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SECURITY INFORMATION

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COUNTRY: Colombia

DATE 7 Dec 53

SUBJECT: Banker's Comments on Economic Developments

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1. In these days of swift changes on the economic front, no business engaged in foreign trade can be run successfully without constant attention to reports from abroad. With this fact in mind we have been issuing for several years our monthly reports, which we trust have helped our friends analyze the economic situation of this country. With a view to improve this report we have asked our branches throughout Colombia to conduct a monthly survey and report to us. The material gathered in these investigations will enable us to give you a better overall picture of the situation in the different regions.

2. Although the main points will be treated in sufficient detail, stress will be laid upon concreteness so that our readers can easily profit by this information without losing much time. Needless to say, this report is prepared with the utmost care but we cannot assume any responsibility for data contained therein.

3. TAX REFORM: In our last report we mentioned that our Government had expressed its willingness to revise the tax reform. Meantime, decree No. 2317 of 8 September 1953 has been modified and the outstanding amendments are: (1) Corporations may choose between Articles 7 and 8 of this decree, which make dividends received by corporations and capital invested by them in other corporations taxable, or a flat rate of 5% on the dividends in which case capital in other corporations is not taxable; (2) The income tax of 5% payable by partnerships has been reduced to 3%; (3) The rates for taxable personal incomes have been shaved to some extent for the lower and middle income groups whereas the tax rates on large incomes remain the same as last year. The business community generally agreed that most of the discussed points were modified substantially thus lightening the tax burden created by the above mentioned decree. Likewise, financial circles welcomed a declaration of the President to the effect that the Government will adequately control expenditures and a large part of the public revenue will be spent on developmental projects which will bring social and economic benefits.

4. STOCK MARKET: The response by the stock market to the revision of the tax reform has been rather poor so far, which in part is undoubtedly due to the fact that all corporate dividends are now taxable income thus reducing the returns from these investments, at least for those in the higher tax brackets. Investors seem to feel their way carefully until trends are more firmly established.

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5. GENERAL BUSINESS CONDITIONS: According to reports from our Branches retail sales have remained at relatively low levels all over the country. On the other hand, wholesale trade is reported to be picking up as merchants are preparing for the Christmas trade. Generally there prevails an air of hopefulness that during the months to come the purchasing power will increase since the coffee harvesting is becoming general throughout the principal producing regions and consequently consumer spending is likely to rise.

6. CATTLE BREEDING AND AGRICULTURE: The civil strife that beset the country for the last years has practically come to an end and internal peace and tranquility has been returning. As a result many farmers and cattle breeders have gone back to their farms and ranches they had to abandon because of the insecurity. The immediate effect was an increase in prices of cattle since breeders had to complete their depleted herds. Another consequence by which the economy is likely to benefit is the fact that the agricultural production will increase substantially next year, thus probably producing a decline in the cost of living. Incidentally, the agricultural outlook on the whole is favorable for most staple crops such as coffee and tobacco, which are being harvested now in the principal producing areas, and rice, cotton, beans and corn to be harvested in some regions from December to February.

7. MONEY MARKET: Although the volume of coffee export business is on the upgrade and dollar earnings from these exports have been at a high level during this month, the money market continued to be very tight in spite of the slightly reduced bank reserve requirements as demand for credit is running stronger than ever. There has been no significant change in the gold and dollar holdings of the Bank of the Republic and the circulating currency as will be seen from the following table:

	15 Oct 1953	18 Sep 1953 (Thousands omitted)	19 Oct 1952
Currency in circulation	Col $541,284	544,944	412,049
Gold Reserve	US $ 98,268	98,145	72,006
Dollar Reserve	" 65,327	66,167	26,207
Special deposits abroad	" 2,221	3,274	6,892
Other deposits	" 10,000	10,000	-
Total Reserve Ratio	56.01%	56.34%	42.31%

8. FOREIGN EXCHANGE AND TRADE BALANCE: As a consequence of the movement of coffee, the foreign exchange deficit reported last month declined to about US$4½ million on 17 October, after having risen to US$8½ million earlier this month. At the same time, exports registered during this year had advanced to a record volume of US$409 million as compared with US$312 million during the same period of last year. Imports likewise continued at a high level with licenses in the amount of US$387 million registered until the middle of October.

9. BILATERAL TRADE AGREEMENT WITH BELGIUM: Through an exchange of notes on 2 October, this country entered into a new bilateral trade and payments agreement with Belgium whereby the Belgian-Luxemburgian Economic Union will issue licenses for imports from Colombia for at least Belgian francs 350 million (US$7 million) worth of green coffee and 30 thousand metric tons of bananas. Colombia undertakes to authorize imports for such commodities as not included in the list of prohibited imports. This authorization will include goods the importation of which is only permitted if they originate from nations maintaining a more or less balanced trade with Colombia. The merchandise imported by either party is not permitted to be reexported to third nations unless mutually agreed upon through a prior exchange of notes. This agreement is valid for one year from the 2nd instant.

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