

External sector I

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Please Read Me

- Check the message **Welcome greeting** published in the News Bulletin Board.
- Dear student please edit your profile uploading a photo where your face is clearly visible.
- The purpose of the virtual meetings is to answer questions and not to make a summary of the study material.
- This presentation is based on (Cárdenas Santamaría et al. 2013, Chapter 5)

Purpose

Explain the composition and determinants of Colombian foreign trade

Trade in Colombia and around the World

- Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product in a defined territory

$$Trade_t = \frac{X_t + M_t}{GDP_t} \times 100$$

- We can calculate this metric for a specific country or region and even for the World
- Also it is important so point out that $Trade_t$ can be greater than 100. Even in some countries we have that $\frac{X_t}{GDP_t} \times 100 \geq 100$ or $\frac{M_t}{GDP_t} \times 100 \geq 100$

Trade in Colombia and around the World

Trade (% of GDP) for Colombia, USA and the World

Period: 1970–2019



Source: World Development Indicators (WDI) – World Bank
Last update: 2021-09-15

Balance of payments

- The balance of payments is a “statistical statement that summarizes transactions between residents and nonresidents during a period” (Fund 2009, para. 2.12)
- It consist of the following accounts:
 - **Current account**
 - Goods and services account
 - Primary income account
 - Secondary income account
 - **Capital account**
 - **Financial account**
- In the case of Colombia you can find the balance of payments in
 - <https://www.banrep.gov.co/> > Estadísticas > Tasas de cambio, sector externo y derivados > Sector Externo > Balanza de pagos

Balance of payments

- **Current account:** “shows flows of goods, services, primary income, and secondary income between residents and nonresidents” (Fund 2009, para. 10.1)
 - **Goods and services account:** “shows transactions in items that are outcomes of production activities” (Fund 2009, para. 2.14)
 - **Primary income account:** “captures returns for the provision of labor and financial assets and renting of natural resources” (Fund 2009, para. 11.5) between resident and nonresident institutional units
 - **Secondary income account:** shows current transfers between residents and nonresidents (Fund 2009, para. 12.1)

Balance of payments

Account	2018 ^a	2019 ^b	2020 ^b
1 Cuenta corriente	-14188	-14991	-9927
Crédito (exportaciones)	68800	68324	52189
Débito (importaciones)	82988	83315	62116
1.A Bienes y servicios	-10703	-14336	-13371
Crédito (exportaciones)	53724	51324	38056
Débito (importaciones)	64427	65660	51427
1.A.a Bienes	-6541	-10053	-8981
Crédito (exportaciones)	42993	40656	32309
Débito (importaciones)	49534	50708	41290
1.A.b Servicios	-4162	-4283	-4390
Crédito (exportaciones)	10731	10668	5747
Débito (importaciones)	14893	14952	10137
1.B Ingreso primario (Renta factorial)	-11442	-9710	-5343
Crédito	6177	6983	4479
Débito	17619	16693	9823
1.C Ingreso secundario (Transferencias corrientes)	7957	9055	8788
Crédito	8899	10017	9654
Débito	941	962	866

Source: Banco de la República - Colombia

Last update: 2021-09-15

¹ Methodology: Sixth version of the Balance of Payments Manual

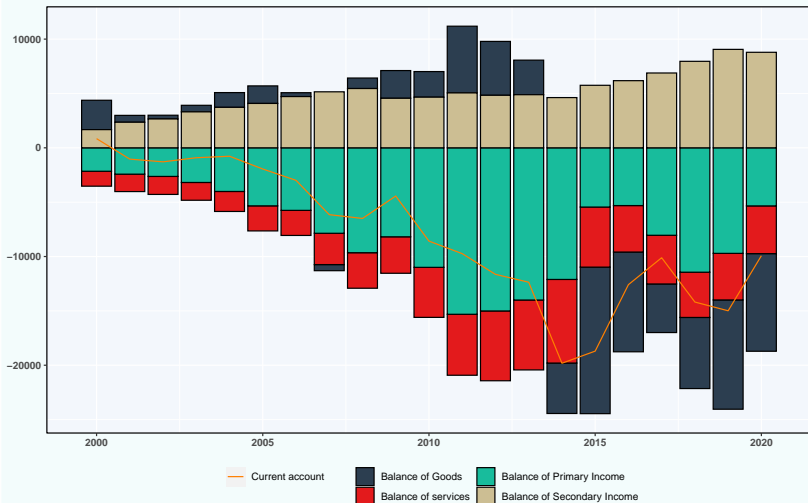
^a Provisional data (Millions of current USD)

^b Preliminary data (Millions of current USD)

Balance of payments

Current account and its components for Colombia

Variable units: Millions of USD



Source: International Monetary Fund – Balance of Payments Statistics (BOPS)

Balance of payments

- **Capital account**

- The capital account shows credit and debit entries for nonproduced nonfinancial assets and capital transfers between residents and nonresidents (Fund 2009, para. 2.16)
- The Capital account does not appear in the balance of payments of Colombia because the sources of information currently available do not allow the identification and registration of capital transfers

Balance of payments

- **Financial account:** The financial account records transactions that involve financial assets and liabilities and that take place between residents and nonresidents (Fund 2009, para. 8.1)
 - **Direct Investment:** “is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy” (Fund 2009, para. 6.8)
 - **Portfolio investment:** “is defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets” (Fund 2009, para. 6.54)

Balance of payments

- **Financial account:** “records transactions that involve financial assets and liabilities and that take place between residents and nonresidents” (Fund 2009, para. 8.1)
 - **Financial Derivatives (Other Than Reserves) and Employee Stock Options:**
 - “A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks” . . . “can be traded in their own right in financial markets” (Fund 2009, para. 5.80)
 - “Employee stock options are options to buy the equity of a company, offered to employees of the company as a form of remuneration” (Fund 2009, para. 5.96)

Balance of payments

- **Financial account:** “records transactions that involve financial assets and liabilities and that take place between residents and nonresidents” (Fund 2009, para. 8.1)
 - **Other Investment** (Fund 2009, paras. 8.42–8.54)
 - **Reserve Assets** (Fund 2009, paras. 8.55–8.57)

Balance of payments

Account	2018 ^a	2019 ^b	2020 ^b
3 Cuenta financiera	-12954	-13299	-8319
3.1 Inversión directa	-6172	-10836	-5921
Adquisición neta de activos financieros	5126	3153	1721
3.1.1 Participaciones de capital y participaciones en fondos de inversión	3656	3301	2741
3.1.2 Instrumentos de deuda	1471	-147	-1020
Pasivos netos incurridos	11299	13990	7641
3.1.1 Participaciones de capital y participaciones en fondos de inversión	9695	11579	5114
3.1.2 Instrumentos de deuda	1604	2411	2527
3.2 Inversión de cartera	862	24	-1792
Adquisición neta de activos financieros	1211	315	5747
3.2.1 Participaciones de capital y participaciones en fondos de inversión	-163	364	3075
3.2.2 Títulos de deuda	1374	-48	2672
Pasivos netos incurridos	349	291	7539
3.2.1 Participaciones de capital y participaciones en fondos de inversión	-823	-1232	-454
3.2.2 Títulos de deuda	1172	1523	7993
3.3 Derivados financieros (distintos de reservas) y opciones de compra de acciones por parte de empleados	21	84	-513
Adquisición neta de activos financieros	-473	-405	-1081
Pasivos netos incurridos	-494	-489	-568
3.4 Otra inversión	-8852	-5904	-4421
Adquisición neta de activos financieros	211	-3476	3469
Pasivos netos incurridos	9062	2428	7890
3.5 Activos de reserva	1187	3333	4328
Errores y omisiones netos	1234	1692	1608

Source: Banco de la República - Colombia

Last update: 2021-09-15

¹ Methodology: Sixth version of the Balance of Payments Manual

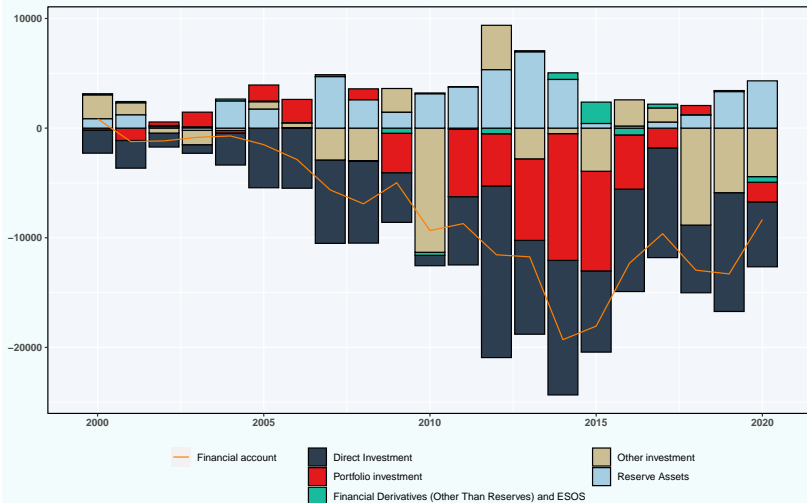
^a Provisional data (Millions of current USD)

^b Preliminary data (Millions of current USD)

Balance of payments

Financial account and its components for Colombia

Variable units: Millions of USD



Source: International Monetary Fund – Balance of Payments Statistics (BOPS)

Balance of payments

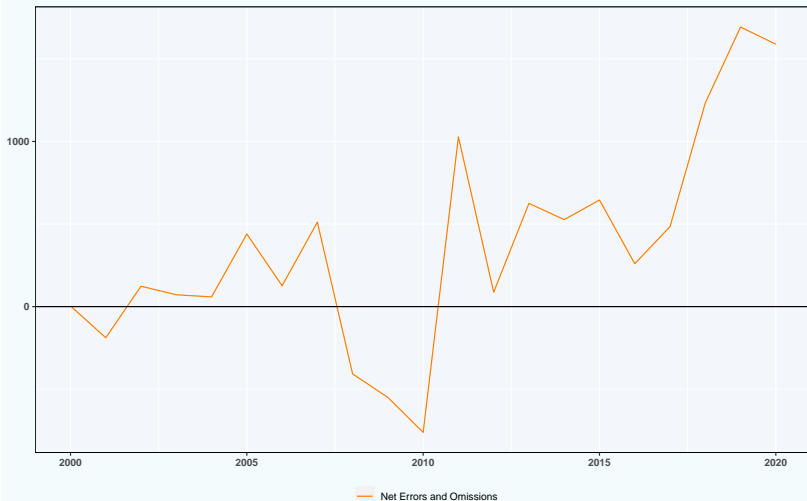
- **Net errors and omissions**

- Financial account - (Current account + Capital account) = Net errors and omissions

Balance of payments

Net Errors and Omissions for Colombia

Variable units: Millions of USD



Source: International Monetary Fund – Balance of Payments Statistics (BOPS)

Balance of payments

- **Accounting Framework**

- **Double-entry bookkeeping**

- For every transaction between an Colombia resident and the rest of the world, the balance of payments will record two entries (RBA 2021)

- **Credits (+)**

- Outflows of real resources (exports)
 - Decrease in financial assest
 - Increase in liabilities

- **Debits (−)**

- Inflows of real resources (imports)
 - Increase in financial assest
 - Decrease in liabilities

Balance of payments

- Examples taken from (RBA 2021) and adapted for Colombia
 - ① A Colombian mining company exports \$100 million of iron ore to a private Chinese steel maker
 - ② Colombian residents go on overseas to Panama and spend a total of \$5 million. The Colombian residents pay by using money deposited in their Colombian bank accounts
 - ③ Colombian resident, buys \$20 million of shares in a company listed on the New York Stock Exchange, equivalent to less than 10 per cent of the voting rights in that company. The shares are paid for using money from the resident's bank account in Colombia

Balance of payments

Account	Credit	Debit	Net
Current account	100	-5	95
Trade balance	100	-5	95
Goods	100 ¹		100
Services		-5 ²	-5
Financial account	25	-120	-95
Portfolio investment		-20 ³	-20
Other investment	5 ²	-100 ¹	-75
	20 ³		
Balance of payments	125	-125	0

*The superscripts indicate the examples' transactions

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