

Antecedentes históricos de la deuda pública colombiana. Introducción panorámica acerca del manejo de la deuda pública en Colombia durante la posguerra, 1950-1970.

Historical background of the public debt in Colombia. A general introduction to the management of public debt in Colombia during the postwar period, 1950-1970.

Por: Mauricio Avella Gómez¹

Resumen

En este ensayo se discute el manejo de la deuda pública tanto interna como externa en Colombia, desde fines de la segunda guerra mundial hasta 1970. De acuerdo con el hilo común de anteriores ensayos, dicha experiencia se presenta a la luz del contexto internacional. Se muestra cómo el restablecimiento del financiamiento externo después de la guerra llegó primeramente en la forma de inversión directa, y no a través de canales crediticios, y cómo el apoyo internacional para reducir la carga de la deuda se hizo presente una vez más en los años cincuenta y sesenta. En cuanto al endeudamiento interno, la exposición explica cómo después de una pausa durante los cincuenta, las series de deuda interna alcanzaron tasas de crecimiento relativamente altas durante los sesenta.

Summary

In this essay, the Colombian experience with internal and external debt since the end of the war up to 1970, is discussed. Following a common thread of previous essays, that experience is commented in the international context. The document highlights important similarities and contrasts between Colombia and the rest of the Latin American region. Regarding the external debt, it is shown that the recovery of external financing after the war came first in the form of direct investment rather than in foreign credits, and how debt relief continued to be a fact of life during the 1950s and 1960s. As for internal indebtedness, the article expositis in detail the process by which, after a pause during the 1950s, the series of internal debt achieved growth rates relatively high during the 1960s.

^{1/} Departamento de Estabilidad Financiera. Subgerencia Monetaria y de Reservas del Banco de la República. Bogotá, Colombia, agosto de 2004. Las primeras notas para este ensayo fueron escritas en 1988 en la Universidad de Glasgow a partir de discusiones con Richard Portes, director del Centre for Economic Policy Research, CEPR, en Londres, y CEPREMAP en París, y David Vines de la Universidad de Glasgow y del Balliol College en Oxford. Originalmente se emplearon como parte de la argumentación histórica de los ensayos requeridos por la tesis doctoral. Este artículo es el noveno de una serie acerca de la deuda colombiana desde los 1820 hasta el año 2000. Esta versión del documento fue preparada como parte de la agenda de investigación para 2004 de la Gerencia Técnica del Banco de la República cuyo apoyo se agradece.

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In this essay, the Colombian experience with internal and external debt since the end of the war up to 1970, is discussed. Following a common thread of previous essays, that experience is commented in the international context. The document highlights important similarities and contrasts between Colombia and the rest of the Latin American region.

Regarding the external debt, it is shown that the recovery of external financing after the war came first in the form of direct investment rather than in foreign credits, and how *debt relief* continued to be a fact of life during the 1950s and 1960s. The Latin American history with debt refunding is reviewed. The exposition also refers to the refinancing credits extended to Colombia during the late 1950s. A central point in these discussions is that in sharp contrast with the 1930s, international creditors preferred to avoid default by means of direct or indirect mechanisms of debt refunding.

As for internal indebtedness the article exposits in detail the process by which, after a pause during the 1950s, the series of internal debt achieved high growth rates during the 1960s. These high rates set off the second cycle of positive rates greater than the trend, which were studied in Avella (1988). A particular mention is made of the jump of the internal debt series in 1962 and the extraordinary circumstances of the time which provoked such upsurge. This document deals with the unprecedented events which brought about such changes.

A. External debt.

1. International indebtedness in the aftermath of the war.

In her review of international creditors and debtors prepared by the end of World War II, Cleona Lewis described "some surprising shifts" which had taken place during and due to the conflict. Britain, the ranking creditor country at the beginning of hostilities saw her position significantly weakened, the United States seemed to have lost the condition of creditor country, and some usually highly indebted countries had improved their international financial position. According to rough estimates, Britain repatriated 25% of her long-term overseas investments, and the United States accumulated short-term debts to the point that in the aggregate foreign liabilities exceeded foreign investments. On the debtors' side, British Empire countries and Latin America reduced their net foreign indebtedness. In the Latin American case, the debt settlements achieved by countries like Brazil, Colombia and Mexico improved the long-term position of the continent; additionally, the unintended accumulation of dollar exchange in the region

reduced the net value of her external debt during the war and allowed long-term debt repayments and acquisitions of foreign assets after the war².

At the end of the war, the Marshall Plan implied a substantial transfer of U.S. official capital to Europe. Direct grants to individual countries amounted to 73.5% of the total transfer -US\$10.3 billion-; other grants through European monetary institutions came to 15.5% of the total transfer; and the remaining 11% was represented by loans. Britain, France, Germany and Italy were the major beneficiaries with 26%, 20%, 11%, and 10% of the total transfer respectively³. Apart from this extraordinary transfer, Western European industrialized countries borrowed heavily between 1945 and 1950. As shown in Table 63, the stock of the European external public debt in 1950 was 3.4 times its magnitude in 1945. Britain alone was responsible for 57% of the increased indebtedness, followed by France with 19%, Holland with 9%, and nine other countries with the balance of 15%. At the end of 1950, nearly 75% of the international public long-term debt was in European hands⁴.

TABLE 63

EXTERNAL PUBLIC LONG-TERM DEBT*

SELECTED YEARS 1945 - 1958

(Millions of U.S. dollars)

DEBTORS	1945	%	1950	%	1955	%
Europe	3594,8	39,7	12225,2	73,7	14879	61,9
Africa	296,1	3,3	438,5	2,6	1094	4,6
Asia	495,8	5,5	429,5	2,6	2606	10,8
Australia	1760,5	19,4	1288,1	7,8	1412	5,9
Latin America	2911,5	32,1	2213,3	13,3	4046	16,8
TOTAL	9058,7	100	16594,6	100	24037	100

SOURCES.

Latin America, Abramovic, D. and Gulhati, R. (1958)

For Latin America, United Nations (1965).

1955 and 1958: For all but Latin America, Abramovic, D. and Gulhati, R. (1960)

For Latin America, United Nations (1965).

* External public debt comprises the long- and medium-term owed or guaranteed by public agencies. Short-term debts with a maturity of less than one year, as well as commitments arising out of drawings on IMF resources are excluded. Data refers to net contracted loans, and thus cover both disbursed and undisbursed portions of contracted loans.

^{2/} Lewis, C (1945), Chapter 2.

^{3/} Eichengreen (1988) p.140

^{4/} The outstanding external public debt of 12 European countries for the years 1945, 1950 and 1955 appears in Abramovic and Gulhati (1958), p.162

The substantial European borrowing in the early postwar years continued well into the 1950s at an evidently slower rate. In average, Europe concentrated 57.2% of the external public long-term debt between 1945 and 1958, in frank contrast with the figures for Latin America -20.3%- and Africa -3.8%-. The increased Asian indebtedness after 1955 was explained by large reparation obligations assumed by Japan. In conclusion, the growth of external public debt during the first three quinquennia after World War II was largely determined by the process of European reconstruction, and to some extent by the implementation of political settlements at the end of the conflict.

2. Main trends in the external public debt of Latin America.

Table 64 shows the outstanding external public long-term debt of Latin American countries at selected dates between 1945 and 1970⁵. Colombia appeared to be the fifth most important debtor country during the whole period, behind Brazil, Argentina, Mexico and Chile. The predominance of this group was evident since it was responsible for 85%, 80% and 76% of the Latin American stock of public long-term debt in 1945, 1960, and 1970 respectively. The average distribution of liabilities within this group was not uniform, however; while Argentina, Brazil, and Mexico individually considered accumulated about 20% of the total debt of the region, the relevant percentages for Chile and Colombia were 12% and 7%.

⁵/ Information in the last two columns of Table 64 corresponds to the net debt actually disbursed. The first six columns show the outstanding amounts of net contracted loans (data about disbursed amounts is not available), and therefore they include undisbursed balances. It is shown that for 1962 the undisbursed portion represented 15% of the contracted sums.

TABLE 64
 LATIN AMERICA
 EXTERNAL PUBLIC LONG-TERM DEBT
 1945 - 1970 SELECTED YEARS

(Millions of U.S. dollars)

COUNTRY	1945	1950	1955	1958	1960	1962	1962 2/	1970 2/
Argentina	900	400	600	1375,1	1478,1	2092,1	1927	1880
Bolivia	61	50	93,1	153	199,8	205,4	171,2	480
Brazil	432,7	409,4	1380,3	1780,8	1823,9	2224,6	2141	3421
Chile	425,9	355,4	350,7	398,6	565,9	741,9	565,4	2067
Colombia	171,4	157,5	276,2	458,9	376,8	638,8	417,7	1297
Costa Rica	14	12	36	40	56,1	84,1	51,2	134
Dominican	12	10	-	6,2	5,7	36,6	16,6	212
Ecuador	24,2	31,9	67,6	96,7	100,8	121,5	95,4	193
El Salvado	13,4	22,4	28,4	25,5	33,3	51,3	32,7	88
Guatemala	0,9	0,4	22,2	22,2	53,5	67,5	38,5	106
Haiti	15,2	8,3	39,6	43,2	39,7	38	38	40
Honduras	5,4	1,3	4,7	13,8	23,6	39,8	19,1	90
Mexico	540	509,1	478,9	642,9	1038,4	1359,9	1071,2	3196
Nicaragua	5,8	4,6	23,1	24,4	41,1	47,4	28	147
Panama	15,6	13	18,1	41,6	58,4	64,4	44,3	194
Paraguay	15,8	15,3	22,1	19,7	22,3	28,7	18,5	112
Peru	104,8	107,2	229,1	254,6	268,1	500,5	418,8	856
Uruguay	153,4	105,5	126,6	131,2	131,8	150,2	118,4	269
Venezuela	-	-	249,8	182,6	314,1	361,8	234,8	728
Total	2911,5	2213,3	4046,5	5711	6631,4	8854,5	7447,8	15510

SOURCES.

For all but 1970, United Nations (1965). For 1970, Wilkie, J. (1990).

1/ As in Table 63, note 1. 2/ Net disbursed debt only.

According to the information in Table 64, the public liability of Latin America grew at an annual rate of 7.6% between 1945 and 1970. During the same period, exports grew at an average rate of 6.1%. Brazil, Colombia and Mexico showed growth rates of indebtedness above the average for the region: 9.3%, 9.1%, and 8.1% respectively. In contrast, a major historical debtor, Argentina, exhibited a growth rate of only 3.7%. Different individual experiences are screened by these growth rates. While most countries tended to reduce their debts between 1945 and 1950, Argentina alone explained three quarters of the significant debt reduction -24%- in the region during that period. Based on the substantial accumulation of international reserves during the war, Latin American countries found the possibility of purchasing foreign assets established in the continent, and liquidate part of their external debt.

Some countries which had negotiated readjustment plans before the end of the war, such as Brazil, Cuba, Panama and Uruguay were able to resume full debt payments comfortably. Chile negotiated a debt plan in 1948 which embraced all her external bonds. Colombia and Mexico continued full contract service of the national debt renegotiated during the war; additionally, Colombia renegotiated the debt of her

departments and cities, and Mexico reached an agreement regarding the debt of the National Railways, similar in magnitude to the national dollar debt⁶.

The most striking case was protagonized by Argentina. Railways owned by British firms and French enterprises were bought by the Argentine government⁷. As for external debt, all national bonds were called for redemption during 1946. Also provinces and municipalities were required to repatriate debt as far as the interest rate was higher than the rate fixed for Argentine internal bonds. The important result of these measures was that by 1949 all dollar bonds had been called for redemption and retired; additionally, all sterling bonds had also been retired by that time, with the exception of one of the controversial Roca Agreement Loans of 1933. On a much lower scale, Dominican Republic and Haiti also retired all their dollar bonds between 1946 and 1950⁸.

The settlements and debt reductions of the first quinquennium of the postwar period were followed by two decades of continuous increase in the nominal stock of external public debt. This was one of the results of the progressive importance reached by long-term loans between 1950 and 1970. Table 65 shows how after declining during the first five postwar years, long-term loans increased during the 1950s, and finally became the predominant source of non-compensatory long-term financing during the 1960s. The crucial point is that the recovery of long-term financing to Latin America after the interwar defaults took place through direct investments rather than through portfolio investments. Between 1946 and 1960, an overwhelming 81.6% of new long-term resources flowed in through the channel of direct investments. It was not until the 1960s, that a clear lead of portfolio long-term loans could be observed. For the period 1945-1970 as a whole, both inflows were practically equivalent, with US\$12.62 billion as long-term loans, and US\$12.59 billion as direct investment.

Table 65

LATIN AMERICA
NET INFLOW OF NONCOMPENSATORY LONG-TERM FINANCING
1946 - 1970
(Millions of U.S. dollars)

COUNTRY	1946-1950				1951-1960				1961-1970			
	OFFICIAL DONATIONS	LONG-TERM LOANS	DIRECT INVESTMENT	TOTAL	OFFICIAL DONATIONS	LONG-TERM LOANS	DIRECT INVESTMENT	TOTAL	OFFICIAL DONATIONS	LONG-TERM LOANS	DIRECT INVESTMENT	TOTAL
Argentina	-	-961,8	-113,8	-1075,6	1,2	370,3	844,6	1216,1	-4,1	645	282,6	923,5
Brazil	-16	-216,9	219,6	-13,3	35	593	1093	1721	251	2170	1430	3851
Chile	5,1	50,5	41,5	97,1	105,8	16,7	302,2	424,7	54,8	1413,5	126,9	1595,2
Colombia	-	6,7	98,9	105,6	14,1	191,5	30,9	236,5	175,5	1126	339,6	1641,1
Mexico	87,5	24	176,9	288,4	19,1	471,6	862,9	1353,6	13	2498	1901	4412
Subtotal I	76,6	-1097,5	423,1	-597,8	175,2	1643,1	3133,6	4951,9	490,2	7852,5	4080,1	12422,8
Peru	6,3	-4,3	23	25	44,3	156	349,4	549,7	248,7	861,9	102,9	1213,5
Venezuela	0,4	-0,8	1026,4	1026	1,4	48,2	1917,5	1967,1	44,8	311,2	84,5	440,5
Subtotal II	6,7	-5,1	1049,4	1051	45,7	204,2	2266,9	2516,8	293,5	1173,1	187,4	1654
Rest	21,8	-57,2	206,4	171	419,1	278,2	492,4	1189,7	608,5	2638,2	750,7	3997,4
TOTAL	105	-1159,8	1678,9	624,2	640	2125,5	5892,9	8658,4	1392,2	11663,8	5018,2	18074,2

SOURCES.

For 1946 - 1960, United Nations (1965).
For 1961 - 1970, Naciones Unidas (1979).

^{6/} Details available in FBPC (1949) and FBPC (1950).

^{7/} United Nations (1964) pp.32-33.

^{8/} FBPC (1949) page 2 for Argentina, page 186 for Dominican Republic, and page 235 for Haiti.

The inflow of direct investment was far from equally distributed. One country alone, Venezuela, concentrated 40% of the new direct investment in the region between 1945 and 1960, before receding to a secondary position in the 1960s. Other countries such as Mexico and Brazil received a more steadily increasing inflow of direct investment. Taking the 1945-1970 period as a whole, Mexico and Brazil, in that order, were the main beneficiaries of new foreign long-term resources; altogether, they received 42% of those resources. Venezuela occupied the third position in spite of the relatively low investment during the last decade and the reduced inflow of long-term loans. Colombia and Peru were the next beneficiaries having received, altogether, 14% of new foreign capitals. Argentina was relegated to a secondary position given the substantial debt liquidations of the 1940s.

Regarding the individual Colombian experience, Table 65 shows that during the first five postwar years the access of Colombia to long-term external financing was mainly obtained through direct investment. Most of this investment was made in oil companies by their foreign owners. During the 1950s, direct investments faded while long-term loans substantially increased. As we will describe below, important sources of these loans were the Ex-Im Bank and the IBRD (World Bank). However, the great inflow of noncompensatory long-term financing was to be experienced in the 1960s. In absolute terms, Colombia was the third major recipient of long-term funds, only surpassed by Mexico and Brazil, but the main recipient within the major debtor countries in comparison with the 1950s. This time, it was the International Development Agency (IDA) which granted the larger credits to Colombia, followed by the IBRD, and on a much lower scale by the Interamerican Development Bank, IDB.

The increasingly significant presence of the continent in long-term credit markets reflected the deepening current account deficits of the mid-1950s and mid-1960s. As suggested in Graph 1 the deterioration of the Latin American current account balance through the 1950s and 1960s was not a steady process. The region started the 1950s with a surplus equivalent to 5% of exports; this condition turned into a deficit which two years later represented 20% of exports, before coming back to a temporary equilibrium position in 1953. What followed was a continuous deterioration of the current account until 1962, with the lowest points in 1957-58. A three-year period (1963-1965) of lower current account deficits equivalent to about 5.4% of exports preceded the second half of the 1960s during which the annual current account deficit amounted to 17% of exports.

As for the Colombian experience in relation to the whole region, it can be seen that in most years between 1950 and 1962, either the Colombian current account was in surplus when that of the continent was in deficit, or the direction -increase or reduction- of the deficit was opposite. From 1963 onwards, the Colombian current account balance tended to move in a parallel way with the regional one, although the annual figures in the Colombian case were much worse than those for the region during most of the time. This last evidence about Colombia completes the impression given before that through the 1960s the country had increased her indebtedness at a higher speed than Latin America as a whole.

3. The Colombian case. Contrasts between the 1950s and the 1960s.

As indicated by the statistical evidence commented above, the postwar Colombian experience with external debt up to 1970 can be referred to two main periods, namely, from 1946 to 1961, and from 1962 to 1970. This division is explained not only by the relative magnitude of indebtedness in both periods or the identification of the creditors, but also by factors of international politics which influenced the amount and ends of capital inflows. During the first period, the Colombian case was different from that of the rest of major debtors in the region, since although foreign direct investment was predominant in 1946-50, long-term loans were the main type of external financing in 1951-60 when direct investment was still the prevailing capital inflow in Latin America (Table 65).

The size of Colombian indebtedness offers a marked contrast between the 1950s and the 1960s. As reported in Table 66, the nominal value of the external public debt remained constant between 1954 and 1960, before the substantial expansion during the new decade when the stock of debt multiplied by 6. In Avella (1988), reference is made to the 1950s as an "interlude" period during which no more than 4 months of exports were required to pay off the external public debt. This was the period of lowest debt-to-export ratios between the late 1920s and mid-1980s.

By contrast, the 1960s were a period where the pace of increased indebtedness outweighed the expansion of exports to the point that by 1970 the debt-export ratio reached the height of 22 months of exports, a figure not seen since the early 1930s. It is important to emphasize that contrary to the experience of the late 1920s, it was borrowing from official sources that explained the substantial indebtedness of the 1960s. It is also worth noting that while the increase of debt-export ratios during the great depression was largely explained by falling exports, the increased external debt of the 1960s was accompanied by a slow growth of exports most of the time which only became more resolute towards the end of the decade.

TABLE 66
 COLOMBIA
 EXTERNAL PUBLIC DEBT
 1951 - 1970
 COMPOSITION BY CREDITORS

(Percentages and total in US\$ million)

YEAR	MULTILATERAL				BILATERAL			PRIVATE SECTOR				TOTAL (3)+(4)=(5) (US\$ Millions)	
	IBRD	IDB	OTHER AGENCIES	SUB- TOTAL (1)	EX-IM BANK	AID	SUB- TOTAL (2)	SUB-TOTAL OFFICIAL (1)+(2)=(3)	BONDS	OTHER LENDERS	SUB-TOTAL PRIVATE (4)		
1951	7	-	-	7	21,3	-	21,3	28,3	58,2	13,5	71,7	100	141
1952	11,5	-	-	11,5	19,8	-	19,8	31,3	41,1	27,6	68,7	100	192
1953	15,3	-	-	15,3	15,3	-	15,3	30,6	37,4	32	69,4	100	203
1954	18,3	-	-	18,3	14,6	-	14,6	32,9	35,2	31,9	67,1	100	213
1955	19,9	-	-	19,9	13,1	-	13,1	33	35	32	67	100	206
1956	27,5	-	-	27,5	10,1	-	10,1	37,6	31,7	30,7	62,4	100	218
1957	33	-	4,2	37,2	8,4	-	8,4	45,6	30,2	24,2	54,4	100	215
1958	34,1	-	7,1	41,2	7,1	-	7,1	48,3	28,9	22,8	51,7	100	211
1959	34,8	-	10,3	45,1	6,9	-	6,9	52	27,9	20,1	48	100	204
1960	37,1	-	13,3	50,4	6,2	-	6,2	56,6	25,7	17,7	43,4	100	210
1961	33,2	-	12,7	45,9	24,4	-	24,4	70,3	17,7	12	29,7	100	283
1962	32,9	2	12,5	47,4	19,6	10,8	30,4	77,8	13	9,2	22,2	100	353
1963	33,5	4,7	10,4	48,6	14,4	21,5	35,9	84,5	9,5	6	15,5	100	451
1964	37,4	7,7	10	55,1	9,8	23,2	33	88,1	7,2	4,7	11,9	100	530
1965	36,8	8,3	10,6	55,7	8,2	27	35,2	90,9	5,8	3,3	9,1	100	601
1966	34,2	9,6	12	55,8	6,3	30,7	37	92,8	4,5	2,7	7,2	100	710
1967	32,9	11,3	11,6	55,8	6	33	39	94,8	3,6	1,6	5,2	100	803
1968	30,9	11,7	10,1	52,7	5,4	36,2	41,6	94,3	2,7	3	5,7	100	940
1969	27,8	12,2	10	50	4,9	36,5	41,4	91,4	2	6,6	8,6	100	1124
1970	26,8	13,5	9,3	49,6	4,2	37,1	41,3	90,9	1,6	7,5	9,1	100	1319

SOURCES.

IBRD and Ex Im Bank. Series reconstructed since the 1940s based on FBPC, annual reports.

as according to the IMF Balance of Payments Yearbook.

Bonds. Series based on FBPC, annual reports.

Rest of series. IMF Balance of Payments Yearbook.

Additional contrasts between the 1950s and the 1960s are offered by the composition of the external public debt of Colombia by class of creditors. As seen, the traces of the era of bond finance were still clear at the beginning of the 1950s, since long-term bonds purchased by the foreign private sector accounted for nearly 60% of the stock of debt. By that time, all those securities were being fully served and expected to be completely amortized in the early 1970s; as shown, by 1970 the bonded debt represented an insignificant amount of the public debt. Foreign private finance predominated in the composition of public debt during the 1950s, although this result very much depended on the still high weight of bonds. However, during the first half of the fifties, private credits amounted to some 28% of the stock of public debt.

The relatively low access of Colombia to official foreign funds during the 1950s is confirmed by the fact that only 47% of the noncompensatory long-term financing during 1951-60 -US\$191.5 million according to Table 65- was borrowed from official institutions, while the relevant percentages for other major debtors such as Brazil and Mexico were 73% and 56% respectively. For Latin America as a whole the figure was 70%, far above the Colombia's case. Regarding the composition of official borrowing, Colombia also behaved differently from the rest of the region; while Latin America obtained 38% of her official borrowing from multilateral entities, and 62% from U.S. official agencies, Colombia borrowed 83% from multilateral institutions and only 17% from U.S. bilateral organizations⁹.

The access of Colombia to multilateral lending started in 1949 when an IBRD mission headed by Lauchlin Currie considered Colombia as a "pilot country" for future loans. During the 1950s, only three countries, Brazil, Colombia and Mexico were granted 61% of actual IBRD disbursements; Colombia got a share of 16%, while Brazil and Mexico,

⁹/ Calculations based on United Nations (1964) p.137

23% and 22% respectively¹⁰. Regarding the U.S. bilateral lending, its main channel during the 1950s was the credit of the Ex-Im Bank¹¹. Brazil which had been the main recipient of Ex-Im Bank loans since the debt renegotiations in the early 1940s, was again the focus of major inflows; a great deal of these loans were geared toward the repayment of large trade arrears accumulated by Brazil at the beginning of the 1950s. As a result of these operations, Brazil received 44% of the loans, far above Mexico and Argentina with 16% each, and Colombia with 8%. These four countries made part of the group of six which received 90% of the Ex-Im Bank loans to Latin America during the 1950s¹².

The predominance of the official component in the stock of public debt was clear since 1960. The launching of the Alliance of Progress and the creation of the AID in 1961 had a catalytic effect on the substantial increase of external loans to Colombia. The indebtedness with the IBRD alone was to represent one-third of the stock of debt during the new decade. Multilateral institutions as a whole prevailed over a half of the public debt, and the AID substantial lending since 1962 brought about substantial changes in the composition of debt by creditors. Table 66 shows how the AID loans alone came to represent 30% of the external public debt by 1966, and by 1970 the figure was close to 40%. It is also seen how towards the end of the decade the most active sources of loans were the AID and the IDB; by 1970, 50% of the external public debt was in the hands of these two institutions. As a whole, the official component became more than 90% of public debt during the second quinquennium of the 1960s.

4. Debt relief in the 1950s and 1960s.

The settlements of the 1940s and the recovery of external financing to Latin America after the war did not mean that debt problems in the region were over. Debt relief was a fact of life during the 1950s and 1960s, although in contrast with previous periods refunding arrangements were made to prevent default from happening rather than to restore regular payments. A common factor of the new arrangements was the active presence of either bilateral or multilateral institutions. There was a diversity of refunding methods ranging from the indirect procedures of balance of payments loans to a variety of direct methods such as rescheduling, refinancing credits and consolidation credits.

a. Latin American experiences.

¹⁰/ Based on Wilkie, James (1990)

¹¹/ It has to be considered that at the end of World War II, most of the credit of the Bank was concentrated in Europe and Latin America with 46% and 39% respectively. At that time, Brazil, the major debtor in the region, already concentrated 26% of the Bank authorized credits to the continent. During the first quinquennium after the war, European countries -particularly France and the United Kingdom-, tried to maintain their share in the Bank lending while Asian countries led by Japan doubled their share from 9% to 18%; in this context, Latin America saw her share to fall to 30%. Due in great part to loans granted for refunding purposes, Latin America increased their share through the 1950s, reaching 36% by 1957. FBPC ([1945],[1950],[1957]).

¹²/ United Nations (1964) p.209

Countries such as Argentina and Brazil underwent a variety of debt problems during the 1950s and 1960s¹³. Argentina required refinancing credits in 1950 and 1958 from the Ex-Im Bank and commercial banks respectively, to liquidate commercial arrears. Importantly, debt renegotiations with European countries in the mid-1950s led to the creation of the "Paris Club" (May 1956), by which outstanding debts with individual European creditors were consolidated and payments were multilateralized. Further experiences of debt relief during the 1960s were carried out with the support of the IMF, the U.S. Treasury, the AID and the Ex-Im Bank. Under this foreign tutelage Argentina managed to roll over its external debt through the 1960s and keep up service payments.

The Brazilian experience is also illustrative. By 1952, commercial arrears amounted to some US\$950 million or 70% of exports. Apart from refinancing agreements with individual creditors, the country received combined loans from the Ex-Im Bank and commercial banks during the first half of the 1950s to liquidate the accumulated short-term debts. In the early 1960s, a new cycle of piling-up commercial arrears led to simultaneous operations of consolidation and refinancing. The former was agreed with European creditors through the "Hague Club" (May 1961), and the second with U.S. creditors after funds were made available by the Ex-Im Bank. Later deterioration of the Brazilian debt situation resulted in new refinancing programs with the active participation of the U.S. government, and also in new debt consolidations. Only by means of these debt relief operations was Brazil able to meet its external obligations during the 1950s and the 1960s.

Other important Latin American debtors also required debt relief programs. Chile obtained refinancing credits in the early 1960s, and a consolidation of debts through the Paris Club was achieved in 1965. Peru also required refunding in the late 1960s, but the preferred method was that of individual agreements with creditors and new borrowing transactions to liquidate existing individual debts, rather than overall refinancing or consolidation operations. Finally, Colombia was not an exemption from debt relief programs. Characteristically, Colombia experienced an important refinancing operation during the second half of the 1950s, but no direct debt refunding was required during the 1960s. It is to the discussion of the refinancing experience of the 1950s to which we now turn.

b. Refinancing credits to Colombia.

The Colombian economy lived through an expansionary cycle during most of the first half of the 1950s (Table 67). From the bottom of 1.8% in 1951, the growth rate went up to an average of 6.5% in 1953-55. A bonanza of coffee prices was at the center of the boom. The New York spot prices climbed up from an average of US\$33.4 cents per pound in 1944-47 to US\$57.2 cents per pound in 1950-53. However, the major increases were registered in 1954-57 when the average quotation reached the figure of US\$70.6 cents per pound. Total exports of the country increased *pari passu* with the value of coffee exports between 1950-53 and 1954-57. Imports increased as well, and what is more important, at a higher speed than exports. More precisely, imports jumped

¹³/ This review of Latin American experiences heavily draws on Bittermann (1973).

in 1954, coinciding with the year in which coffee prices achieved their maximum values during the coffee bonanza, and stayed at that high level until 1956. As a result of this behaviour of exports and imports, the stock of international reserves nearly doubled between 1951 and 1954 before falling back to their initial level through 1955 and 1956.

TABLE 67
COLOMBIA
KEY MACROECONOMIC INDICATORS
1951 - 1970

YEAR	GDP 1/	INFLATION 2/	EXPORTS (FOB)	IMPORTS (CIF)	TRADE BALANCE	INTERNATIONAL RESERVES	COFFEE PRICE	NOMINAL EXCHANGE RATE	REAL EXCHANGE RATE
1951	1,8	8	484,3	419	65,3	137,8	58,7	2,39	59,6
1952	3,1	-2,3	483	415,4	67,6	167,2	57	2,51	66
1953	6,3	7,3	605,5	546,7	58,8	202,7	59,9	2,51	62,1
1954	6,1	8,8	669,1	671,8	-2,7	269,6	79,9	2,51	57,6
1955	7	0,2	596,7	669,3	-72,6	152,6	64,4	2,51	57,8
1956	3,8	5,5	551,6	657,2	-105,6	144,2	74	2,51	56
1957	4,1	17,4	511,1	482,6	28,5	157	64	5,06	99,2
1958	3,6	13,2	460,7	399,9	60,8	172,8	52,3	6,41	114,9
1959	2,5	8,2	473	415,6	57,4	230,4	45,2	6,4	107,6
1960	7,2	5,7	464,6	518,6	-54	178,4	44,9	6,65	107,7
1961	4,3	8,5	434,5	557,1	-122,7	170,6	43,6	6,7	101,8
1962	5,1	4,3	463,4	540,4	-76,9	115,8	40,8	6,78	101,5
1963	5,4	27,3	446,7	506	-59,4	124,6	39,6	9	108,4
1964	3,3	17,7	548,1	586,3	-38,2	147,2	48,8	9	94,1
1965	6,2	7,1	539,1	453,5	85,6	145,3	48,5	10,12	105,6
1966	3,6	16,7	507,6	674,1	-166,6	144,1	47,4	11,25	120,6
1967	5,4	8,1	509,9	496,9	13	149,4	41,9	14,73	123,3
1968	4,2	7,4	558,3	643,3	-85	217,7	42,6	16,39	134,1
1969	6,1	6,9	607,5	685,3	-77,8	257,3	44,9	17,37	140,7
1970	6,6	6,7	736	843	-107	257,5		18,44	146,9

NOTES

1/ Rate of growth of GDP.
2/ Monthly annual inflation rates.
Coffee price and exchange rates as in Table 57.

Sources. As for Table 26 in Avella (2003).

The import surplus which in 1954 appeared to be of a negligible magnitude according to Table 67, by 1956 represented 20% of exports. The upsurge of imports was financed not only by the export boom and the decline of international reserves, but by an unprecedented accumulation of trade debts. According to a contemporary survey of the ECLA, trade debts grew steadily during 1954-56. The accumulation of these debts represented 22% of exports in 1954, 41% in 1955, and 73% in 1956¹⁴. What did authorities do when faced with this problem?

Initially, the government treated the situation as a liquidity problem which could be partially solved by an exchange transaction with the IMF. Following this line of action, in December 1954 Colombia purchased US\$25 million from the Fund resources with Colombian pesos¹⁵. More decisive measures were not adopted until the second half of

¹⁴/ ECLA (1958), p.152

¹⁵/ FBPC (1954), p.81

1956. The government tried different schemes some times for facilitating the payment of commercial arrears, and other times for controlling imports. In the first case, authorities were ready to provide foreign exchange for immediate payment to pressing creditors under the condition that importers purchased at least 50% of the required foreign exchange in the free market. In the second case, the government went to the extreme of closing the office for registering imports, and creating an ad-hoc committee for extremely urgent requests.

In the meantime, the nominal exchange rate depreciated in the free market for dollars; while the official rate continued at the level of C\$2.51=US\$1, fixed since 1951, the free market quotation of the dollar evolved from C\$4.13 in December 1955 to C\$6.83 in December 1956. Authorities then intervened (December 1956), to create a market for foreign exchange certificates seeking to take the place of the free market, and therefore importers of non-essential goods were bound to pay rates substantially above the official rate. Finally, imports were also discouraged by raised stamp taxes and higher prior deposits.

These measures were the precedent of more radical policies during 1957. The fact is that imports repeated the high level of 1954 in 1955 and 1956, and a clear solution for the unprecedented accumulation of trade debts was not available. It was not that the market was not providing a solution for this problem. For instance, before the celebration of agreements in 1957, U.S. exporters and commercial banks had made US\$56 million available to clear up existing debts. However, this amount represented no more than 11.4% of the outstanding commercial debts¹⁶.

In March 1957, an agreement was achieved with U.S. creditors, according to which 60% of the outstanding debt estimated in US\$235 million -Table 68- was to be paid in cash, and the remaining 40% in promissory notes. This agreement excluded relatively small debts, which were to be fully repaid by cash, and some payments which were to be made in Colombian pesos. The main peso payments equivalent to US\$80 million were made to Colombian importers who had previously purchased dollars in the free market in order to pay their commercial debts but still had exchange permits. The payments were made by the Stabilization Fund (Fondo de Estabilización), by means of an extraordinary loan of the Bank of the Republic. Later, in the 1960s, such debt would be recognized as part of the internal public debt¹⁷.

In spite of the refinancing agreement with U.S. creditors and the measures adopted since 1956 to discourage imports, Colombia's standing in foreign financial markets continued to decline. It has been documented that by mid-1957 it was difficult for importers to have access to customary trade credits. Some foreign institutions expressed their

¹⁶/ FBPC (1957), p.101. The information about the total outstanding commercial debt, US\$493.2 million is from IGBR (1960), p.159

¹⁷/ As commented in Avella (1988), the Stabilization Fund was created in the 1930s to help stabilize the market for public debt. In July 1957, the Fund was authorized to purchase exchange permits in the hands of the importers. At that time the exchange rate in the market for foreign exchange certificates was C\$5.8=US\$1, and the average rate for 1956 had been C\$4.95. The Fund offered this last rate to the importers which implied an excess of C\$2.44 above the official exchange rate -C\$2.50 per dollar- and a stamp tax of C\$0.01. Later, the government (Decree 088 of 1958) accepted the responsibility for the debt of the Fund to the Bank of the Republic, but a formal registration of it in the internal public debt accountancy was not made until 1966. IGBR (1963) and IGBR (1967).

reserves about financing exports to Colombia; for example, the Export Credit Guarantee Department of Great Britain decided to interrupt insurance covers on exports to Colombia as a precaution against non-repayment¹⁸. The Bank of the Republic also recognized the adverse effect of the delay of commercial payments on the access of the country to international credit during 1956 and first half of 1957¹⁹.

Facing a shaking creditworthiness of the country in foreign financial centers and a heavy burden of short-term debts, authorities launched a new package of measures with two main focuses of attention: an exchange reform, and a conversion of short-term external liabilities into medium-term debts. A central aspect of the exchange reform (June 1957), was the instauration of two fluctuating markets, the certificate market for most merchandises, and the free market for most service and capital transactions. The exchange rate then depreciated in the certificate market from the old official quotation of C\$2.51 per dollar to C\$4.86 in June, before gradually depreciating to C\$5.38 in December and C\$6.82 in June 1958. This evolution of the nominal exchange rate represented a devaluation of 172% in one year. As for the real exchange rate, Table 67 shows how by 1956 the peso was overvalued in 44% with reference to the 1935 parity level, and how by 1957 such an overvaluation had been nearly corrected. A similar information was offered in Graph 8 in Avella (1988) where the 1957 devaluation closed a long cycle of real exchange rates growing below their historical trend.

¹⁸/ ECLA (1958) p.153

¹⁹/ IGBR (1957) p.141

TABLE 68
REFINANCING OPERATIONS, 1957-1958
 (US\$ Million)

I. Agreements with creditors

A. Amortization agreement with U.S. creditors, March 1957.

Amount: US\$235 m

Cash payments (60%): US\$141 m

Promissory Notes (40%): US\$94 m

Amortization period: 30 monthly payments starting in April 1957. Interest rate: 4%.

B. Amortization agreement with European creditors, July 1957.

Amount: US\$36 m

Cash payments (20%): US\$7.2 m

Promissory Notes (80%): US\$28.8 m

Amortization: 36 monthly payments starting in February 1959. Interest rate: 5%

II. Bank loans

A. Export-Import Bank

US\$60 m (July 1957)

Amortization: n.a.

Interest rate: 5 1/2%

US\$78 m (June 1958)

Amortization: five equal annual payments between 1962 and 1966. Interest rate: 5%

B. Commercial Banks

US\$27 m (July 1957)

Amortization: n.a.

Interest rate: n.a.

US\$25 m (June 1958)

Amortization: Six semi-annual instalments

Interest rate: 5%.

Sources. I.A. Agreement with U.S. creditors. ECLA (1958, p.153)
 I.B. Agreement with European creditors.
 Bittermann (1973, p.204).
 Bank Loans. FBPC (1957).

The exchange reform was complemented by tax measures over exports (15%) and imports (10%), and by new tough actions destined to restrict imports. Apart from establishing lists of prohibited, licensed and free imports, the reform created uniform advance deposits which were equal to 20% initially, but later were increased to 100% for four-fifths of imports. As a whole, the exchange reform sought to restore the international competitiveness of the country, and eliminate the import surplus of recent years²⁰.

As for the extension of foreign exchange liabilities, authorities attempted to substitute medium-term debts for their immediate debts. The central operation was a credit pool of US\$113 million set up in June-July 1957. The first movement was the arrangement of a stand-by credit of US\$25 million with the IMF. The main step was, however, the negotiation of an Ex-Im Bank loan for US\$60 million supplemented by a credit of US\$27 million given by a group of U.S. commercial banks (Table 68)²¹. This negotiation was followed by bilateral agreements with Belgium, France, Germany, Switzerland and the United Kingdom, to refinance US\$36 million of trade debts. Contrasting with the agreement with U.S. creditors, this one provided that only 20% should be paid in cash and the remainder in 36 instalments starting in 1959²². These agreements were supplemented by borrowing operations with the domestic private sector which reached the amount of US\$31 million²³.

The package of measures not only mitigated the short-term debt burden but brought about a significant reduction of imports. As seen in Table 67, in only 1957 imports fell by 27%, and by 1958 the overall decline of imports with respect to 1956 reached the figure of 40%. As a result, the negative trade balances of 1953-56 were followed by trade surpluses during the rest of the decade, in spite of the poor performance of exports. However critical, the measures adopted were still insufficient. New estimates of the accumulated trade debts in early 1958 revealed that they could represent about 90% of exports²⁴. On top of this, a new downswing of coffee prices which would last until 1963 was well under way.

^{20/} Revista del Banco de la Republica, July 1957, p.783

^{21/} The Bank of the Republic received from the Ex-Im Bank two credits in July 1957, one for US\$20.3 million, and the other for US\$39.8 million for refinancing purposes. They were outstanding in the amount of US\$53 million at the end of 1957. FBPC (1957) p.100

^{22/} Bittermann (1973) p.204. The European creditors also accepted that about additional US\$10 million could be paid with coffee remittances. As a whole, the negotiation with European creditors reached some \$46 million. IGBR (1958), pp.40-42, 144.

^{23/} The International Petroleum Company (Colombia) accepted 48 monthly non-interest bearing Promissory Notes for a credit of US\$18.5 million, the Gran-Colombian Fleet extended a loan for US\$7.8 million, and the banking system a loan for US\$5.3 million. IGBR (1958), pp.40-42.

^{24/} Optimistic estimates revealed that commercial debts represented US\$450 million in the early part of 1958 (FBPC [1957] p.101) which amounted to 88% of exports in 1957.

The prospect of an immediate serious shortage of foreign exchange led authorities to arrange new external credits. A new inflow of medium-term capital for US\$103 million was made available in June 1958. This time, the Ex-Im Bank provided US\$78 million, and a syndicate of 13 American commercial banks the remaining US\$25 million. The Ex Im Bank credit was to be received in 12 monthly instalments of US\$6.5 million intended to sustain a minimum level of imports. The repayment was divided in five annual instalments of US\$15.6 million between 1962 and 1966. Such repayments as well as the first refinancing credit received from the Ex Im Bank were to be financed with the proceeds of the 15% tax on exports created in June 1957. As for the commercial banks credit, it was to be repayed in six semi-annual instalments (Table 68).

What became the end of these attempts to liquidate the commercial arrears accumulated by Colombia between 1954 and 1957? The settlement and repayment of the commercial debts were practically accomplished between 1957 and 1959. According to Table 69, the accumulated short-term debts arrived to US\$493.2 million of which two-thirds were repayed by cash, and the remaining one-third by promissory notes. As for the composition of the inflow of refinancing credits and the substitution of medium-term for short-term obligations, the table is also informative. As seen, nearly two-thirds of the funds were provided by the Ex Im Bank, and while 70% of the resources lent by commercial banks had to be repayed during the first two years, 86% of the Ex Im Bank loans was repayed during the 1960s. In conclusion, the liquidation of commercial arrears was carried out between 1957 and 1959, and two thirds of the short-term debts were converted into medium-term liabilities particularly after the Ex Im Bank credits²⁵.

²⁵/ For every dollar of short-term debt, 54 cents were converted in medium-term debt due to the Ex-Im Bank loans, and 12 cents were also converted in medium-term debt as a result of the bank syndicate loans.

TABLE 69
 SETTLEMENT OF COMMERCIAL DEBT ARREARS
 PERIOD 1957-1966
 (US\$ Million)

I. Repayment of commercial debts. Period 1957-1959

A. Cash payments in Colombian pesos	106.2	21.5 %
B. Cash payments in U.S. dollars	223.2	45.3 %
C. Promissory notes in U.S. dollars	163.8	33.2 %
Total	493.2	100.0 %

II. Disbursements and repayments of foreign refinancing credits.

A. Disbursements in 1957-1959

Ex Im Bank	138.0	62.9 %
Commercial Banks	81.3	37.1 %
Total	219.3	100.0 %

B. Repayments

1. Period 1957-1959

Ex Im Bank	19.0	25.4 %
Commercial Banks	55.9	74.6 %
Total	74.9	100.0%

2. Period 1960-1966

Ex Im Bank	119.0	82.4 %
Commercial Banks	25.4	17.6 %
Total	144.4	100.0 %

Sources.

I. IGBR (1959-1960) p.159

II. IMF Balance of Payments Yearbook, annual issue.

B. Internal debt.

As in the case of the external debt, there were marked contrasts between the experience with internal debt in the 1950s and the 1960s. In Avella (1988) it was observed how during the first decade internal debt grew at rates less than the historical trend, while during the second decade, the growth rates of internal debt substantially exceeded the trend. Government revenues and expenditures behaved differently during the two periods. Through most of the 1950s, revenues grew above their trend; expenditures also grew above their trend but only in the first half of the decade, before a government expenditure retrenchment led to growth rates below the trend during the second half. Things were different in the 1960s. During the first half of the decade, revenues grew well below their normal rate while the stop-go policies of the time led expenditures to grow first well above the trend and then clearly below that trend. It was in this period that the growth rates of internal debt achieved their maximum values during the decade. Finally, the increasing growth rates of government expenditures in the second half of the 1960s were accompanied by sustained growth rates of revenues, both well above their trends.

1. Changes in the structure of internal debt after the war.

With a few exceptions, the composition of internal debt during the first half of the 1950s was a reflection of the structure brought into being during World War II. The conversion bonds issued in 1941-1942 -the UIND and the Salt Mines conversion bonds- and the securities issued to finance the fiscal deficits during war time were still the main outstanding bonds in 1955. They represented 70% of bonds in circulation, and 37% of the stock of internal debt. Apart from launching additional bonds to finance railway and housing projects, there was no other noteworthy change in the existing bonds during the first half of the decade (Table 70,I).

There were changes, however, in the government debt with the Bank of the Republic, which anticipated what would be a characteristic experience of the 1960s. As government expenditures grew at a greater speed than government revenues during the coffee bonanza of 1954-1956, the primary deficit was partially financed by borrowing from the central bank (Tables 70, III.A, and 71). During these years, the loans to the government represented some 11% of total loans of the central bank, a proportion not seen since the reflationary loans of the 1930s were transformed into central bank investments in 1942 (Section IV A, above).

In 1956, the government carried out a new conversion of outstanding bonds similar to that of 1941-1942. The operation was intended to simplify the existing structure characterized by multiple interest rates and terms to maturity. A new security, the 5% Consolidated National Bond with a redemption period of 20 years was issued to consolidate a debt mainly inherited from the 1940s. By the end of 1956 bondholders had accepted the new bond for the amount of C\$317 million in exchange for their old bonds. This amount represented 83% of the bonds in circulation, so by the end of the year the outstanding bonds were practically reduced to the Consolidated National Bond and the Salt Mines Conversion Bonds issued in 1942 (Table 70). In practical terms, apart from the simplification of the structure, the government got an extension of the terms to

maturity, and the average interest rate on government bonds showed a slight decline in comparison with the average rates of the first half of the decade (Table 71).

TABLE 70
INTERNAL PUBLIC DEBT
1951 - 1959
(Millions of Pesos)

	1951	1952	1953	1954	1955	1956	1957	1958	1959
I. BONDS									
A. Development Bonds	9	7,6	7	6,4	5,8	-	-	-	70
B. Conversion Bonds (UIND)									
6% Class A	31,4	30,4	29,4	28,3	27,2	0,3	0,2	0,2	0,2
4% Class B	18,3	17,3	16,3	15,2	14,1	0,3	0,3	0,3	0,3
C. Salt Mines Conversion Bonds									
4% Class A	32,6	33,6	32,4	31,1	29,8	29,2	28,7	27,3	44,7
3% Class B	33,7	34,5	33,1	31,7	30,2	29,6	28,9	27,3	43,6
D. 6% National Economic Defense	18,6	13,5	9,7	5,9	2,3	0,2	0,2	0,2	0,2
ary Colombian Bonds									
6% 1944 Bonds	22,1	21,7	21,1	20,6	20,1	0,1	0,1	0,1	0,1
6% 1945 Bonds	45,3	44,4	43,4	42,5	41,3	0,3	0,2	0,2	0,2
al Development Bonds									
Classes A-E, 1940-1944	2,7	2,6	2,4	2,4	2,3				
Classes F-I, 1945-1948	16,6	15,9	15,2	14,4	13,6	0,2	0,2	0,2	0,2
Railway Bonds	8	30	28,3	33,3	27,1	2,2			
Loans Institute Bonds	13,2	0,5	29,3	27,5	26,1	3,4	2,2	1,8	1,7
I. Agrarian Bonds	10,4	10,1	9,9	9,6	9,4				
Liquidated National Bonds						316,6	416,4	402	387,3
Liquid Internal Debt 1945/57								70	63
Other Bonds	9,3	6,8	4,5	3,8	2,7	0,5	0,2		
Total - Bonds	271,2	268,6	282,2	272,7	252	382,6	477,5	529,6	611,5

TABLE 70
(CONTINUED)

	1951	1952	1953	1954	1955	1956	1957	1958	1959
PROMISSORY NOTES									
A. Public Works	0,3	7,3	7,3	7,3	7				
Order and Rehabilitation						100	90	80	90
C. Other Promissory Notes			5,5	5,2	54,1				
- Promissory Notes	0,3	7,3	12,8	12,5	61,1	100	90	80	90
III. FINANCIAL SYSTEM LOANS									
A. Bank of the Republic				31,6	75	106,3			
B. Other Financial Institutions	11,7	13,9	16,2	14,4	14,9			31,1	31,9
C. Total - Financial System Loans	11,7	13,9	16,2	46	89,9	106,3		31,1	31,9
IV. FLOATING DEBT	57,1	59,6	61,5	186,4	59	12,8	16,2	7,1	40,9
V. TOTAL INTERNAL PUBLIC DEBT	340,3	349,4	372,7	517,6	462	601,7	583,7	647,8	774,3

SOURCES.
Informe Financiero del Contralor. Annual Report.

During the second half of the 1950s, the rhythm of growth of fiscal revenues outstripped the rhythm of growth of expenditures so a primary surplus characterized these years. There was no need of new credits from the central bank and the outstanding debt was paid off (Table 70, III. A.). These facts did not mean that internal debt did not grow during the period. Actually, the outstanding bonds in circulation increased by 60% while the total internal debt went up by only 29%. These figures indicate that authorities substituted new bond issues for the former credits from the central bank. In this context, authorities launched the 8% National Internal Debt Bonds of 1958 to complete the liquidation of the 1957 fiscal deficit.

Authorities also issued new securities to finance specific projects. Some of them were initially considered of a temporary character, such as programs of public order and rehabilitation (Table 70, II. B). Programs orientated to the promotion of economic development were also initiated during the late 1950s and financed with Development Bonds and new issues of the Salt Mines Conversion Bonds (Table 70, I.A., and I.C.). As a whole, the bond issues of the second half of the fifties preannounced what would be characteristic of the sixties, namely, the issue of public bonds to finance specific projects, apart from the financing of budget deficits. Finally, the bond issues of the late 1950s marked an inflection point regarding the evolution of interest rates since the government had to accept new increases in the average rate in contrast with the reductions achieved in the first half of the decade (Table 71).

2. Twin deficits and the shape of public debt during the 1960s.

After the coffee bonanza (1954-1956) and the crisis of commercial debts (1956-1957), the Colombian economy lived through a period of relative stability between 1958 and 1961 (Tables 67 and 71). It was possible for the economy to grow at the historical rate with declining rates of inflation. A tight monetary policy resulted in decreasing rates of monetary expansion. As for the fiscal sector, although budget surpluses were achieved in 1958 and 1959, deficits reappeared since 1960. In spite of relatively restrictive government expenses, surpluses could not survive given the increasing weakness in the growth rates of government revenues²⁶. Regarding the external sector, coffee prices tended to stabilize in 1959-1960 after a 30% collapse between 1956 and 1958. Since exports barely grew between 1958 and 1960, the sharp recovery of imports prompted by import liberation measures in 1959 ended up in new trade deficits since 1960.

The outbreak of twin deficits since 1960 shaped the structure of internal public debt during the decade. There was trade deficit during the whole decade with the exception of 1965 and 1967, and there was also budget deficit in all years but 1966 and 1967. Additionally, there was current account deficit during the whole decade. Regarding the trade balance, the most critical years were 1961 and 1966 when it represented 28% and 33% of exports respectively. In the latter year, the external current account deficit amounted to 54% of exports. As for the budget deficit, it has to be recalled that as a proportion of GDP the negative outcomes of the first half of the 1960s had a pale

²⁶// The average growth rate of 22.7% of government expenditures for the three years 1958-1960 was inferior to the average growth rate of 25.6% since the end of the war, excluding the extraordinary retrenchment of 1956-1957.

precedent only during the boom of the late 1920s (Graph 13 in Avella, 1988). At its highest points in 1961 and 1962, the primary budget deficit represented 1.8% and 2.6% of the GDP respectively. For the first half of the 1960s the average primary budget deficit represented 1.3% of the GDP.

TABLE 71
FISCAL AND FINANCIAL INDICATORS
PERIOD 1951 - 1969
(C\$ Million)

YEARS	CURRENT INCOME	CURRENT EXPENDITURE	PRIMARY DEFICIT	YIELD ON GOVERNMENT BONDS %	PERCENTAGE OF MONEY BASE		
					MONEY SUPPLY (Growth Rate)	(1) NET INTERNATIONAL RESERVES	(2) NET GOVERNMENT LOANS
1951	586	483	103	5,13	16,4	36,9	16,9
1952	710	637	73	5,14	16,9	38	15,2
1953	764	773	-9	4,92	18,3	42,5	25,3
1954	906	992	-86	4,94	19,3	46,7	19,6
1955	1250	1369	-119	4,95	4,7	25,7	36,2
1956	1190	1364	-174	4,76	24,9	26,2	49,2
1957	1312	1113	199	4,81	13,6	10,3	64,1
1958	1616	1448	168	5,2	20,9	-5,6	52
1959	1833	1688	145	5,1	12	2,6	57,1
1960	1982	2044	-62	5,44	10,4	5,4	50,5
1961	1908	2451	-543	5,96	24,6	-3,9	52,6
1962	2307	3113	-806	6,36	20,7	-30	95
1963	3069	3679	-610	6,03	12,2	-28,9	68,7
1964	3847	4292	-445	6,4	20,9	-24,4	63,3
1965	3948	4157	-209	6,27	15,7	-9	80,8
1966	6028	5725	303	6,47	14	-13	67,2
1967	6688	6675	13	6,54	21,9	-5,8	68,1
1968	8194	8493	-299	6,65	14,8	6,2	49,9
1969	9581	10057	-476	6,9	19,5	14,4	37,2

SOURCES.

Interest rate on government bonds. Weighted average of rates published by IGBR (1969).

Rest: IMF, International Financial Statistics.

3. The "jump" in internal public debt accounts in 1962.

The impact of the twin deficits on the configuration of the internal public debt was clear since 1962. Besides, a big jump in the series of internal public debt was produced this year. This huge increase of the stock of debt was both the highest and the starting point of the positive cycle of internal debt during the sixties (Graph C-1 in Avella, 1988). In 1962 only, the nominal value of internal debt jumped from C\$1264.1 million to C\$3690.7 million, equivalent to a twofold increase of the stock of debt. The two main sources of this extraordinary increase were the financing of the budget deficits of 1961 and 1962, and the transformation of losses of the central bank in the exchange market into government obligations with the bank. These main sources were reinforced in 1962 by operations of conversion of external obligations into internal debt.

In practical terms, the financing of the budget deficits of 1961 and 1962 took the form of consolidation of a backlog of short-term debts of the Treasury accumulated since 1961. The government issued promissory notes for the amount of C\$962.3 million of which 87% corresponded to obligations originated during 1962²⁷. Who bought these promissory notes which offered a 4% yield, well below the 6.4% average government bonds rate? The Bank of the Republic was authorized to buy the whole issue without affecting the legal quota of the government in the Bank²⁸. In this way, the government achieved the immediate liquidation of the Treasury's backlog, and the Bank of the Republic financed the deficit not through the direct mechanism of credits, but indirectly through increased investments in government bonds.

The other major source of huge increases in the internal debt was the losses experienced by the central bank in stabilizing foreign exchange operations. These stabilizing operations were carried out after a devaluation of the national currency which increased the domestic price of the U.S. dollar from C\$6.81 to C\$9.00 in November 1962. This was thought to be the appropriate remedy for the correction of the external disequilibrium²⁹. The losses originated in such operations were registered in the Special Exchange Account (defined previously in Avella, 1988) and charged to the public debt. In December 1962 the addition to the public debt for this concept reached C\$444.5 million equivalent to 46% of the amount of bonds in circulation, and to 12% of the total internal debt.

To close the scene, credits granted to the government by the Ex Im Bank were partially repaid by the Bank of the Republic, giving origin to a new increase in the internal public debt, this time for C\$455.6 million. Altogether, the three sources just discussed amounted to an extraordinary increase of C\$1862.4 million in the nominal amount of internal public debt during 1962, equivalent to 1.5 times the outstanding stock at the end of 1961. On top of these extraordinary changes, new issues of bonds destined to finance specific projects made up the increase of internal public debt in 1962.

Given the exceptional magnitude of the change of internal debt in 1962, the series of annual changes exhibits an extreme value during that year. In our econometric discussions one of the estimated models considered the annual real changes of internal debt (as a share of GDP) as the dependent variable. The path of this variable - reproduced in Avella, 1988- presents an extremely high point in 1962, representing 7% of GDP when the average absolute value for the rest of the decade (excepting 1963) did not exceed 1%.

Interestingly, the positive jump in 1962 was followed by a negative one in 1963 due to a once-for-all jump in the annual inflation rate without precedent in the immediate past three decades. There were evident stimuli to the one-shot increase in the inflation rate.

²⁷ // The consolidation of the backlog of obligations issued in 1961 for the amount of C\$124.1 million was authorized by the Law 146 of 1961. As for the obligations issued in 1962 the consolidation was authorized by the laws 59 and 71 of 1962, for C\$238.2 million and C\$600 million respectively.

²⁸ / Law 71 of 1962, Article 1. Kalnins (1963) p. 444.

²⁹ / Missions of the IBRD, the Committee of Nine, and the IMF coincided in suggesting the adjustment of the exchange rate. The IMF recommended a direct devaluation of the exchange rate for imports to C\$9 per dollar, as well as differentiated exchange rates for coffee (C\$7 per dollar), and non-traditional exports (C\$8.85 per dollar). Kalnins (1963, p.135).

The 33% devaluation and the extraordinary financing granted to the government at the end of 1962 were not the only factors. A substantial wage increase of about 40% for most employees adopted in January 1963 added up to the exceptional inflationary pressures. By the end of 1963, the inflation rate had reached the height of 27.3%, when in the previous five years it had not surpassed 8%, and the annual change in the real stock of public debt passed from the extreme positive value of 7% of GDP in 1962 to the negative one of 1.8% of GDP in 1963. Both changes were the result of extraordinary events in 1962-63 which altered the shape of the series of internal debt.

4. Public debt and economic development.

Leading changes in the internal public debt during the 1960s were linked to ideas of social reform, development and social security. Table 72 shows the importance gained over the years by the Economic Development Bonds (EDB), the Agrarian Bonds, and the Social Security Bonds. The EDB constituted a permanent resource of government financing through the 1960s. The bonds issued under Class B reached their major importance not only for their magnitude but because they were directly placed on the capital market; by 1965 these bonds represented 97% of total EDB issues, and by 1969 still represented a clear majority with 68% of total issues. The remaining classes were mainly placed through the mechanism of forced investments in financial institutions and decentralized public enterprises³⁰.

In practice, the EDB represented a new instrument for the financing of the national government deficit rather than a mechanism for the financing of specific projects. Although increasingly used between 1960 and 1962, and again since 1966, there were no new issues in 1963-1965 (Table 72, D). During this last period authorities turned to the issue of securities of forced investment by the banking system -National Internal Bonds of 1963 (Table 72, C)-, and by the end of the decade both the EDB and these forced securities were the main bonds applied to the financing of the budget deficit. Altogether, they amounted to 33% of the bonds in circulation in 1969.

The Agrarian Bonds were continuously issued since 1962 for the financing of a program of land reform launched in 1961. Since 1963 these securities were the most important single public bonds with some 35% of total outstanding bonds. By the end of the decade, it was also clear that social security issues were representing about 20% of bonds in circulation. Altogether, these leading social programs concentrated more than a half of total bonds at the end of the 1960s.

How important were these bonds between the extraordinary changes of 1962 and the end of the decade? First, according to Table 72, V., the nominal stock of internal debt increased by C\$4682 million, which resulted from a net increase of bonds and financial system loans of C\$5148 million and an amortization of promissory notes by C\$466 million. The issues of both the agrarian and social bonds represented 35% of the net increases of bonds and financial system loans. The remaining 65% was shared by two

³⁰/ The original intention of authorities was to sell the Economic Development Bonds only in the open market, discarding financing by the Bank of the Republic. Memoria de Hacienda, 1960, p.262.

main sources of financing, namely, by bonds with 23% -the EDB issues on their own amounted to 9%-, and by credits of the financial system with 42%.

Most of the credits of the financial system (90%) were granted by the Bank of the Republic, and as in 1962, they largely corresponded to conversions of external debts into internal debts, and to the financing of the losses of the Special Exchange Account, and not to direct loans to the government; in fact, while direct loans did not represent more than 5% of the Bank's credit in the 1960s, the debt substitutions amounted to 60%, and the financing of exchange losses to 35%.

In conclusion, the securities launched in the 1960s with specific purposes of economic and social development amounted to a significant one-third of the increases in public debt. However, the predominant changes in internal public debt were associated with developments in the external sector, which led to substitutions of internal for external debt, and to charge to the internal debt the losses of the central bank in foreign exchange operations.

TABLE 72
INTERNAL PUBLIC DEBT
PERIOD 1960 - 1969
(Millions of Pesos)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
I. BONDS										
A. Salt Mines Conversion Bonds	85,1	81,8	118,2	114,1	109,4	151,9	137,3	130,5	121,6	114,4
B. 5% Consolidated National Bonds	371,1	347,3	329,2	312,9	284,8	260	235,3	213,9	183,9	157,8
C. National Internal Debt Bonds										
8% 1945 and 1957	52,9	42	30,2	17,7	3,9					
8% Law 21 of 1963					272	308	360,9	391,7	481,9	578,2
8% Decree 2466 of 1965										
D. Economic Development Bonds										
8 1/2% Classes A-B, 1960-61-62	68,5	186,5	296,2	268,5	239,2	206,8	173,1	143,7	111,4	71,6
8 1/2% Classes B-C, 1965							162,5	156	149,2	134
5% Class D, 1965								59,4	59,4	50,4
8 1/2% Class B, 1966								71,1	69,7	63,9
11 1/2% Classes B-E, 1967-68-69									244,5	428,6
Agrarian Bonds										
7% Class A, 1962-68			200	384,4	561,7	729,5	887,1	839,8	789,1	927,2
2% Class B, 1962				19,2	18,6	17,9	17,3	16,6	15,9	15,5
7% Class B, 1967-68									174,4	361,1
Municipal Security Bonds										
Non bearing interest bonds						45,1	62	47,9	46,3	42,7
6% Constant Value Bonds								149,1	390,5	664
G. Other Bonds										
5% Urban Transport Bonds								37,7	35,3	31,8
8% Cattle raising Bonds								60	60	60
6% Pro-Colombia Bonds								31,3	59,8	55,4
Non interest bearing certificates				60,7	73,1	71,2	67,7	60,9	200,3	192,6
Other Securities	2,8	2,7	2,8	2,6	7		6,5	27,4	24,7	22,2
H. Total - Bonds	580,4	660,3	976,6	1180,1	1569,7	1790,4	2109,7	2437	3217,9	3971,4

TABLE 72
(CONTINUED)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
II. PROMISSORY NOTES										
A. Public Order and Rehabilitation	143	451,5	695,8	689,9	578,5	554,3	520,9	487,4	456,6	426
B. Funding Short-term debts, Law 71/62			962,3	963,4	950,2	907,9	880,6	853,4	782,4	766,6
C. Total - Promissory Notes	143	451,5	1658,1	1653,3	1528,7	1462,2	1401,5	1340,8	1239	1192,6
III. FINANCIAL SYSTEM LOANS										
A. Bank of the Republic		42,3	962,3	973	1482	2234	1935	2756	2744	2904
B. Other financial institutions	30,8	36,6	33,3	32,8	29,3	32,7	54,6	256,7	244,8	234,8
C. Total - Financial System Loans	30,8	78,9	995,6	1005,8	1511,3	2266,7	1989,6	3012,7	2988,8	3138,8
IV. FLOATING DEBT	52,6	73,4	60,4	35	42,6	153,2	190,8	154,8	112,5	69,8
V. TOTAL INTERNAL PUBLIC DEBT	806,8	1264,1	3690,7	3874,2	4652,3	5672,5	5691,6	6945,3	7558,2	8372,6

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