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# Colombia

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## COLOMBIA

*The following is a summary of recent political and economic changes in Colombia.*

President Betancur's successor, Virgilio Barco, took office on August 7, 1986, but Colombia was already experiencing changes in anticipation of the new government in May, 1986. During the last one hundred days of his administration, President Betancur attempted to complete certain large-scale projects previously suspended or postponed during the difficult years following 1982. The last 100 days of the Betancur government's administration had diverse effects on the Colombian economy. The increase in coffee sales continued and had positive effect on the external economic situation of the country. Certain controls imposed because of the critical shortage of foreign exchange were abolished or considerably softened. Moreover, the government announced that it needed only a portion of the resources placed at its disposal by international commercial banks through the integrated credit facility. On the other hand, the general decrease in the price of oil on the international market came at an inopportune time. In 1986, after an absence of over a decade, Colombia rejoined the ranks of net petroleum exporting countries. At the same time, the first substantial exports of coal were made from the Cerrejón region. The long-term market for these two products may be promising but the immediate effects will be less favorable than suggested by optimistic forecasts made a few years ago.

Despite the accelerated devaluation of the peso in 1985, the inflation rate has not increased excessively. The strong fall in the value of the dollar with respect to the yen and to the principal European currencies took the Colombian monetary authorities by surprise. This decline in the value of United States currency led to a faster decrease than forecast for the peso with respect to the yen and to European currencies. However, the relative stability in international exchange markets in the last few weeks would seem to indicate that the rate of devaluation of the peso will be more gradual in the following months, and that the rate of inflation will stabilize at around an annual figure of twenty percent. In any event, the government has ordered a decrease in interest rates and is also preparing to relax some of the administrative controls

burdening the financial markets.

### I. BANKING AND FINANCIAL SECTORS

The financial sector is experiencing difficulties. After the nationalization of the Banco de Colombia at the beginning of 1986, the government found it necessary to take control of the Banco de los Trabajadores. Official policy now seeks to stimulate the economy through a decrease in interest rates and to improve the financial sector through the Financial Institutions Guarantee Fund.

On January 22, 1986, the Monetary Board (*Junta Monetaria*) adopted a resolution ordering a decrease in interest rates. Under the resolution, interest rates may not exceed 41.12%, including commissions and banking fees. At the same time, another resolution reduced the rates applicable for ordinary and extraordinary lines of credit from the Central Bank to twenty-four percent and twenty-five percent respectively. By decree, similar reductions were also ordered in applicable rates for loans made by savings and loans associations and commercial finance corporations. Interest rates for certificates of deposit have also been reduced to 30.84% for three to twelve-month certificates; 33.68% for twelve to eighteen-month certificates and 36.59% for eighteen month certificates.

One of the positive effects of the coffee bonanza is the relaxation of certain controls previously imposed on financial institutions. The Monetary Board authorized an increase in the amount of foreign currency that financial institutions in Colombia are authorized to possess in order to meet the on-going requirements of their international financing operations (their "own position" according to Colombian terminology). Financial institutions may now acquire foreign currency from the Central Bank up to an amount equal to three percent of their liabilities in foreign currency provided that the total of their "own position," including purchases, does not exceed eight percent of their foreign exchange liabilities as of January 31, 1986.

In 1985, the Monetary Board established a special credit facility, the Central Bank, in order to finance the purchase of shares or convertible bonds issued by Colombian financial institutions. A recent resolution, however, amended the resolution that established the credit facility. The objective of the new resolution is to limit to 300 million pesos the amount of loans granted to a single natural

or legal person. The resolution also limits loans to a single person to twenty percent of loans allowed in the earlier resolution to finance the purchase of shares or bonds issued by a financial institution. The limit is fixed at thirty percent for loans to financial corporations.

## II. FOREIGN TRADE

The Colombian government has recently adopted more liberal trade policies. Several factors may have contributed to these more liberal trade policies. The increase in coffee sales and the subsequent increase in Colombia's foreign reserves have enabled the government to adopt a more relaxed attitude toward imports. Another contributing factor is the recommendation by experts from the International Monetary Fund (IMF), urging more liberal import and export policies.

During the period of economic crisis in Colombia, from 1983 to 1985, the government encouraged the establishment of special, non-monetary systems of international trade: compensation, triangulation, and barter. These non-monetary systems were severely criticized by a group of experts from the IMF who now supervise the performance of the Colombian economy. In any event, the coffee bonanza has considerably reduced the necessity of resorting to non-monetary systems of international trade.

Decree 3707 of 1985 now reduces the availability of these special systems. Compensation is now the only special system of trade permitted, subject to the approval of INCOMEX. Every compensation operation must commence with exports of Colombian goods. Imports will then be admitted only to the extent that the corresponding Colombian goods have been exported. The decree prohibits recourse to compensation mechanisms for goods exported under any special import-export regime or the export of products assembled in Colombia by virtue of a special authorization by the government. The same rule applies to the export of goods manufactured in free zones.

Exports sold through the compensation mechanism will not be eligible for benefits under the CERT programme. CERTS are certificates of tax reimbursement granted to exporters that permit their holders to pay a percentage of their taxes up to the value of the corresponding CERT.

### III. PETROLEUM AND MINING SECTORS

The fall in the price of oil on the international market has played havoc with the petroleum market in Colombia. The authorities have nevertheless revised the system of payments to foreign petroleum companies who have refineries in Colombia. The government recently introduced a tax on profits remitted abroad, dividends, interest, and royalties earned by foreign petroleum companies and has placed new private pipelines under the control of ECOPETROL, the state oil company.

### IV. NEW DECREE ON IMMIGRATION AND ISSUANCE OF VISAS

Decree 1000 of March 26, 1986 substantially modified Colombian policy regarding immigration and the issuance of visas to foreigners. The amendment is designed to impose stricter controls on the entry and departure of foreigners into Colombia and to monitor their activities during their stay. The following changes are among those introduced by Decree 1000:

a) The decree provides for the creation of a special visa for foreign investors. This new visa will be valid for a period not to exceed two years and will be issued only if the foreign investment is authorized by the National Planning Department (DNP) and proof is provided that the money or goods constituting the authorized investment have been sent to Colombia. The visa will initially be issued for a six-month period during which the investment project must be undertaken in accordance with DNP's requirements.

b) Holders of tourist visas will no longer be permitted to apply for a different category of visa during their visit to Colombia.

c) Every foreigner residing in Colombia, unless holding a diplomatic, official or service visa (a visa issued to those who work on official cooperation projects in Colombia, for example), a student or temporary or permanent business visa, must obtain the authorization of the administrative police and present a certificate from the tax authorities attesting that he does not owe any money to them before leaving Colombia, even temporarily.

d) Before obtaining a visa, foreigners who intend to work in Colombia must have their diploma recognized by the Colombian Institute for the Promotion of Higher Education (ICFES), or if they do not have higher education qualifications, must obtain rec-

ognition of their professional or trade qualifications by the appropriate Colombian institution.

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