

# 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 (Cardenas 2020, chap. 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: 1970–2020



Source: World Development Indicators (WDI) – World Bank  
Last update: 2022-06-15

# 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. 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)



# Balance of payments

Account	2019 <sup>a</sup>	2020 <sup>a</sup>	2021 <sup>b</sup>
<b>1 Cuenta corriente</b>	<b>-14808</b>	<b>-9258</b>	<b>-17892</b>
Crédito (exportaciones)	68317	52325	68361
Débito (importaciones)	83125	61583	86253
<b>1.A Bienes y servicios</b>	<b>-14146</b>	<b>-13089</b>	<b>-20308</b>
Crédito (exportaciones)	51324	38224	50553
Débito (importaciones)	65470	51312	70861
<b>1.A.a Bienes</b>	<b>-9863</b>	<b>-8870</b>	<b>-13984</b>
Crédito (exportaciones)	40656	32309	42736
Débito (importaciones)	50518	41179	56719
<b>1.A.b Servicios</b>	<b>-4283</b>	<b>-4219</b>	<b>-6325</b>
Crédito (exportaciones)	10668	5915	7818
Débito (importaciones)	14952	10134	14142
<b>1.B Ingreso primario (Renta factorial)</b>	<b>-9717</b>	<b>-4957</b>	<b>-8358</b>
Crédito	6976	4448	5870
Débito	16693	9405	14229
<b>1.C Ingreso secundario (Transferencias corrientes)</b>	<b>9055</b>	<b>8788</b>	<b>10775</b>
Crédito	10017	9654	11937
Débito	962	866	1162

Source: Banco de la República - Colombia

Last update: 2022-06-15

<sup>1</sup> Methodology: Sixth version of the Balance of Payments Manual

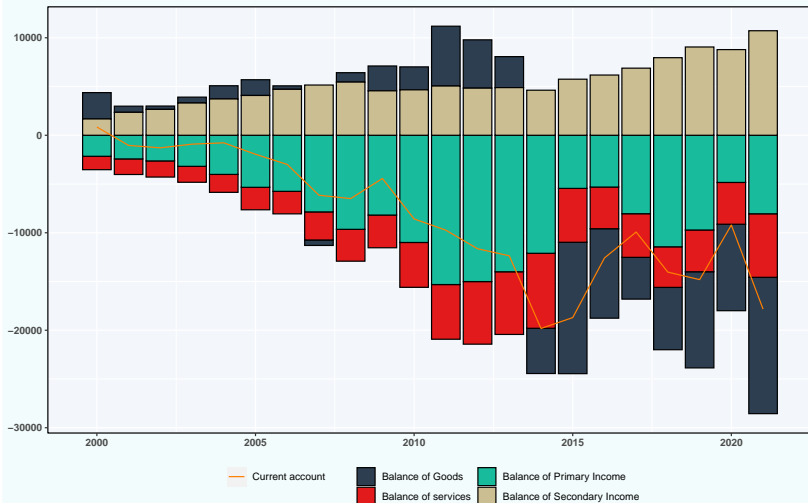
<sup>a</sup> Revised data (Millions of current USD)

<sup>b</sup> Provisional 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	2019 <sup>a</sup>	2020 <sup>a</sup>	2021 <sup>b</sup>
<b>3 Cuenta financiera</b>	<b>-13298</b>	<b>-8161</b>	<b>-16418</b>
<b>3.1 Inversión directa</b>	<b>-10836</b>	<b>-5773</b>	<b>-6148</b>
Adquisición neta de activos financieros	3153	1686	3162
3.1.1 Participaciones de capital y participaciones en fondos de inversión	3301	2706	2905
3.1.2 Instrumentos de deuda	-147	-1020	257
Pasivos netos incurridos	13989	7459	9310
3.1.1 Participaciones de capital y participaciones en fondos de inversión	11578	4932	6825
3.1.2 Instrumentos de deuda	2411	2527	2485
<b>3.2 Inversión de cartera</b>	<b>24</b>	<b>-1792</b>	<b>-4630</b>
Adquisición neta de activos financieros	315	5747	3741
3.2.1 Participaciones de capital y participaciones en fondos de inversión	364	3075	2340
3.2.2 Títulos de deuda	-48	2672	1401
Pasivos netos incurridos	291	7539	8372
3.2.1 Participaciones de capital y participaciones en fondos de inversión	-1232	-454	-1189
3.2.2 Títulos de deuda	1523	7993	9561
<b>3.3 Derivados financieros (distintos de reservas) y opciones de compra de acciones por parte de empleados</b>	<b>84</b>	<b>-513</b>	<b>365</b>
Adquisición neta de activos financieros	-405	-1081	-419
Pasivos netos incurridos	-489	-568	-784
<b>3.4 Otra inversión</b>	<b>-5904</b>	<b>-4411</b>	<b>-6659</b>
Adquisición neta de activos financieros	-3476	3485	2996
Pasivos netos incurridos	2428	7897	9655
<b>3.5 Activos de reserva</b>	<b>3333</b>	<b>4328</b>	<b>654</b>
<b>Errores y omisiones netos</b>	<b>1509</b>	<b>1097</b>	<b>1474</b>

Source: Banco de la República - Colombia

Last update: 2022-06-15

<sup>1</sup> Methodology: Sixth version of the Balance of Payments Manual

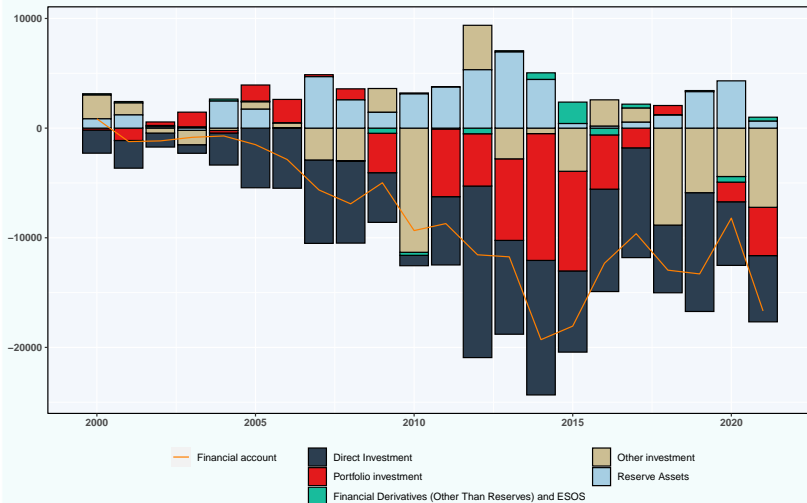
<sup>a</sup> Revised data (Millions of current USD)

<sup>b</sup> Provisional 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
<b>Current account</b>	<b>100</b>	<b>-5</b>	<b>95</b>
Trade balance	100	-5	95
Goods	100 <sup>1</sup>		100
Services		-5 <sup>2</sup>	-5
<b>Financial account</b>	<b>25</b>	<b>-120</b>	<b>-95</b>
Portfolio investment		-20 <sup>3</sup>	-20
Other investment	5 <sup>2</sup>	-100 <sup>1</sup>	-75
	20 <sup>3</sup>		
<b>Balance of payments</b>	<b>125</b>	<b>-125</b>	<b>0</b>

\*The superscripts indicate the examples' transactions

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# References

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