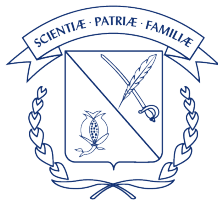


External sector I

Luis Francisco Gómez López

FAEDIS

2024-07-16



UNIVERSIDAD MILITAR
NUEVA GRANADA

Table of contents I

- 1 Please Read Me
- 2 Purpose
- 3 Trade in Colombia and around the World
- 4 Balance of payments
- 5 Acknowledgments

- 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 (Cardenas 2020, chap. 5)

Explain the composition and determinants of Colombian foreign trade

- 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 $\frac{M_t}{GDP_t} \times 100 \geq 100$



Figure 1: Trade (% of GDP) for Colombia, USA and the World

- 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 económicas > Sector externo, tasas de cambio y derivados > 1. Sector Externo > Balanza de pagos (estadísticas económicas)

- **Current account:** “shows flows of goods, services, primary income, and secondary income between residents and nonresidents” (Fund 2009, para. 2.14)
 - **Goods and services account:** “shows transactions in items that are outcomes of production activities” (Fund 2009, para. 10.1)
 - **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)

Table 1: Balance of payments current account Colombia (Annual summary)

Account	2021 ^a	2022 ^b	2023 ^b
1 Cuenta corriente	-17949	-21205	-9154
Crédito (exportaciones)	68783	93943	91476
Débito (importaciones)	86732	115148	100629
1.A Bienes y servicios	-20001	-16427	-7989
Crédito (exportaciones)	50913	73287	68286
Débito (importaciones)	70914	89714	76275
1.A.a Bienes	-13984	-12178	-6732
Crédito (exportaciones)	42736	59473	52642
Débito (importaciones)	56719	71652	59373
1.A.b Servicios	-6017	-4249	-1258
Crédito (exportaciones)	8178	13813	15644
Débito (importaciones)	14195	18062	16902
1.B Ingreso primario (Renta factorial)	-8723	-17086	-14100
Crédito	5932	6975	8777
Débito	14656	24061	22877
1.C Ingreso secundario (Transferencias corrientes)	10775	12308	12936
Crédito	11937	13681	14413
Débito	1162	1373	1477

Source: Banco de la República - Colombia

Last update: 2024-07-16

¹ Methodology: Sixth version of the Balance of Payments Manual^a Revised data (Millions of current USD)^b Provisional data (Millions of current USD)

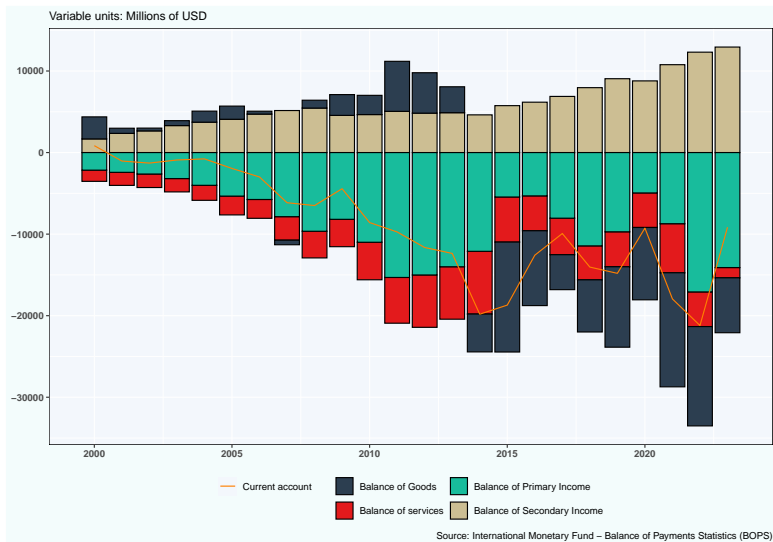


Figure 2: Current account and its components for Colombia

- **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

- **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)

- **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)

- **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)

Table 2: Balance of payments financial account Colombia (Annual summary)

Account	2021 ^a	2022 ^b	2023 ^b
3 Cuenta financiera	-16693	-20466	-8285
3.1 Inversión directa	-6381	-13799	-15972
Adquisición neta de activos financieros	3181	3384	1175
3.1.1 Participaciones de capital y participaciones en fondos de inversión	2924	2840	1610
3.1.2 Instrumentos de deuda	257	543	-435
Pasivos netos incurridos	9561	17183	17147
3.1.1 Participaciones de capital y participaciones en fondos de inversión	7076	14227	14224
3.1.2 Instrumentos de deuda	2485	2955	2923
3.2 Inversión de cartera	-4595	427	8723
Adquisición neta de activos financieros	3751	3307	9840
3.2.1 Participaciones de capital y participaciones en fondos de inversión	2340	1056	5169
3.2.2 Títulos de deuda	1411	2251	4671
Pasivos netos incurridos	8347	2880	1117
3.2.1 Participaciones de capital y participaciones en fondos de inversión	-1189	-551	20
3.2.2 Títulos de deuda	9536	3431	1097
3.3 Derivados financieros (distintos de reservas) y opciones de compra de acciones por parte de empleados	365	823	-2575
Adquisición neta de activos financieros	-419	-481	-2575
Pasivos netos incurridos	-784	-1305	0
3.4 Otra inversión	-6736	-8488	-180
Adquisición neta de activos financieros	2771	4084	4003
Pasivos netos incurridos	9507	12573	4183
3.5 Activos de reserva	654	571	1718
Errores y omisiones netos	1256	739	868

Source: Banco de la República - Colombia

Last update: 2024-07-16

¹ Methodology: Sixth version of the Balance of Payments Manual^a Revised data (Millions of current USD)^b Provisional data (Millions of current USD)

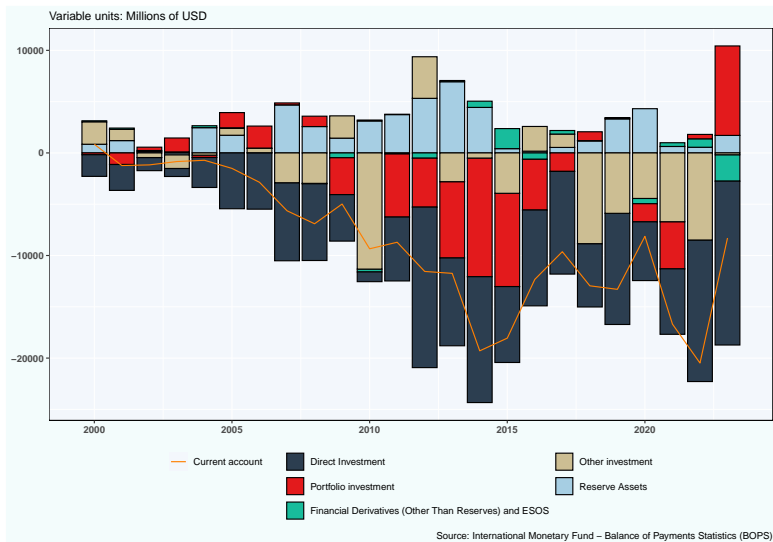


Figure 3: Financial account and its components for Colombia

- **Net errors and omissions**

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

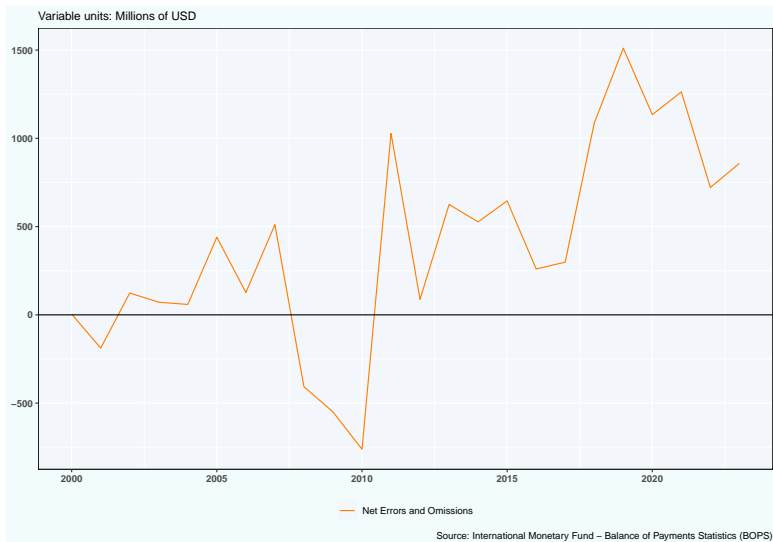


Figure 4: Net Errors and Omissions for Colombia

- **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

- 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

Table 3: Sample of 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

- To my family that supports me
- To the taxpayers of Colombia and the **UMNG students** who pay my salary
- To the **Business Science** and **R4DS Online Learning** communities where I learn **R** and **π -thon**
- To the **R Core Team**, the creators of **RStudio IDE**, **Quarto** and the authors and maintainers of the packages **tidyverse**, **wbstats**, **tidyquant**, **readxl**, **knitr**, **kableExtra**, **imfr**, and **tinytex** for allowing me to access these tools without paying for a license
- To the **Linux kernel community** for allowing me the possibility to use some **Linux distributions** as my main **OS** without paying for a license

References I

Cardenas, Mauricio. 2020. *Introducción a La Economía Colombiana*. 4th ed. Alfaomega.

Fund, International Monetary, ed. 2009. *Balance of Payments and International Investment Position Manual*. 6th ed. Washington D.C: International Monetary Fund.

RBA. 2021. “The Balance of Payments | Explainer | Education.” *Reserve Bank of Australia*.

<https://www.rba.gov.au/education/resources/explainers/the-balance-of-payments.html>.