975 and the government revalued the real exchange rate during the boom years. Finally, the bonanza unleashed financial speculation in unprecedent dimensions and led to a rather chaotic proliferation of financial institutions and activities, which enhanced the risks and fragility of the financial system (Montenegro, 1983b).

Although some of these developments reflect the mild "Dutch disease" experienced during the boom years (Edwards, 1984), macroeconomic policies were largely responsible for the outcome. The López Administration adopted in 1974 an orthodox stabilization program, aimed at reducing the rising rate of inflation of previous years. The program included a tax reform, strong controls on public expenditure (particularly investment and export subsidies), a liberalization of interest rates, a reduction of central bank credits

to the public and private sectors and a temporary acceleration of the rate of devaluation to compensate for the lower export subsidies. Government response to the coffee boom was also a massive contractionary program. Controls on public expenditure were maintained and a harsh monetary policy was adopted -- including 100% marginal reserve requirements on current accounts, increased reserve requirements for savings and term deposits, the partial sterilization of the external surplus through the deferred maturity of foreign exchange certificates and forced savings of coffee income. Simultaneously, strong controls on capital flows were adopted and devaluation was temporarily suspended in 1977 to reduce the monetary effect of balance of payment surpluses. Thus, in open contrast to other Latin American countries, contractionary macroeconomic management was the rule during both the 1974-1975 recession and the coffee boom years. A significant aversion to inflation was the underlying force in both periods. Although this meant recession, first, and reduced multiplier effects of the boom, later, it was also reflected in the significant improvement of external accounts.

In 1979 and 1980, the Turbay Administration adopted a radically different economic strategy, which was in fact followed up to 1982, regardless of changing external conditions. This policy combined an expansionary fiscal with a contractionary monetary policy and a significant liberalization of import controls. The expansion of public investment was justified on developmental grounds and on the need to reverse the significant reductions of public investment during the López Administration, which in some sectors had generated needs which could no longer be postponed (DNP, 1979). The basic assumptions of the new strategy were that the economy was close to full employment and that public

investment could only be financed by long-term borrowing abroad. Thus, in the conception of the government, import liberalization and monetary controls played the role of preventing the development of an inflationary spiral. Monetary controls were based on massive open market operation in a free capital market. This form of intervention replaced in 1980 the harsh monetary controls of the boom years, which had generated by then all sorts of financial innovations to circunvent existing regulations (Jaramillo, 1982).

As we will see in the following sections of the paper, the policy mix adopted by the Turbay Administration had unsatisfactory results. In fact, as the fiscal deficit increased, the current account of the balance of payments deteriorated rapidly, without the expected effects of the former on domestic activity. On the contrary, in absence of alternative expansionary factors -- since coffee ceased playing that role -- economic growth came to a standstill. A policy mix which was conceived for a boom period was thus never adapted to a deteriorating external environment.

II. Economic Activity, Inflation and Employment in the 1980s

As Table 2 shows, economic growth since 1981 has been similar to the rate of population expansion -- 1.8%. Annual data does not provide, however, a precise guide to short term events in the last few years. Thus, Figure 1 includes quarterly data on per-capita urban GDP, inflation and "exogenous demand" (the sum of coffee production, other exports of goods and services and government expenditure, all expressed in terms of their internal purchasing power).

As Figure 1 shows, real exogenous demand has been fairly stagnant in the 1980s,

indicating that fiscal expansion has not counteracted the contractionary effects of falling coffee and minor export income, particularly in the early years. Demand has experienced three distinct cycles. It peaked in the second semester of 1980, followed by a contraction which bottomed in the third quarter of 1981. Led by public expenditure, demand had recovered by the first quarter of 1982. Shortly thereafter, the strongest contraction took place. After a period of deep recession in late 1982 and early 1983, a rapid recovery was experienced in the second semester of the latter year, followed by relative stagnation in 1984. Finally, in the first few months of 1985 there were new symptoms of new demand recession, reflecting contractionary fiscal policies.

Economic activity has followed with a lag the demand cycle. Thus, after a peak in the second quarter of 1981, the economy experienced for the first time a contraction of per-capita urban GDP in the following quarter. A brief recovery followed thereafter, before experiencing deep recession in the second semester of 1982 and the first quarter of 1983. The recovery of late 1983 was quite strong, but it was short-lived. By mid 1984, per capita urban GDP was falling again.

Although the "exogenous demand" cycle has been the basic determinant of economic activity in the last few years, other factors have been present. Import liberalization was, no doubt, one of the underlying contractionary forces in the early 1980s, while import rationing was one of the bases of the 1983-1984 recovery. Real monetary contraction was also important in the early 1980s, while monetary expansion supported the 1983 recovery. Finally, fluctuations in the inflation rate have also been important in the real cycle (Coyuntura Económica, April 1985).

In the early 1980s, inertial inflation of 25-28% was the rule in Colombia. (Coyuntura Económica, October 1982). In 1983, however, several events induced a rapid reduction of the rate of inflation. Good harvests were compounded with a change in the direction of foodstuffs trade with Venezuela - - particularly cattle -- to generate a reduction in food price inflation. On the other hand, as a reflection of policy measures adopted in early 1983, housing rents have increased at slow rate in the last few years. Although wage contracts were starting to reflect lower inflation rates in 1983 and 1984, changing food supply conditions sharply reversed the inflation cycle in late 1984, returning to the "inertial" levels of the early 1980s. It must be pointed out that devaluation has not played a significant role in the inflationary process. Reduced dollar prices of Colombian imports and domestic and agricultural supply conditions have amply compensated in the recent past the effect of devaluation, while price controls have forced firms in some import-intensive sectors -- transport equipment and chemicals, for example -- to reduce profit margins. These favorable conditions will not be maintained in the near future. Devaluation can thus be expected to play a more active role in the inflationary process in the second semester of 1985 (Coyuntura Económica, June 1985).

Modelling of the Colombian economy (Londoño, 1985) indicates that the inflationary cycle has real effects on economic activity. When the inflation rate falls due to favorable agricultural supply conditions, urban wage earners have a windfall gain which induces a demand-led expansion of urban activities; this factor prevails over the contractionary effects of lower rural incomes. The opposite process takes place when food shortages induce rising inflation rates. This mechanism has been important in Colombia in the last

three years. Particularly, the lower inflation rate of 1983 fuelled the recovery of urban activities, while the recent acceleration affected economic growth in 1985. It should be noted, however, that the recession of mid 1984 was not associated with the rising inflation rate, which actually picked up only in the last quarter of that year.

Labor market conditions have reflected the deterioration of economic activity in the 1980s. In the first years of the decade, however, only secondary employment was clearly affected, while employment in terciary activities and total wage placements increased at a satisfactory rate (Table 3). Moreover, lower participation rates in 1981 yielded one of the lowest unemployment levels recorded in Colombian history. As the recession deepened, deteriorating labor market conditions spread in 1982. Although the industrial recovery induced a reversal of employment trends in the secondary sector -- particularly in 1984 --, urban wage hires stagnated and growth concentrated in self-employment practices, subject to rapidly falling real income levels. Simultaneously, the rate of unemployment increased rapidly, reaching by 1984 record 1960s levels.

In the 1980-1984 period as a whole, wage placements increased at an annual rate of 1.9%, similar to that of GDP, while self-employment increased at an extraordinarily rapid pace -- 5.5% a year. This contrasting trend indicates that one of the most complex legacies of the crisis will be record levels of un-and under-employment and very cautions hiring practices, particularly by larger firms. The latter have rationalized work processes and have learned to shift the burden of adjustment to the labor force -- through the intensive use of subcontracting and temporary workers. New employment practices may actually prove "structural" so long as confidence in sustained economic growth does not return.

III. The external deficit

In the early 1980s, the Colombian economy faced three different external shocks. First, coffee prices collapsed in mid 1980 after a period of growing instability. The fall of coffee prices had two different effects on the economy : on the one hand, it reduced the volumes exported, as the quota agreement was back into effect in the last quarter of 1980; on the other, the terms of trade deteriorated by some 18% between 1978-1980 and 1981-1984. Later on, in August 1982, coinciding with the inauguration of the Betancur Administration, the Mexican crisis generated an adverse effect on the supply of capital funds. Finally, the stabilization program adopted by the Venezuelan government in February 1983 further reduced legal and illegal exports, border sales, receipts from turism and the transfers of emigrants.

As we will see in this part of the paper, the response of economic authorities to the external crisis was contrasting in different periods. The Turbay Administration did not recognize the rising external disequilibrium. On the other hand, the Betancur Administration accepted only gradually and unwillingly the need for external adjustment. For two years, the new Administration assumed that economic recovery and the correction of external disequilibria were compatible policy objectives, given the strong reserve position of the country. In mid 1984, this strategy gave way to an orthodox stabilization program, in which demand management and rapid devaluation were combined --as a medium-term desiderata-- with a liberalization of commercial practices.

A. Growing disequilibria

Changing conditions in the coffee market demanded a reversal of external policies,

lest balance of payments imbalances become unmanageable. The Turbay Administration did not recognize, however, the existence of external disequilibria of any sort. On the contrary, economic policy enhanced the growing payments deficit. Import licenses reached a peak $6 billion level, both in 1981 and 1982, while the government linked the peso to the dollar when this currency experienced the first wave of appreciation in the international market. The effect of the latter was a substantial revaluation of the peso between 1980 and the third quarter of 1982, which meant that, by mid 1982, the peso was overvalued by a full 29% with respect to the 1975 "parity" level. Finally, the government consciously encouraged an import-intensive public investment program. Government imports, excluding oil and foodstuffs, increased from an annual average of $234 million in 1975-1978 to $893 million in 1980-1982 (Coyuntura Económica, October 1984, pp. 66-67).

Accordingly, the deterioration of the current account had three major sources in the early 1980s. First of all, coffee exports decreased by $700 million, with simultaneous reduction of other exports by some $300 million. Secondly, imports grew by $1.1 billion. The rising import coefficient did not reflect, however, a sharp expansion of aggregate demand. On the contrary, as we saw in part II, demand factors became increasingly contractionary during these years. Thus, rising imports reflected liberalization, revaluation and import-intensive public investment policies [2]. In traditional terms, an increasing bias in the composition of demand rather than excess expenditure lied behinc the higher import level. Finally, as the net debt position of the country deteriorated, with peak interest rates in the world market, net factor payment turned increasingly negative (Table 1).

The net result of these developments was a rapid deterioration of the current account. The surplus of $100 million in 1980 had been transformed two years later into a $2.9 billion deficit. Current account disequilibria were financed by extraordinary levels of foreign indebtness -- close to $2 billion in both 1981 and 1982. The economy had definitely entered the Latin American pattern of rapidly rising external debts to finance current account disequilibria and currency overvaluation. By 1982 the extremely solid external position of Colombia had made a radical turn. With current account disequilibria of $2.9 billion and the closing of international capital markets, the threat of a rapid deterioration of the strong reserve position of the country ($5.3 billion in mid 1982) was for the first time quite evident.

B. Gradual Adjustment

The Betancur Administration had a contradictory diagnosis of external conditions. Although it recognized from the outset the need to promote minor exports, to revert the import liberalization process and to correct the overvaluation of the peso, balance of payments considerations were initially secondary compared to the problems raised by the financial crisis, the budget deficit and inertial inflation. In fact, the need for rapid external adjustment was only recognized after the Venezuelan devaluation of February 1983 and even then drastic correction policies were late to come.

The basic assumption of the Administration was that the room of manouvre was unlimited, given the strong reserve position of the country. Thus, it was possible to simultaneously pursue external and internal policy targets. Balance of payments policies focused on traditional instruments : the crawling peg, import rationing, tariff surcharges , export

subsidies, exchange controls and prior import deposits. This rather diversified menu, which had been known in the past, implied that external adjustment was rather "heterodox" in this phase. Nonetheless, it was balanced, since import repression was compounded with exchange depreciation and export promotion policies. Demand management did not play, however, any role in the process. Rather, fiscal and monetary policies became increasingly expansionary, as the lower trade deficit was not compensated with a similar reduction of the budget deficit, and the falling rate of inflation was not matched by slower monetary expansion.

Although the government did not make an explicit defense of the particular form of external adjustment adopted, it can be justified on several grounds. First of all, the external deficit had little to do with excess demand of any sort. Rather, as we saw in the previous section, the underlying causes were the deterioration of key prices in the international markets (coffee in particular) and policy-induced biases in composition of internal demand. Furthermore, the strong net debt position of the country and the favorable export prospects justified the resource to a temporary financing strategy even on very traditional grounds (Londoño and Perry, 1985). Finally, the decision not to use the exchange rate as the major policy instrument reduced the inflationary and contractionary effect of the adjustment process, while maintaining the confidence in the crawling peg (Ocampo, 1983).

The first policy measures were adopted in the last months of 1982. The government accelerated the rate of the crawl, raised export subsidies and import tariffs and transferred some imports from the free to the prior licensing regime. Immediately after the Venezuelan

devaluation of early 1983, exchange controls were strengthened. The rate of devaluation was further accelerated in August 1983 as other instruments became increasingly active. The harsher policy decisions had to do, however, with import licensing, where the largest foreign exchange savings could be obtained in a short period. Indecision was paramount in this case. The government did not reduce initially the amount of import registrations. On the contrary, during the first nine months of the Betancur Administration (August 1982-April 1983), monthly authorization reached $510, a level similar to the peak 1981-1982 level. In April 1983, the government made the first significative move, by massively transferring goods to the prior licensing regime and some to the prohibited list. However, the idea that drastic import controls could impair the industrial recovery and public investment for lack of raw materials and imported capital goods continued to prevail in licensing decisions. The Monetary Board for the first time pressed for a strict foreign exchange budget in late 1983, when the rapid fall of reserves was quite evident. Soon later, in March 1984, harsh imports controls were finally established.

Regardless of the lag in the adoption of a strict licensing regime, the gradual adjustment strategy achieved its main objective. Indeed, as Figure 2 shows, the trade balanced continuously improved since early 1983 and was in equilibrium by the last quarter of 1984. In terms of annual averages, the trade deficit decreased by $1.7 billion between 1982 and 1984. The current account simultaneously improved by $1 billion. Deterioration in the invisible trade (largely due to reduced border sales and turism from Venezuela) and factor payments account for the difference (Table 1). Furthermore, devaluation had been effective in reversing by late 1984 the real appreciation of 1980-1982, although it was generally agreed that the peso was still overvalued.

Rapid reversal of the trade account did not impair the industrial recovery. On the contrary, import controls were quite effective in improving economic activity, by forcing a substitution of foreign for domestic goods. The stock of imported inputs was reduced, but it only induced difficulties in a few industrial sectors, since rationing mechanisms favored intermediate good imports and there were excess inventories of raw materials and considerable unused capacity at the outset of the recovery. It is even possible that industrial producers and commercial firms massively anticipated import controls, supported by the lax licensing practices of the Turbay and early Betancur Administrations. Thus, government precautions in adopting a harsh licensing regime had no empirical support.

While the trade balance improved rapidly, a simultaneous deterioration of the capital account led to a significant fall of reserve in 1983 and 1984 (See Table 1). This has led some analysts to argue that capital flight and the Mexican shock were the major sources of external deterioration during these years [3]. While the evidence of a significant tightening of the capital market and some capital flight are compelling, they must be carefully analyzed to draw accurate conclusions.

Tables 4 and 5 provide useful complementary evidence on capital flows. As Table 4 shows, the current account was the only source of the worsening net debt position of Colombia in the 1981-1984 period as a whole. Moreover, the proportion of the current account which was not financed by long-term capital flows was also responsible for the worsening reserve position. Long term flows did not decrease significantly during these years -- the reduction of long term financing was matched by increasing direct investment in the energy projects (See Table 1). Short term capital flows were largely responsible, however, for the different reserve performance of 1981-1982 and 1983-1984.

Indeed, the capital inflows of 1981 and 1982 were quantitatively similar to the capital outflows of the latter years.

Short term capital flows are partially explained by interest rate differential in the two phases[4]. In 1981 and 1982, there were considerable incentives to borrow abroad and to invest in Colombia. As the rate of devaluation accelerated, the contrary was true in 1983 and 1984, particularly when the expectations of massive devaluations are taken into account. However, "capital flight" is not an adequate description of what took place in the latter years. Foremost, under Colombian exchange controls, classical capital flight can only take place through the black market for foreign exchange. It only affects the reserve position through the arbitrage between the official and the black markets. The typical measure of this arbitrage -- the "errors and omissions" of the balance of payments -- indicates that it was responsible for at most $300 million of reserve losses in 1983-1984 and an insignificant $100 million in the period of payments deficit as a whole. More important than capital flight of this sort was the cancelling of short term debts in 1983 and 1984. It must be clearly born in mind, however, that this type of capital outflow did not affect the net position of the country, since the reserve loss was matched by an equal reduction of external liabilities. Moreover, these capital flows are largely explained by different trade conditions in 1981-1982 and in the latter years. Indeed, since a large proportion of short term debts are related to import financing, a period of rising imports is accompained by capital inflows, while a falling import level leads to a capital outflow. The early 1980s were also difficult years for the National Coffee Fund, which was forced to build up large external liabilities to

finance stock accumulation and to support domestic prices. However, after reaching $559 million in 1983, the external debt of the Fund was reduced in 1984. Finally, a large proportion of the short term capital outflows in 1983 and 1984 were related to the debt payments of two government firms -- Ecopetrol and Carbocol (See Table 5).

In this complex set of development, policy decisions were partly responsible for the reserve loss of 1983 and 1984. Lack of control over the short term debt of government institutions (including the National Coffee Fund in 1984) was largely responsible for this outcome, as we have seen. Monetary contraction would have certainly helped to control the private capital outflow. However, it is difficult to defend the point of view that with peak real interest rates in 1983-1984 --close to 25% for bank lending--, even higher rates were desirable, as some domestic analysts as the IMF missions repeteadly claimed. A more sensible solution was to rely on traditional exchange control policies to obtain similar results. The obvious proposal was to tie import licenses to a matching commercial credit, by establishing minimum payment periods for new imports. Alternatively, the government could have reduced the cost of short term commercial credits -- by establishing negative reserve requirements on external liabilities of the banks, for example. It could have gone so far as to force financial institutions to have a minimum ratio of external to internal liabilities, as Brazilians had done in the past. The Colombian government finally adopted the first of these recommendations as an emergency policy in late 1984, when private firms had enjoyed a substantial period to adapt to the new situation.

It should be remarked, finally, that the Mexican crisis certainly affected the supply of funds to the country. Particularly, it eliminated certain forms of financing

-- "clean advances" to domestic banks and general budget financing to the central government --, it reduced commercial credit lines for local banks and private bank lending to public institutions, and it placed new lending under increasing conditionality. Nonetheless, supply conditions were only partially responsible for the capital inflows of Colombia in 1983 and 1984.

Even aside from demand considerations -- which affected short term capital flows, as we have seen -- it must be pointed out that the public sector enjoyed a considerable room of manouvre due to the large stock of undisbursed credits which existed at the outset of the crisis -- $3.7 billion in December 1982. Furthermore, from 1982 to 1984 the public debt with commercial banks increased 30%, only slightly less than the growth of debt with multilateral banks, bilateral agencies and suppliers -- 36% (Table 5). The significant fall in new credit commitments in 1983 -- $1.4 billion vs. $2.4 billion in 1982 -- was due in part to the harsher controls on public indebtness established by Minister of Finance in late 1982, to reduce the rapid growth of the debt. Actually, the new credits in 1983 were only slightly lower than the average of the 1979-1981 period -- $1.5 billion --, while the new borrowing program initiated in mid 1983 led to booming commitments in 1984 -- $2.6 million [5].

The large dependence of the Colombian public sector on multilateral, bilateral agencies and suppliers (63% of outstanding loans in 1982) also reduced the impact of the credit squeeze. Indeed, these agencies increased the effective supply of funds to the country, not only in the traditional form of project-financing, but also through balance of payments loans under several headings (export promotion, agricultural development,

support of the financial and productive sectors and industrial recovery) and through a rollover mechanism managed by Banco de la República to accelerate disbursements. Finally, new credit commitments from commercial banks in 1984 and the first half of 1985 have been 32% of total new borrowing, slightly less than the share of that type of institutions in the outstanding loans in 1982, while they represent 63% of new loans in the final negotiation stages in 1985 [6].

C. The Orthodox Phase

Some measures adopted by the new Minister of Finance in the second semester of 1984 did not constitute a break with the gradual adjustment process which had been taking place since 1982. Foremost, minimum payment periods for new imports were established and the magnitude of foreign indebtness was negotiated with the National Federation of Coffee Growers, to avoid further capital outflows. These measures, together with a balance of payments loan from the Andean Reserve Fund, account for the significant slowdown in the fall of reserves which Colombia experienced since late 1984.

The conception of the adjustment process was completely altered, however. This became increasingly clear as negotiations with the IMF, the World Bank and private financial institutions proceeded. The basic element in the new strategy was the emphasis on demand management, which obviously indicated that excess demand was regarded as a basic source of balance of payments disequilibria. In 1985 this element was compounded with rapid devaluation to recover the 1975 "parity"level -- a real depreciation of some 20% in the year. Finally, following pressures from the World Bank, the government accepted -- at least as a medium term objective -- to liberalize the foreign trade

regime. This has been reflected in the partial reversal of import controls and tariff policy and in the redesign of the drawback mechanism (Plan Vallejo).

Although orthodox adjustment policies will certainly contribute to the medium term equilibrium of external accounts, they had minimum effects on the current account of the balance of payments in 1985. Indeed, the government projected trade balance for the year, an objective which had already been achieved in the last quarter of 1984. This apparent paradox can be explained by recalling that the import level was not determined in 1983 and 1984 by demand but rather by rationing mechanisms, and that most exports (coffee and mineral products) were independent in the short run of exchange rate policies. Consequently, the significant contribution of the new policy was the confidence it generated in the international financial community and the corresponding impact on the supply of capital funds. It is thus unsurprising that orthodox conceptions were so influential in policy design and so disproportional to existing macroeconomic disequilibria in Colombia.

For domestic and international political reasons, the Colombian government followed a negotiation strategy radically different from that of other Latin American countries, with consequences which were not predicted in 1984. Particularly, the Betancur Administration refused to consider a stand-by agreement with the IMF, claiming that Colombia had not been subject to economic mismanagement, that it has good export prospects and that, in any case, self-discipline had been adopted. In the particular strategy followed, the World Bank played a crucial role, both as a supplier of balance of payments credits under several headings and mediator with the private banks. However, the

latter did not recognize the Bank as an adequate interlocutor and demanded an IMF support for the adjustment program. To avoid a stand-by agreement, IMF monitoring was finally adopted and accepted by the banks. The net result of the negotiation strategy was a proliferation of bargaining tables and increasing conditionality. This element should be emphasized. Indeed, the adjustment program not only involved an orthodox macroeconomic program under IMF surveillance, but also World Bank interference in sectorial, particularly commercial policies.

IV. The Fiscal Deficit

A. Origin of Existing Disequilibria

When the Turbay Administration was inaugurated in 1978, public finances were in virtual equilibrium. On the contrary, by 1982 the central national government and the public sector as a whole were running large deficits -- 4.5% and 8.1% of GDP respectively --, the highest in the history of Colombia.

Several developments explain this trend. As we saw in part I, the Turbay Administration adopted from the outset an expansionary public investment program. However, investment explained only a small proportion of the increasing deficit. Equally important elements were changing conditions in the world coffee market, the slow growth of tax receipts and the rapid increase of government consumption. Changing market conditions forced the National Coffee Fund to accumulate large stocks from late 1980 to late 1983 and to defend internal prices. Falling tax receipts of the central national government (which fell from 9.1% of GDP in 1978 to 8.0% in 1982) were associated with recession, the 1979 tax cut and rising evasion. Finally, the rapid increase of government consumption reflected a less explicit expansionary policy.

Although the budget deficit was matched by rising current account disequilibria, it is very difficult to associate the former as the underlying cause of the latter. Even in accounting terms, the increasing external deficit was associated to a large extent with a falling private surplus (See Table 7). This indicates, in turn, that domestic aggregate demand was increasingly weaker and, therefore, that the expansionary fiscal policy was insufficient to counteract the contractionary pressures coming from falling coffee income and rising imports (See Part II). Weakening export markets and demand composition policies were, indeed, the fundamental causes of the higher balance of payments deficit, as we saw in Part III.

The concept that the external disequilibria reflected expansionary expenditure policies had few defenders in 1982. Orthodox criticism of the deficit concentrated on the crowding out effects of public on private expenditure. This "closed-economy orthodoxy", as we will call it, was widely diffused by the pressure groups and differed from the "open economy orthodoxy" that spread in 1983 and 1984. It claimed that the deficit pressed up interest rates, inducing a contraction of private activity and recession. The empirical bases for this hypothesis were rather weak, as we will see shortly.

In the alternative conception of fiscal policy that was developed in 1982, the deficit was viewed as <u>compensating</u> balance of payments disequilibria. The basic assumption was that the latter originated in a combination of exogenous forces and import biases generated by foreign trade policies. Under these circumstances, it was necessary to adjust the fiscal to the current account deficit, to avoid both greater recession (if the fiscal deficit was rapidly reduced) or excessive monetary expansion (if it lagged behind).

If the former effect was dominant (as was clear in 1982), higher public investment in domestic goods was required, financed by higher taxes, lower import-intensive investment projects or public debt. If the second effect prevailed (as was clear in late 1984), it was necessary to raise taxes or to reduce import-intensive investments, to avoid the greater contractionary effects of lower domestic expenditure. Deficit financing would be provided by external sources or by monetary credits, as long as the external sector generated an autonomous contractionary effect on the money supply. If the latter effect was not present, a rising share of the deficit would be financed by domestic credits -- both bonds and "forced savings". It was thus possible to simultaneously achieve fiscal targets compatible with external equilibrium and monetary stability.[7].

B. The Betancur Administration

The fiscal policy of the Betancur Administration has had elements of continuity but also different policy phases, in which it has alternatively supported orthodox and heterodox perspectives. The basic element of continuity has been tax policy. Between 1983 and 1985 the government implemented four reforms. The first of them focused on the income and local taxes; it was adopted by the Congress in mid 1983 after the failed "economic emergency" of late 1982 and early 1983. The second transformed the sales into a value added tax extensive to industrial, whole and retail sales and some services. It was decreed in December and became effective in April of the following year. The third tax reform was adopted by the Congress in December 1984. It included an additional 8% tariff on all import --except foodstuffs and agricultural inputs imported by the government--, the elimination of several exemptions to the sales tax and forced savings in

government bonds proportional to the income tax. The last reform, adopted in mid 1985, included a partial redistribution of earmarked revenues within the government, a significant extension of the withholding mechanism for the income tax, the partial elimination of income tax exemptions for Ecopetrol and Carbocol and the abrogation of the declaration form for wage earners.

Tax reforms have been quite effective. Regardless of the slow growth of taxes on foreign trade (import and coffee taxes), the current income of the national government increased from 8.0% of GDP in 1982 to 8.7% in 1984 and to 9.7% in 1985, one of the highest levels in the history of the country. The erosion of the tax base, which had been taking place since the mid 1970s, has thus been rapidly reversed. The 1983 reform also had significant effects on local taxes (Aghon et. al., 1985), whereas the relative price of public services has been increasing for some time.

In relation to public expenditure and deficit financing, the government has undergone three different phases, in which it has shared completely different conceptions of the budget deficit. In the first phase it supported the idea that the deficit was "crowding out" private activity. In the second, it attempted a short-lived keynesian recovery. Finally, since mid 1984 it adopted an orthodox conception of the deficit as the source of external disequilibria.

1. Closed-Economy Orthodoxy

The most common criticism of the fiscal deficit in 1982 concentrated on the Foreign Exchange Account -- i.e., the profits from the management foreign exchange reserves.

Although these profits were then a current income of the national government, economic analysts regarded them as identical to a central bank credit to the government (Jaramillo and Montenegro, 1982; Montenegro, 1983a). Thus, critics of the budget deficit argued that they crowded out private credits. This criticism assumed that there were no autonomous sources of monetary contraction in the external sector, that interest rates were determined by domestic factors and that high interest rates were the basic source of the recession. On all these grounds the empirical bases for this kind of orthodoxy was weak. In fact, the current account of the balance of payments was already a gigantic force of monetary contraction, interest rates were at least partially related to parity levels (international rates plus devaluation) and there is no significant evidence on interest-rate sensitivity of private investment in Colombia (Ocampo, 1984; Ocampo et. al., 1985).

The Administration's proposal included a complete sterilization of profits from foreign exchange management, to be replaced by tax receipts and other forms of domestic credit; simultaneously, the larger monetary margin would be used to support private credit. The proposed reform of the Foreign Exchange Account was only partially adopted during the economic emergency of late 1982 and early 1983. In fact, by then it was quite evident that the budget was considerably underfinanced. As a reflection of this problem, the government adopted a discretionary mechanism by which it could lend or sterilize the foreign exchange profits according to monetary conditions. Since most emergency tax laws were declared unconstitutional by the Supreme Court, the only reform that came out as originally planned was the creation of National Savings Bonds, which could be used to obtain a substantial non-monetary deficit financing on the basis of experience that

Banco de la República had built up during the years of massive open market operations.

According to the orthodox conception which prevailed, the government attempted a simultaneous expansionary private credit policy. Major instruments were the creation of large credit lines in the central bank for private companies under severe financial strains and the reduction of reserve requirements. The net result of this policy was a fiasco. Banks, facing severe financial difficulties since mid 1982, as a reflection of the impact of recession and the increasing fragility which had been building up during the boom years, used very carefully the new credit possibilities. This process was then called a "liquidity trap", although it differred significantly from the similar keynesian concept. Moreover, when the credit expansion was effective, the recovery did not follow, since no company was ready to invest in the bottom of the recession, under fragile financial conditions and record high interest rates (Perry, 1984).

2. The Short-Lived Keynesian Recovery

In the first semester of 1983 two events led the government to change its policy stance. The first was the deep recession experienced by the Colombian economy in the second semester of 1982 and the first quarter of 1983 (See Part II). Secondly, monetary contraction generated by the external sector reached peak levels, as credit policy to the private sector proved inadequate. Economic authorities thought that it was necessary to compensate monetary contraction, lest the recession deepen. Thus, the immediate cause of fiscal expansion was reserve contraction. Very soon, however, economic analysts turned over the causal link, and claimed that the source of the reserve fall was fiscal expansion.

The basic policy measure was the approval by the Congress in mid 1983 of a financing package, which raised the ordinary credit lines of the Treasury in the central bank and created a "reactivation credit line" of Col.$ 60 billion (equivalent to 2% of GDP in that year), of which 60% could be used in that same year. Monetary financing enabled government expenditure to recover after the slow execution typical of the first semester. As Table 6 shows, central bank funds were the almost unique source of net central government financing in 1983, although they increased only marginally as a share of GDP -- indeed, the new funds largely replaced the reduced foreign exchange profits and the exhaustion of the ordinary Treasure credit line in the central bank.

The strategy soon found difficult conditions, as the government did not guarantee sufficient funds to maintain fiscal expansion or thought that the Congress would not approve a new credit package. Tax receipts were overestimated by some Col.$60 billion in the 1984 budget. Later, in early 1984, facing again cash difficulties, the government used the Banco de la República warranty on the National Savings Bonds to get monetary financing without Congressional approval.

As a reflection of increasing financing difficulties, the rising trend of the budget deficit was partially reversed in 1984. Indeed, excluding the National Coffee Fund, the consolidated public deficit decreased from 8.1% to 7.7% of GDP; including the coffee sector, it decreased from 9.0% to 7.1%. The national government deficit had already started to decline in 1983 and continued doing so in 1984. Excluding rising interest payments to serve the foreign debt, reduction of the deficit was even more noticeable (See Tables 6 and 7).

3. The New Orthodoxy

For all economic observers, it was evident in late 1984 that current account equilibrium with the rest of the world had proceeded faster than fiscal adjustment. Although this was reflected in a rather significant recovery of economic activity, the threat of a monetary outburst was quite evident, unless the budget deficit was reduced or a new financing strategy designed. This fact, together with the rapid fall of international reserves in 1983 and 1984, finally gave a strong voice to defenders of the open economy orthodoxy, according to which excess demand is the source of external disequilibria.

This point of view had in fact two variants, which were emphasized at different times. The earlier of them, associated with the capital flight controversy, claimed that any central bank credit was used to accumulate foreign assets -- through the black market -- or to cancel external liabilities, thus depressing international reserves. The monetary aspects of the budget deficit and the capital account of the balance of payments were thus emphasized. According to this argument, to avoid the portfolio reallocation induced by the expectations of devaluation, it was necessary to adopt a contractionary monetary policy, which would adjust the supply of money to the reduced domestic demand. However, under the conditions typical of the last few years, this was only possible if fiscal objectives were simultaneously given up. The second variant emphasized the real connections. According to the absorption approach to the balance of payments, excess public expenditure was seen as the source of a current account deficit with the rest of the world. Although both points of view tended to be mixed together (since they are by

no means contradictory with one another), it should be noted that the first version became popular since 1983, while the second was only used recently, reflecting the emphasis on excess expenditure as the source of external disequilibria.

Both variants are theoretically and empirically flawed. As we saw in Part III, the current account deficit was associated with external events and with the demand composition policies of the Turbay Administration. Moreover, by late 1984, the non-factor current account deficit had been substantially reduced -- i.e., in accounting terms excess demand was almost non-existent. On the other hand, as we saw in the previous section, the expansionary monetary and fiscal policies of 1983 were initially designed to counteract autonomous monetary contractions generated by the external sector. Finally, the short term capital outflow had many underlying motives, while it was possible with Colombian exchange controls to correct many of them without resorting to contrationary monetary policies (See Part III).

Theoretical problems are related to the role of the budget deficit, import controls and devaluation in the adjustment process. As we saw in Part III, import rationing eliminates the traditional link between the current account and aggregate demand. This explains why demand contraction in 1985 had no significant effects on the current account. This apparent paradox can be explained by considering the peculiar macroeconomic adjustment that takes place under import controls. The rationing of foreign goods and services generates a diversion of expenditure to locally-produced goods and services. But to the extent that switching is not total, there is also involuntary disabsorption (forced savings on the part of consumers and disinvestment by firms), as investment plans

cannot materialize, there is a reduction in the stock of imported goods and consumers face a rationed supply of import-intensive goods (Cuddington et. al., 1984; Ocampo, 1985). This form of adjustment is at the root of improvements in the current account, as the traditional absorption approach has argued (Hemming and Corden, 1958). Obviously, many of the underlying processes are only temporary, but while they operate they represent useful adjustment mechanisms since, contrary to devaluation, they have a clearly expansionary effect on domestic economic activity.

From a macroeconomic perspective, this indicates that import controls tend to increase the private surplus -- or to reduce the private deficit -- as a counterpart of the improving current account (See Table 7 on the rising private surplus in Colombia between 1982 and 1984). Under these conditions, cuts in the budget deficit in the recent stabilization program spent themselves completely out in the reduction of the private surplus -- through higher taxes and the contractionary effects of expenditure policies -- without noticeable effects on the current account.

Simultaneous exchange rate adjustments reinforced the private-cum-coffee surplus. Indeed, the quasi-rents associated to devaluation generated a substantial improvement in the finances of the National Coffee Fund (Table 7) and minor exporters. The wage content of the new rents were minimal, since internal coffee prices were not increased in real terms and minor exports were inelastic to price incentives in the short run, reflecting a very weak employment response. The high tax and profit content of the new income generated in the export sector improved net savings in the economy, with a contractionary effect on internal demand (Coyuntura Económica, April 1985).

From the point of view of non-coffee public finances, the effect of fixing a nominal fiscal target in an economy experiencing exchange rate depreciation must also be emphasized. Indeed, factor payments abroad represented the single most important component of the 1985 fiscal deficit (Table 6). The rise in the share of interest payments abroad by the public sector -- from 1.8% of GDP in 1983 to 2.8% in 1985 according to IMF calculations -- reflected the joint impact of the rapid increase in the foreign debt in the late 1970s and early 1980s and devaluation in recent years. In this context, the nominal fiscal target adopted for 1985 generated an additional contractionary effect on domestic expenditure.

There were thus elements of redundancy and overkill in the recent stabilization program. Particularly, too many instruments were directed to improving the net savings position of the country, but their joint effect on the current account of the balance of payments was not noticeable. The basic reason was that improvements in the net savings position generated by fiscal adjustment and devaluation were largely done at the expense of net savings previously generated by import controls. There were, additionally, combined contractionary effects on domestic economic activity, improductively sterilizing part of the adjustment effort (given the short-run insensitivity of imports to effective demand). It would be quite counterproductive if, in these circumstances, the government were to take seriously the World Bank and IMF recommendation to lift in the near future import controls. This would directly generate

a contractionary effect on internal demand while forcing the government to adopt even harsher demand management policies.

V. Summary and Prospects

The recession experienced by the Colombian economy in the first half of the 1980s has been moderate by Latin American standards. Particularly, per capita GDP still remains at pre-recession levels and debt ratios do not represent a great obstacle to future development. This reflects the favorable external conditions that the economy experienced in the second half of the 1970s and cautious economic management, which allowed the economy to face the new decade with an unquestionably strong net debt position. Nonetheless, external and internal deterioration has been substantial in the 1980s. The external debt increased rapidly, as the economy faced the worst recession since the 1930s and a substantial aggravation of labor market conditions. Moreover, Colombia underwent in the early 1980s the typical phases of the Latin American crisis : a period of increasing external imbalances, followed by phases of domestic management of existing disequilibria and orthodox policies with increasing external conditionality.

The first of the aforementioned phases came with a substantial lag with respect to other countries in the region. Nonetheless, facing a substantial deterioration in the coffee market in 1980, the Turbay Administration did not take any steps to reverse worsening payments balances. On the contrary, import liberalization policies were pushed forwards and the exchange rate was further revalued. Large current account deficits were financed by peak borrowing in the international markets. Expansionary fiscal policies adopted for development purposes in the boom years were inadequate to overturn the contractionary

effects of falling coffee incomes and rising imports. Thus, growth came a standstill and the economy faced a deep recession when the new Administration was inaugurated in August 1982.

The Betancur Administration confronted two additional external shocks : the tightening of the international capital market and the Venezuelan crisis. After initial hesitations, the government adopted a program of gradual external adjustments and expansionary internal policies. Basic assumptions of this strategy were, on the one hand, that excess demand was not the origin of the external deficit and, on the other, that economic policy enjoyed a substantial room of manouvre, given the strong reserve position of the country.

External adjustment policies were based on traditional policy instruments : import and exchange controls, the crawling peg, higher tariffs and export promotion policies. Relative emphasis on import controls permited a rapid improvement in the trade account with favorable substitution effects on domestic economic activity. Furthermore, the strategy did not face supply constraints, as rationing mechanisms favored raw material imports and firms initially held excess inventories of foreign goods.

The strategy was quite effective in reestablishing trade balance equilibrium by the last quarter of 1984 while simultaneously experiencing a recovery. However, the loss of reserves was substantial, reflecting the impact of accumulated external shocks, and lags in the adoption of harsh import controls and policy measures to prevent short term capital outflows. The recovery was also short-lived, as the government faced increasing financial

constraints. Finally, the recovery was insufficient to revert deteriorating labor market conditions.

The loss of reserves and the increasing difficulties to ensure adequate non-monetary budget financing gave way to an orthodox stabilization program in mid 1984. In the new strategy, external adjustment and internal economic activity were regarded as incompatible policy objectives. Demand management policies had the predicted effects on domestic economic activity but no substantial impact on the current account, as imports were determined in 1983 and 1984 by rationing mechanisms and most exports were not sensitive to exchange rate management in the short run.

The most significant effect of the new strategy was the capacity to generate confidence in the international financial community. However, the negotiation process adopted by the government to avoid an IMF stand-by agreement was rather complex, involving multiple negotiation tables and increasing conditionality. The latter was reflected in IMF surveillance of macroeconomic policies and increasing World Bank influence in sectorial, particularly commercial policies.

Although orthodox stabilization will affect economic growth in 1985 and 1986, the prospects for recovery are, however, quite favorable in Colombia. Indeed, the gestation of long-term projects in the energy sector -- coal and oil -- indicates that exports will grow at one of the highest rates of Latin America in the rest of the decade (See, for example, Van Ryckeghem, 1985). Prospects for a moderate recovery of the international coffee market are also good (World Bank, 1984), while the new minor export strategy

will have at least moderate success according to current projections.

Economic recovery may prove, however, frustrating if a set of unfavorable conditions are combined. First of all, world energy prices may collapse, reducing Colombian exports and the prospects for a Venezuelan recovery. Secondly, monopolistic behavior by international banking may continue to spread, backed by IMF and World Bank neoconservatism. This may force the Colombian government to maintain extenuating negotiations and, most importantly, to push austerity programs beyond reasonable limits. Similar results may obtain from the pressure of domestic political forces which constitute the domestic counterpart of international banking doctrines. Indeed, as the recent Venezuelan experience with contractionary policies under conditions of fiscal and external surplus shows, "austerity" doctrines tend to have a strong political appeal for certain groups. Thirdly, the new export boom may unleash new forms of the "Dutch" disease. They may not result, however, from real appreciation, but rather from World Bank and internal pressures for import liberalization. This situation may be compounded with great difficulties in transferring the economic surplus generated in the energy and coffee sectors --the latter due to rapid devaluation in the last few years -- to the rest of the economy. Particularly, regional pressures and relative autonomy of public institutions may place considerable constraints on the efficient allocation of rising profits and rents. Finally, "structural" problems inherited from the 1970s and the recent recession -- a weakened industrial sector, a lagging foodstuffs supply, a fragile financial system and conservative labor hiring practices -- may prove a hindrance to economic recovery, unless special policies are designed to counteract them.

NOTES

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1. The income from the drug trade must not be overemphasized. During the peak years of the trade, Junguito and Caballero (1978) estimated that only $500 million entered the country -- i.e., one fourth of peak coffee sales and a minuscule part of the real drug trade.

2. Lora (1985) estimated that 53% ($904 million a year) of the trade deficit in 1980-1983 could be attributed to a higher import coefficient (due to liberalization and revaluation) and 15% ($256 million a year) to the deterioration of the terms of trade. Rising interest rates were also an important factor in the worsening current account, representing $375 million a year in the same period. Londoño and Perry (1985) estimated, on the other hand, that 88% of the rising import coefficient between 1978-9 and 1982 could be attributed to revaluation (29%), the higher investment coefficient coefficient (19%) and liberalization (40%, estimated as the residual values of the regressions).

3. The capital flight was emphasized by Estrategia Económica y Financiera in 1983 and 1984 -- see particularly "Reactivación o crisis cambiaria", May 1983. For further discussion, see Coyuntura Económica, June 1983, pp. 95-98, and March 1984, pp. 168-172.

4. If measured by term deposits, Colombian interest rates were above parity levels (US rates plus devaluation) in most of 1980-1982, but were significantly below them from the second quarter of 1983 onwards (Coyuntura Económica, March 1984, p. 170).

5. All data taken from Banco de la República, Deuda externa de Colombia, 1970-1984, April 1985.

6. See Mauricio Cabrera, "Situación actual de los cupos de endeudamiento interno y externo", Memorandum, Ministerio de Hacienda, July 22, 1985.

7. This paragraph summarizes the points of view of Fedesarrollo since 1982 -- see particularly Ocampo and Perry (1984), Ocampo (1984), and Coyuntura Económica, October 1984. See also Fernández (1982a, 1982b) for a defense of the expansionary fiscal policy of the Turbay Administration.

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TABLE 1

Colombia : Balance of Payments, 1975 - 1984

(Million dollars; net balances)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Current account 1/	- 80	222	455	386	566	104	-1722	-2885	-2826	-1870
Trade balance	322	590	748	706	586	13	-1333	-2076	-1317	- 322
Non-financial services and transfers	-139	- 54	- 21	- 19	236	302	38	- 22	- 591	- 344
Financial services	-263	-314	-272	-301	-255	-211	-427	- 787	- 918	-1204
Capital account 2/	134	188	- 15	117	892	872	1923	1967	1127	946
Direct investment	32	14	43	67	104	48	226	330	512	408
Long term financing	257	89	187	32	618	807	1384	1290	1016	1163
Short term capital	-155	85	-245	19	170	17	313	347	- 401	- 625
Other 3/	-	-	-	-	24	- 16	55	- 4	- 67	18
Errors and omissions	38	217	226	131	113	275	- 14	221	43	- 355
Global balance	93	626	665	634	1595	1235	242	-701	-1723	-1265

1/ Includes non-monetary gold

2/ Excluding contributions to international organizations

3/ Contributions to international organizations and counterpart items

SOURCE : Banco de la República

TABLE 2

GROSS DOMESTIC PRODUCT, 1970 - 1984

(Annual growth rates)

	1970-1974	1975	1975-1979	1980	1981	1982	1983	1984	1980-1984
Agriculture	4.1%	5.8%	4.8%	2.2%	3.2%	-1.9%	1.8%	0.7%	0.9%
Mining	-5.0	3.8	-5.1	18.4	5.4	1.8	12.9	14.8	8.6
Manufacturing	9.0	1.2	5.4	1.2	-2.6	-1.4	0.5	6.2	0.6
Public services	12.1	6.9	6.2	7.5	3.3	3.2	4.3	5.3	4.0
Construction	9.0	-9.9	3.3	14.6	7.1	4.0	5.1	4.5	5.2
Trade	8.2	2.2	4.9	2.3	1.2	1.6	-1.9	7.5	0.8
Transport and communications	9.0	11.4	8.4	4.0	2.8	5.2	-1.1	2.0	2.2
Financial services	7.5	6.1	5.8	9.7	9.1	3.1	3.2	2.0	4.3
Government services	7.3	0.5	7.0	10.3	5.8	2.4	3.9	3.7	3.9
Other services	5.4	4.1	5.0	2.8	4.2	4.3	2.8	2.7	3.5
GDP	6.5	2.3	5.7	4.1	2.3	0.9	1.0	3.0	1.8

SOURCE : DANE, National Accounts

TABLE 3

EMPLOYMENT AND AVERAGE EARNINGS, 1980 - 1984

(Four largest cities)

	1980	1981	1982	1983	1984	1985
I. As percentage of working-age population [a]						
Labor force (activity rate)	54.4%	52.4%	53.0%	54.7%	56.2%	57.4%
Employed	5.3	4.3	4.8	6.5	7.5	8.3
Unemployed	49.1	48.0	48.1	48.2	48.6	49.1
II. Rate of unemployment [a] (% of labor force)	9.7%	8.3%	9.1%	11.8%	13.4%	14.5%
III. Employment levels (1982 = 100) [b]						
Secondary sector	101.5	100.1	100.0	102.3	107.2	
Terciary sector	92.3	95.9	100.0	104.5	108.4	
Wage laborers	93.8	98.0	100.0	100.4	101.1	
Self-employed	90.1	93.9	100.0	108.6	111.7	
IV. Average real earnings (1982 = 100) [b.c.]						
Private employees	96.1	96.9	100.0	101.8	104.1	99.7
Public employees	94.7	98.8	100.0	102.7	107.2	103.8
Self-employed	88.1	95.8	100.0	91.0	84.2	82.0

a. First two quarters in 1985
b. Excludes last quarter in 1984
c. First quarter in 1985

SOURCE : DANE, Household Survey. Average of quarterly rates and levels.

TABLE 4

DETERMINANTS OF EXTERNAL DETERIORATION, 1981 - 1984

(Million dollars)

	1981-1982	1983-1984	1981-1984
A. Increase of net long term debt 1/			
Current account deficit	4.607	4.696	9.303
Short term capital outflow	- 706	785	79
Errors and omissions outflow	- 207	312	105
	3.694	5.793	9.487
B. Loss of reserves 2/			
Basic balance deficit	1.350	1.597	2.947
Short term capital outflow	- 706	785	79
Errors and omissions outflow	- 207	312	105
	437	2.694	3.131

1/ Net of reserves and short term assets abroad

2/ Short term assets abroad included as part of reserves

SOURCE : Banco de la República

TABLE 5

COLOMBIA : FOREIGN DEBT, 1982 - 1984

(Million dollars)

		1982	1984	Change
I.	Medium and long term	7.270	9.527	2.257
	1. Public	6.078	8.090	2.012
	- Multilateral, bilateral agencies and suppliers	3.383	4.608	1.225
	- Commercial banks	2.656	3.462	806
	- Other	39	20	- 19
	2. Private	1.192	1.437	245
	- Financial institutions	1.090	1.142	52
	-Other	126	186	60
	- Statistical discrepancy	24	- 109	133
II.	Short term	3.338	2.998	- 340
	1. Ecopetrol and Carbocol	470	186	- 284
	2. National Coffee Fund	380	468	88
	3. Banco de la República	2	92	90
	4. Other	2.486	2.252	- 234
III.	Total	10.608	12.525	1.917

SOURCE : Republic of Colombia, 1985-1986 Financing Plan, June 21, 1985.

TABLE 5

FISCAL SURPLUS OR DEFICIT, 1980 - 1985

(% of GDP at current prices)

	1980	1981	1982	1983	1984	1985 1/
I. Central National Government (FEDESARROLLO)						
Excluding interest payments	-2.3%	-3.0%	-3.6%	-3.5%	-3.2%	-1.1%
Total	-2.8	-3.7	-4.5	-4.1	-4.0	-1.9
Monetary financing	1.3	1.9	3.4	3.8	3.9	1.3
II. Consolidated Public Sector (DANE)						
National and local governments 2/	-2.8%	-3.8%	-4.4%	-4.7%		
Social Security	0.4	0.4	0.2	0.2		
Public Enterprises	-2.2	-1.9	-3.4	-3.7		
Total, excluding National Coffee Fund	-4.6	-5.4	-7.5	-8.1		
National Coffee Fund	1.3	-0.9	-0.6	-0.8		
Total	-3.3	-6.3	-8.1	-9.0		
III. Consolidated Public Sector (IMF) 3/						
Excluding interest payments				-5.8%	-5.4%	-2.1%
Total				-7.6	-7.7	-4.9

1/ Projections, assuming 24% nominal GDP growth

2/ 1980-1982 : excluding income tax "liquidaciones oficiales"

3/ Excluding National Coffee Fund

SOURCES : FEDESARROLLO, Coyuntura Económica
DANE : National Accounts
IMF Memoranda

TABLE 7

COLOMBIA : SAVINGS - INVESTMENT BALANCES, 1980 - 1984

(% of GDP at current prices)

	1980	1981	1982	1983	1984
External savings	-0.3%	4.7%	7.4%	7.3%	5.1%
Public sector, excluding the National Coffee Fund	-4.6	-5.4	-7.5	-8.1	-7.7
National Coffee Fund	1.3	-0.9	-0.6	-0.8	-0.6
Private sector	3.6	1.6	0.7	1.6	2.0

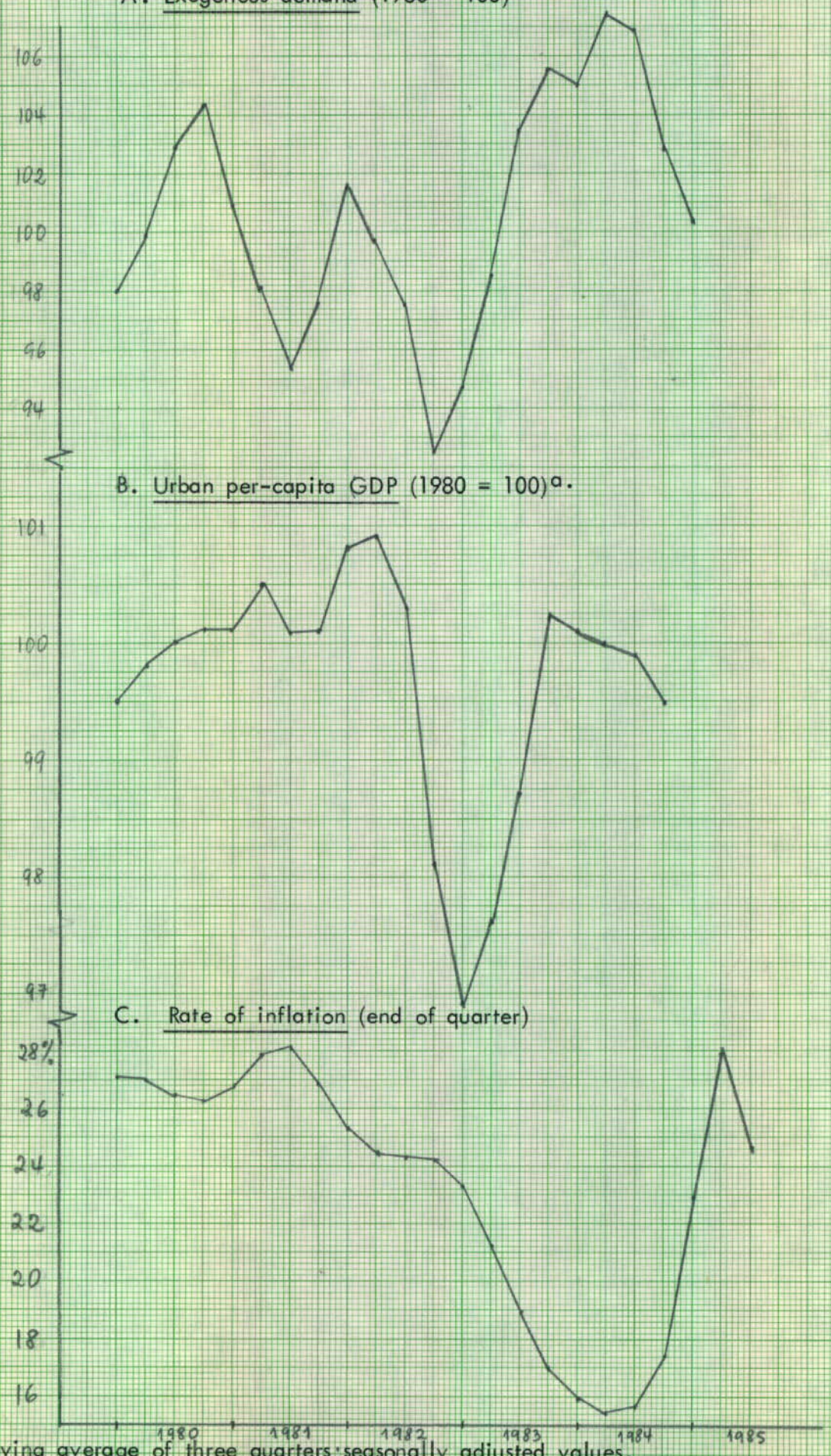
SOURCES : External savings : estimated on the basis of balance of payments statistics

Public sector and National Coffee Fund : Table 6 and estimates for 1984

Private sector : calculated as a residual

FIGURE 1

ECONOMIC ACTIVITY AND INFLATION : QUARTERLY INDICATORS

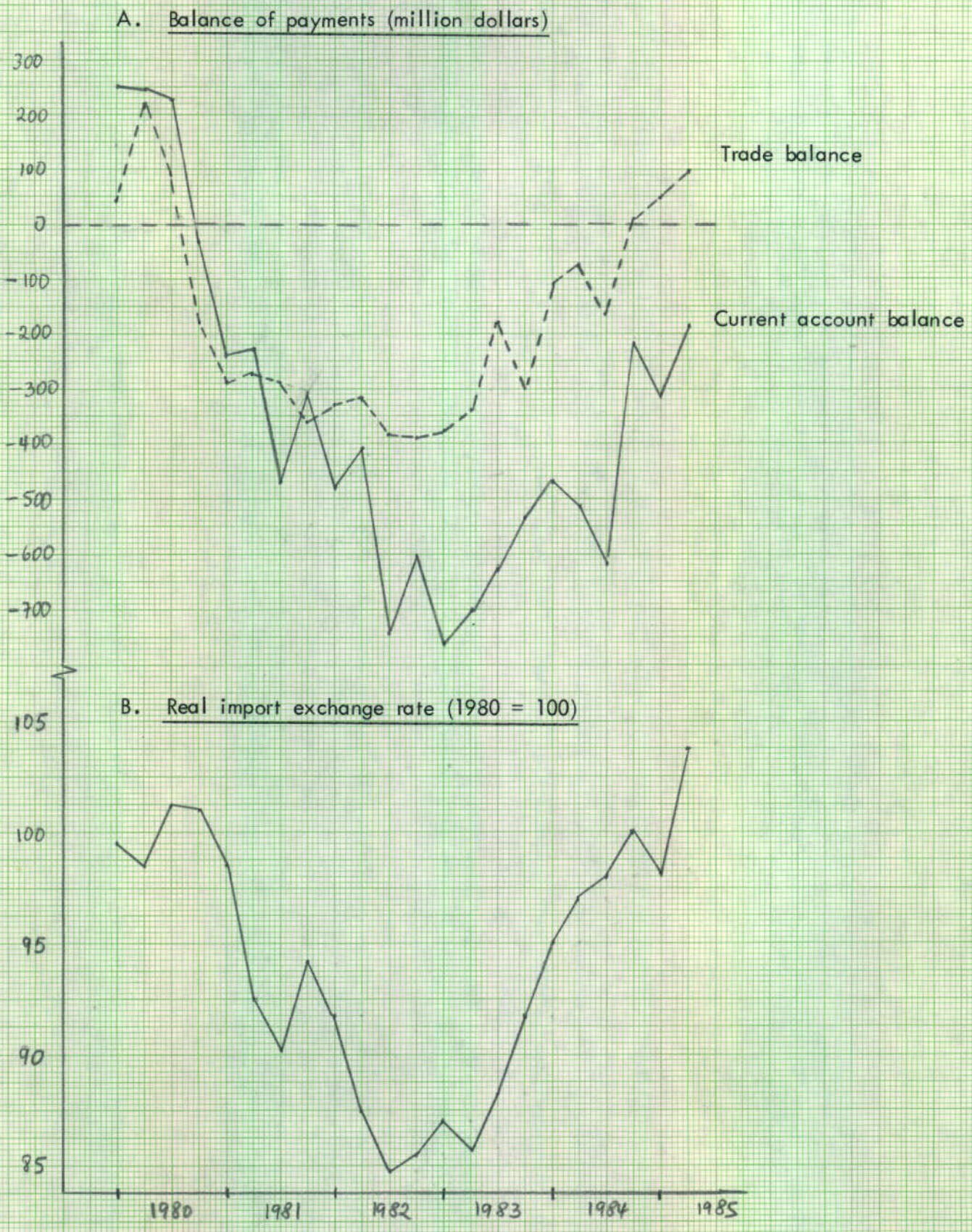


a. Moving average of three quarters; seasonally adjusted values.

SOURCES : FEDESARROLLO; Bermúdez & Valenzuela; DANE.

FIGURE 2

BALANCE OF PAYMENTS AND EXCHANGE RATE : QUARTERLY INDICATORS



SOURCE : FEDESARROLLO

BASIC DATA FOR FIGURES 1 AND 2

Year and Quarter	Figure 1 Economic activity and inflation : quarterly indicators			Figure 2 Balance of payments and exchange rate : quarterly indicators		
	Exogenous demand (1980=100) [a]	Urban per capita GDP (1980=100) [a]	Rate of Inflation (end of quarter)	Trade Balance (Million dollars)	Current Account Balance (Million dollars)	Real import exchange rate (1980 = 100)
1980-1	98.0	99.5	27.1%	41.9	250.1	99.5
2	99.9	99.8	27.0	211.7	245.9	98.5
3	102.9	100.0	26.5	89.0	229.0	101.3
4	104.3	100.1	26.3	-179.6	-27.2	101.1
1981-1	100.9	100.1	26.8	-293.0	-238.6	98.5
2	98.1	100.5	27.9	-280.3	-227.6	92.6
3	95.4	100.1	28.1	-293.8	-472.6	90.3
4	97.6	100.1	26.9	-365.9	-303.5	93.9
1982-1	101.5	100.8	25.3	-330.4	-483.1	91.8
2	99.7	100.9	24.4	-317.0	-413.3	87.8
3	97.5	100.3	24.3	-385.4	-744.1	84.8
4	92.5	98.1	24.2	-393.3	-596.8	85.5
1983-1	94.7	96.9	23.3	-376.8	-762.9	87.2
2	98.5	97.6	21.2	-344.2	-702.2	85.7
3	103.5	98.7	18.8	-183.0	-625.6	88.3
4	105.6	100.2	17.0	-300.3	-534.8	91.7
1984-1	105.0	100.1	15.9	-111.9	-472.1	95.0
2	107.4	100.0	15.3	- 74.8	-516.3	96.9
3	106.9	99.9	15.6	-165.3	-616.7	97.9
4	102.8	99.5	17.4	8.6	-217.2	99.9
1985-1	100.3		22.8	51.3	-312.6	98.3
2			27.9	101.6 [b]	-187.1 [b]	104.3 [b]
3			24.4			

a. Moving average of three quarters seasonally adjusted values.
b. Estimate