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25X1A2g

COUNTRY: Colombia

CIA [REDACTED]

SUBJECT: Reestablishment of Free Gold Market/  
Rehabilitation Tax/Exchange Position

Date 14 Aug 53

Supplement to:

Responsive to:

DATE ACQUIRED: Late Jul 53 and earlier  
(BY SOURCE)

DATE (OF INFO): 27 Jul 53

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1. The decree reestablishing a free gold market, which was issued a few days ago, has been the salient feature of this country's economy during July 1953. This step was taken in an effort to improve the situation of gold producers, who were hard hit as the payment of a bonus of Col \$30 per ounce had to be discontinued because of the decline in prices of export certificates from about 150% at the end of last year to about 78% a few weeks ago. The bonus had been paid out of the proceeds of these certificates, which originated from gold exports.
2. The trade and export of gold is now entirely free. If gold is exported, such exports require prior registration and the foreign exchange proceeds must be deposited with the Bank of the Republic or an authorized commercial bank. These dollar earnings may freely be sold in the open market and can be used for any purpose. However, mining companies are no longer entitled to receive foreign exchange to pay for their imports of machinery, implements and materials as well as dividends, capital amortization or any other expenses payable in foreign exchange, which they are now supposed to defray by means of the proceeds of their gold exports.
3. Although it is much too early to say what the effect of this measure is likely to be, it has generally been welcomed as a desirable step toward the ultimate goal of an entirely free foreign exchange market.
4. In an effort to aid those people who had to leave their properties because of insecurity in the backlands and who are now returning to their farms and ranches, our Government has decreed a so-called rehabilitation and development tax of 20%, which will be levied on the capital and income taxes for 1952 to be paid by individuals and corporations provided that these taxes exceed Col \$10 thousand in each case. As our Government operates on the principle of a balanced budget, there was no alternative to finance this restoration program but to raise the above-mentioned additional tax. The effect of this legislation upon the stock market, however, was less marked than some observers had anticipated and after having suffered a setback security prices rallied.

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5. Industrial and trade activity has continued at a satisfactory pace and a definite note of optimism is evident in business circles. As coffee prices have been edging upward lately and are expected to hold for some time, the outlook for the coming months as a whole may be considered bright.
6. As compared with last month [June 1953], Colombia's exchange position has improved notably. As of 18 July foreign exchange purchases exceeded releases by US\$11,411,000. The ratio of exports to imports has also improved: registration of the former aggregated on the same date US\$275,418,000 whereas import registers amounted to US\$266,453,000. These figures compare favorably with those a year ago, when import licenses totaled US\$220,977,000 but export licenses, on the other hand, amounted only to US\$210,554,000.
7. As a result of the increase in dollar holdings of the Bank of the Republic, the currency in circulation has also risen as shown in the table below:

	17 Jul 53	19 Jun 53 (Thousands omitted)	18 Jul 52
Circulating currency	Col \$550,996	534,334	503,109
Gold Reserve	US 98,199	97,631	82,857
Dollar Reserve	" 78,548	64,193	38,422
Special deposits abroad	" 4,169	3,959	7,998
Other deposits	" 10,000	15,000	-
Total Reserve Ratio	58.57%	58.29%	44.04%

8. The Finance Minister recently emphasized that it is the new Government's intention to encourage foreign investments in this country to give an impulse to crude oil production, its refining and transport. It should be widely known, he added, that the new Administration tends in no way whatsoever toward the nationalization of an industry which normally pertains to the private initiative and interests. The contrary could only be explained in case that private capital should lose interest in this important field of economy, which, however, does not even seem probable in view of Colombia's policy of guarantees and encouragement, which will be continued now thoroughly and decidedly.

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