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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

A REVIEW OF THE CAPITAL MARKET
IN COLOMBIA

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SUMMARY

1. The economic structure of Colombia has been changing during the last decades. Industries have been developed and with growing industrialization the organization of a capital market has become more complex. The oldest financial institutions in Colombia are the commercial banks, some of which have operated nearly one hundred years and enjoy a good reputation. In the inter-war period a Central Bank was set up, a Central Mortgage Bank and an Agricultural Credit Bank were established and a Stock Exchange in Bogota organized. Various other financial institutions were established since World War II.

2. Industrial development, which received its first impetus during the First World War, has continued with various degrees of emphasis ever since. When the prices of coffee began to decline attention was focused on diversifying the economy and the government pursued a policy of making it less dependent on coffee, the country's main export. Industrialization and increasing concentration of the population in urban areas required substantial investment in transportation and public utilities, particularly electric energy and in housing.

3. The annual rate of growth of the gross national product was estimated at 4.6 per cent on the average during the period 1925-53.^{1/} It was higher during the first ten years of the post-war period, declined when the price of coffee fell but reached nearly 6 per cent in 1959. The share of industrial production in the gross national product, which was only 10 per cent in 1925, increased to 25 per cent in 1959.

4. The rate of gross fixed investment as a proportion of the gross national product was estimated at about 24 per cent for the period 1925-29,^{2/} declining to about 14 per cent during 1930-44 and reaching about 18 per cent during the years 1945-53. The rate was again more than 20 per cent in the years 1953-56 and has been around 17 per cent in recent years.

It should be noted that this rather satisfactory rate of investment continued also through the period of inflation and devaluation, which indicates that the investors had learned how to invest their savings even when purchasing power of the Colombian currency was greatly declining.

5. Analysis of the sources from which the investment has been financed discloses the weaknesses and strengths of the Colombian financial structure.

^{1/} The net annual population increase averaged 2.1 per cent during this period.

^{2/} During these years the new inflow of foreign capital was relatively high representing about one-eighth of the gross fixed investment. (See Chapter I.)

6. Throughout the period, about 30 per cent of the investment was in the public sector, the bulk of it in transportation and public utilities. The major part of this investment was financed from revenue surpluses, and from some borrowing abroad but at times also through inflationary borrowing. In the last two years the government financed investment of about C\$1,000 million yearly, mostly from revenue surpluses, without increasing the domestic public debt. It should be pointed out that as distinct from the government, the districts and municipalities have not been in a position to raise funds for investment either through revenue surpluses or through borrowing in the market.

7. The next largest part of investment which can be identified is in industrial enterprises. It was financed from paid in capital (by issuing shares) and increasingly from retained earnings and depreciation. The joint stock companies became popular and a market for corporate securities developed.

8. As to the financing of investment in other sectors, the following can be said. Agriculture has been suffering from lack of long term credit. Investment in housing, both residential and commercial, is popular with the wealthy, and mortgages for houses have been available either from the Central Mortgage Bank or from private investors charging high rates (about 2 per cent per month). However, housing for the lower income classes has suffered from lack of funds.

9. One very important feature characterizes the whole picture of the capital market in Colombia, namely the small amount of savings accumulated at financial institutions. Although the amount has increased in the last two years, the annual accumulation is still only about 1 per cent of national income. This small annual increase in transferable savings is one of the main causes of the lack of medium and long-term credits and explains why no market for government bonds has been developed.

10. Because of the very slow increase in transferable savings and also to provide cheap funds for agriculture and housing, the government has issued regulations for compulsory investment. The compulsory investment schemes apply to the bulk of savings accumulated at savings banks, insurance companies and capitalization companies. Under these regulations the funds have to be invested in government securities, mortgage bonds, agricultural bonds and industrial bonds. This scheme is equivalent to rationing of scarce funds but because of the small amount of savings, no great help can be provided to any sector by changing the proportion of savings to be invested in it.

11. The Central Bank has endeavored to promote medium-term credit by giving preferential rediscount rates to banks which make loans up to a five-year term for activities regarded by the government as deserving high priority. The Central Bank provides funds for investment by extending the term of part of the rediscounts up to five years (in a few cases, up to ten years) and by investing in securities of the government and the non-commercial banks. As a whole, loans from the banking system have supplied

a substantial amount for investment. This expansion of credit at times intensified inflationary pressures.

12. It should be pointed out that the Central Bank and the commercial banks supplied funds in various forms for newly established financial institutions by subscribing to their shares, buying their fixed income securities and making loans to them. This applies particularly to the Agricultural Credit Bank and the Central Mortgage Bank. The funds furnished for assistance to financial institutions came partly from real capital formation of the banking sector but partly from expansion of credit, which added to inflationary pressures in the postwar period.

13. For a long time, the rates of interest charged by financial institutions have been governed by the policy and detailed directives of the Central Bank and by compulsory investment schemes. Rates on loans for economic development have been for all practical purposes subsidized by the low rate of rediscount (3 per cent) charged by the Central Bank. An element of subsidy is included in the compulsory investments, particularly in the 4 per cent agrarian bonds. Although subsidizing important sectors of the economy is understandable and can be justified, the question remains whether manipulating the rates of interest is the best way to achieve the desired object.

14. The development of the capital market in Colombia has been lopsided. There are well-functioning markets for corporate securities in Bogota and Medellin with transactions carried out throughout the country. However, no market exists for fixed income securities, except for the mortgage bonds issued by the Central Mortgage Bank and the recently issued corporate bonds. The situation can be illustrated by the fact that in 1960 the total amount of outstanding internal government debt represented only about 13 per cent of the market value of shares. Until recently, the issues of government bonds were placed through compulsory investment schemes, often at low rates. It is not surprising that government bonds had no attraction for investors.

15. The remedy for this situation and for developing a market for public securities is a steady and growing increase in transferable savings. Now, when confidence is being created in the government's financial policy and the fear of another currency devaluation is subsiding, it should be possible by concentrated action gradually to increase the rate of transferable savings, particularly as the national income is rising. Although the very uneven distribution of the national income still existing is not conducive to such an increase, the newly emerging middle class, and growing number of industrial workers might well put their money in institutions collecting savings.

16. In general, Colombia does not suffer from lack of financial institutions. In addition to the banks mentioned previously, life insurance companies have operated in Colombia over an extended period. Of more recent origin are some of the specialized institutions, such as Banco

Cafetero, Banco Ganadero, Banco Popular and Financieras. Nevertheless the sector of savings has been neglected which was understandable during the periods of inflation. With the situation changed, much more could and should be done in this field. It is up to the government to start a real campaign for the promotion of savings. This could mean establishing more branches of savings banks and perhaps setting up new specialized institutions. If a system of savings banks could be organized similarly to the postal savings banks that have been very successful in various countries in Europe and Asia, this might be a very promising and efficient instrument for mobilizing savings.

17. If the country succeeds in increasing the yearly accumulation of transferable savings, several problems might be solved. The financial institutions will have a steady flow of funds which could be invested in public securities and a basis will be then established to develop a market for them. Furthermore, in due course the system of compulsory investment might be abandoned and the rate structure adjusted to the market situation.

18. Colombia possesses the potential of developing a balanced capital market. There are a number of well-working financial institutions and corporate securities have become a popular medium of investment. With proper action taken on all sides it should be possible to increase the annual accumulation of transferable savings and to develop a market for public securities, which has been missing until now.

CHAPTER I

ECONOMIC DEVELOPMENT AND INVESTMENT

1. The most important features of the economic development of Colombia during the last decades are: growing industrialization, a substantial increase in transportation and public utility services and a gradual rise in the proportion of the urban population. The rate of growth in gross national product and the rate of gross investment have been relatively high during most of the period.
2. Statistical and other valuable information covering the period 1925-53 was collected by the Secretariat of the Economic Commission for Latin America and published in the report, "The Economic Development of Colombia". ^{1/}
3. The population of Colombia increased from 5.5 million in 1925 to nearly 15 million at present; the annual net increase was 2.1 per cent during the period 1925 to 1950 and about 2.8 per cent in the last nine years.
4. It is estimated that during the period 1925-53 the annual rate of growth of the Colombian economy was 4.6 per cent in terms of the gross product, the rate was 5.9 per cent in the postwar period 1945-53^{2/} and after declining during the years 1955-58, it reached nearly 6 per cent in 1959 and probably a little more in 1960.
5. The ECLA Report contains the following information on the gross national product and on the aggregate amount of capital formation during 1925-53:

GROSS NATIONAL PRODUCT AND GROSS FIXED INVESTMENT 1925-53 ^{3/}
(values in millions of pesos at 1950 prices)

	<u>1925-29</u>	<u>1930-44</u>	<u>1945-53</u>
Gross national product	2,583	4,388	6,203
Gross fixed investment	679	641	1,137
Inflow of foreign capital	198	94	126

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- ^{1/} United Nations, Department of Economic and Social Affairs, Geneva 1957.
 - ^{2/} During this period the per capita gross product rose by 2.4 per cent yearly.
 - ^{3/} "The Economic Development of Colombia", page 131.

6. A new series of statistical data on national income (see table below) makes it possible to compare the recent development with that discussed in the ECLA Report.

GROSS NATIONAL PRODUCT AND GROSS FIXED INVESTMENT 1950-59
(values in millions of pesos at 1958 prices)

	<u>1950</u>	<u>1953</u>	<u>1956</u>	<u>1959</u>
Gross national product	14,581	16,923	19,391	21,688
Gross fixed investment	2,723	3,891	4,686	3,609

Thus in the ten years, 1950-59, the gross national product increased by about 48 per cent.

7. The amount of gross investment as percentage of gross national product reached more than 20 per cent during the three years 1954-56 (it was 25 per cent in 1955) and declined to about 17 per cent afterwards as a result of a decline of export prices for coffee. To attain the relatively high rate of growth, an adequate rate of investment and savings was required.

8. However, data on the sources of financing of the investment are inadequate. The ECLA Report provides the following information for the 1925-53 period: *

FINANCING OF GROSS FIXED INVESTMENT

	<u>1925-29</u>	<u>1930-44</u> per cent	<u>1945-53</u>
1. Financing with internal resources			
a) public savings	12.7	12.6	17.5
b) private savings	<u>74.6</u>	<u>99.1</u>	<u>81.6</u>
	87.3	111.7	99.1
2. External financing (net inflow)	12.7	-11.7	0.9

* For the more recent years see Chapter IV.

9. The public savings consisted of revenue surplus and net borrowing in each of the periods. As explained in Chapter III, the annual increase of savings at financial institutions was very small throughout the period and thus no significant funds were available for investment in government

securities. "The essential aim of government policy has obviously been to obtain funds not by means of stimuli to voluntary savings, but on the basis of measures to enforce investment." 1/ These measures, while providing somewhat more funds for public investment reduced the funds which might have been used for other investments. As a substantial part of the government debt was held by the Central Bank, the raising of funds in this way generated inflationary pressure.

10. No market (voluntary) for government securities was created nor were serious attempts made to develop one. Most of the public investment was spent on transportation and public utilities.

11. Although the amount of public investment and the means by which it was financed were calculated, the aggregate data for the period 1929-53 on the composition of total fixed gross investment reveals only the composition of investment by type of investment and activity (see Table 1a). However, no identifiable sources for the financing of private investment are given, except information concerning the financing of corporations (joint stock companies).

The sources of funds of Colombian corporations were:

	1941-45	1946-52 (Percentages)	1952
1) Internal:			
Undistributed profits	12.8	11.5	13.9
Depreciation	<u>8.9</u>	<u>10.4</u>	<u>14.8</u>
	21.7	21.9	28.7
2) External:			
Capital in shares	44.5	33.7	27.9
Creditors	30.9	35.4	29.0
Special funds	2.1	2.9	5.7
Miscellaneous	<u>0.8</u>	<u>6.1</u>	<u>8.7</u>
	78.3	78.1	71.3

As the table shows, the proportion of internal funds increased sharply in 1952, and together with new paid-in capital financed about 56 per cent of

1/ "The Economic Development of Colombia", page 99.

total requirements in that year. This trend has continued ever since. (See Chapter IV.)

12. The changing structure of the Colombian economy and the high rate of growth of manufacturing, transport and public utilities is indicated by the figures giving the rates of growth of the various sectors of the economy.

AVERAGE RATE OF GROWTH OF PRODUCTION OF GOODS AND SERVICES *

	Per cent	
	1925-53	1944-53
Agriculture and livestock	2.9	2.7
Mining	8.1	5.7
Manufacturing	7.7	9.2
Transport	9.1	13.7
Public utilities (incl. energy)	8.7	12.7

* Source: "The Economic Development of Colombia", U.N. Geneva, 1957 page 16.

13. The proportion of the urban population in the total population went up -- mainly as a result of industrialization -- from 23 per cent in 1925 to 43 per cent in 1953 and has been growing ever since. The contribution of agricultural production to the gross national product declined from nearly 60 per cent in 1925 to 37 per cent in 1955 and to about one-third in 1959. The active population employed in agriculture which was 69 per cent of the total active population in 1925 dropped to less than 50 per cent in 1959.

14. The growth of the industrial sector is indicated by the following figures: the share of the industrial sector (including mining) of the gross national product which was only 10 per cent in 1925, reached 22 per cent in 1953 and 25 per cent in 1959.

15. The first impetus towards a development of industries was given by the shortage of goods during World War I. During the period 1930-33, a new drive for industrial development started, and by 1934 most of the basic industries were launched. Another strong impetus was given to industrialization by the shortage of imported goods during World War II and Colombia's inability to start producing them because of the lack of basic industries. The decline in the price of coffee in recent years has strengthened the efforts towards diversification of the economy with emphasis on industrialization.

21. With the expansion of the industrial production, institutions have been developed to provide financing, particularly for the corporate sector (joint stock companies). The most widely used method of financing industrial enterprises since the thirties has been the sale of common stocks of privately-owned corporations. 1/ In the absence of investment banks, the placing of securities relating to the erection of new or the expansion of existing enterprises has been effected through channels other than the stock exchange, chiefly by direct placement through negotiations, among the most important groups of investors. The same applies to an increase of the capital of companies already in existence.

22. The principal function of the stock exchange has been to create a market permitting the negotiability and liquidity of the outstanding securities. Transactions on the Bogota stock exchange, which was established in 1928, developed at a rapidly increasing rate from 1933 onwards. The basic role in this expansion was played by the issue of shares, mainly by industry. Furthermore, a very substantial trade in industrial shares has developed in Medellin handled by a Stockbrokers Association. The number of corporations increased steadily and so did their paid-in capital. (See Table 18a.)

23. It should be added that private foreign investment has assisted in developing various industries and this trend continues.

24. The organization of corporate financing has been the outstanding feature in the development of the capital market in Colombia. No similar progress has been made in other fields whether public or private, except the cédulas issued by the Central Mortgage Bank which found acceptance by investors. It should be added, however, that the government succeeded in financing a substantial amount of investment which was particularly sizeable in transportation and public utilities. The funds for this investment were obtained to a large extent from revenue surplus but also through inflationary borrowing. Without this investment, which was not based on voluntary saving, the expansion of industries would not have been possible.

25. There is no doubt that the form of savings and investments was influenced by a continuous rise in prices as a result of inflation. The cost of living index rose by 172 per cent between 1940 and 1949 and by about 84 per cent between 1950 and 1959. The increase of the cost of living as experienced since 1940 was certainly a deterrent or an obstacle to savings in the form of savings deposits, life insurance or investment in fixed securities. A relative price stability was achieved in the last three years when the cost of living index rose by only about 10 per cent.

1/ Joint stock companies have not been popular in the southern part of Colombia, particularly in Cali.

CHAPTER II

FINANCIAL INSTITUTIONS

Introduction

26. The history of Colombian legislation is crowded with experiments in the establishment and operation of various financial institutions. Some of them, the commercial banks and insurance companies, have been in existence for almost a hundred years.

27. Several financial institutions have been sponsored by the government and financed by compelling the existing financial institutions to subscribe to their capital. In 1928 the government issued a law for the promotion of savings and provided funds for the establishment of several savings institutions. This was an important step toward creating an institutional framework for channelling of savings.

28. The oldest financial institutions in Colombia are the private commercial banks, which have acquired a good reputation. In addition to normal banking business, some of them have organized saving departments, the most successful in this field being the Banco de Colombia.

29. Two important semi-governmental institutions were established in the thirties; the Banco Central Hipotecario and Caja de Credito Agrario. Banco Central Hipotecario was organized for the special purpose of providing loans against real estate mortgages. It has been, on the whole, successful. This institution introduced in the market the mortgage "cedula" which being quoted regularly on the Bogota Stock Exchange has become a popular security among institutional and private investors. Caja de Credito Agrario was organized as a bank for promoting credit to small farmers. The scope of its operations has expanded and it plays a prominent role in the collection of small savings.

30. In recent years, various specialized banking institutions have been established. These include: Banco Popular, to make loans to small industries; Banco Ganadero, to finance the livestock industry; Banco Cafetero which, although organized by the coffee-growers, is being developed as a commercial bank, and Banco Bananero, established a few months ago, to provide loans to banana growers.

31. At the end of 1959, there were 24 banking institutions of various types, with 1,045 branches and agencies, of which 17 were private commercial banks with 533 offices. From 1947 to 1959, the number of banking offices increased by 600.

32. Insurance companies are also an old institution in Colombia, but they have not been very successful in the life insurance field. In 1947, Colombia had 26 insurance companies, including life insurance, and by the

end of 1959 this number had increased to 70. In addition to their insurance operations, some life insurance companies have set up, in recent years, subsidiary companies called "sociedades de capitalizacion" to promote savings through the purchase of savings certificates (cedulas de capitalizacion). This form of investment has become more popular than life insurance because it combines a lottery feature with savings.

33. An Industrial Development Institute was organized as a government institution in the early 'forties to help financing of new industries, mainly through equity investments. Its success has not been overwhelming.

34. In the last two years, the trend has developed towards organizing a new kind of financial institution, called "Corporacion Financiera", with the aim of financing the establishment of new enterprises and the expansion of old ones, through loans and equity investments.

35. The relative importance of the various financial institutions can be judged by the amount of their total assets held at the end of 1959:

(C\$ million)

Commercial Banks	4,301.9
Mortgage Banks	904.3
Caja Agraria	1,457.7
Banco Popular	377.6
Banco Ganadero	111.7
Banco Cafetero	611.7
Insurance Companies (life and general)	508.5
Capitalization Companies	121.4 ^{1/}

^{1/} Assets held by the capitalization department of Banco Central Hipotecario are included under mortgage banks.

A. COMMERCIAL BANKS

Commercial Banks Proper

36. At present, there are 17 private commercial banks, of which 12 are Colombian-owned and 5 are branches of foreign banks. Some of these banks have been in operation for almost one hundred years, as in the case of Banco de Bogota (established in 1870) and Banco de Colombia (established in 1875).

37. It was in 1923 that Colombia enacted a law for the regulation of banking. Commercial banks were defined as institutions which can receive deposits, make loans, not exceeding a term of one year, and discount promissory notes, drafts and bills of exchange not exceeding a one year term. In later years most of the commercial banks have been authorized to operate other departments with different functions, including accepting savings deposits and mortgage lending. In effect, commercial departments were

established for short-term banking operations, savings departments for medium-term operations and mortgage departments for long-term loans.

38. A Law issued in 1936 provided for a minimum required capital for commercial banks related to the size of the population of the cities in which the banks were located.^{1/}

39. The commercial banks are empowered to receive demand deposits, to make short and medium-term loans, to discount negotiable documents of credit and to invest in interest earning securities up to an amount equivalent to 10 per cent of their paid-in capital and reserves - except for government bonds. Furthermore, these institutions may subscribe, buy and hold shares of corporations engaged in general warehousing business provided that such investment will not exceed an amount equivalent to 5 per cent of the paid-in capital and legal reserves.

40. When specifically authorized by the Superintendent of Banks the commercial banks may operate a savings department. The operations of savings departments are subject to separate regulations providing that part of the capital of the bank has to be allocated to such department in proportion to the savings deposits.^{2/} Also the investments of the savings department are segregated and subject to special provisions according to fixed proportions established by the regulations of compulsory investment explained in another chapter of this report.

41. Before 1950, the commercial banks provided loans at no more than one year terms, but since then they were authorized to make loans up to five years for approved activities dealing with investments in agriculture, livestock and industry.

42. The legal required reserve against deposits is fixed by the Board of the Banco de la Republica (the Central Bank). (For details see Chapter VI).

43. As the table below shows, the operations of the commercial banks have grown greatly during the period 1935-1960. Thus for example, the total assets in current pesos have gone up 35 times during this period. The real growth, however, would be much less if the effects of inflation and devaluation on the price level were taken into account.

^{1/} For example, in cities up to 40,000 inhabitants, the minimum capital is C\$ 50,000 and in cities with more than 150,000 inhabitants, the amount is C\$ 300,000.

^{2/} Thus for deposits up to C\$ 249,000, a capital of C\$ 25,000 is required, for deposits from C\$ 250,000 to C\$ 499,999 a capital of C\$ 50,000 and for deposits over C\$ 500,000 the minimum capital must be equivalent to 10 per cent of total deposits.

Comparative Balance Sheet of Commercial Banks*

(Million Pesos)

<u>Assets</u>	<u>1935</u>	<u>1940</u>	<u>1950</u>	<u>June</u> <u>1960</u>
Cash in vaults and deposits at Banco de la Republica and other banks	18	28	92	538
Loans and discounts	47	77	608	2189
Investments	27	25	69	420
Various debtors	n.a.	n.a.	44	318
Shares of Banco de la Republica	4	4	14	65
Other assets	<u>23</u>	<u>28</u>	<u>106</u>	<u>488</u>
TOTAL	119	162	932	4138
 <u>Liabilities</u>				
Demand deposits (checks))	65	111	488	2313
Sight and term deposits)				
(foreign currency))			135	61
Saving deposits	5	7	10	198
Borrowing from Banco de la Republica	2	5	138	400
Paid-in capital and legal reserves	28	29	106	480
Other liabilities	<u>17</u>	<u>10</u>	<u>53</u>	<u>686</u>
TOTAL	119	162	932	4138
<hr/>				
Currency in circulation	71	90	489	1293

* Revista del Banco de la Republica

Specialized Commercial Banks

Banco Cafetero

44. This bank was established in September 1953 as a private commercial bank to make loans for the production, transportation and export of coffee and other agricultural commodities. The initial capital of the bank was C\$ 50 million, fully subscribed by the National Coffee Growers Federation,^{1/} as the sole shareholder. In November 1954 the capital was increased to C\$ 100 million and later on to C\$ 150 million, of which C\$ 108 million had been paid as of June 1960. With this increase in capital, the Banco Cafetero has become a very strong financial institution. At present its paid-in capital amounts to one-third of the consolidated capital of commercial banks and to more than one-seventh of the consolidated capital of the Colombian banking system. The bank operates 50 branches.

45. The objectives of this bank are: (a) to provide loans to small farmers for resettlement on larger farms in new land reclamation areas; (b) to provide loans to replace existing non-banking loans at high rates of interest; (c) to maintain a relatively low rate of interest on its loans.

46. The importance of this bank is shown by the following figures of the balance sheet at the end of June 1960, total assets - C\$ 653 million: (a) loans and discounts - C\$ 360 million; (b) investments - C\$ 58 million; (c) demand deposits - C\$ 192 million; (d) saving deposits - C\$ 39 million; (e) borrowing from Banco de la Republica - C\$ 77 million; (f) paid-in capital and reserves - C\$ 130 million.

47. Until now the Board of Directors of the Bank consisted of 5 members, of which 3 represented the Coffee Growers Federation and 2 were appointed by the President of the Republic. However, on December 30, 1960, the bank, owned by the Coffee Growers Federation, has also become completely private, the Coffee Growers Federation appointing all members of its Board.

Banco Ganadero

48. Banco Ganadero (Bank of stock raising farmers) was created in 1956 as an official institution for the development of the livestock industry, with an authorized capital of C\$ 20 million subscribed by the Stabilization Fund. It was organized as a commercial bank, specializing in loans to livestock corporations. This specialization was stressed once more when the government compelled the Bank to make loans to livestock associations in an amount equivalent to 50 per cent of its capital and reserves, plus 3 per cent of its deposits.

49. In 1959, a new law provided that the capital of the bank had to be increased to C\$ 100,000,000, divided into ten million shares of C\$ 10 each. The total capital was to be subscribed and paid-in as follows: C\$ 80 million by the private sector and C\$ 20 million by the government. In order

^{1/} The Law of 1953 provided that the paid-in capital of Banco Cafetero should be taken out of the compulsory contribution of the National Coffee Growers Federation to "Fondo Cafetero".

to obtain the capital from the private sector, the government compelled the livestock owners to subscribe to the shares of Banco Ganadero by means of a compulsory annual contribution equivalent to $\frac{1}{2}$ per cent of the amount of the livestock property value.^{1/} This contribution is being collected through the fiscal agencies of the government. Another compulsory means to obtain the subscription to the bank's capital was a legal provision requiring that any person or enterprise which received loans in excess of C\$ 20,000 should subscribe to the shares in an amount equivalent to 1 per cent of the loans obtained from Banco Ganadero.

50. The loans made by the bank have to be allocated in the following proportions:

- a) up to 50 per cent of its funds for breeding of cattle, water supply, poultry and fishing and land improvement for the livestock industries;
- b) up to 10 per cent of its funds to livestock associations;
- c) up to 10 per cent for fattening of cattle, and
- d) the remaining 30 per cent mainly to small industries^{2/} dealing with production of commodities derived from the agriculture and livestock.

51. The bank operates a technical assistance department for the control and inspection of loans.

52. The balance sheet of the Banco Ganadero at the end of December 1959 shows the following figures, total assets - C\$ 112 million; (a) loans and discounts - C\$ 56 million; (b) investments - C\$ 22 million, (c) total deposits - C\$ 34 million; (d) borrowing from Banco de la Republica - C\$ 35 million; (e) paid-in capital and reserves - C\$ 70 million.

Banco Popular

53. Banco Popular was created in 1950 at the initiative of the Mayor of Bogota, and was initially organized to operate as a pawnshop (monte de piedad). One year later it was authorized to operate as a commercial bank specializing in loans to small industry. At that time, in order to keep the bank oriented toward the development of small industries, the government subscribed to shares amounting to C\$ 5 million and the "Departamentos" (a political subdivision of the government) and municipalities, in which agencies or branches of Banco Popular were established, were authorized to subscribe to capital shares in amounts equivalent to not more than 3 per cent of their annual budgets during a period of five years.

^{1/} Net value of the property is equal to the market value of the property minus outstanding debts on such property.

^{2/} With a capital of less than C\$ 500,000.

54. The need to provide medium-term loans for industrial development compelled the government, in 1952, to widen the scope and the sources of the funds of the institution. Thus, the bank was authorized to issue industrial bonds and to make mortgage loans on a five year term. The capital was increased by transferring assets from the "Fondo Cooperativo Nacional" and C\$ 500,000 from the "Corporacion de Defensa de Productos Agricolas".

55. The next important step taken by the government in support of the operations of the bank was the requirement that the official and semi-official institutions maintain 50% of their deposits at Banco Popular. Also, the bank was authorized to subscribe to the share capital of other banks making loans to small industries; this investment was limited to 15% of its own capital and reserves.

56. From 1955 to 1957 the bank was involved in serious financial difficulties arising from poor management. Its losses had amounted to C\$ 37.5 million, while its paid-in capital was only C\$ 14.6 million.^{1/} In order to restore confidence in the institution, the government, in 1958, guaranteed the bank's current account and saving deposits up to C\$ 90 million. Furthermore, the government deposited, at Banco Popular, part of its cash balances.

57. The most important figures shown by the June 30, 1960 balance sheet are, total assets - C\$ 386 million: (a) loans and discounts - C\$ 150 million; (b) investments - C\$ 59 million. (c) demand deposits - C\$ 111 million; (d) saving deposits - C\$ 189 million; (e) borrowing from Banco de la Republica - C\$ 0.8 million; (f) paid-in capital and reserves - C\$ 44 million.

58. Since Banco Popular was the only institution providing credit for small industry and in view of the new policy of depositing government funds with such institution, the government encouraged banks to establish special departments of "Credito Popular". The government agreed to make official deposits at banks with such departments as an additional source of funds for financing a proportion of their loans to small industry. The government deposits would be up to an amount equal to the amount that the bank would allocate from its own resources to its department of "Credito Popular". However, the overall official deposits at such institutions are not to exceed 10% of the average official deposits of the government at Banco de la Republica during the previous year. As the monthly average of official deposits at Banco de la Republica during the twelve months included from July 1959 to June 1960 was C\$ 169.2 million, it may be assumed that the

^{1/} Informe de la Superintendencia de Bancos, 1958.

total amount available for the purpose of loans to small industry would not exceed that of C\$ 34 million in this year even assuming that all banks would avail themselves of the benefits offered by the new legal provisions.

B. SEMI-OFFICIAL INSTITUTIONS

Mortgage Banks

59. In addition to the mortgage departments operating within the commercial banks, the activities of which have not been sizable, two mortgage banks proper exist, namely Banco Central Hipotecario and Banco Agrícola Hipotecario, the latter being a very small bank.

60. The Banking Law of 1923 defined mortgage banks as those institutions which grant loans secured by real estate, to be repaid through periodic - at least yearly - payments and empowered to issue securities on mortgage loans. Furthermore, mortgage banks collect savings and time deposits and sell saving certificates (titulos de capitalization). However, at any time the total liabilities of the mortgage banks shall not exceed an amount equivalent to ten times the paid-in capital and reserves.

61. Loans granted by mortgage banks consist of (a) loans for not more than two years secured by the pledge of agricultural commodities^{1/}; (b) long-term loans to be repaid through periodic payments covering both principal and interest^{2/}. The overall amount of loans should not exceed the amount of the outstanding time deposits^{3/}.

62. The most important mortgage bank is Banco Central Hipotecario which was established upon government initiative and started operations in June 1932, with a capital of C\$ 20 million. The capital was subscribed

^{1/} Similar to crop loans and loans secured by commodities in storage.

^{2/} Loans to a single person are limited to C\$ 50,000.

^{3/} Loans to a single person are limited to a maximum amount equivalent to 20% of the paid-in capital of the respective bank.

mainly by Banco de la Republica, Banco de Bogota, Banco de Colombia, Banco Hipotecario de Colombia and Banco Comercial de Barranquilla. Banco de la Republica was assigned to subscribe C\$ 13,810,000 and it was provided that the share for the commercial banks would be an amount equivalent to not less than 10% of their respective paid-in capital and reserves.^{1/}

63. At present capital of Banco Central Hipotecario is owned by Banco de la Republica and fourteen commercial banks - Colombian and foreign - operating in Colombia.

64. Banco Central Hipotecario contributed to the development of the security market in Colombia through the issuing of mortgage cedulas, which have been in the market for more than twenty years as a trusted security. Mortgage cedulas are still the most important source of funds for the bank.

65. Since mortgage cedulas, capitalization cedulas and bonds are issued for five, ten and twenty year terms, Banco Central Hipotecario has been one of the few institutions providing medium and long-term loans.

66. Most of the mortgage loans are granted in mortgage cedulas rather than in cash. The bank operates as an intermediary to sell such cedulas. Interest on mortgage loans is $9\frac{1}{2}\%$ and the repayment of such loans has to be in cedulas, which Banco Central Hipotecario buys in the market.

67. At the end of 1959, the balance sheet showed the following figures, total assets - C\$ 829 million: (a) mortgage loans - C\$ 463 million; (b) other loans and discounts - C\$ 220 million; (c) investments in securities - C\$ 40 million; (d) investment in housing - C\$ 33 million; (e) mortgage cedulas in circulation - C\$ 473 million; (f) capitalization cedulas - C\$ 166 million; (g) industrial bonds in circulation - C\$ 75 million; and (h) paid-in capital - C\$ 35 million.

^{1/} The government induced the commercial banks to subscribe shares of Banco Central Hipotecario by permitting them a lower paid-in capital minimum requirement (15% of their liabilities with the public, instead of 25% provided by the banking law) if they became shareholders in the new institutions.

Caja de Credito Agrario, Industrial y Minero

68. The lack of institutions to provide loans to small farmers induced the government to establish the Caja Agraria, in 1931, as an autonomous department operated by Banco Agricola Hipotecario, but with separate capital subscribed by the government and the National Coffee Growers Federation. Thus Caja Agraria was empowered to issue its own bonds and to borrow like an independent institution.

69. In 1935, Caja Agraria assumed the control of "Caja Colombiana de Ahorro" which was the most important institution for the collection of savings. However, it was not until 1955 that the "Caja Colombiana de Ahorro" became the savings department of Caja de Credito Agrario, and also in that year that Banco Agricola Hipotecario came under the control of the Caja Agraria. By the merging with the Caja Colombiana de Ahorro, Caja Agraria became the most important collector of saving deposits in Colombia. Today, it has 56 per cent of such deposits, collected through 412 offices.

70. Caja Agraria's main field of activity is still agricultural credit. Land reform, now under discussion, would stress further the importance of this institution in developing the rural community.

71. In addition to its banking operations, Caja Agraria deals with other activities closely related to agricultural development, such as: (a) agricultural extension services; (b) insurance of agricultural credits; (c) buying and selling insecticides, fungicides, tools, machinery and other agricultural capital goods; (d) supervision and inspection of credit granted by private banks and (e) irrigation projects. Through the "Departamento de Provision Agricola" the Caja Agraria supplies implements for agriculture, livestock and fishing. Machinery is imported by Caja Agraria and sold directly to farmers or to merchants accepting price regulations.

72. Since 1956, Caja Agraria has operated credit insurance of its own debtors but in view of the good results this operation was extended to credit granted by private banks. Some commercial banks have signed agreements with Caja Agraria entrusting this institution with the inspection and supervision of agricultural credit.^{1/}

73. Caja Agraria has contributed to the improvement of social problems in agriculture by means of supervised credit. It made loans for development of rural community projects, including the resettlement of peasants, re-distribution of land, land reclamation and rural housing.

^{1/} Commercial banks are compelled, by legal provisions, to provide agricultural loans in an amount equivalent to 15 per cent of their demand and time deposits.

74. At present the shares of Caja Agraria are owned by the government (65%), the Coffee Growers Federation (24%), Banco Agricola Hipotecario (8%) and to a very insignificant extent, Corporacion Nacional de Servicios Publicos and private shareholders. Subscribed capital amounts to C\$ 300 million, of which C\$ 251 million has been paid-in.

75. The capital of this institution is increasing each year as a result of the government's decision, in 1958, to make a contribution of C\$ 25 million annually over a period of ten years. Furthermore, every borrower from the Caja Agraria is obliged to subscribe to shares in an amount equal to 5% of his credit from the institution.

76. At the end of June 1960, the balance sheet showed the following figures for the main items of the balance sheet:

	(million pesos)
Total assets - liabilities	1541
Of which:	
Loans and discounts	885
Investments	227
Other assets	429
Short-term obligations	136
Saving deposits	348
Bonds held by the Private Sector	172
Loans and discounts from Banco de la Republica	295
Trust Funds (official)	104
Paid-in capital	321

The Industrial Development Institute

77. This institution was created in 1940 as a development institution, whose main purpose was the establishment and expansion of enterprises not satisfactorily developed by private capital; special attention should be given to basic industries, using a high proportion of Colombian raw materials.

78. The Institute acted as an intermediary for the supply of government funds according to the conditions established by the government in each specific case and to the instructions of its own board of directors.

79. The initial capital of the Institute consisted of C\$ 4 million, of which C\$ 3 million was paid-in by the government. The capital of the institution amounted to nearly C\$ 17 million at the end of 1959, of which 90 per cent was owned by the government.

80. The Institute should sell its holdings of shares as soon as private investors would be willing to buy such equities.

81. The Institute may invest up to 50 per cent of its capital in industrial bonds with repurchase guarantee by Banco de la Republica.

82. The Institute is empowered to borrow and to contract obligations in Colombia or abroad. Bonds issued by corporations in which the Institute is a shareholder may be underwritten by the Institute. The government's guarantee may be authorized for those bonds issued by corporations in which the Institute holds a majority of shares.

83. As indicated in the Annual Report for 1959, the present administration decided to review the investments of the institute and to study carefully its activities. Furthermore, new funds were needed for the continuation of the operations of the Institute because more than C\$ 20 million of its assets invested in equities were frozen and several of the enterprises assisted by it have not been successful. In this connection the Institute sold some of its investments, mainly the shares of "Acerias Paz del Rio" amounting to C\$ 4.5 million (at par - 10 pesos per share - an artificial price).

84. The most important items of the balance sheet at the end of 1959 are: (a) industrial shares - C\$ 21 million; (b) mining investments - C\$ 4 million; (c) other investments - C\$ 1.5 million; (d) total assets - C\$ 31 million; (e) industrial bonds in circulation - C\$ 4 million and (f) debt to government - C\$ 7 million.

C. INSURANCE COMPANIES

85. At the end of 1958, there were 62 insurance companies with capital and reserves amounting to C\$ 91 million and total assets of C\$ 508 million. Of these, 22 were branches of foreign companies, with capital and reserves of almost C\$ 11 million and total assets of C\$ 96 million.

86. Provisions for compulsory investment require both life insurance and general insurance companies to invest part of their reserves in government securities and securities issued by official and semi-official banking institutions.

87. The Colombian insurance companies established a reinsurance company (Compania Reaseguradora Colombiana) with capital subscribed by all the Colombian insurance companies. All insurance companies are subject to supervision by the Superintendency of Banks.

Life Insurance

88. At the end of 1958, 15 privately-owned life insurance companies operated in Colombia, of which two (Pan American Life Insurance Co. and The United States Life Insurance Co.) are branches of foreign companies. The most important life insurance company is Cia. Colombiana de Seguros, established in 1874, which covers about 50 per cent of the total number of insured persons in Colombia.

89. In addition to ordinary life insurance, the Colombian life insurance companies write group life and workmen's compensation insurance. Under the Colombian law, an employer with a payroll of C\$ 1,000 monthly or more is required to provide for its workers group life insurance in an amount equivalent to one year's salary.

90. Life insurance policies in Colombia seem to be very expensive due to the fact that the life insurance companies have based their premiums and reserves on the Hunter Tropical Table of Mortality. This table is based on higher probabilities of deaths at an earlier age than the actual coefficients for the climate and other conditions prevailing in the country. However, the Superintendency of Banks is reviewing the mortality table to adjust it to Colombian conditions and thus it is possible that a downward revision of tariffs would be ordered which would make life insurance cheaper.

91. Another limiting factor for life insurance is that premiums are not exempt from income tax.

Capitalization Companies

92. One of the very popular means of saving is the purchase of capitalization "cedulas" (savings certificates) through periodic payments - usually monthly payments - over a period of 5 and up to 20 years.

93. The capitalization "cedulas" were initially authorized to be sold by the mortgage banks and up to 1955, Banco Central Hipotecario was the sole issuer. However, as the life insurance companies felt strong competition from the capitalization cedulas, they established subsidiary companies, called "sociedades de capitalizacion", to sell savings certificates similar to those of the Banco Central Hipotecario. At the end of 1959, five life insurance companies had opened such companies, and competition has become intense.

94. A capitalization cedula is a savings contract, without any insurance provision, under which the saver agrees to pay the contract face amount in periodic payments and the company agrees to repay at the end of the contract term the face amount plus a final bonus, usually 10 per cent. Also, the

the market for an issue of their bonds, but they have been granted rediscount privileges (on five-year terms) by the Central Bank up to 100 per cent of their paid-in capital.

101. In turn, the financieras have broad and flexible powers to provide funds for industrial enterprises. Medium and long-term loans with or without rights of conversion, profit participation and stock options are authorized. In addition, among other powers, they may invest directly in the share capital of industrial enterprises, guarantee their borrowings from others, and underwrite their security offerings.

102. In addition to financial operations, the financieras are authorized to give technical assistance to promote the organization and reorganization of any industrial, agricultural, livestock and mining enterprise. In this respect the financieras may eventually make an important contribution to the improvement of management of private enterprise in Colombia, although to date they lack the necessary technical staff to perform this function.

103. Medium and long-term loans granted by the financieras must be used to construct new factories or to enlarge those already existing, and to finance the acquisition of raw materials. Loans to any one person, institution or enterprise are not to exceed 10 per cent of the paid-in capital and legal reserve of the financiera. Also, it is the policy of the financieras to subscribe to not more than 50 per cent of the share capital of an enterprise.

104. The "Corporaciones Financieras" have been well received by the public. Two are already in operation and were able to market their original share capital in a short period of time. Furthermore, the potential usefulness of these institutions has such appeal that other regions are preparing to establish their own financieras.

Corporacion Financiera Colombiana de Desarrollo Industrial

105. This institution was established in Bogota in August 1959, with a capital of C\$ 20 million, subscribed mainly by Banco de Bogota, Banco de Colombia, Banco de Comercio, Banco de los Andes, Sociedad de Capitalizacion y Ahorros Bolivar and other important insurance and industrial companies. Paid-in capital amounted to C\$ 12 million at the end of August 1960. At that time the outstanding loans (medium-term) of the corporation amounted to C\$ 6 million and the investments in securities to C\$ 3 million.

106. In association with the Corporacion Financiera Nacional de Medellin, the Corporacion Financiera Colombiana entered into an agreement with the government to underwrite up to C\$ 70 million of government bonds.

Corporacion Financiera Nacional de Medellin

107. This institution was authorized in July 1959, with a capital of C\$ 25 million, subscribed by Banco Comercial Antioqueno, Banco Industrial Colombiano, Compania Sudamericana de Seguros, several industrial enterprises and a large number of individual shareholders. Actually, the operations of this corporation started in December 1959. Its functions are very similar to those of Corporacion Financiera Colombiana.

108. On June 30, 1960, the paid-in capital of this institution amounted to C\$ 10 million, loans and discounts (medium-term) to C\$ 9 million and investments in securities to C\$ 0.4 million.

Mutual Funds

109. In 1959 a Fund for industrial development of Colombia (Fondo Crecinco) was established jointly by Financiera Colombiana in Bogota and I.B.E.C. (International Basic Economy Corporation) with a capital of C\$ 1 million. The fund for all practical purposes operates as a mutual fund. It has been selling its shares (units) at the price of C\$ 10 in the expectation that it will be able to attract a large number of small investors. The shares (units) are being sold directly by the fund's office with the help of substantial publicity.

110. At the end of July 1960 net value of the fund's assets was C\$ 4.5 million. Its investment was distributed among a wide range of Colombian industries; of the total about 91 per cent was invested in shares.

111. A law is being prepared which would regulate the establishment and operations of mutual funds (investment trusts). The Colombian authorities hope that it will be possible through the operations of mutual funds to channel more savings of small investors into industry.

CHAPTER III

SAVINGS ACCUMULATED AT FINANCIAL INSTITUTIONS

112. The amount of savings accumulated at financial institutions (transferable savings) has been very low^{1/} despite the great number and variety of institutions in operation.

113. The total of savings channelled to the savings bank, savings departments of commercial banks, the life insurance companies and the capitalization companies has been less than one per cent of the national income during the last ten years. In 1950 the total of new savings entrusted to financial institutions amounted to C\$ 36,000,000 which represented only 0.5 per cent of the national income and 3.29 per cent of the gross formation of fixed capital. In 1959, the financial institutions collected C\$ 184,000,000 equivalent to 0.98 per cent of the national income and 4.7 per cent of the gross formation of fixed capital.

114. The low amount of savings channelled to the financial institutions may be explained by the following factors: (a) the scarcity of savings among the population group of lowest income (rural and industrial workers); (b) the preference of savers for investment in shares and participation in private companies; (c) the lack of aggressiveness of the financial institutions in promoting savings and not an adequate coverage of the country by branches of savings banks; and (d) the still existing lack of confidence in the currency stability.

115. As in most countries in Latin America, a great disparity exists in Colombia in the distribution of the national income. About 50 per cent of the Colombian population lives in rural communities where wages are very low. Landholding which constitutes the largest source of income in rural areas is distributed very unevenly; 64.17 per cent of the total area of the farms under production belong to only 3.59 per cent of the total of owner farmers.^{2/}

116. The average daily wage for workers as estimated in March 1958 was C\$ 8.64^{3/} and the participation of labor in the national income in 1959 was 38.6 per cent.^{4/}

117. The middle class and the higher income groups in the more industrialized regions (especially Bogota, Medellin and Cali) prefer to invest their savings in shares of corporations or in direct investments in family enter-

^{1/} See Table No. 2

^{2/} Belizario Bethancur: Speech to the Senate

^{3/} National Statistics Administrative Department

^{4/} Banco de la Republica: In 1959, remuneration of labor was C\$ 7198 million and national income at factor cost C\$ 18,649 million.

prises, because such investments yield a higher rate of profit. However, this attitude originates largely in the past experience when, due to inflation, savings deposits lost a great part of their purchasing power. This experience also has strengthened the tendency of an important group of investors to use their savings for construction of large buildings in the cities of Bogota, Cali and Medellin and in real estate speculation.

118. The prevailing opinion among Colombian officials is that the ratio of consumption in the national income could be reduced in order to increase savings. Personal consumption in 1959 represented 71.8 per cent of the gross domestic product.

119. Not much has been done by financial institutions to make savings more popular. It should be taken into account that in countries which have been affected by devaluation and inflation, a revival of confidence in the national currency is a slow process which takes several years. Thus, notwithstanding the success achieved in the monetary stabilization, Colombian authorities must make great efforts to persuade the population that it should entrust its savings to financial institutions and to induce these institutions that they should start a real savings drive.

(1) BANKS

A. Savings Deposits at Banks

120. Only 7 of the 24 banking institutions are engaged in attracting savings deposits.

121. As of June 30, 1960, the amount of savings deposits was distributed as follows: Caja de Credito Agrario had 56.5 per cent, Banco de Colombia 14.9 per cent, Banco de Bogota 9.3 per cent, Banco Popular 7.9 per cent and the Banco Cafetero 6.4 per cent.

122. Up to 1958 the maximum amount in savings accounts was limited to C\$ 10,000 for individuals and to C\$ 15,000 for co-operatives and non-profit enterprises. These limits were raised to C\$ 20,000 for individuals and C\$ 30,000 for co-operatives and non-profit enterprises and associations.

123. The number of savings accounts - 2,540,100 as of June 30, 1959 - is rather impressive. However, most of the accounts belong to the lower and lower middle income classes. The total of 2,092,700 accounts (amounting to C\$ 36 million) showed deposits of less than C\$ 100 each. On the other hand, the group of savers contributing the most owned 101,200 accounts (amounting to C\$ 203 million) with individual deposits ranging from C\$ 1,001 to C\$ 5,000.

124. The majority of the savings deposits (70 per cent) at the Caja de Credito Agrario belong to industrial workers. In previous years, the Caja tried to increase its deposits through the use of postal offices and school savings, but no positive results were obtained. Another attempt to promote savings was to open new savings accounts by giving newly-weds an initial deposit of C\$ 5 and newborn babies C\$ 2. This campaign also failed. At present, there are still 2,000 accounts with the same initial balance credited in 1946.

125. The Banco de Colombia is trying to penetrate into several rural communities to attract savings, apparently with success.

126. At present the banks pay 3.5 and 4 per cent annually on minimum quarterly balances of the savings accounts; the Caja de Credito Agrario pays up to 5 per cent if the balance remains unchanged for two or more years.

127. In contrast to the policies followed in other Latin American countries, interest on savings deposits in Colombia are subject to tax.^{1/} It is true that the majority of the savings belongs to savers of the low income class and is therefore tax exempt, but in the case of accounts amounting to more than C\$ 5,000 a tax payment exemption might be an additional incentive.

128. The annual flow of savings towards the banking system has been gradually increasing during the recent years. In 1950 new savings amounted to C\$ 16 million, whereas in 1959 they totalled C\$ 78 million. Were it not for inflation, the rate of growth could have been greater.

129. In accordance with the Colombian banking procedures, savings accounts may only be withdrawn from the same premises where the original account was opened, a fact which could well be one of the obstacles to a greater incentive towards savings, especially among those savers living outside the largest cities in Colombia. A savings account system allowing the withdrawal of funds to take place anywhere in the country might produce the same results as those yielded by the postal savings system in various countries in Europe and Asia.

B. Increased Resources of Banks

130. The funds available to the banks for investment have been enlarged steadily by their own capital formation. In the last four years their paid-in capital, capital reserves and contingencies reserves increased by about C\$ 340 million.

^{1/} Income tax, property tax and tax on inheritance and gifts.

(2) INSURANCE COMPANIES

A. Life Insurance Companies

131. Savings accumulated at life insurance companies are not significant notwithstanding their growth over the last ten years. This situation is due to the following factors: (a) the still existing lack of confidence in the value of the peso; (b) the payment of life insurance premium not being deductible from the income tax; (c) the lottery habit of the population; (d) the insufficient knowledge about life insurance even among the middle class, and (e) relatively high premiums because the tropical mortality tables are used.

132. In 1949, Colombia's life insurance operations were carried out by three Colombian and five foreign companies. Gradually Colombian businessmen became interested in this line of business with the result that, at the beginning of 1959 life insurance operations were carried by thirteen Colombian companies and only two foreign companies (the Pan-American Life Insurance Company and the United States Life Insurance Company).

133. The development of personal savings through life insurance can be appraised by the growth of premiums collected and also by the companies' increased reserves. In 1949, the gross premiums collected amounted only to C\$ 16 million, while in 1958 they reached C\$ 68 million. Moreover, the increase in reserves in 1950 was C\$ 11 million, while in 1959 it amounted to C\$ 39 million.^{1/} However, the increase in the past two years is due mainly to adjustments in the insured value of the old policies. Some policies have been raised from C\$ 300,000 to C\$ 400,000 to adjust them to the changes in the purchasing power of the Colombian peso.

134. Recently the National Association of Industrialists (ANDI) suggested to the Senate that the tax reform which is being studied should include a provision making life insurance premiums deductible from income tax.

135. Life insurance companies still have a wide field for development by intense promotional activity since at present only 88 persons out of every 10,000 are insured.

B. Reserves of General Insurance Companies

136. The information available concerning general insurance companies indicates that their business and their reserves will continue to grow in the course of the next few years. Premiums collected have doubled between 1953 and 1959 and represent more than twice the annual payments to policyholders, thus permitting a strong accumulation of reserves. Moreover,

^{1/} See Tables 2 and 5.

besides the excess of premiums over the annual payments, the formation of capital is also being increased by the yield from investment of reserves which now amounts to about C\$ 30 million a year.

(3) CAPITALIZATION COMPANIES

137. As explained in the previous chapter, these companies attract personal savings by means of sales of securities and certificates of capitalization which represent savings contracts at terms from five to twenty years.

138. The sales of capitalization certificates had a surprising growth in the past five years due to such incentives as : (a) each certificate participates in monthly drawing for prizes; (b) at the end of the savings period a bonus of 10 per cent of the face value of the certificate is guaranteed; (c) a final dividend is offered; and (d) in the event that the installment payments should be discontinued, the amounts saved automatically become a savings deposit earning an interest at 5.4 per cent per annum.

139. The Central Mortgage Bank started the sale of capitalization contracts; it holds 54.4 per cent of the total funds collected under this system. In addition to this Bank, five capitalization companies are engaged in this type of financial business.

140. The rapid increase in the operations of these companies can be seen by comparing the figures of savings contracts signed and the amount of accumulated reserves. In 1949, capitalization contracts were signed in the amount of C\$ 67 million and in 1958, the amount contracted was C\$ 454.7 million.

141. The technical reserves representing accumulated savings in 1949 amounted to C\$ 17.6 million and in 1959 to C\$ 306 million. The annual accumulation of reserves was relatively low until 1956, but during the last three years the rate of accumulation has increased as the result of a much higher number of the new capitalization contracts. In 1950 new reserves amounted to C\$ 9 million, whereas in 1959 these reserves grew at an annual rate of C\$ 67 million.

142. No transferable savings are mobilized in Colombia through pension or provident funds. (See Table 2 for funds accumulated for severance and retirement pay of workers).

143. Following is the table showing the increase of savings at these three types of institutions:

SAVINGS ACCUMULATED AT FINANCIAL INSTITUTIONS
(million pesos)
(yearly increase)

	<u>Saving Deposits</u>	<u>Life Insurance Co. Reserves</u>	<u>Capitalization Co. Reserves</u>	<u>Total</u>	<u>Savings at Insti- tutions as Pro- portion of Gross Fixed Investment</u> %
1950	16	11	9	36	3.29
1951	30	13	11	54	4.10
1952	38	13	16	67	5.06
1953	30	14	20	64	3.66
1954	57	16	23	96	4.39
1955	45	17	22	84	3.54
1956	60	15	27	102	4.03
1957	68	15	39	122	4.64
1958	75	21	44	140	4.18
1959	78	39	67	184	4.70

As the table shows, the contribution to financing of investment of savings at financial institutions has been small.

144. Despite it, or because of it, provisions were issued concerning compulsory investment of these funds for what the government considered to be high priorities. Needless to say that not much can be achieved through compulsory investment when the total amount to be invested is very small. (See section on compulsory investment.)

145. To the savings accumulated at financial institutions the amount of the mortgage cédulas sold outside the banking sector should be added. As shown on page 62, this total was about ₱ 150 million for the five years 1955-59.

(4) NEW ISSUES OF SHARES OF CORPORATIONS

146. In estimating the yearly increase of transferable savings, account should be taken of the annual increase in paid-in capital of corporations (joint stock companies). The subscription of new shares amounted to C\$ 1,337 million during the period 1953-59; it was C\$ 342 million in 1958 and C\$ 307 million in 1959. It can be assumed that a great majority of new shares was purchased by private investors including joint stock companies.

CHAPTER IV

GROSS INVESTMENT AND ITS FINANCING

147. Gross domestic investment increased greatly during the nine years 1951-59 (see Table 1). It amounted to C\$ 1,344 million in 1950 and rose every year reaching C\$ 4,350 million in 1959. (The figures in 1958 prices were: C\$ 3,171 million and C\$ 4,025.6 million respectively.) This investment was financed for the greater part from internal savings, with the exception of 1957, when internal savings financed only 48 per cent of gross investment. The figure was over 90 per cent in the years 1951, 1953 and 1959^{1/} and about 80 per cent in the remaining years of this period. The concept of internal savings as used in this report means the amount of gross internal investment minus external loans,^{2/} direct foreign investments and borrowing from Central Bank.

148. Because of pressure to speed up economic development, part of the gross internal investment was financed through inflationary loans from the Central Bank. The tendency towards inflationary financing has been stopped by the financial policies adopted in recent years. In fact, in 1959 the Central Bank reduced its loans and investment by C\$ 98 million. In spite of this, in that year gross investment was 13.7 per cent higher than in 1958.

149. Now that the value of Colombia's peso has been stable for the last three years, the population has gradually recovered confidence in the country's financial position and this should stimulate an increase in savings and the formation of capital. The successful stabilization policy may result also in an increase of direct foreign investments and in securing external loans for investment projects.

(1) THE FINANCING OF PUBLIC INVESTMENT

150. It was not possible to obtain direct statistical information on investments by the Central Government, departments (districts) and municipalities. Only the figures on the Central Government's investment expenditure are available.

151. However, an estimate of total public investment has been prepared by indirect methods. Public investment spending is considered in this report

^{1/} Investment figures for the years 1950-53 are different from those in the ECIA Report for 1925-53, quoted in Chapter I, due to the revision of the national account series for 1950-59, prepared by Banco de la Republica.

^{2/} Loans with a term longer than one year.

to be equivalent to a sum equal to the amount of government saving plus the utilization of credits less the accumulation of cash balances (cash surplus). 1/

152. It has been established by this procedure that public investment has increased greatly between the years 1951 and 1959. The formation of capital with government funds, in current pesos, amounted in 1951 to C\$ 437 million while in 1959 it reached the sum of C\$ 1,143 million.

153. An examination of the Statement of Revenue and Expenditure of the government, which includes the budgets of the National Government and of the Departments, Municipalities and Colombian Institute of Social Security, indicates that in the past ten years Colombian government agencies have not spent more than from 60 to 70 per cent of their current annual revenue on current expenditures. The rate of saving or surplus on current account, taken as a whole, has remained fairly stable since 1950 (30 - 40 per cent of current revenues).

154. This current surplus of government revenue over government expenditure has provided an important source of funds for the financing of public investment. The Colombian Government has been able, without borrowing from the Central Bank, to carry out public investments amounting to C\$ 1,000 million annually for the last two years.

155. Aside from the use of government savings, public investment has been financed by foreign loans, by borrowing from the Central Bank and by selling securities to financial institutions in Colombia.

156. The rate of public saving so far has been quite satisfactory, the social programs being planned by the government for the near future (land reform, health and education programs, extended social security, etc.) will increase current expenditure. As it will be difficult to obtain a corresponding increase in revenues, it is likely that the rate of government savings will decrease in future years.

(2) FINANCING OF PRIVATE INVESTMENT

157. From the estimates of gross internal investment made by the Banco de la Republica, it can be seen that private investment has increased greatly during the past nine years. In 1959, private investment amounted to C\$ 3,207 million, while in 1951 it was only C\$ 907 million.

1/ See Table 4.

158. By analyzing the sources from which the gross private investment was financed, a satisfactory answer can be obtained only with regard to the corporate sector. The estimates below include the amount of C\$ 1,080 million which is classified as self-financing. This amount is a residual item and no information is known as to how it was financed.

159. Available data for 1959 indicate that private investment was financed in that year as follows: 1/

	<u>C\$ million</u>
1) Undistributed profits and depreciation and depletion reserves of joint stock companies.	762
2) New subscription of capital of Colombian corporations.	307
3) Sale of bonds by corporations.	3
4) Private foreign investment.	381
5) Foreign loans.	44
6) Medium and long-term bank loans.	381
7) Mortgage loans from insurance companies.	33
8) Accumulation of severance payment funds.	30
9) Compulsory investment in shares of semi-government enterprises (Paz del Rio, Livestock Funds, etc.)	186
10) Self-financing.	<u>1,080</u>
TOTAL	<u><u>3,207</u></u>

160. Colombia is one of the Latin American countries in which the organization of joint stock companies (corporations) has made most progress. These companies have been able to make an important contribution to national savings. In recent years they have accounted for more than one-third of total private investment.

1/ Table 2 gives data for financing of gross domestic investment for the period 1951-59.

161. Since 1956 most corporations have intensified their efforts to save as a form of protection against currency devaluation and in reaction to exchange and selective credit controls imposed by the government and the Banco de la Republica. The companies fully realize that, as a result of currency devaluations, they need to spend more pesos to pay for imports of capital goods. The increase in the rate of savings (including reserves for depreciation, depletion and undistributed profits) has been partly due to the increase in profits and partly to the adoption by the companies of a more conservative attitude to the distribution of dividends.

162. Whereas, in 1952 the profits of Colombian share companies represented 17.1 per cent of their capital, they have over the past three years amounted to some 20 per cent. Although profits of foreign companies have, on the whole, been lower than returns on Colombian capital, they rose to 16 per cent of capital in 1959 after having been about 7 per cent in 1956-58.

163. Dividends distributed by the joint stock companies represented 62.6 per cent of net profits in 1953, between 50 and 60 per cent in 1954-56 and about 45 per cent from 1957 onwards.

164. The gross annual savings of corporations which amounted to C\$ 153.7 million in 1953, had reached C\$ 762.2 million in 1959. These amounts play a very important role in the capital formation and have financed 9.6 per cent and 17.5 per cent respectively of gross internal investments in the corresponding years.

165. The proposed tax reform being discussed in the Colombian Senate would encourage savings by corporations by treating an annual proportion of up to 15 per cent of net trading profits as tax-exempt or tax-free earnings, to be set aside by corporations as a "reserve for the protection and recovery of assets".

166. Capital increases in Colombian corporations continue to be large even though in 1959 the increase of new paid-in capital was about C\$ 31 million lower than in 1958, apparently because investors were waiting for the enactment of the new income tax law. The increase in the paid-in capital of corporations has been an important source of financing, providing in recent years more than C\$ 300 million annually.

167. Recently, the corporations began issuing bonds: C\$ 3 million was issued in 1959 and in the first eight months of this year alone, the Superintendency of Corporations had authorized the issue of C\$ 78.5 million. As discussed in Chapter VI, the securities have been issued at very high rates of interest (12 per cent) and placed mostly with shareholders of the issuing companies.

168. Nevertheless, private bonds with high interest rates can only be issued by enterprises with a high rate of profit and which are owned by wealthy shareholders. In the opinion of several entrepreneurs, only about

ten enterprises are in a position to meet the high cost of these issues. The Superintendency of Corporations pointed out that in authorizing these issues, it had placed a special emphasis on requiring from the companies full evidence of their financial ability to meet the commitments resulting from this type of debt.

169. Private foreign investments do not follow a definite trend of growth, but are subject to continuous fluctuations, perhaps because most of them have been channelled toward petroleum industry and also because this type of investment is very sensitive to political and exchange problems. The highest figure for these investments was C\$ 354.0 million in 1957. In 1958 they amounted to only C\$ 289 million. The sum rose again in 1959.

170. In addition to direct investment, foreign capital has made a modest partial contribution to the financing of private investment by loans granted to corporations. In 1959 such loans amounted to C\$ 84 million pesos.

171. Medium and long-term bank loans have been gathering importance as a source of financing for private business since 1956. In Colombia medium-term means 2 to 5 years and long-term 5 or more years. Long-term bank credit is devoted especially to operations relating to the construction and sale of real property.

172. The government has tried to promote loans of up to 5 years by establishing preferential interest rates on advances and rediscounts by the Central Bank to commercial banks granting medium-term credits. On June 30, 1960, the total bank loans amounted to C\$ 4,013.7 million, distributed as follows: 56.7 per cent at short-term, 21.6 per cent at medium-term and 21.7 per cent at long-term.

173. Banks have been able to contribute to the financing of private business not only from increased deposits and increased capital and reserves, but also by augmenting their borrowing from the Banco de la Republica. In addition, the semi-official banks issued securities (mortgage bonds, industrial bonds and agricultural bonds) which have been purchased by Banco de la Republica, the commercial banks and the insurance companies. These purchases were made partly under the compulsory investment scheme (agricultural bonds) but the bonds issued by the Central Mortgage Bank were bought to a significant extent also by private investors.

174. Throughout this period the main sources of financing of gross investment were: government savings, self-financing and increased paid-in capital of joint stock companies and loans and advances extended by the banking system.

CHAPTER V

FINANCING OF VARIOUS SECTORS OF THE COLOMBIAN ECONOMY

Agriculture

175. In common with the majority of under-developed countries, the development of agriculture in Colombia has been hampered by a lack of funds. Amongst the reasons for this are the inequality in the distribution of income between rural and urban areas, the hazards associated with the failure of harvests, the uncertainties over future prices, the lack of knowledge of financial matters by most farmers and the limited role played by financial institutions in farm credits.

176. Because of the very uneven land distribution, agricultural producers have few assets available for use as security for credit facilities provided by the banking system.

177. The unfavorable economic and social position of most farmers led the Colombian Government to take steps which would enable certain institutions, over which the government exerted considerable influence, to divert part of their funds to farm credits. The first experiment in the administration of farm credit began with the Agricultural Credit Bank (Caja de Credito Agrario), which was established in 1931 for the special purpose of providing credit facilities for small farmers. More recently, the government has played a role in the establishment of the Coffee Planter's Bank (Banco Cafetero) and Stock Farmers' Bank (Banco Ganadero), whose credit policies followed the government economic policy announced in various statements.

178. Since 1957 the commercial banks have also been obliged to pay more attention to farm loans as a result of a legal provision under which they are required to invest some 15 per cent of their demand and time deposits in agricultural and stock raising loans. The policy of preferential re-discount rates adopted by the Banco de la Republica has also had the effect of maintaining the interest of the commercial banks in farm loans.

179. Loans for agriculture and stock raising made by the commercial banks have, however, increased slowly as may be seen from the table below:

NEW LOANS MADE EACH YEAR BY THE COMMERCIAL BANKS
(millions of pesos)

	<u>Agriculture</u>	<u>Stock Raising</u>	<u>TOTAL</u>
1955	107	230	337
1956	125	247	373
1957	142	235	377
1958	173	250	423
1959	376	276	553

180. The Agricultural Credit Bank provides about one half of the farm loans made by banks and uses for this purpose funds obtained from deposits and from the proceeds of investments in agricultural bonds, a significant proportion of which is held by the commercial banks. The commercial banks buy agricultural bonds mainly because investments in these bonds, up to an amount equivalent to 5 per cent of the total of demand and time deposits, are accepted for the purpose of calculating the statutory reserves against deposits. Buying these bonds, the banks are exempt from the obligation to maintain an equivalent sum in deposits with the Central Bank.

181. Another source of funds used by the Agricultural Credit Bank for farm loans is the administration of trust funds supplied by the government, such as the Agricultural Surplus Fund (Fondo de Excedentes Agricolas) of C\$ 88 million. Finally, the Central Bank loans to the Agricultural Credit Bank amounting to C\$ 321 million on June 30, 1960, provided a very large part of funds for financing of agriculture.

182. Besides loans made directly to agriculture and stock farming, the Agricultural Credit Bank had contributed a sum of approximately C\$ 46 million (as at June 30, 1960) to the financing of rural housing. With this addition the total sum made available to farmers by the Agricultural Credit Bank amounted to C\$ 762 million on June 30, 1960.

NEW AGRICULTURAL AND STOCK FARMING LOANS MADE BY THE AGRICULTURAL

CREDIT BANK

(millions of pesos on June 30 of each year)

	<u>Agriculture</u>	<u>Stock Farming</u>	<u>TOTAL</u>
1954/55	203	228	431
1955/56	219	257	475
1956/57	249	251	500
1957/58	246	294	541
1958/59	325	350	675
1959/60	332	383	715

183. In 1959, the total credits of banking institutions to farmers and stock raisers amounted to approximately C\$ 1,200 million, of which about 55 per cent was supplied by the Agricultural Credit Bank.

184. The National Federation of Coffee Planters (Federacion Nacional de Cafeteros), the Stock Farmers' Funds (Fondos Ganaderos) and the government have also played a role in the financing of agriculture. In addition to their own investments, the coffee planters have helped to establish the National Coffee Fund (Fondo Nacional de Cafe), which supplied the capital for the Banco Cafetero and for various investments in social welfare projects in agricultural regions being developed by the County

Coffee Planters Committees (Comites Departamentales de Cafeteros). The assets of the Stock Farmers' Funds, whose purpose is to facilitate livestock loans and to assist in the marketing of livestock products, were C\$ 53.9 million on July 31, 1960.

185. Some agricultural production is financed with special loans at high rates of interest, which generally take the form of an advanced purchase of crops.

186. The government has contributed to the financing of agricultural activities and livestock raising by making annual budget appropriations which averaged about C\$ 25 million yearly during the last decade.

187. It may be said that the government paid special attention to agricultural credit and assured through legal provisions including those on compulsory investment that more ample credit to agriculture would be available than otherwise would be the case. And, as in most countries, the rates charged on loans to agriculture by the financial institutions are low. However, despite the government efforts and substantial volume of credit made available by the Central Bank, the volume of agricultural credit is not regarded as sufficient. The very small annual increase in transferable savings may be considered as one of the main reasons for this situation. No rural credit co-operatives exist in Colombia.

Industry

188. The development of Colombian industry has been promoted by government policy, mainly by protectionist systems aimed at producing substitutes for imports.

189. The growth of industry in terms of the gross product of industry on the basis of the latest surveys of national income is indicated by the following figures:

GROSS PRODUCT OF INDUSTRY
(million pesos at current prices)

1950	1428.1
1951	1506.1
1952	1615.0
1953	1770.4
1954	2010.2
1955	2395.6
1956	2555.3
1957	3145.7
1958	3518.6
1959	4056.0

190. The value added by the manufacturing industry in 1959 at current prices amounted to C\$ 4,000 million, or about 17.5 per cent of the gross domestic product. It is estimated that each peso of added value involves transactions amounting to C\$ 2.67^{1/} and, therefore, it may be assumed that total gross industrial production requires financing of about C\$ 10,680 million per annum. The latter figure thus represents accumulated expenditure in the course of the year, financed by a smaller sum in terms of day-to-day funds, the magnitude of which will depend on the rhythm and pace of sales, and on fluctuations in inventories.

191. No information is available about the total annual investment by the manufacturing industry in fixed assets but it is well known that a general tendency to speed up the industrialization process exists, and that substantial funds are needed for that purpose each year. The average annual increase of some 8 per cent over the past nine years in the gross output of the manufacturing industry would not have been possible had there not been an adequate increase in the rate of investment.

192. Manufacturing is the most important activity of the joint stock companies as is clearly shown by the following comparative figures for 1958:

	<u>Industrial Joint Stock Companies</u>	<u>Total Joint Stock Companies</u>
Number of enterprises	263	736
	(pesos million)	
Total value of assets	4,212	7,314
Paid-up capital	1,245	2,483

193. The industry's growth has been financed principally by raising new capital, by retained earnings and depreciation. (See Chapter VII.) Bank credit played also an important part, but since 1957 banks have pursued a policy of restricting loans to that sector, as the following figures indicate:

^{1/} Sampling of the manufacturing industry in 1957 showed a gross production of C\$ 7,562 million and an added value of C\$ 2,833 million in 11,004 establishments. (Anuario Estadístico 1958.)

NEW INDUSTRIAL LOANS MADE BY BANKS OPERATING IN COLOMBIA ^{1/}
(millions of pesos)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Commercial Banks	320.8	435.3	508.7	523.6	451.9
Central Mortgage Bank	22.0	40.0	57.0	18.0	31.0
Agricultural Bank	<u>2.1</u>	<u>3.6</u>	<u>5.2</u>	<u>6.0</u>	<u>1.6</u>
Totals	<u>344.9</u>	<u>478.9</u>	<u>570.9</u>	<u>547.6</u>	<u>484.5</u>

194. The difficulties of the banking system to meet more adequately the demand for industrial credit partly accounts for the favorable reception given to the two recently established Financieras, which have already provided some C\$ 15 million in loans to industry in the first year of their operations.

195. While the medium and large enterprises have been able to finance the cost of their own expansion, the same cannot be said of the small industries, which possess no reserves and have little prospect of obtaining partners to increase their capital, as most Colombian investors tend to acquire control over the firms. To date, only the Agricultural Credit Bank and the Popular Bank (Banco Popular) have made any effort to meet the credit needs of small industries. The Popular Bank has been able to provide credit facilities of this nature with the assistance of government funds, which have been supplied in the form of deposits, but, owing to the bank's limited resources, the volume of such credit as of June 30, 1960 amounted to only C\$ 71 million.

196. The experience of the Popular Bank in providing credit for small industries, although limited, appears to have been satisfactory. These results have recently led the government to promote credit assistance to small industries by establishing popular credit departments in the commercial banks. This measure, adopted in July 1960, consists in depositing with a commercial bank government funds equal to the amount of credit the bank extends to small industries. (See Chapter II.)

197. As explained in another chapter of this report, some large firms have tried to obtain financing by issuing bonds at high rates of interest; although the bonds are for a term of five years, they might eventually

^{1/} Figures are for December 31 of each year, except for those of the Agricultural Bank which are for June 30.

constitute a permanent source of funds, if successive issues were floated to provide funds with which to pay the amortization on the older issues. (See Chapter VII).

198. Generally speaking, there are no sources of long-term credit for industry; many enterprises have had recourse to a continuous process of renewal of short and medium-term credit as a permanent source of financing. The longest term for which it is possible to obtain bank credit is 5 years, and this itself is exceptional. However, lack of financing has not been a serious obstacle to the growth of industries in Colombia.

Housing

199. There is need for considerable and speedy improvement in the housing situation in Colombia. According to official reports from the Instituto de Credito Territorial, there was, at the beginning of 1960, a total housing shortage of 251,468 dwelling units, subdivided as follows, according to income:

	<u>per cent</u>
Lowest income group	60
Middle class in the low income group	10
Middle class in the medium income group	25
Middle class in the high income group	5

200. The increase in population was faster than the construction of housing. In the urban areas housing was financed by private investors using their own savings and loans from banks, but the increasing needs of the lower income groups could not be satisfied by this development of housing. The situation has been more serious in the rural communities since this sector of the population has the highest rate of growth.

201. The Colombian Government regards housing as an important need and a decisive factor in the achievement of a balanced society. ^{1/}

202. The government has been endeavoring to solve the housing problem since 1918, when it made it mandatory for municipalities with more than 15,000 inhabitants to devote 2 per cent of their revenue to building workers' houses. This measure, however, does not seem to have had any notable success.

^{1/} Instituto de Credito Territorial: Report to the Minister of Development for his memorandum to the National Congress; Bogota, D.E., June 1960.

203. The most positive official step in this field was taken in 1939, when the Instituto de Credito Territorial was established as an autonomous specialized body with its own capital. From the time of its establishment until 1956, the Institute devoted itself to rural housing construction, as the majority of the people were dependent on farming, and rural living conditions were deplorable. In its first 17 years, the Institute built 14,000 rural dwellings.

204. In 1956 the government made the Agricultural Credit Bank responsible for rural housing construction. Up to June 30, 1960, the latter had made 20,146 loans for rural housing amounting to C\$ 46,000,000. These figures include the portfolio of C\$ 28,000,000 received from the Instituto de Credito Territorial in the form of 9,080 loans. On the same date, the number of loans made directly by the Agricultural Credit Bank amounted to 14,189 which represents an equal number of rural dwellings built by that institution. The Agricultural Bank's policy has been to deal with housing only in rural centers of population with less than 3,000 inhabitants.

205. Owing to the growth of the towns, the Instituto de Credito Territorial has had to concentrate on urban housing. It had been the government's intention to begin this in 1942, but the rural housing problem was so acute that it absorbed the entire resources of the Institute. Not until 1948 was urban building by the Institute started; from that time to 1959 the Institute had built 18,286 urban dwellings, averaging 1,662 per year.

206. The following is a summary of the contribution made by the Instituto de Credito Territorial between 1948 and 1959 to the solution of the housing problem:

	<u>Number of Rural and Urban Dwelling Units</u>	<u>Value in Millions of C\$</u>
1948 to 1956	12,827	124
1957	3,519	34
1958	2,300	56
1959	2,945	37
Total	21,231	251

The 1960 building program provided for 15,018 dwelling units at a total cost of C\$ 82.4 million.

207. In order to assist a larger number of families, the Institute has pursued a new policy since 1959, based, inter alia, on the following considerations: concentration of its efforts on those sectors of the population with the most limited resources, for which construction designs

of very low unit cost have been adopted. The maximum investment per dwelling has been fixed at C\$ 15,000; adoption of more modest plans for each dwelling, permitting average unit cost to be reduced from the pre-1959 figure of C\$ 16,000 to C\$ 4,500; reduction in the term of its loans from 20 years to 10 or 12 years, which will result in a better turnover of the Institute's funds; combination of direct building programs with plans for self-help and mutual aid and programs in association with building co-operatives. The system of loans includes a plan for a gradual amortization by instalments.

208. The Institute obtains its funds from the following sources: (a) its own capital, at present C\$ 250 million; (b) annual government contributions of C\$ 20 million; (c) sale of housing bonds to financial institutions under the compulsory investment scheme at a rate of approximately C\$ 10 million per year, and (d) annual income from interest, commission, etc. amounting to C\$ 40 million. In the course of 1960, the Institute will have approximately C\$ 70 million of new funds for financing housing; to that amortization payments received on loans previously granted should be added.

209. The Central Mortgage Bank has contributed to the financing of housing for the middle class by providing mortgages and by engaging in building operations itself. It first undertook direct building operations in 1932, and since that time has built some 3,200 dwellings at an approximate cost of C\$ 90 million.

210. Most of the mortgages made by the Central Mortgage Bank take the form of credit for housing. The following table illustrates the steady increase in the sums provided in this way, particularly since 1950:

TOTAL MORTGAGE LOANS AT DECEMBER 31 OF EACH YEAR

	<u>Millions of C\$</u>	<u>Annual Increase</u>
1932	2.1	
1935	17.3	15.2
1940	37.0	19.7
1945	45.2	8.2
1950	101.6	56.4
1955	245.9	144.3
1958	447.7	201.6
1959	462.7	15.0

211. In 1959 mortgage loans were granted in the amount of C\$ 141.8 million, of which C\$ 88.6 million were to finance actual construction and C\$ 50.1 million to purchase dwellings already built and to pay short-term debts contracted for buildings.

212. In order to meet the heavy demand for financing of housing, the Central Mortgage Bank has adopted a new policy, based on principles which can be briefly expressed as follows:

- 1) Establishment of differential interest rates in direct proportion to the value of the properties offered as security, and the total amount of the loan in inverse proportion to the value of the security offered. Loans on real property appraised at less than C\$ 50,000 are given preferential treatment, i.e. the rates of interest are low and the sum loaned is high in relation to the value of the security offered.
- 2) Priority is being given to: loans to individual builders for low-cost housing projects; loans for construction of low-cost dwellings; loans for construction of buildings intended as multiple dwellings to be sold as cooperative apartments, provided that the cost of each unit is reasonable, and to loans for purchase of existing houses or for payment of mortgage debts incurred in such purchases, provided that the value of the property does not exceed C\$ 100,000 and the applicant does not already own a house.

213. The Central Mortgage Bank had engaged directly in the building of housing units until 1959, but during 1960, in an attempt to reduce administrative costs, the Bank has preferred to grant credit to builders presenting carefully considered plans for housing developments. The builders' indebtedness to the Bank is amortized out of the proceeds of the loans the Bank makes to the purchasers of the houses. By granting credit to builders, the Bank has been able to achieve an increase in the volume of construction, because the loans represent 60 or 65 per cent of the value of the buildings, and the builders must therefore provide financing for 30 or 40 per cent of the value of the project.

214. In 1959 the Bank approved 12 building projects for 276 houses, which will be completed this year.

215. The Bank is also considering the possibility of planning urban development programs by selling land to the builders.

216. In the last four years the commercial banks have been granting building credits (mortgage loans), at the rate of C\$ 100 million per year. The greater part of such loans appears to be used for the construction of large buildings in the principal cities of Colombia.

217. In recent years, as a result of the increase in their assets, the insurance and capitalization companies have been able to increase their mortgage loans. The total amount of these loans rose from C\$ 27 million in 1955 to about C\$ 90 million in 1959.

218. In the Cauca Valley a kind of a savings and loan association was created which, although very small, illustrates the effort made by small savers to solve the housing problem. The association has 3,000 members who have undertaken to save C\$ 1 each week. The weekly savings are collected by the sale of stamps, and funds accumulated in this way are deposited in a savings bank account. The savings and loan association uses its funds to purchase land to be subdivided into lots for sale to members on monthly instalments of C\$ 20.

219. There is a sizeable market for mortgage loans outside the banking sector, but the rates charged are very high in comparison with those for loans made by financial institutions.

220. The following table shows the difference in the rates of interest charged by the various lending institutions on loans for the building or purchase of homes:

RATES OF INTEREST ON HOUSING LOANS

	<u>per cent per annum</u>
Instituto de Credito Territorial	8
Agricultural Credit Bank	5 - 7
Central Mortgage Bank	9 $\frac{1}{2}$
Insurance Companies	10 - 12
Private Mortgages	18 - 24

221. Statistics based on records of new buildings in 21 cities show that between 1951 and 1956 more than 9,000 urban housing units were built each year and that in the last three years the rate has increased to about 11,000 per annum.

222. As in the case of agricultural credit, not enough funds are available for housing, particularly for dwellings of the lower income classes. And here too a real improvement of the situation depends on the rate of annual increase of transferable savings. (Please see page 45 for the table.)

NUMBER OF URBAN HOUSING UNITS CONSTRUCTED
IN 21 CITIES

	<u>No. of Units</u>	<u>Millions of Square Meters</u>	<u>Value in Millions of Pesos</u>
1951	7,549	1.1	99
1952	9,053	1.2	118
1953	8,677	1.3	129
1954	10,455	1.7	171
1955	8,541	1.5	155
1956	10,455	1.7	202
1957	10,957	1.8	224
1958	11,212	1.8	249
1959 <u>1/</u>	6,802	1.1	171

1/ First six months.

Source: Banco de la Republica, Informe Anual.

CHAPTER VI

THE CENTRAL BANK AND ITS ROLE IN THE CAPITAL MARKET

223. A Central Bank, the "Banco de la Republica" was established in 1923 as a semi-public corporation responsible for the administration of the monetary and banking policy and also for the administration of the gold and foreign exchange reserve. Previously, currency notes were issued by private banks.

224. The share capital of the Central Bank was subscribed to on the following basis: The commercial banks were required to buy the shares of the Central Bank in an amount equivalent to 15 per cent of their paid-in capital. The initial capital of the Bank was C\$ 10 million in 1923. As the paid-in capital of the commercial banks was enlarged, the capital of the Bank was increased accordingly, and stood at C\$ 54 million in 1960.

225. At the beginning, the government and a few private investors also subscribed to the shares of the Banco de la Republica. These shares were, however, taken up by the commercial banks and later on by the Stabilization Fund, which holds shares representing 27 per cent of the paid-in capital of the Bank.

226. The Banco de la Republica is administered by a board which consists of government representatives, representatives of official or semi-official banks, private banks, and representatives of agriculture, trade and industry.

227. The functions of the Banco de la Republica include: the issue of currency notes; the control of the banking credit and the administration of the foreign exchange and gold reserve.

228. When the Bank was established the minimum reserve (gold and foreign exchange) requirement was determined at 50 per cent of the currency in circulation. As the pressure for credit developed, this requirement was reduced to 30 per cent in 1941 and has been 25 per cent since 1948.

229. The Central Bank is authorized to make loans and discounts to banking institutions. Although at the beginning these operations were supposed to provide only short-term funds for temporary needs of the banking system, through the years they became a permanent direct and indirect source of financing banking credit on a large scale as shown by these figures: For every peso given as a loan by the banks, the Banco de la Republica provided through its loans and discounts, 22 cents in 1930, about 30 cents in 1955 and 1956, 50 cents in 1957 and 57 cents in 1958. As a result of the recent monetary stabilization program, in 1959 the proportion of funds advanced by Banco de la Republica was reduced to 45 cents for every peso lent by the banking system. (See table on page 47).

Relationship between Total Banking Credit and the Loans
and Discounts of Banco de la Republica

(million pesos)

	<u>Total Banking Credit</u>	<u>Loans and Discounts from Banco de la Republica*</u>	<u>Funds from Central Bank as percentage of total banking credit</u>
1930	75	17	22.6
1955	2285	691	30.2
1956	2772	790	28.5
1957	2958	1491	50.3
1958	3258	1862	57.1
1959	3760	1708	45.4

* This includes not only loans and discounts to banks, but also to borrowers other than banks and to official entities.

230. It should be noted that the government and not the Central Bank establishes by decrees the overall ceiling for advances and rediscounts for the banking system. The Bank has to operate within the provisions of the government decrees which have been changed rather frequently. Within the overall ceiling (cartera) Banco de la Republica determines the ceilings of rediscounts for any banking institutions. At present, the ceilings are:

- a) 150 per cent of the first four million pesos of the capital and legal reserves of the respective bank; and
- b) 120.5 per cent of the rest of the capital and reserves.

In 1960, the total amount of ceilings for banks was about C\$ 674 million. The total amount of rediscounts for any bank, however, must not exceed an amount equivalent to 370 per cent of the capital and legal reserve of Banco de la Republica.

231. As mentioned previously, credits obtained from Banco de la Republica were at the start short-term. Until 1949, loans and discounts consisted of operations of not more than 150 days. In 1950, the Central Bank began to provide credits for industrial loans granted by banks with a maturity up to five years. Since 1952, the Central Bank discounts loans granted by banks at a five-year term for agricultural development and since 1959 a long-term rediscount has been established for ten-year loans made by banks to the Departamentos. The purpose of this operation has been to consolidate debts of district (regional) governments into one obligation.

232. By adopting the abovementioned measures, a change has taken place in the maturity composition of the Central Bank portfolio. The bank has become a supplier of medium-term or even long-term funds used mostly for development. Unfortunately, the available classifications of the loans and discounts of the Central Bank do not show such details as the growth of loans at one, three and five-year terms. However, the officials of the Bank indicated that, in the last years, there has been a substitution in the short-term portfolio (one-year term) for medium-term portfolio (more than one year and up to five-year term), mainly due to the rediscounts to Caja de Credito Agrario which received nearly 40 per cent of these loans. These officials estimate that the one to five-year term loans of the Bank amounted to nearly C\$ 400 million at the beginning of 1960, (nearly 24 per cent of all loans and discounts).

Terms of Outstanding Loans and Discounts from Banco de la Republica

(million pesos at the end of each year)

	<u>up to 30 days</u>	<u>from 31 to 60 days</u>	<u>from 61 to 90 days</u>	<u>from 91 days and up</u>	<u>Total</u>
1955	107	123	116	345	691
1956	135	128	166	361	790
1957	425	335	386	343	1491
1958	414	480	544	422	1862
1959	392	409	399	507	1708

Source: Revista Banco de la Republica

233. In addition to advances and rediscounts, the Banco de la Republica has been making direct loans to private borrowers, mostly coffee growers. Furthermore the Bank made at times direct loans to the government, but no such loans were made since 1957.

234. The Banco de la Republica is authorized to buy and sell securities (bonds) in the open market but this right could not be exercised as no market exists for bonds with the exception of the mortgage cedulas issued by the Central Mortgage Bank.

235. The Central Bank has a substantial investment portfolio which has increased year after year and amounted to C\$ 687 million at the end of 1959. (See table 11a). These investments have contributed to the financing of public works, semi-public industrial enterprises and supplied funds for long-term loans of the Central Mortgage Bank.

236. The regulation of the rates of interest for Central Bank advances and rediscounts has been one of the most important instruments of Banco de la Republica to control the credit market; moreover the Central Bank has used this policy for expanding medium-term loans provided by the banking institutions.

237. The present system secures good profit margins to the banks and at the same time makes it possible that rather moderate rates are charged for loans for economic development.

Comparative Rates of Interest for Banking Loans and Rediscounts
from Banco de la Republica

	<u>Maximum rates for loans^{1/} by banks</u>	<u>Central Bank rates of rediscounts^{2/}</u>	<u>Margin of profits</u>
	(per cent)		
1. Loans up to 5 years for:			
a) Industry	8	3	5
b) Agriculture, livestock and fishing:			
(i) Banco Ganadero	8	3	5
(ii) Commercial banks	9	3	6
2. Loans at 1-3 year term for agriculture, livestock and fishing:			
a) Banco Ganadero	7	3	4
b) Commercial banks	8	3	5
3. Loans secured by bonds issued by Caja Agraria	9-5	2	7-5
4. Loans up to 10 years to con- solidate debts of regional governments	8	5	3
5. Loans secured by warehouse certif- icates:			
a) up to 150 days, for agricul- ture, livestock and industry	6	3½	2½
b) up to 90 days for commercial operations	6	5	1

^{1/} Established by law.

^{2/} Established by the Board of Directors of Banco de la Republica.

Statutory Reserve

238. All banks operating in Colombia are required to maintain a legal (statutory) reserve against their deposits, the proportion of it being determined by the Board of Directors of the Banco de la Republica. At the beginning, these reserves had to be kept exclusively on deposits with the Central Bank but in 1955 the banks were authorized to keep up to 20 per cent of these reserves in cash in their own vaults. Furthermore, the banks were permitted to invest part of the required reserves in approved loans and securities, either directly or through the Central Bank. Thus the total amount of required reserves was not sterilized. The pressure for credit expansion was behind this development which was made possible by the flexible policy of the Central Bank concerning the statutory reserve. It should be added that deficiencies in the required reserves have been a regular feature of the banking system in Colombia. The legal reserve position of banks, at the end of March 1960, showed a deficiency of C\$ 12.2 million.

239. The present structure of the required reserves of commercial banks against the deposits may be summarized as follows:

	<u>Investments Considered as Part of Reserve</u>			<u>Total</u>
	<u>Cash</u>	<u>Bonds of Caja Agrario</u>	<u>Consolidated Government Bonds</u>	
	(per cent)			
<u>Commercial Banks</u>				
Demand and time C\$ deposit	23	5	-	28
C\$ term deposits after 30 days	14	-	-	14
C\$ saving deposits	3	-	22	25
Foreign Currency demand and time deposit	30	-	-	30
Foreign currency term deposits	20	-	-	20
<u>Mortgage Banks</u>				
Demand and time deposits	25	-	-	25
Term deposits after 30 days	5	-	-	5

240. From 1951 to March 2, 1960, the Banco de la Republica imposed an additional reserve equivalent to 100 per cent of the new deposits (marginal), but permitted the banks to invest up to 72 per cent of such marginal reserves

in securities and prescribed loans. However, the marginal reserve requirement was abolished in May 1960 except for the Colombian peso term deposit obligation in excess of 30 days at the commercial banks which remained subject to a marginal cash requirement of 9 per cent in excess of the basic 14 per cent.

Stabilization Fund

241. By special agreement with the government in 1934, the Banco de la Republica recognized the right of the government to any profit derived from the revaluation of the gold holdings and that, in case of any future law issued by Congress reducing the gold parity of the Colombian currency, the resultant profits would be used mainly to repay the non-interest bearing government debt held by the bank. The agreement also provided that, should there be any funds left after the repayment of such debt, the government would leave up to C\$ 1 million to Banco de la Republica in order to form a fund (Fondo de Estabilizacion). This fund was to be the main instrument to stabilize the price of government bonds through open market operations.

242. Banco de la Republica also agreed to increase the resources of the Stabilization Fund by assigning to it 5 per cent of its annual profits. On June 30, 1960, the capital and legal reserves of the Fund amounted to C\$ 53.4 million.

243. In addition to its capital, the operations of the Fund had been financed by loans from the Central Bank and by using the funds from the compulsory deposits for imports.

244. The Fund was initially administered by the Banco de la Republica and later on became an autonomous institution administered by a Board of Directors, consisting of the Finance Minister, the General Manager of Banco de la Republica and a representative of the President of the Republic.

245. Investment of the Stabilization Fund amounted to more than C\$ 300 million at the end of 1958 and 1959, as shown below:

(pesos million)

	<u>1953</u>	<u>1954</u>	<u>1956</u>	<u>1958</u>	<u>1959</u>
	(year ending December 31)				
Total investment:	<u>43.6</u>	<u>83.5</u>	<u>138.1</u>	<u>363.0</u>	<u>340.7</u>
of which					
1. External Debt - government bonds	1.5	1.7	1.8	2.3	1.4
2. Internal Debt bonds	76.3	78.5	120.8	96.8	82.5
3. Loans to Official Institutions	-	43.6	39.1	76.0	76.5
4. Cedulas Banco Agricola Hipotecario	3.6	3.4	3.1	2.7	2.6
5. Cedulas Banco Central Hipotecario	-	-	5.7	6.9	2.4
6. Stocks Banco Ganadero	-	-	18.6	7.5	5.9

Source: Banco de la Republica

246. The Stabilization Fund was not successful in its main objective, namely to stabilize the prices of government bonds. The Fund could not operate effectively, one of the reasons being that perhaps its capital was low. The resources of the Fund were augmented when it was entrusted with the administration of compulsory (prior) deposits for imports but apparently this has not made possible more efficient operations. And soon the Fund was identified with the not very efficient administration of these deposits which resulted in immobilizing working capital of industries for a period longer than was considered necessary.

247. In 1959 the government decided to liquidate the Stabilization Fund. A law submitted to Congress containing this measure is awaiting approval.

* * * * *

248. Although the government and not the Central Bank determines the over-all size and use of credits provided by the Bank, the Central Bank has a very important role in the money and capital market in Colombia. Within the over-all ceiling it determines the use and the terms of credit and through the purchase of securities it has become an important factor for supplying investment funds.

249. As a whole the role of the Bank has been unorthodox as the Bank combined the control of credit with financing medium-term needs on a growing scale. The extent to which its operations intensified inflationary pressure in the past would require a special study. At present the Banco de la Republica is aware of the fact that its most important contribution to the development of a sound capital market, in order to restore the confidence of the public, is to maintain monetary and financial stability.

CHAPTER VII

MARKET FOR SECURITIES

(1) Introduction

250. Substantial amounts of capital have been raised through the issue of securities, particularly shares of joint stock companies and mortgage bonds of the Central Mortgage Bank. As the table below shows, the total value of the securities in circulation increased from C\$ 2,420 million at the end of 1955 to about C\$ 4,000 million at the end of 1959.

THE VALUE OF SECURITIES IN CIRCULATION IN COLOMBIA^{1/}
(million pesos at end of each year)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
<u>Issued by joint stock companies</u>					
Shares (nominal value)	1819	1984	2142	2484	2791
Private bonds	-	-	10	14	30
<u>Issued by Banks</u>					
Mortgage bonds (cedulas)	238	278	328	411	511
Industrial bonds	27	55	88	86	77
Agrarian bonds	90	105	92	110	121
<u>Issued by the Government</u>					
Bonds of Internal Public Debt	252	382	447	529	501 ^{2/}
<u>TOTAL</u>	<u>2,426</u>	<u>2,804</u>	<u>3,137</u>	<u>3,634</u>	<u>4,033</u>

^{1/} The term "circulation" used here does not mean that these securities are freely marketable.

^{2/} Estimated figure.

251. The value of shares represents nearly 70 per cent of the value of all securities in circulation. The proportion would be higher if instead of the nominal value the market value of shares would be compared with the value of other securities.

252. Before discussing the market for corporate securities, the position of the joint stock companies in Colombia will be explained.

253. Subscribing to the capital of joint stock companies is regarded by many official and private people in Colombia as perhaps the most efficient use of savings for investment. This attitude is partly related to the trend towards industrialization but investment in stocks, particularly in industrial shares, has been considered as a kind of protection against inflation.

(2) Joint Stock Companies

254. Development of joint stock companies started in Colombia early in the twentieth century, particularly in banking companies, breweries, textile, cement and tobacco industries and insurance companies. It should be mentioned that the attitude of Colombian investors towards the methods and fields of investment varied from region to region. The difference is being attributed to the way in which the various European settlements were distributed throughout Colombia and to the diversity of the country's geography. Antioquia was settled by Basques, a people with great business acumen. That fact, combined with the isolation of that district for many years lacking communication facilities, awakened the desire for self-sufficiency which was the foundation for industrialization in and around the city of Medellin. The district of Cundinamarca, where the capital city (Bogota) is located, has felt the stimulus of external influence and the pressure of urban growth, which have affected the businessman's understanding of the necessity for differentiating between company assets and individual or family property. These circumstances have contributed to the fact that both Medellin and Bogota have evolved industrial development based on the organization of joint stock companies.

255. The rest of the country -- the south in particular -- still maintains a strong individualistic tradition whereby the company is considered as part of the family assets. In some regions of the country, however, public investments have awakened a sense of cooperation among the inhabitants, as well as a desire to compete with better developed regions. Such attitude is now apparent in the Cauca Valley, especially in the city of Cali, which since 1945 has experienced a very rapid urban growth that has made it an important market. This, combined with the basic public works carried out by the government, has promoted industrialization. Because of these developments, individual ownership of companies is gradually being replaced by limited liability companies, possibly as a transition to joint stock companies.

256. The government, aware of the importance of industrial development and also of the business organization in the form of joint stock companies, took various measures to promote the movement and protect investors. These measures include legal provisions governing the establishment of joint stock companies, their supervision by the Superintendency of Joint Stock Companies, requirements for issue and sale of shares and bonds, regulations of stock exchange transactions and requirements for listing of shares on a stock exchange.

257. The Superintendency grants companies permission to operate after ascertaining that all legal formalities for their constitution have been fulfilled, that at least 20 per cent of each share subscribed has been paid and that their statutes and accounting regulations are in accordance with the law.

258. A public document which embodies establishment of a joint stock company must be registered with the Superintendency after being recorded with the local Chamber of Commerce. Such document must include in the Articles of Association all the important facts related to the company to be established, particularly: purpose of the company; capital; number and value of shares; general information on the founding partners;^{1/} number of shares subscribed by each of them; form and terms of payment; periods fixed for drawing up balance sheet and declaring of dividends; the portion of profits to be set aside for legal or other reserves; reasons for early liquidation (including loss of more than 50 per cent of the subscribed capital) and duties of the Auditor.

259. The Superintendency maintains constant control over joint stock companies. It has sufficient authority to penalize, even by compulsory dissolution of companies, any irregularities it may observe in the management thereof that might endanger the capital invested or the interests of third parties.

260. Internal control of the companies is the responsibility of an auditor who has the title of "Revisor Fiscal". He is appointed by the General Meeting of Stockholders and is registered with the Chamber of Commerce. It is widely believed in Colombia that auditors are in fact appointed by the largest stockholders and are not really independent.

261. The companies are required to submit their balance sheets to the Superintendency annually or semi-annually. These are prepared on a form provided by the Superintendency supplying information on all relevant items in minute detail. However, this balance sheet is different from the one published by companies, the contents of the latter being in many cases insignificant.

^{1/} No company may be established with less than five shareholders.

262. According to information obtained, stockholders are not very interested in detailed balance sheets so long as they receive regular dividends and have confidence in management.

Issue of Stocks

263. The issue of stocks is also subject to legal provisions that protect the interest of the stockholders and the creditors of the companies. These securities can be issued only with the authorization of the Superintendency. Joint stock companies may not state their subscribed capital without, at the same time, indicating how much of it is paid in. Nor may a joint stock company purchase its own shares unless the general stockholders meeting so decides and the purchase is made out of profits. No stockholder, regardless of the number of shares he possesses or represents, may have more than 25 per cent of the total votes of the shares represented.

264. The control and supervision exercised by the Superintendency over the issue of shares and the performance of the joint stock companies in general may perhaps, have been a major factor in developing the public's confidence in these securities. The Superintendency may even decree the withdrawal from the public markets or stock exchanges of shares of any companies which violate legal regulations.

(3) Recent Growth of Joint Stock Companies

265. The table below gives an indication of the increase in capital and the rate of profit obtained, on the average, in all companies (about 1,000 at present) registered with the Superintendency:

RATIO OF PROFIT TO CAPITAL AND ASSETS OF THE
COLOMBIAN JOINT STOCK COMPANIES
(millions of pesos)

	<u>Capital Paid-in</u>	<u>Assets^{1/}</u>	<u>Net Profits</u>	<u>Per Cent of Profits</u>	
				<u>On Paid-in Capital</u>	<u>On Assets</u>
1952	1454	2425	249	17.12	10.27
1953	1481	2522	253	17.08	10.04
1954	1576	2806	311	19.73	11.09
1955	1819	3164	254	13.96	8.04
1956	1984	3665	360	18.15	9.82
1957	2142	4063	430	20.07	10.58
1958	2484	4789	482	19.40	10.07
1959	2791	5589	582	20.85	10.41

^{1/} Value of total assets less debts thereon.

266. Net profits of joint stock companies have generally exceeded 17 per cent of the paid-in capital, which has permitted an increase in funds through retention of profits and also issue of bonus shares. Despite an increase in the proportion of retained earnings, the average dividends paid still represent about 9 per cent of the nominal value of the paid-in capital. To this, other benefits such as bonus shares or issues of new shares or bonds at preferential prices must be added, making the shares an attractive investment.

267. As a result of inflation and devaluations there has been a rise in the actual value of the assets of joint stock companies, even though the book value remains equal to the initial purchase cost less depreciation. The fact that most stockholders are aware of this has also contributed to the increase in the price of shares quoted on the market.

268. The lack of adequate banking credit has led the companies to increase their capital by issuing shares purchased mainly by the old stockholders. Nevertheless, some companies permitted part of their shares to be purchased by small investors. Such was the case of Coltejer and Bavaria, the two companies with the largest capital in Colombia, which have 25,000 and 60,000 stockholders respectively. Most of the capital of Colombian companies, however, is held by a small number of investors as shown by the high degree of concentration of ownership of capital.

269. The Superintendency made an analysis of the concentration of capital of 755 Colombian companies in 1959. Usually, the capital of joint stock companies is between C\$ 250,000 and C\$ 5,000,000. This review indicates that 20 companies represented one-half of the capital of companies reviewed.

270. Even greater concentration of capital exists among stockholders. A study of 610 of the 981 Colombian joint stock companies prepared by the Superintendency, showed a heavy concentration of capital in a very small number of shareholders. The results of this study may be summarized as follows:

<u>Holding of shares</u>	<u>Number of Shareholders</u>	<u>Percentage of total</u>	<u>Number of Shares Held</u>	<u>Percentage of total</u>
from 1 to 100	161,824	63.83	4,690,426	1.21
from 101 to 15,000	89,325	35.23	101,375,542	26.08
from 15,000 to 100,000	1,963	0.78	65,202,892	16.78
over 100,000	<u>411</u>	<u>0.16</u>	<u>217,387,933</u>	<u>55.93</u>
	253,523	100.0	388,656,793	100.0

As the table shows, about 36 per cent of shareholders owned 26 per cent of the capital, while about 72 per cent of the capital was owned by less than one per cent of shareholders.

(4) Market for Corporate Securities

271. The Bogota Stock Exchange was established in 1928. It is a private enterprise organized as a joint stock company and the only institution of its kind in the country, even though, since 1936, the law has provided that stock exchanges could be established in cities of more than 100,000 inhabitants. In the last two years, the government has shown a keen interest in establishing other stock exchanges, particularly in Medellin, but to date nothing has come of this owing to the opposition of the Medellin Stockbrokers Association.

272. About 1,000 Colombian joint stock companies exist at present, of which only 113 were listed on the Bogota Stock Exchange at the end of July 1960. However, the shares of most of the important companies are listed and the market value of the capital of listed companies was more than C\$ 3,000 million at the end of 1959. A steady increase in transactions on the stock exchange is shown in the following figures:

STOCKS TRADED ON THE BOGOTA STOCK EXCHANGE^{1/}
(million pesos)

	<u>Financial</u>	<u>Industrial</u>	<u>Total</u>	<u>Price Index</u> (1952 = 100)
1930	1,667	1,554	3,222	67.5
1940	6,071	8,642	14,713	78.3
1950	17,344	84,387	101,732	99.8
1955	38,296	97,706	136,002	103.2
1959	52,391	147,083	199,474	133.7

^{1/} See also Tables 18, 18a and 19.

273. Transactions on the Bogota Stock Exchange are carried out through 30 brokers who have a network of agencies in various important cities of the country.

274. In Medellin, where there are about 20 brokers, the volume of shares traded is similar to that traded on the Bogota Stock Exchange. In recent years the city of Cali has also become a market for the shares of companies located outside the region. It can be taken for granted that the total turnover in shares in Colombia exceeds greatly the total transactions both on the stock exchange in Bogota and of the stockbrokers in Medellin.

275. Requirements for listing of securities on the stock exchange are considered strict. They include: a written application by the legal representatives of the company, together with the Statutes and balance sheet for the last fiscal year, and other pertinent information, and in the case of bonds, a copy of a trustee agreement. The company must have a paid-in capital of at least C\$ 50,000.

276. The Board of Directors of the Exchange examines the submitted documentation and may authorize the listing after consideration of the company's financial position, history, integrity, labor conflicts, etc. The company whose shares are admitted to the exchange is obliged to publish, at least quarterly, a balance sheet showing clearly the profit and loss account according to the regulations of the Bank Superintendency, notices of payments of dividends, change in the statutes, etc.

277. The Board of Directors may at any time withdraw the authorization to list the shares of companies that do not operate according to law and their statutes or do not offer a guarantee of their "serious purpose".

278. The prestige of listed securities is supported by the authority and supervision of the Superintendency of Banks (a government agency) which can prohibit or withdraw the listing of shares of companies if a violation of law or provisions and statutes of the stock exchange is shown.

279. The stock exchange maintains records of the listed securities, the transactions carried out and the daily quotations. Legal provisions require discretion and fair play on the part of stockbrokers who, moreover, must submit certain guarantees and record all their transactions in securities listed on the exchange whether or not such transactions take place on the exchange.

280. As a whole, one might conclude that a well organized and expanding market in shares exists in Colombia. It also appears that the market is properly screened and supervised.

Bonds Issued by Joint Stock Companies

281. As mentioned previously, the joint stock companies recently began to issue bonds at a high rate of interest (12 per cent). The amounts issued in 1958/59 were small but in the first eight months of 1960, the Superintendency of Corporations authorized the issue of C\$ 78.5 million. The stock exchange in Bogota estimated that the total issue might reach C\$ 100 million during 1960.

282. These bonds became popular among investors and trading in them has developed on the stock exchange. (The monthly turnover during 1960 exceeded C\$ 3 million.)

283. The issue of the bonds must be approved by the Superintendency of Corporations. The companies must submit a prospectus showing the financial position of the company, its borrowing power and the features of the loan being negotiated. The prospectus has to be signed by the legal representatives of the company and a bank appointed as a trustee; it must be recorded with the Chamber of Commerce of the debtor company's domicile. Furthermore, the prospectus must be published in the Bulletin of the Chamber of Commerce or in the Gazette of the Department (district).

284. The trustees are legal representatives of the prospective buyers of the bonds and as such they take part in all matters concerned with the issue and with the compliance of obligations arising from the contract accepted by them.

(5) Market for Government Bonds and Other Securities

(A) GOVERNMENT BONDS

285. Up to 1955, the internal public debt was comprised of a series of miscellaneous securities with a variety of maturity terms and rates of interest. At that time most of the securities bore interest of 6 per cent and the usual maturity term was 20 years, although some bonds bore a 3 per cent interest with maturity terms ranging from 10 to 30 years.

286. Hardly any of these issues of public securities met with success in the market. To sell them agreements had to be arranged with Banco de la Republica and the Stabilization Fund; moreover, financial institutions^{1/} were required to buy government bonds under the compulsory investment schemes.

287. The government, concerned about the lack of a market for its securities, and in view of the confusion resulting from different interest rates and maturity terms of government bonds, decreed in 1955, the conversion of the majority of these securities. This resulted in the issue of national consolidated bonds, bearing 5 per cent interest, tax exempt, and for a fifteen-year maturity. Even so, the bonds had not attracted interest in the market because the interest rate was lower than that of other competitive investments. Furthermore, this conversion took place at a time when Colombia's financial outlook was not favorable. Soon after the issue, strong inflationary pressure developed and currency was devaluated. Under the circumstances, Colombian investors had no confidence in the new government securities.

288. In 1960, as part of its stabilization program, the government has tried a new approach toward arranging the internal public debt in order

^{1/} Please see page 65.

to attract the interest of investors. In February 1960, an issue of economic development bonds was authorized in the amount of C\$ 200 million, of which C\$ 70 million were to be issued during the course of that year (C\$ 35 million with six-year maturity and C\$ 35 million with ten-year maturity). The yield on these bonds is 8 per cent for six-year bonds and $8\frac{1}{2}$ per cent for ten-year bonds. The new bonds are tax exempt and are sold at 95 per cent of their face value. The two Financieras which signed an underwriting agreement^{1/} in respect of this debt, have placed part of it among voluntary subscribers, mainly savings banks and insurance companies. Colombian authorities believed that with the tax exemption the actual rate of interest for these bonds is 10-12 per cent. It is possible that new bonds will appeal to investors and that a beginning in establishing a market for government bonds might be made.

289. In addition to the bonds issued in the form of documents to the bearer, the internal public debt includes other securities, registered or to order, such as promissory notes and drafts, originating in many cases from debts in connection with contracts for the construction of public works.

290. Although it has not been possible to determine the distribution of the government bonds proper, various information gathered made it possible to prepare the following distribution of the different holders of internal public debt securities.

<u>HOLDERS OF GOVERNMENT SECURITIES</u>					
(million pesos)					
	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Insurance companies and capitalization companies	47.0	49.5	43.0	32.2	51.3
Commercial Banks	38.0	72.3	71.6	98.5	109.8
Bank of the Republic	54.6	79.2	86.5	171.0	172.2
Stabilization Fund	88.9	120.8	99.7	96.8	82.5
Mortgage Banks and Caja Agraria	91.4	130.9	121.9	133.3	121.0
Unclassified	<u>0.3</u>	-	-	-	<u>3.0</u>
Total in circulation	<u>319.9</u>	<u>452.7</u>	<u>422.7</u>	<u>531.8</u>	<u>539.8</u>
Stock Exchange Transactions	10.7	4.2	2.5	15.8	32.9

^{1/} The commission charge by the corporations for this service is 0.5 per cent of the value of the bonds placed.

As this table shows, the total amount of government bonds is very small and there has been only a slight increase in government debt in the last three years. The bonds have been held only by financial institutions.

(B) MORTGAGE BONDS

291. Until recently mortgage bonds (cedulas) issued by the Central Mortgage Bank were the only bonds regularly traded in the market. The bonds have been issued on the following terms: rate of interest 7 per cent, tax exempt, issued to bearer, with 20 years maturity.

292. The bank issues to the borrower an amount of cedulas corresponding to the amount of the loan on a mortgage and agrees that these loans will be repaid with the same kind of bonds. The bank itself is marketing the bonds and buying them as they are needed for the repayment of loans. The schemes for compulsory investment also include these bonds.

293. Since 1958 the Central Mortgage Bank has maintained the price of mortgage bonds at 86 per cent of their face value. Lately, however, these securities tended to decline in the market as a result of a general increase in interest rates, especially of competitive fixed income securities such as private industry bonds and the new government bonds issued in 1960. Previously, one of the main incentives for the bonds was their tax exemption, but this advantage has been included in the new government bonds. Furthermore, private industry bonds, although their interest is taxable, embodied the aforesaid advantage automatically since these securities are issued to the bearer, thus making their control for tax purposes very difficult. In order to maintain the price at 86 per cent, the bank had to intervene regularly in the market and buy, which reduced its funds available for investment.

FOLLOWING WERE HOLDERS OF MORTGAGE CEDULAS DURING 1955-59

(million pesos)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Insurance companies and capitalization companies	21.7	31.0	32.4	29.9	43.3
Banking institutions	111.6	104.8	117.0	146.2	158.9
Banco de la Republica	1.7	9.6	26.2	59.7	53.7
Stabilization Fund	3.3	8.9	10.9	9.8	5.6
Unclassified	<u>99.7</u>	<u>123.7</u>	<u>141.5</u>	<u>165.4</u>	<u>249.5</u>
Total in circulation	<u>238.0</u>	<u>278.0</u>	<u>328.0</u>	<u>411.0</u>	<u>511.0</u>
Stock Exchange Transactions	27.9	32.5	34.2	50.4	79.8

The officials of the bank believe that until recently about half of the bonds issued were bought by private investors.

(C) INDUSTRIAL BONDS ISSUED BY FINANCIAL INSTITUTIONS

294. Although several institutions have been authorized to issue industrial bonds, the main issues have been made by the Central Mortgage Bank to provide medium-term credits to industries. The issue of this type of security was authorized first in 1937. The maturity dates ranged from a five to six-year term, but from 1955 onwards this term was extended to ten years. The interest of these securities has been 7 per cent, tax free.

295. In 1952 the Popular Bank was entitled to make an issue of industrial bonds to promote industrial credit and in 1955 the right of issue of such bonds was extended to mortgage departments of all commercial banks.

296. The industrial bonds were included in the schemes of compulsory investment since 1950.

297. As the table below shows, the total amount of industrial bonds issued is small indeed.

HOLDERS OF INDUSTRIAL BONDS

(million pesos)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Insurance companies and capitalization companies	20.3	34.7	50.3	54.1	61.2
Banking institutions	1.9	10.5	17.1	8.8	17.2
Bank of the Republic	3.6	3.8	15.7	17.7	7.2
Stabilization Fund	-	-	-	-	-
Unclassified	<u>4.2</u>	<u>9.0</u>	<u>8.9</u>	<u>15.4</u>	<u>5.4</u>
Total in circulation	<u>30.0</u>	<u>58.0</u>	<u>92.0</u>	<u>96.0</u>	<u>91.0</u>
Stock Exchange Transactions	98	135	133	121	147

(D) AGRICULTURAL BONDS

298. These securities have been issued by the Caja de Credito Agrario in order to obtain funds for credits for agriculture and rural housing. Since 1942 when the first issue took place, these bonds have been guaranteed by the government. At the beginning, they were issued on 180 days maturity term at 4 per cent interest, but in 1959 these issues were authorized to carry 6 per cent interest and to have a ten-year maturity term.

299. The government, showing a keen interest in starting small scale agrarian reform programs, entrusted the Caja Agraria, in 1959, with the execution of these programs through loans and investments in connection with the parcelling of land and rural housing. It has been also compulsory for banking institutions to participate in this program and they have been required to grant loans for the parcelling of the land up to an amount equal to 10 per cent of their savings deposit. Alternatively, the banks could invest this 10 per cent in agrarian bonds issued by the Caja Agraria. It has been compulsory for insurance companies to make investments in this kind of bond.

300. Although the Banco de la Republica does not include agrarian bonds in its investments, it has become the main holder of these bonds, acquired as guarantee for discounts and rediscounts from the Caja Agraria.

301. The available information shows the following distribution of the holding of agrarian bonds:

<u>HOLDERS OF AGRARIAN BONDS</u>					
(million pesos)					
	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Insurance companies and capitalization companies	2.7	2.2	1.3	1.0	-
Banking institutions	58.0	85.3	83.0	101.4	114.2
Bank of the Republic (discounted)	197.2	215.2	178.9	246.6	307.6
Stabilization Fund	-	-	-	-	-
Unclassified	<u>28.9</u>	<u>17.4</u>	<u>7.4</u>	<u>7.6</u>	<u>7.3</u>
Total in circulation	<u>286.8</u>	<u>320.1</u>	<u>270.6</u>	<u>356.6</u>	<u>429.1</u>

302. The table below shows the total amount of the three types of bonds mentioned above as at the end of 1959:

(million pesos)	
Mortgage Cedulas	511
Industrial Bonds	91
Agrarian Bonds	<u>429</u>
	<u>1,031</u>

Of this total, a market existed only for the cedulas and bonds issued by the Central Mortgage Bank.

303. With regard to the market of fixed interest securities, the following observation is made: The total amount of all fixed interest securities including government bonds is small; yet despite the small amount, a market exists only for mortgage and industrial bonds issued by the Central Mortgage Banks, for the high yielding bonds issued in recent years by a few industrial companies and attempts are being made to create a market for the new government bonds. Thus, the situation of the marketability of bonds is greatly different from the well-established marketability of shares.

(E) PROVISIONS FOR COMPULSORY INVESTMENT

304. The limited market for fixed income securities and the small annual increase in transferable savings induced the Colombian Government to issue legal provisions making it compulsory for institutions which collect savings, to invest in this type of securities. This policy was started in 1923 when the banking law was issued providing in general that savings deposits could only be invested in bonds and other fixed income securities of the government, departments, municipalities, railroad and industrial enterprises, banks and first mortgages.

305. Rules applicable to investment of capital and reserves and other funds of insurance companies were established in 1940. A specific percentage of compulsory investment in government securities (15%) and in bank bonds (10%) was first fixed on this occasion.

306. When economic defense bonds were issued in 1943, insurance companies were required to invest 10 per cent of their reserves in such bonds, and industrial and commercial enterprises with more than 20 employees and with a capital of over C\$ 50,000 were required to invest 10 per cent of their legal reserves in these securities.

307. As new issues of these securities continued, in spite of a declining market, new provisions were decreed. In this manner, various government bonds, bonds of Acerias Paz del Rio, mortgage bonds and industrial bonds, railroad bonds, etc., were gradually included. Owing to the conversion of the public debt, in 1955 rules were issued for the compulsory investment of savings deposits, sight and term deposits, and the funds of insurance companies and capitalization companies.

308. These provisions essentially remained in force up to June 1960. Alterations were made in this scheme in 1960 because the issues of the internal debt had been exhausted and it was necessary to find new ways for the placement of the new government bonds and also to strengthen the market for mortgage bonds. The new rules took into account the need for supporting future issues of industrial bonds by Financieras and the strengthening of financing for housing. The system for compulsory investments adopted in 1960 can be summed up as follows:

309. Banks must invest savings deposits as follows: 25 per cent in mortgage bonds or in 6 per cent loans made for housing developments or subdivision of land; 10 per cent in government bonds (central or local); 10 per cent in agrarian bonds or industrial bonds ^{1/} and 20 per cent in any other kind of fixed income securities or first mortgages on real estate. Three per cent have to be kept in cash.

The new regulations gave the banks more flexibility of investment within the compulsory scheme.

310. In addition to the system of compulsory investment, commercial banks have since 1957 been required to invest some 15 per cent of their demand and time deposits in agricultural and stock-raising bonds and not less than 1 per cent of such deposits in government bonds.

311. The general insurance companies are under obligation of investing 35 per cent of their capital and capital reserves, and 54 per cent of their technical reserves in activities mentioned below. Life insurance companies must invest 25 per cent of their capital and capital reserves and 61 per cent of their technical reserves in the same way as provided for general insurance companies. These funds should be invested: 40 per cent in government bonds (central or local); 25 per cent in mortgage loans; ^{2/} 20 per cent in industrial bonds and 15 per cent in mortgage loans for housing or in bonds issued by mortgage banks.

312. Capitalization companies must invest 40 per cent of their net technical reserves ^{3/} as follows: 30 per cent in government bonds (central or local); 25 per cent in mortgage bonds and 45 per cent in mortgage loans for housing or in mortgage bonds issued by mortgage banks.

313. The Superintendency of Banks projected the total amount of new funds accumulated at institutions which are subject to the compulsory investment scheme for the next five years. Assuming a gradual increase in savings, it calculated that a total of about C\$ 805 million may be invested as shown below:

(a) in government bonds		169.2
(b) housing		
mortgage bonds	210.7)	
housing and savings bonds	96.3)	
mortgage loans	100.8)	407.8
(c) agrarian bonds		170.4
(d) industrial bonds		57.4

^{1/} Of any of the following institutions: Banks, Financieras and the Industrial Development Institute.

^{2/} Minimum maturity date: 13 years.

^{3/} Total value of their technical reserves less the loans granted on the basis of a guarantee consisting of capitalization bonds.

314. According to this projection, institutional holdings of mortgage bonds, agrarian bonds and industrial bonds would increase by C\$ 438 million during the period 1961-1965 as compared with an increase of C\$ 180 million during the years 1955-59, or more than double. This also indicates that a gradual but steady increase in savings at financial institutions would provide a regular and expanding flow of funds for investment which the government considers necessary.

CHAPTER VIII. RATE STRUCTURE

315. Great variety of rates of interest exist in Colombia; the lowest are those charged for rediscounts and loans of the Central Bank and loans of official and semi-official institutions; the highest rates are charged for loans obtained from sources other than financial institutions.

316. The level of rates charged by financial institutions is governed by the policy and detailed directions of the Central Bank and by the system of compulsory investment.

(1) Commercial Banks

317. The interest rates on loans made by commercial banks vary in accordance with the purpose and term of the transaction and also with the customer's creditworthiness. For loans which the banks wish to rediscount with the Central Bank the rates must not exceed 9 per cent per annum.^{1/}

318. In the balance sheets of the banks, the loans are classified as re-discountable or not rediscountable with the Central Bank. Of the amount of loans and advances totalling C\$ 3,761 million at the end of 1959, the sum of C\$ 2,100 million was classified as rediscountable carrying the rate of interest up to 9 per cent. The balance consisted of non-rediscountable loans and advances on which the rates were from 9.1 per cent to 12 per cent.

319. The rates which are charged on loans rediscounted with the Central Bank give the banks a good profit margin as the rate charged by the Central Bank is generally 3 per cent per annum.^{2/}

320. The main sources of cheap funds for banks are demand deposits and 30-day deposits which bear no interest. Their total was C\$ 2,231 million at the end of 1959. The margin obtained through the use of saving deposits on which interest at 3.5 - 5 per cent is paid, is relatively low because these deposits must be invested in certain fixed income securities. However, the annual cost to banking institutions for the use of the paid-in capital is high if compared with the cost of other funds because the banks have been paying about a 10 per cent dividend per annum (the total paid-in capital of the banking institutions was C\$ 684 million at the end of 1959). Accumulated reserves are a source of funds with no immediate cost to the banks. They have been going up every year and reached C\$ 331 million at the end of 1959.

^{1/} See table on rates of interest, Chapter VI, page 49.

^{2/} At the end of 1959, rediscounts and advances by the Central Bank to the banking system amounted to C\$ 704 million.

(2) Other Banks

321. Loans granted by the Central Mortgage Bank bear an interest rate varying between 9 and 10 per cent; including additional charges for commission and insurance premiums the rates may actually reach 10 and 11 per cent respectively.

322. The Agrarian Credit Bank has a special preferential rate for loans for financing of rural housing. The interest rates on other loans granted by this institution vary between 6% and 9% according to the term. The different rates of interest charged by this bank may be grouped as follows:

- | | |
|--|------|
| 1) Loans for rural housing ^{1/} | 5-7% |
| 2) Other loans: ^{2/} | |
| a) up to 1 year term | 6% |
| b) over a year, but not over a 5 year term | 8% |
| c) from 5 to 12 years term | 9% |

The Bank has been selling through the compulsory investment schemes 4 per cent bonds, called agricultural bonds, the proceeds to be used for financing of agriculture.

(3) Capitalization Companies

323. Loans granted by capitalization companies bear interest between 8 and 12 per cent per annum according to the type of loan. If the loan is guaranteed by capitalization cedulas, the applicable rate of interest generally varies between 8 and 9 per cent; interest rates varying between 10 and 12 per cent per annum are charged on other loans. The loans granted by these institutions amounted to C\$ 83 million at the end of 1959.

(4) Insurance Companies

324. The loans granted by these institutions bear the same rate of interest as those of capitalization companies. The total amount of loans made by life insurance companies was C\$ 91 million on December 31, 1959.

(5) Government Bonds

325. As mentioned previously, since the conversion of the internal public debt in 1955, interest rate on almost all government bonds was maintained at 5 per cent. In 1960, the government issued securities bearing an 8 to 8½ per cent interest, tax exempt, and they are being issued at 95 per cent of face value.

^{1/} 15 years term.

^{2/} for agriculture, livestock, industry and mining.

(6) Bonds issued by Joint Stock Companies

326. As discussed in another chapter of this report, these bonds which were issued recently by a few companies bear an interest of 12 per cent.

(7) Territorial Credit Institute (Instituto de Credito Territorial)

327. Loans for the financing of construction or purchase of houses are granted by the Institute at 8 per cent annual interest, plus an additional 1 per cent to cover the insurance premiums.

(8) Interest Rates for Private Loans

328. Private loans are continuously being advertised, mainly for mortgages, at interest rates varying between 18 and 24 per cent, even though mortgages have been recorded with an interest rate of up to 36 per cent annually^{1/} in the city of Bogota. Interest rates charged by private parties are naturally higher in the cities where no bank services are available.^{2/}

329. In concluding, it can be said that the rates charged by the financial institutions are all controlled and might be called artificial. It is understandable that the government and the Central Bank are anxious to promote various activities related to economic development through the low rates of Central Bank discounts and advances. Through low interest loans made for a period of one to five years, the Central Bank has provided funds for development and has been subsidizing activities for which high priorities have been assigned. The compulsory system of investment has a similar objective, i.e. to make available funds at relatively low rates for agriculture and housing; it amounts to rationing of scarce capital.

330. Although the policy of low rates and the system of compulsory investment, which both are designed to assist in carrying out important economic activities is understandable, the question might be raised whether this method of subsidies is the best from the overall point of view.

331. The rates of interest now prevailing in the banking sector are not the result of market forces but of decisions taken by the government and Central Bank. A gradual change in the existing system should be possible if the stabilization policy continues and above all, if the amount of savings at financial institutions continues to increase on a substantial scale.

^{1/} Page 145 of the Monthly Statistics Bulletin of August 1960.

^{2/} See Table 20.

332. The Finance Ministry would like to change the situation and sell the government bonds on a voluntary rather than a compulsory basis. Therefore, the government has been issuing the new bonds at a rate of interest, which might be called a realistic rate. The new policy might lead to the establishment of a real market for government bonds.

CHAPTER IX. CONCLUSIONS

333. If one reviews the financing facilities available to various sectors of the Colombian economy, the strong and weak parts of the financial organization emerge.

334. In the public sector the government has been able to finance substantial investment expenditure from revenue surpluses and from some borrowing abroad; and the government also borrowed from the Central Bank thus increasing at times inflationary pressures. In the last three years, however, most of the public investment was financed from revenue surpluses without any resort to the Central Bank.

335. No market has been developed for government bonds, which until recently were placed through compulsory investment schemes. The lack of a market for government and semi-government bonds has been felt even more by districts and municipalities because they had no revenue surpluses and no real access to credit.

336. As distinct from the government and semi-government bonds a well-organized market has developed for corporate securities. The government, aware of the importance of developing business organization in the form of joint stock companies, took various measures at an early date, to promote this form of organization and also to protect investors. Thus financing of industries, particularly of the joint stock companies, is rather well established. The development of industries has not been checked by shortage of capital.

337. There are of course complaints, which are common to many countries, that a new enterprise has difficulties in raising capital, that long-term loans for industry are not available and furthermore, that there is a lack of financing for small industries.

338. Of the financial institutions the commercial banks can be considered rather successful. They have provided short-term and medium-term finance to various sectors of the Colombian economy and in general have supplied substantial amounts for investment. To increase their resources, the banks have been borrowing also from the Central Bank, which has led to an expansion of the money volume and, at times, increased inflationary pressures.

339. The Central Mortgage Bank operated successfully, mobilizing through issues of its bonds (cedulas) funds, which were used for investment in housing and more recently also in industry. Through careful operations, the Central Mortgage Bank has succeeded in having its bonds (cedulas) regularly quoted in the market and making them attractive to private investors.

340. Caja de Credito Agrario has occupied a leading role in agricultural credit, supplying nearly 60 per cent of total bank credit to agriculture.

It has been engaged in a great many activities related to agriculture and has certainly contributed to the improvement of this very important sector of the economy. The Bank has been selling agricultural bonds through the compulsory investment schemes (at present two-thirds of these bonds are held by the Banco de la Republica) but it still has been suffering from a lack of funds. As a result, the volume of agricultural credit is not regarded as sufficient.

341. Banco Popular, an institution organized to provide credit for small industry, was involved in serious difficulties arising from poor management. A new start was made in 1958 with the government's help and it is hoped that this Bank and departments of commercial banks organized for the same purpose will be in a position to do more for small industries than has been hitherto the case.

342. A good beginning was made to provide funds for housing of the low income classes when the Instituto de Credito Territorial was established in 1939. The Institute has made possible an increase of housing first in the rural and later in the urban areas but its activities have been handicapped by a lack of funds.

343. The Industrial Development Institute created in 1940 for the promotion of new industries, has not fulfilled expectations. At present, its investment is practically frozen in various enterprises which could not operate successfully until now. Recently, the government has been reviewing the position with a view to putting the Institute on a sound basis and supplying it with new funds, coming mostly from the government.

344. It is too early to assess the activities of the several recently established specialized banks and the two Financieras. One can say, however, that some of them appear to follow a very active policy in providing credits to industry and agriculture and also in mobilizing funds.

345. Among the weaknesses of the Colombian capital market is the small amount of savings accumulated at financial institutions, including the life insurance companies. This has been a prominent feature in Colombia even at times when no inflation existed and it might be considered as one of the important reasons why a market for government and semi-government securities has not developed.

346. In most countries, financial institutions such as savings banks, life insurance companies and pension funds are principal buyers of government and semi-government securities. However, in Colombia these institutions have not been in a position to invest in this kind of security on any significant scale because of the small annual increase of funds accumulated at them.

347. The series of inflations and devaluations was a deterrent to savings and therefore climate propitious for savings was not created. Investors

preferred other opportunities which promised higher yields or offered protection against currency depreciation or both.

348. Since 1957, because a relative currency stability has been established, the situation has improved somewhat and the amount of transferable savings began to increase.

349. Much more has to be done, however, to induce savers that they should invest their money in savings deposits or similar types of investment. This will necessitate a continuous educational campaign - a real savings drive - throughout the country and also some adjustment of rates of interest on savings deposits to make savings more attractive. A wide field is open for expansion of the life insurance business.

350. It might prove useful to examine whether some new specialized institutions would not contribute to a gradual increase in savings, such as mutual savings banks, building societies and rural credit co-operatives.

351. No transferable savings are mobilized in Colombia through pension or provident funds. At present, the most important scheme is a legal provision for the so-called severance payment.^{1/} The amount of funds accumulated for this purpose so far is estimated at between C\$300 - C\$400 million, increasing yearly by about C\$ 30 million. The funds are listed in the balance sheets as a special liability of the firms but are used as working capital, thus helping to finance industries.

352. It is not our purpose to examine whether or how these funds could be used outside the enterprises which accumulate them. However, there is no doubt, if pension and provident funds schemes were broadened to cover a larger number of employees, it could be expected that, as in other countries with expanding industries and growing urban population, funds available for investment (transferable savings) would be generated.

353. If Colombia succeeds in really increasing the annual accumulation of transferable savings, various problems of financing investment will be at least partially solved. More funds would be available not only for investment in the public sector but also for housing and agriculture. The gap in the financial organization, the lack of funds for housing, agriculture and the public sector is thus closely related to the insufficient annual increase in transferable savings.

354. The authorities seem to share this view as evidenced by the projection prepared by the Superintendent of Banks, of an increase of savings at institutions for the period 1961-65 and of greatly enhanced possibilities of

^{1/} According to this provision, employers are obliged to pay for their workers on the termination of service an amount equivalent to one month's salary for each year of service.

investment in housing, agriculture and government bonds, based on this accumulation of savings.

355. During the past decades the Colombian economy has shown great resilience. In spite of devaluations and periods of inflation, the rate of investment was maintained at a satisfactory level. The largest identifiable parts of this investment were in the public sector and manufacturing. Urban and rural construction, for which only some estimates are available, accounted for a very substantial proportion of the total investment.

356. Colombia has a number of well-operating financial institutions. It should be possible, therefore, to fill the important gap in its financial organization, and to gradually increase the yearly accumulation of transferable savings if proper attention is given to this problem and concentrated action taken. Colombia certainly has the potential to develop a balanced capital market.

TABLES IN STATISTICAL APPENDIX

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Table 1
Gross Domestic Investment
(million pesos at current prices)

	<u>Public Investment</u> ^{1/}	<u>Private Investment</u>	<u>Total</u>
1951	437	907	1,344
1952	420	1,064	1,484
1953	478	1,125	1,603
1954	778	1,388	2,166
1955	935	1,433	2,368
1956	768	1,793	2,561
1957	727	2,709	3,436
1958	1,034	2,791	3,825
1959	1,143	3,207	4,350

^{1/} From Table No. 4.

Source: Banco de la Republica, National Accounts.

Table 1a
Composition of Fixed Gross Investment by Type
of Investment and Activity 1925-1953 ^{1/}
(millions of pesos at 1950 prices)
annual average

	<u>1925-29</u>	<u>1930-38</u>	<u>1939-44</u>	<u>1945-53</u>
Total gross investment	680	532	730	1236
<u>Machinery and equipment</u>	<u>247</u>	<u>117</u>	<u>118</u>	<u>427</u>
of which industry	103	49	50	181
transport	57	22	25	112
<u>Building</u>	<u>83</u>	<u>87</u>	<u>169</u>	<u>298</u>
of which urban dwellings	38	51	112	156
factories and workshops	17	5	12	81
<u>Other construction activities</u> <u>and improvements</u>	<u>349</u>	<u>328</u>	<u>443</u>	<u>511</u>
of which transport facilities	160	73	107	110

^{1/} The Economic Development of Colombia, page 21.

Table 1b
Gross Domestic Product

	<u>At Current Prices</u>		<u>At 1958 Prices</u>	
	<u>million pesos</u>	<u>annual increase per cent</u>	<u>million pesos</u>	<u>annual increase per cent</u>
1950	7,857	--	14,581	--
1951	8,882	13.0	14,969	2.7
1952	9,617	8.3	15,970	6.7
1953	10,711	11.4	16,923	6.0
1954	12,775	19.3	18,151	7.3
1955	13,482	5.5	18,882	4.0
1956	14,661	8.7	19,391	2.7
1957	17,651	20.4	20,020	3.2
1958	20,477	16.0	20,477	2.3
1959	22,995	12.3	21,688	5.9

Source: Banco de la Republica.

Table 1c

Fixed Investment as Percentage of
Gross Domestic Product

	<u>At Current Prices</u>	<u>At 1958 Prices</u>
	<u>Fixed Investment</u>	<u>Fixed Investment</u>
1950	13.9	18.6
1951	13.2	18.1
1952	13.8	18.5
1953	16.3	23.0
1954	17.1	26.0
1955	17.6	26.0
1956	17.3	24.2
1957	14.9	17.4
1958	16.4	16.4
1959	17.0	16.6

Source: Banco de la Republica.

Table 2

Financing of Gross Domestic Investment
(million pesos at current prices)

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
<u>Foreign Financing</u>	<u>46</u>	<u>159</u>	<u>74</u>	<u>154</u>	<u>85</u>	<u>314</u>	<u>876</u>	<u>337</u>	<u>184</u>
1. Foreign loans	34	151	18	71	45	114	522	48	84
2. Direct investment	12	8	56	83	40	200	354	289	100
<u>Central Bank</u>	<u>66</u>	<u>125</u>	<u>14</u>	<u>211</u>	<u>309</u>	<u>220</u>	<u>814</u>	<u>397</u>	<u>-98</u>
<u>Domestic Savings</u>	<u>1232</u>	<u>1200</u>	<u>1512</u>	<u>1801</u>	<u>1974</u>	<u>2027</u>	<u>1746</u>	<u>3091</u>	<u>4264</u>
1. Government savings	379	409	413	572	604	612	716	928	1086
2. Savings of corporations	n.a.	n.a.	<u>154</u>	<u>245</u>	<u>162</u>	<u>328</u>	<u>546</u>	<u>639</u>	<u>762</u>
(a) Colombian corporations	n.a.	n.a.	109	224	118	274	435	530	576
(b) Foreign corporations	n.a.	n.a.	44	21	45	54	111	109	186
3. Formation of capital of financial institutions									
(a) General insurance companies						37	31	14	88
(b) Banks and related institutions				15	39	16	-12	13	52
4. Savings accumulated at financial institutions	<u>54</u>	<u>67</u>	<u>64</u>	<u>96</u>	<u>84</u>	<u>102</u>	<u>122</u>	<u>140</u>	<u>184</u>
(a) Saving deposits	30	38	30	57	45	60	68	75	78
(b) Life insurance company reserves	13	13	14	16	17	15	15	21	39
(c) Capitalization companies reserves	11	16	20	23	22	27	39	44	67
5. Severance payment funds	22	23	24	25	26	27	28	29	30
6. Subscription of shares of Colombian corporations	n.a.	n.a.	27	95	243	165	158	342	307
7. Other means of saving including direct investment <u>1/</u>						756	145	1099	1807
TOTAL GROSS DOMESTIC INVESTMENT	<u>1344</u>	<u>1484</u>	<u>1603</u>	<u>2166</u>	<u>2368</u>	<u>2561</u>	<u>3436</u>	<u>3825</u>	<u>4350</u>

1/ This is a residual item, a breakdown of which is not available.

Source: Banco de la Republica, Superintendencia de Sociedades Anonimas, and Superintendencia Bancaria.

Table 3

Major Sources for Financing of Investment
as Percentage of Gross Domestic Investment ^{1/}

	<u>Foreign Financing</u>	<u>Central Bank</u>	<u>Domestic Savings</u>	<u>Govern- ment Saving</u>	<u>Savings of Corpor- ations</u>	<u>Savings Collect- ed by insti- tutions</u>	<u>Subscrip- tions of shares</u>
1951	3.4	4.9	91.7	28.2	n.a.	4.0	n.a.
1952	10.7	8.4	80.9	27.6	n.a.	4.5	n.a.
1953	4.6	0.9	94.3	25.8	9.6	4.0	1.7
1954	7.1	9.7	83.1	26.4	11.3	4.4	4.4
1955	3.6	13.0	83.4	25.5	6.8	3.5	10.3
1956	12.3	8.6	79.1	23.9	12.7	4.0	6.4
1957	25.5	26.6	47.9	20.8	15.9	3.6	4.6
1958	8.8	10.4	80.8	24.3	16.7	3.7	8.9
1959	4.2	-2.2 ^{2/}	98.0	25.0	17.5	4.2	7.0

^{1/} From Table No. 2.

^{2/} Outstanding loans were reduced by C\$ 98 million in 1959.

Source: Banco de la Republica, Superintendencia Bancaria, and Superintendencia de Sociedades Anonimas.

Table 4
Estimates of Public Investment
(million pesos)

	<u>Government Savings</u> ^{1/}		<u>New Govern-</u>	<u>Cash</u>	<u>Total Pub-</u>
	(1)	(1)	ment Debt ^{2/}	Balances ^{2/}	lic Invstmt.
	(as percent-		(2)	(3)	(1+2-3)
	age of re-				
	venue)				
1951	379	33.3	62	4	437
1952	409	38.8	32	21	420
1953	413	37.8	70	5	478
1954	572	33.0	225	19	778
1955	604	36.8	334	3	935
1956	612	35.3	167	11	768
1957	716	34.1	13	2	727
1958	928	36.5	126	20	1,034
1959	1,086	38.2	95	38	1,143

^{1/} From National Income Accounts, Banco de la Republica.

^{2/} From Analisis Economico del Presupuesto (Central Government only), Direccion Nacional del Presupuesto.

Table 5

Savings Accumulated at Financial Institutions
(million pesos)

	<u>Saving Deposits</u>	<u>Life Insur- ance Co. Reserves</u>	<u>Capitaliza- tion Co. Reserves</u>	<u>Total</u>	<u>Savings at In- stitutions as Percentage of National Income</u>
1950	16	11	9	36	0.5
1951	30	13	11	54	0.7
1952	38	13	16	67	0.8
1953	30	14	20	64	0.7
1954	57	16	23	96	0.9
1955	45	17	22	84	0.7
1956	60	15	27	102	0.8
1957	68	15	39	122	0.8
1958	75	21	44	140	0.8
1959	78	39	67	184	1.0

Source: Superintendencia de Bancos and Superintendencia de Sociedades Anonimas.

Table 6

Estimates of Financing Colombian Gross Investment
(million pesos)

	<u>Gross Domestic Investment 1/</u>	<u>Foreign Loans and Direct Investment 1/</u>	<u>Domestic Sources of Financing</u>	<u>Of Which Loans From Central Bank</u>
1951	1344	46	1298	66
1952	1484	159	1325	125
1953	1603	74	1526	14
1954	2166	154	2012	211
1955	2368	85	2283	309
1956	2561	314	2247	220
1957	3436	876	2560	814
1958	3825	337	3488	397
1959	4350	184	4166	-98

1/ From Table No. 2.

Source: Banco de la Republica.

Table 7
Foreign Loans and Foreign Investments
in Colombia

	<u>Long-Term Foreign Loans</u>		<u>Total</u>		<u>Direct Foreign Investment</u> <u>Million Co.\$</u>	<u>Total</u> <u>Million</u> <u>Co.\$</u>
	<u>Private</u> <u>Million US \$^{1/}</u>	<u>Official</u> <u>Million US \$^{1/}</u>	<u>Million US \$</u>	<u>Million Co.\$^{2/}</u>		
1951	2.6	8.4	11.0	33.9	12.0	45.9
1952	1.9	47.2	49.1	151.2	8.0	159.2
1953	-	5.8	5.8	18.4	56.0	74.4
1954	10.4	10.1	20.5	70.7	83.0	153.7
1955	9.9	1.0	10.9	45.3	40.0	85.0
1956	7.4	9.3	16.7	114.5	200.0	314.5
1957	8.0	76.1	84.1	522.5	354.0	876.5
1958	3.2	2.6	5.8	47.8	289.0	336.8
1959	5.0	7.0	12.0	84.1	100.0	184.1

^{1/} Source: Banco de la Republica: Balance of Payments.

^{2/} Conversion at the free rate of exchange.

Table 8
Savings of Corporations ^{1/}
(million pesos)

	<u>Colombian Corporations</u>	<u>Foreign Corporations</u>	<u>Total</u>	<u>Savings of Corporations as % of To- tal Savings</u>
1953	109.2	44.5	153.7	9.6
1954	224.4	21.0	245.4	11.3
1955	117.7	44.6	162.3	6.8
1956	274.1	53.8	327.9	12.8
1957	434.9	111.4	546.3	15.9
1958	530.0	108.6	638.6	16.7
1959	576.4	185.8 ^{2/}	762.2	17.5

^{1/} Includes undistributed profits, depreciation and depletion reserves.

^{2/} Estimate.

Source: Superintendencia de Sociedades Anonimas, Bogota, Colombia.

Table 9
Profits of Corporations
(million pesos)

	<u>Domestic Corporations</u>			<u>Foreign Corporations</u>			<u>Total</u>		
	<u>Capital</u>	<u>Profits</u>	<u>Per cent of Profits</u>	<u>Capital</u>	<u>Profits</u>	<u>Per cent of Profits</u>	<u>Capital</u>	<u>Profits</u>	<u>Per cent of Profits</u>
1952	1454	249	17.1	327	28	8.6	1781	277	15.5
1953	1481	253	17.1	383	36	9.4	1864	289	15.5
1954	1576	311	19.7	466	27	5.8	2042	338	16.6
1955	1819	255	14.0	506	42	8.3	2325	297	12.8
1956	1984	360	18.1	706	54	7.6	2690	414	15.4
1957	2142	430	20.0	1060	69	6.5	3202	499	15.6
1958	2484	482	19.4	1349	89	6.6	3833	571	14.9
1959	2791	582	20.1	1449	232	16.0	4240	814	19.2

Source: Superintendencia de Sociedades Anonimas.

Table 10
Sources and Uses of Funds of
Colombian Corporations
(million pesos)

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
No. of Companies	<u>739</u>	<u>727</u>	<u>719</u>	<u>739</u>	<u>730</u>	<u>736</u>	<u>755</u>
I. <u>SOURCES OF FUNDS</u>							
A. <u>INTERNAL</u>	<u>109</u>	<u>224</u>	<u>118</u>	<u>274</u>	<u>434</u>	<u>530</u>	<u>576</u>
a. undistributed profits	74	152	50	170	325	378	411
b. depreciation and depletion reserves	35	72	68	104	109	152	166
B. <u>EXTERNAL</u>	<u>151</u>	<u>228</u>	<u>208</u>	<u>413</u>	<u>602</u>	<u>697</u>	<u>717</u>
a. loans	125	133	-36	248	443	356	410
b. increase in paid-in capital	26	95	244	165	158	341	307
Total A + B	<u>260</u>	<u>453</u>	<u>326</u>	<u>687</u>	<u>1036</u>	<u>1227</u>	<u>1294</u>
II. <u>USES</u>							
A. Fixed Capital	175	304	337	248	389	396	505
B. Working Capital	119	221	54	395	607	834	788
C. Other Uses	-33	-72	34	43	41	-3	42
Total Uses (A+B+C)	<u>260</u>	<u>453</u>	<u>326</u>	<u>687</u>	<u>1036</u>	<u>1227</u>	<u>1294</u>

Source: Superintendencia de Sociedades Anonimas.

Table 11
Loans and Discounts and Investments of
Banco de la Republica
(million pesos)

	<u>Loans and Discounts</u>			<u>Total</u>	<u>Investments</u>	<u>Total</u>
	<u>To Banks</u>	<u>Direct Private Loans</u>	<u>To Govern- ment and Official Institutions</u>			
1950	225.3	47.8	6.5	275.6	145.0	420.6
1951	247.4	54.4	19.5	321.4	165.2	486.6
1952	281.0	124.1	21.5	426.7	183.9	610.6
1953	285.3	46.7	--	332.0	265.4	597.4
1954	309.8	155.7	31.6	497.1	311.1	808.2
1955	551.2	65.2	75.0	691.4	425.8	1117.2
1956	577.5	84.6	127.8	790.7	545.6	1336.3
1957	706.7	447.4	336.5	1490.8	659.9	2150.7
1958	754.1	742.0	366.2	1862.4	685.7	2548.1
1959	703.8	664.1	340.5	1708.4	742.1	2450.6

Source: Banco de la Republica.

Table 11a

Investment in Securities by Banco de la Republica

(million C\$ at the end of June of each year)

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Issued by:								
<u>GOVERNMENT:</u>	<u>88.2</u>	<u>123.8</u>	<u>192.0</u>	<u>327.6</u>	<u>93.7</u>	<u>86.5</u>	<u>261.0</u>	<u>252.2</u>
Bonds	83.7	122.3	176.5	54.6	79.2	86.5	171.0	172.2
Promisory Notes	4.5	1.5	15.5	-	14.5	-	90.0	80.0
Short-term Promissory Notes (Libranzas)	-	-	-	273.0	-	-	-	-
<u>SEMI-OFFICIAL CORPORATIONS</u>	<u>69.4</u>	<u>66.8</u>	<u>64.1</u>	<u>61.3</u>	<u>334.3</u>	<u>312.7</u>	<u>294.4</u>	<u>319.6</u>
Shares of Acerias Paz del Rio	-	-	-	-	274.7	252.2	223.2	218.7
Bonds: Salinas <u>1/</u>	69.4	66.8	64.1	61.3	59.6	58.5	56.8	89.5
Short-term Promissory Notes (Libranzas): Salinas	-	-	-	-	-	2.0	14.4	11.4
<u>MORTGAGE BANKS</u>	<u>3.1</u>	<u>0.7</u>	<u>1.8</u>	<u>1.7</u>	<u>23.8</u>	<u>65.5</u>	<u>104.5</u>	<u>88.3</u>
Industrial Bonds	0.9	0.5	-	-	0.4	12.5	14.8	4.6
Cedulas	2.2	0.2	1.8	1.7	9.6	26.2	59.7	53.7
Shares of Banco Central Hipotecario	-	-	-	-	13.8	26.8	30.0	30.0
<u>STABILIZATION FUND</u>	<u>0.4</u>							
Shares	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
<u>UNCLASSIFIED</u>	<u>0.4</u>	<u>0.5</u>	<u>0.6</u>	<u>0.5</u>	<u>1.4</u>	<u>0.8</u>	<u>0.3</u>	<u>26.5</u>
TOTAL	<u>161.5</u>	<u>192.2</u>	<u>258.9</u>	<u>391.5</u>	<u>453.6</u>	<u>565.9</u>	<u>660.6</u>	<u>687.0</u>

1/ Salt Mines.

Source: Banco de la Republica.

Table 12
Saving Deposits by Institutions ^{1/}
(million pesos)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Caja de Credito Ag- rario	193.5	215.8	258.3	300.9	336.3
Saving De- partments of Other Banks	100.5	137.0	160.4	190.3	230.3
Private Sav- ing Associa- tions	<u>12.0</u>	<u>12.8</u>	<u>15.3</u>	<u>17.7</u>	<u>20.3</u>
TOTAL	<u>306.0</u>	<u>365.6</u>	<u>434.0</u>	<u>509.0</u>	<u>586.9</u>

^{1/} All figures at the end of each year.

Source: Revista Banco de la Republica.

Table 13
Banking Loans^{1/}
(million pesos)

	<u>Short-Term</u>	<u>Medium-Term</u>	<u>Long-Term</u>	<u>Total</u>
1955	1578.8	387.2	319.2	2285.2
1956	1829.5	466.6	475.8	2772.0
1957	1891.0	486.2	579.5	2956.7
1958	2028.9	560.3	669.1	3258.2
1959	2145.9	813.5	797.3	3759.7

^{1/} In addition to the Commercial Banks, it includes the Mortgage Banks, Banco Popular, Caja de Credito Agrario Industrial y Minero and Caja de Ahorros del Circulo Obrero. Figures represent outstanding amounts at the end of each year.

Source: Banco de la Republica.

Table 14
Loans and Discounts From Commercial Banks by Destination ^{1/}
(million pesos)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Agriculture	106.8	125.5	142.5	173.2	276.4
Livestock	230.1	247.1	234.6	250.1	276.4
Trade	463.0	550.3	562.1	617.8	734.7
Industry	320.8	435.3	508.7	523.6	451.9
Mining	16.8	27.8	30.7	29.0	31.3
Construction	57.4	76.1	73.8	70.4	78.0
Official Institutions	77.5	87.3	83.5	103.3	91.2
Other	<u>97.9</u>	<u>130.8</u>	<u>126.1</u>	<u>111.6</u>	<u>124.3</u>
TOTAL	<u>1370.4</u>	<u>1680.3</u>	<u>1762.0</u>	<u>1879.0</u>	<u>2064.3</u>

^{1/} Outstanding amounts at the end of each year.

Source: Banco de la Republica.

Table 15
Insurance Companies

	<u>Total Assets</u> <u>(million pesos)</u>	<u>Index</u>	<u>Mathematical</u> <u>Reserves</u> <u>(million pesos)</u>	<u>Index</u>
1954	308.7	100.0	169.8	100.0
1955	383.4	124.2	202.8	119.4
1956	449.2	145.5	238.8	140.6
1957	515.5	167.0	290.7	171.1
1958	629.8	204.0	355.8	209.5

Source: Memoria de Hacienda, 1959, page 217.

Table 16
Premiums Collected By and Reserves of
General Insurance Companies
(million pesos)

	<u>Total Premiums</u>	<u>Reserves</u>		
		<u>Technical</u>	<u>Other</u>	<u>Total</u>
1953	76.8			
1954	94.8			
1955	94.2	43.8	26.5	70.3
1956	116.3	54.6	31.4	86.0
1957	128.9	65.1	8.7	73.8
1958	156.5	79.6	7.0	86.6
1959	n.a.	97.9	40.7	138.6

Source: Superintendencia Bancaria.

Table 17

Inflow of Funds and Increase in Reserves of Life Insurance Companies
(million pesos)

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>INFLOW OF FUNDS</u>									
Total Premiums Collected	22.3	25.7	29.5	33.7	38.9	42.6	50.1	58.5	68.
Other Income	<u>9.7</u>	<u>11.8</u>	<u>12.6</u>	<u>14.9</u>	<u>18.0</u>	<u>34.4</u>	<u>34.5</u>	<u>28.7</u>	<u>32.</u>
Total Receipts	<u>32.0</u>	<u>37.5</u>	<u>42.1</u>	<u>48.6</u>	<u>56.9</u>	<u>72.0</u>	<u>84.6</u>	<u>87.2</u>	<u>100.</u>
<u>INCREASE IN RESERVES</u>									
	11.4	13.2	13.2	13.8	15.8	16.8	15.3	14.9	20.

Source: Anuario General de Estadística.

Table 18

Bogota Security Exchange Transactions, 1930-59
(million pesos)

	<u>Stocks</u>			<u>Government Bonds</u>			<u>Mortgage Cedulas</u>	<u>Total Transactions</u>
	<u>Financial</u>	<u>Industrial</u>	<u>Total</u>	<u>National</u>	<u>Local</u>	<u>Total</u>		
1930	1,667	1,554	3,222	2,825	96	2,921	2,345	2,488
1935	8,605	3,501	12,106	886	432	1,318	2,920	16,345
1940	6,071	8,642	14,713	718	1,041	1,759	7,214	23,786
1945	12,288	73,817	86,105	23,036	3,095	26,132	12,577	124,814
1950	17,344	84,387	101,732	4,827	6,736	11,563	7,943	121,239
1955	38,296	97,706	136,002	5,673	5,055	10,728	27,882	174,612
1956	53,202	135,080	188,282	--	4,226	4,226	32,516	225,025
1957	66,026	133,496	199,522	--	2,462	2,462	34,235	236,221
1958	49,551	121,203	170,124	n.a.	n.a.	15,833	50,418	237,001
1959	52,391	147,083	199,474	n.a.	n.a.	32,952	79,832	312,237

Source: Banco de la Republica and Bogota Stock Exchange.

Table 18a

Industrial Companies, the Shares of Which Are Listed
on the Stock Exchange in Bogota

<u>1. Drinks</u>	<u>Established</u>	<u>Listed</u>
Bavaria	1930 in its present form (beginnings go to 1889)	1932
Cerveceria Andina	1945	1957
Cerveceria Union	1930	1942
Cervecerias Barranquilla y Bolivar	1923	1950
<u>2. Building Materials</u>		
Compania de Cemento Argos	1934	1941
Cementos del Valle	1938	1942
Cementos Portland Diamante	1927	1933
Eternit Atlantico	1945	1949
Eternit Colombiana	1942	1944
Eternit Pacifico	1945	1949
Fabrica de Cemento Samper	1929	1930
Manufacturas de Cemento	1938	1941
Marmoles y Cementos del Nare	1933	1945
<u>3. Leather</u>		
Empresa Colombiana de Curtidos	1921	1933
Manufacturas de Cuero "La Corona"	1940	1950
<u>4. Metallurgical Products</u>		
Acerias Paz del Rio	1948	1952
Empresa Siderurgica	1938	1943
Industrias Metalurgicas Unidas	1934	1938
Talleres Centrales	1944	1944
Union Industrial y Astilleros Barranquilla	1943	1944
Platerias Colombianas	1947	1948

5. Sugar, molasses, flour mills

Compania Molinera de Herran	1924	1949
Compania Nacional de Chocollates	1920	1929
Fabrica de Galletas "Noel"	1933	1943
Ingenio Providencia	1926	1954
La Industria Harinera	1911	1929
Manuelita	1947	1955

6. Rubber

Croydon del Pacifico	1937	1954
Industria Colombiana de Llantas	1942	1946
Cia. de Productos de Caucho "Grulla"	1939	1949
Cia. Colombiana de Caucho "El Sol"	1945	1945
Productos de Caucho "Villagas"	1953	1958

7. Tobacco

Compania Colombiana de Tabaco	1919	1929
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8. Textiles

Calceteria Helios	1944	1954
Calceteria Pepalfa	1936	1937
Cia. Colombiana de Tejidos "Coltejer"	1907	1936
Confeciones Colombia "Everfit"	1940	1945
Confeciones Primavera	1947	1948
Fabrica de Panos "Colombia"	1919	1937
Fabrica San Jose de Suaita	1944	1948
Fabrica Textil de los Andes "Fatelares"	1929	1945
Fabricato	1920	1934
Indurayon Consolidada	1938	1946
La Garantia A.	1938	1941
Panos Vicuna Santa Fe	1946	1947
Sociedad Industrial de Alicachin	1933	1935

Tejidos Unica	1953	1954
Tejidos "El Condor"	1934	1940
Textiles Samaca	1954	1957
Compania de Tejidos Union	1941	1953

9. Chemical and Pharmaceutical Products

Industrias Farmaceuticas "IFSA"	1937	1953
Laboratorios Uribe Angel "LUA"	1922	1941
Productos Quimicos Nacio- nales "Sulfaciol"	1940	1954
Compania Fosforera Colom- biana	1933	1945
Jabonerias Unidas	1945	1945

10. Miscellaneous

Tubos Moore	1944	1945
Vidriera de Colombia	1944	1946
Celanese Colombiana	1950	1957

Table 19

Average Price Index at Bogota Stock Exchange

(Base: 1952=100)

	<u>Stocks</u>	<u>Bonds and Cedulas</u>
1930	67.5	83.3
1935	62.1	82.6
1940	78.3	91.9
1945	138.7	104.2
1950	99.8	100.0
1955	103.2	97.9
1956	128.2	98.7
1957	136.0	98.6
1958	128.4	98.0
1959	133.7	97.9

Source: Banco de la Republica.

Table 20

Mortgage Rate of Interest in Private Market
(annual average %)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Bogota	12.24	12.97	13.43	12.60	12.81
Barranquilla	16.46	15.44	16.27	16.95	17.90
Cali	14.62	14.43	14.50	14.53	16.38
Cartagena	18.01	13.19	17.54	14.01	15.89
Medellin	10.01	9.88	9.55	9.58	10.57

Source: Revista Banco de la Republica.

Table 21
Real Estate Transactions
(million pesos)

	<u>Purchases and Sales</u>	<u>Mortgages</u>
1950	717	252
1951	765	291
1952	874	386
1953	927	444
1954	1313	491
1955	1137	504
1956	1211	741
1957	1458	708
1958	1548	792

Source: Anuario General de Estadística.