

Box 1

SECTOR DYNAMICS OF COLOMBIA'S CURRENT ACCOUNT AND ITS RECENT ADJUSTMENT

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One of the main characteristics of the Colombian economy has been the persistence of the current account deficit in the balance of payments. Thus, in the 2000-2016 period, the average annual deficit was 2.5% of the gross domestic product (GDP) thereby presenting a growth trend that culminated in 2015 when it reached its peak of 6.4%. During those years, both the rapid expansion of the current deficit in 2014 and 2015 and its subsequent correction in 2016 were notable as it declined 2.1 percentage points (pp) with respect to the previous year (Graph B1.1).

The marked rise in the current imbalance in 2014 and 2015 was the result of the external shocks that the Colombian economy received. These were characterized by low commodity prices and the weak growth of the global economy that affected the foreign demand of our trading partners, the terms of trade, and therefore, the value of the country's exports. Furthermore, the permanent nature of the shocks together with their high magnitude intensified the expansion of the current deficit during those two years. However, in 2016, the Colombian foreign sector began to adjust to the new economic conditions and succeeded in reversing the growth trend of the external imbalance (4.3% of the GDP and USD 12,236 billion).

Due to the structure of the Colombian foreign sector, which has been characterized by a persistent current deficit since 2001 and a strong dependence on mining-energy activity for income from abroad, a sector analysis of the current account for the balance of payments is carried out below. To be specific, economic activity is divided between the mining-energy sector, public sector,¹ and the rest of the economy² in order to

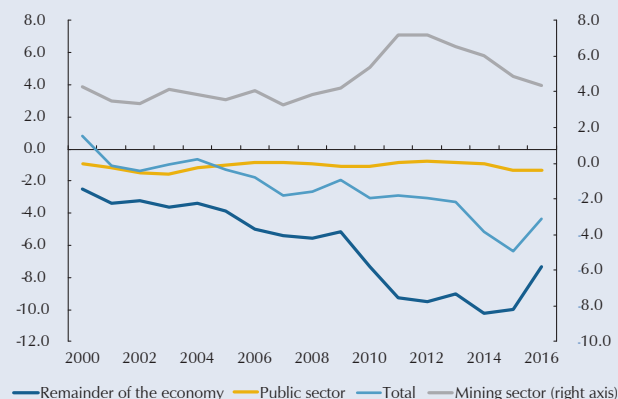
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1 This incorporates current flows from foreign trade, factor income, and transfers handled by public administration entities (ministries, military forces, and municipalities, etc.) and publicly-owned companies (not including *Ecopetrol*, *Reficar*, nor the *Federación Nacional de Cafeteros* (National Federation of Coffee Growers). Payment on interest associated with public debt securities and loans and the profits received from financial investments made abroad, including the profit from the reserve assets, is included in factor income.

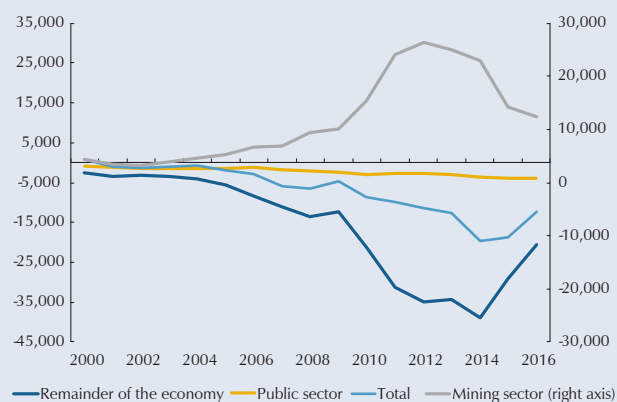
2 This includes the current transactions in the sectors of manufacturing industry, trade, restaurants and hotels, transportation, warehousing and communications, financial institutions, etc. It also includes net income from current transfers.

Graph B1.1
Current Account by Sectors Based on Balance of Payments

A. Percentage of the GDP



B. Millions of dollars



Source: Banco de la República.

bring out the importance of each in determining the current deficit and in the process of adjusting to the external shocks received since 2014.

This exercise follows the methodology proposed in López and Garavito (2013),³ whose sector estimates indicate, as do the ones in this document, that the current-account deficit has been driven by the rest of the sectors in the economy while the mining-energy sector has offset this trend since it has presented surpluses in the balance of current transactions. For the 2000-2016 period, the average annual deficit was 6.1% of the GDP for the rest of the sectors

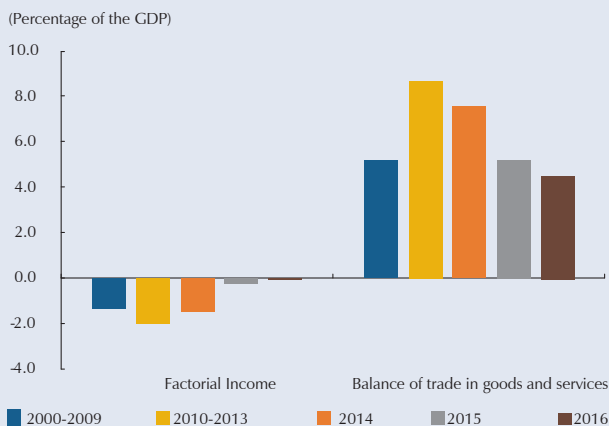
3 For more detail on the methodology see Lopez and Garavito (2013).

(Graph B1.1) while the surplus in the mining-energy sector has been 4.7% of the GDP.

The current surplus in the mining-energy sector has responded to the developments in the international prices for commodities as well as to the quantities exported. As a result, the positive balance of the current transactions for this sector increased between 2001 and 2009 as they went from 3.5% of the GDP (USD 3,436 b) to 4.2% of the GDP (USD 10,065 b) (Graph B1.1) spurred by both the high price quotes for petroleum and coal and the higher export volumes. This favorable environment for foreign sales of these products was enhanced over the next four years (2010 to 2013) thus making it possible to generate positive average balances in the current operations that were equivalent to 6.6% of the GDP (USD 22,755 b). Subsequently, the foreign shocks that have occurred since the second half of 2014 made exports from this sector more sluggish thus causing the notable reduction in the current surplus that reached 4.4% of the GDP (USD 12,354 b) in 2016.

When the current account of the mining-energy sector is divided between balance of trade and factor income (Graph B1.2), its change can be seen to have been determined mainly by the performance of foreign trade. In fact, the trade surplus has exceeded the deficit from factor income, or more specifically, the current income from exports has more than offset the pressure on the external imbalance generated by the profits of companies with foreign direct investment (FDI). Note that these two aggregates move in opposing directions throughout the price cycle for raw materials because of which one segment serves as a partial and automatic stabilizer of the other. Therefore, in a favorable global environment for exports of these types of products, the trade surplus rises at the same time that the deficit in the primary income account for the use of production fac-

Graph B1.2
Current Account Components
of the Mining-energy Sector



Source: Banco de la República.

tors that are owned by non-residents is increasing. When this environment becomes unfavorable and prices fall, the opposite happens.

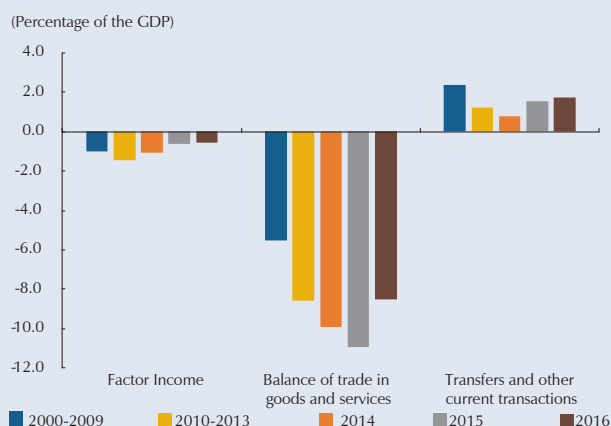
Due to the reason given above, the balance of trade and factor income in the mining-energy sector reached its highest numbers during the 2010-2013 period with a surplus of 8.6% of the GDP, on average, in the first case and a deficit equivalent to 2.0% in the second. With the terms of trade shock in 2014, there was a contraction in the balances of these two accounts which reached 4.4% of the GDP in 2016 in the case of the trade balance and the virtual disappearance of the deficit from factor income (Graph B1.2).

The surplus in the mining-energy sector has made it possible to finance the negative balance in the current account of the rest of the economy, which includes the deficit generated by the public sector. During the years from 2000 to 2016, the deficit balance of the public sector was, on average, 1.1% of the GDP and depended primarily on payments on the foreign debt interest (factor income) which, in turn, were determined by both the interest rates on the loans that had been acquired and the cumulative balance of the debt. Between 2000 and 2013, there was a slight declining trend that resulted from the combination of lower interest rates on contracted loans and the stability in the accumulated balances of the debt in dollars which went from 1.0% of the GDP (USD 951 m) to 0.8% of the GDP (USD 3,124 b). In contrast, starting in 2014, the deficit balance for the public sector has risen due, essentially, to the increased signing of new foreign loan contracts to the point that it stood at 1.4% of the GDP (USD 3,860 b) in 2016.

With respect to the current deficit of the rest of the economy, there was a growth trend between 2000 and 2016 which was notable for its marked acceleration during the 2009-2014 period and the contraction for the two years after that (2015-2016). Specifically, the current deficit of the rest of the economy doubled, going from 5.1% GDP (USD 12,180 b) in 2009 to 10.3% of the GDP (USD 38,865 b) in 2014 primarily as the result of the larger deficit in the balance of trade in goods and services (Graph B1.3). At the same time, in view of the reduction of the trade deficit and the increase in income from transfers in 2016, the deficit balance in the current account for these economic activities fell to 7.3% of the GDP (USD 20,730 b).

As has been made evident, trade balance in goods and services has been the main account for the current transactions of the rest of the sectors of the economy (Graph B1.3). Its balance sheet has been running a deficit and had reached average annual levels of 7.0% of the GDP for the 2000-2016 period. It rose progressively until it represented 11% (USD 31,911 b) in 2015 and, ever since then, it has been declining until it came to 8.5% (USD 24,074 b) in

Graph B1.3
Current Account Components of the Rest of the Economy Group



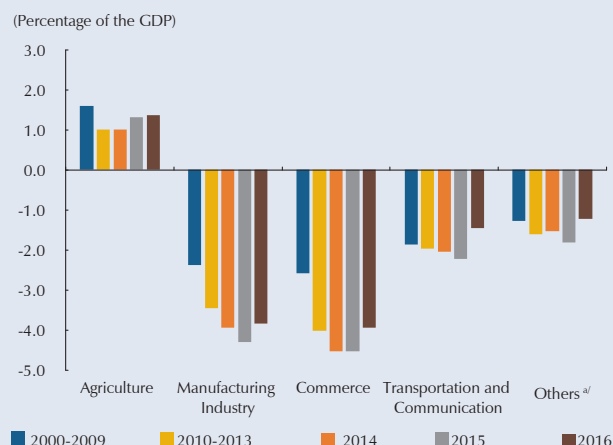
Source: Banco de la República.

2016. In contrast, the current transfers have partially offset the trade deficit since they presented an annual average surplus of 1.9% of the GDP between 2000 and 2016 of which the main component corresponds to workers' remittances sent to our country. It has been associated with the performance of the labor markets in the economies where the Colombian workers reside, a link that explains the high income received during the 2000-2009 period and their decline as a result of the lethargy in global economic growth. Finally, the net outflows due to factor income have decreased in recent years because of the lower profits registered by the companies with FDI belonging to the private non-mining-energy sector (Graph B1.3).

When the rest of the economy is broken down by economic sectors, the deficit of this group can be seen to be caused by the negative balances of the companies belonging to the manufacturing, commerce, transportation and communications sectors and partially offset by the surplus that the agricultural sector has shown (Graph B1.4). The change in the trend in 2016, the year when the different economic groups registered a reduction in their current deficit due to the downturn in the spending on imports and the effects that the slowdown in economic activity had on profits, should be noted.

In 2016, the adjustment of the Colombian economy to the external shocks meant a pronounced correction in the current account deficit of the rest of the economy. This contraction was due to the overall decline in imports in all economic areas (17% and USD 8,811 b) in spite of the fact that the decline in exports (13% and USD 4,894 b) minimized part of this effect (Graph B1.5). The sharp reduction in the value of imports arises largely from the

Graph B1.4
Current Account of the Rest of the Economy Group



a/ Includes current transfers.
Source: Banco de la República

change in purchases abroad on the part of the rest of the sectors which saw a 14% (USD 6,268 b) decline compared to 2015 and, to a lesser degree, from the fall in imports for the mining-energy sector, which declined 23% (USD 4,988 b). With regard to exports, the mining-energy sector is the one that drives the declining trend due to both its relative importance and the 23% annual (USD 4,988 b) reduction in its sales abroad; in contrast, the rest of the sectors increased their exports by 1.0% USD 100 m).

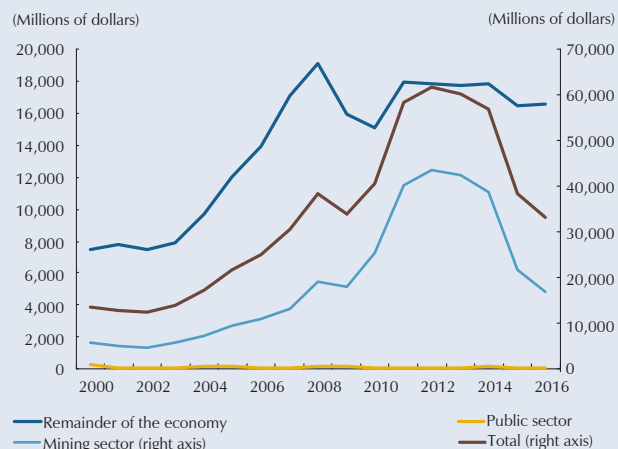
In conclusion, the current account of the country's balance of payments has registered deficits between 2001 and 2016. The sector analysis indicates that the main determinant of the deficit has been the changes in the current balance of the group known as the 'rest of the sectors' due to the fact it has structurally presented net outflows. This is due to the fact that the spending on imports by this group has responded to the trend of domestic demand and, specifically, to the investment component. Furthermore, the mining-energy sector generated current surpluses that made it possible to offset the results of the rest of the economy (including the public sector) even though its current balance has deteriorated considerably due to the fall in the prices for raw materials. Last of all, the pattern of adjustment to the external shock that the Colombian economy suffered has mainly depended on the decline in spending on imports by the economy as a whole.

References

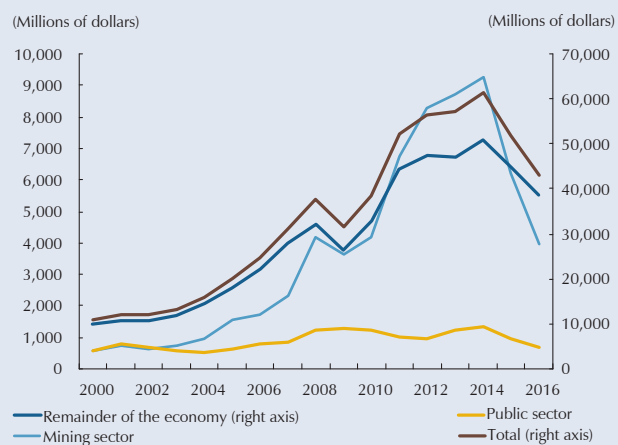
López, D.; Garavito, A. (2013), "Evolución sectorial de la cuenta corriente de Colombia y su financiación", Reportes del Emisor, no. 166, Banco de la República.

Graph B1.5
Exports and Imports by Sectors Based on Balance of
Payments

A. Exports



B. Imports



Source: Banco de la República.

Banco de la República (2015) "Box 2: Evolución de la cuenta corriente (2000-2014)", Informe de la Junta Directiva al Congreso de la República, julio, pp. 87-91.