Colombia's Public Finance in the 1990s: a Decade of Reforms, fiscal Imbalance, and Debt

Borradores de Economia
Número:
174
Publicado:
Jueves, 1 Marzo 2001
Clasificación JEL:
E31, E37
Palabras clave:
Public Finance, fiscal Imbalance
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At the beginning of the nineties, a diversity of economic reforms were designed and implemented to reduce the size of the country's public sector with the objective of making it more efficient. Despite the reforms, ten years later, the Colombian public sector is 80% larger, and the financial sustainability of the Government presents serious problems. In 1999, Colombia's chief indicator of economic growt (GDP) was -4,3% and the unemployment rate reached 20% Such an evident dwindling of the economic activity has been accompanied rate reached 20%. Such an evident dwindling of the economic activity has been accompanied with imbalances in the macroeconomic accounts, particulary in the public sector. This paper provides a general description of Colombia's economic trends in the last few years, closely examining the factors which have undermined the country's public finances. Section II contains an overview of the fiscal imbalances registered as of the 1960s, and their relationship with both the real business cycle and the tax policy. Section III includes a synthesis of the main economic reforms introduced in the early nineties, and compares the size of the Colombian public sector with those of several neighboring countries. Section IV describes the key issues involved in the country's recent fiscal imbalance and, Section V, analyses the dynamics of the public debt and the question of its sustainability. The closing

section outlines the policies for economic adjustment and reactivation currently debated in Colombia.