

DOCUMENT OF INTERNATIONAL MONETARY FUND  
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FOR  
AGENDA

EBS/88/131  
Correction 1

CONFIDENTIAL

July 25, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Bolivia - Staff Report for the 1988 Article IV Consultation  
and Request for Arrangements Under the Enhanced Structural  
Adjustment Facility

The following corrections have been made to EBS/88/131 (7/11/88):

Page 5, under (In percent of GDP), column 1, line 1: for "84.1" read "88.7"  
line 2: for "15.0" read "10.4"  
line 6: for "8.9" read "4.3"  
last line: for "18.3" read "13.7"

Page 6a, Chart 2: The shading for internal and external financing in the  
bottom panel was inverted.

Page 8a, Chart 4: The observation for the terms of trade index for 1987  
was incorrect.

Page 17, under (In percent) 3/, column 1, line 1: for "17.1" read "14.2"

Page 44, under stub "Ratios to GDP," column 2, line 6: for "-26.3" read "-25.6"  
line 7: for "-30.6" read "-29.9"

column 3, line 4: for "8.8" read "9.0"

Page 45, under (In percent), columns 5 and 7, line 14: for "53.1            13.3"  
read "48.4            28.5"

under (In millions of bolivianos), column 6,  
line 5: for "174.8" read "300.5"  
line 6: for "259.3" read "133.7"

Page 57: Separate numbers for "Targets" from dates.

Corrected pages are attached.

Att: (7)

Table 3. Bolivia: Selected Economic Indicators

	1985	1986	1987		Prog. 1988
			Prog.	Actual	
<u>(Annual rates of growth)</u>					
<u>Output</u>					
Real GDP at market prices	-0.2	-2.9	3.2	2.4	2.5
Of which:					
Agriculture <u>1/</u>	9.1	-4.7	3.0	-0.2	1.3
Mining and hydrocarbons <u>1/</u>	-12.6	-15.6	6.0	-1.9	7.3
Manufacturing <u>1/</u>	-9.3	2.1	0.4	7.2	2.5
Real GDP per capita	-2.9	-5.5	0.4	-0.4	-0.3
<u>Prices</u>					
GDP deflator	11,239.2	246.3	11.2	13.8	16.0
Consumer prices					
Average	11,749.6	276.3	13.9	14.6	11.6
End-of-period	8,163.4	66.0	9.2	10.6	12.5
<u>(In percent of GDP)</u>					
Consumption	88.7	96.9	91.5	97.9	95.6
Gross domestic investment	10.4	8.0	12.4	10.1	12.7
Exports of goods and nonfactor services	14.5	17.3	14.7	14.4	15.1
Imports of goods and nonfactor services	-13.6	-22.3	-18.6	-22.4	-23.4
External savings	6.1	10.4	9.4	11.3	11.4
National savings	4.3	-2.4	3.0	-1.2	1.3
Nonfinancial public sector	-9.4	-0.7	0.5	-2.5	0.1
Private sector	13.7	-1.7	2.5	1.3	1.2

Sources: National Institute of Statistics; Ministry of Finance;  
Central Bank of Bolivia; and Fund staff estimates.

1/ At producer prices.

reorganization, mining output contracted for the sixth consecutive year. Real domestic demand expanded by 3 1/2 percent, with total investment rising from 8 percent of GDP in 1986 to 10 percent of GDP.

Although employment increased at about the same pace as output, the unemployment rate rose slightly in 1987 to 20 1/2 percent, reflecting the rapid growth of the labor force. The 12-month rate of increase in consumer prices declined to 10 1/2 percent in December 1987, but accelerated to 13 percent in May 1988 after a sizable adjustment of prices of petroleum products.

Fiscal performance weakened in 1987 as savings (with interest on a commitment basis and export receipts on an accrual basis) deteriorated from a negative 1 percent of GDP in 1986 to a negative 2 1/2 percent in 1987 (Chart 2 and Table 4). Since investment rose, the overall deficit widened from about 4 1/2 percent of GDP in 1986 to 7 1/2 percent of GDP in 1987. On a cash basis, the current and overall fiscal deficits were equivalent to about 5 percent of GDP and 10 percent of GDP, respectively, in 1987 because payment for a substantial part of Bolivia's gas exports to Argentina in that year was not received. <sup>1/</sup>

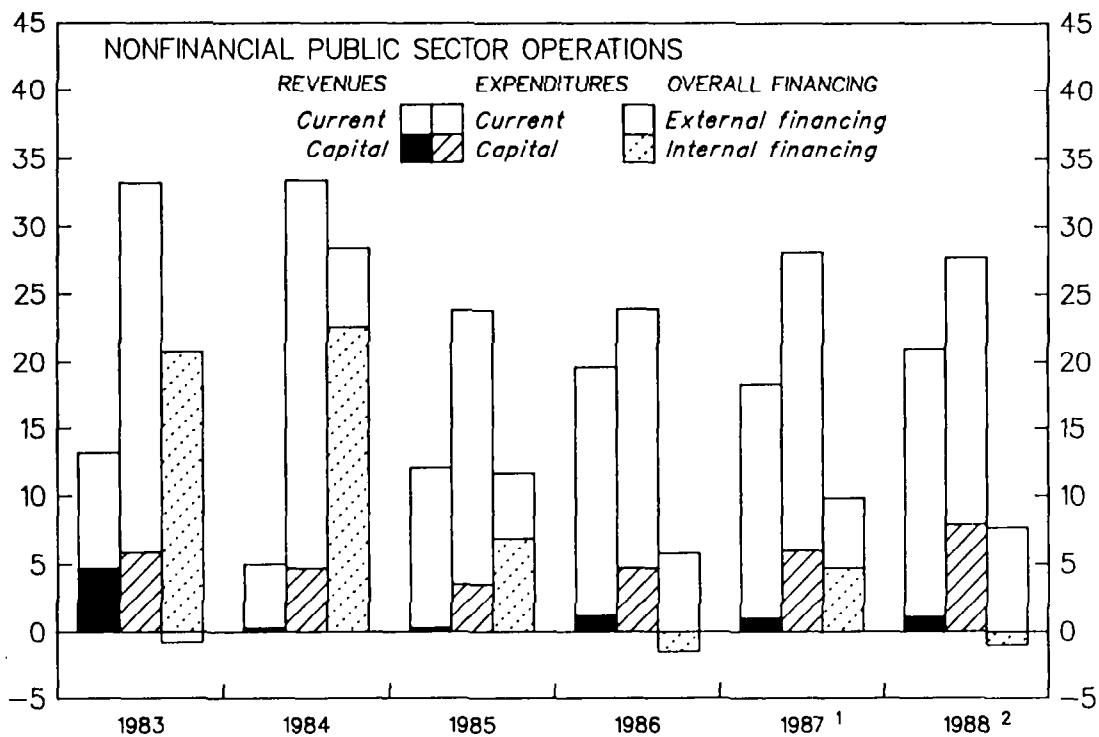
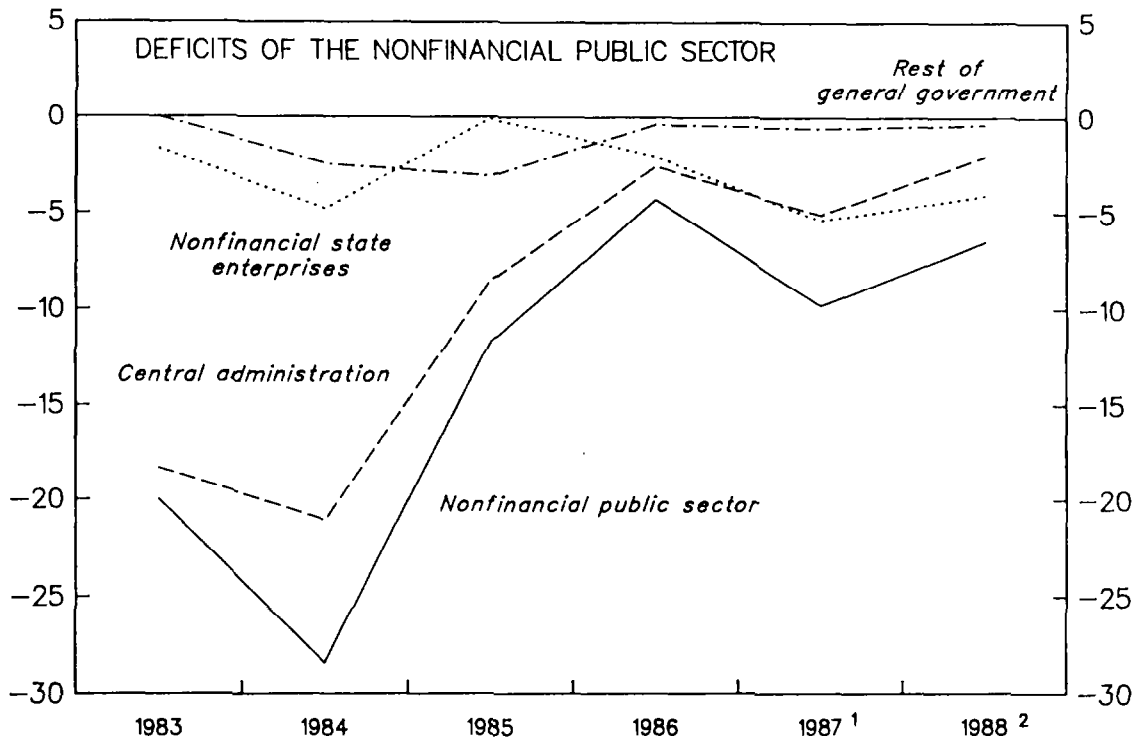
As a result of the tax reform in April 1987, receipts of internal taxes and import duties rose from 4 percent of GDP in 1986 to 6 1/2 percent of GDP in 1987, mainly reflecting collections under the new value added tax. <sup>2/</sup> Cash receipts from the sale of hydrocarbon products--the most important source of fiscal revenue--declined from almost 16 percent of GDP in 1986 to 10 percent of GDP in 1987 because of lower export prices for gas, the delays in gas export receipts, and a freeze of a domestic prices of petroleum products.

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<sup>1/</sup> Natural gas is exported to Argentina under a 20-year contract through 1992 that sets the annual minimum volume of purchases by Argentina. In the past, prices and payment modalities were subject to periodic negotiations between the two countries. In September 1987 agreement was reached on the price of gas exported in 1987 and a schedule for payments falling due in 1987, including the elimination of all overdue payments by October 1988. The agreement also contained a price-setting formula and payment modalities until the expiration of the contract in 1992, and rescheduled Bolivia's debt to Argentina (US\$109 million in arrears and US\$580 million of unmatured principal) over 25 years, including 15 years' grace, at an interest rate of 8 percent a year. However, payments not made as originally scheduled increased by US\$96 million (2.3 percent of GDP) in 1987 to a total of US\$120 million.

<sup>2/</sup> In addition to the value added tax, the new tax system included an income tax (from which value-added tax payments may be deducted) and taxes on transactions, consumption, corporate net worth, real estate, automobiles, power boats and airplanes. The tax system was described in SM/86/290 (12/2/86), Appendix II.

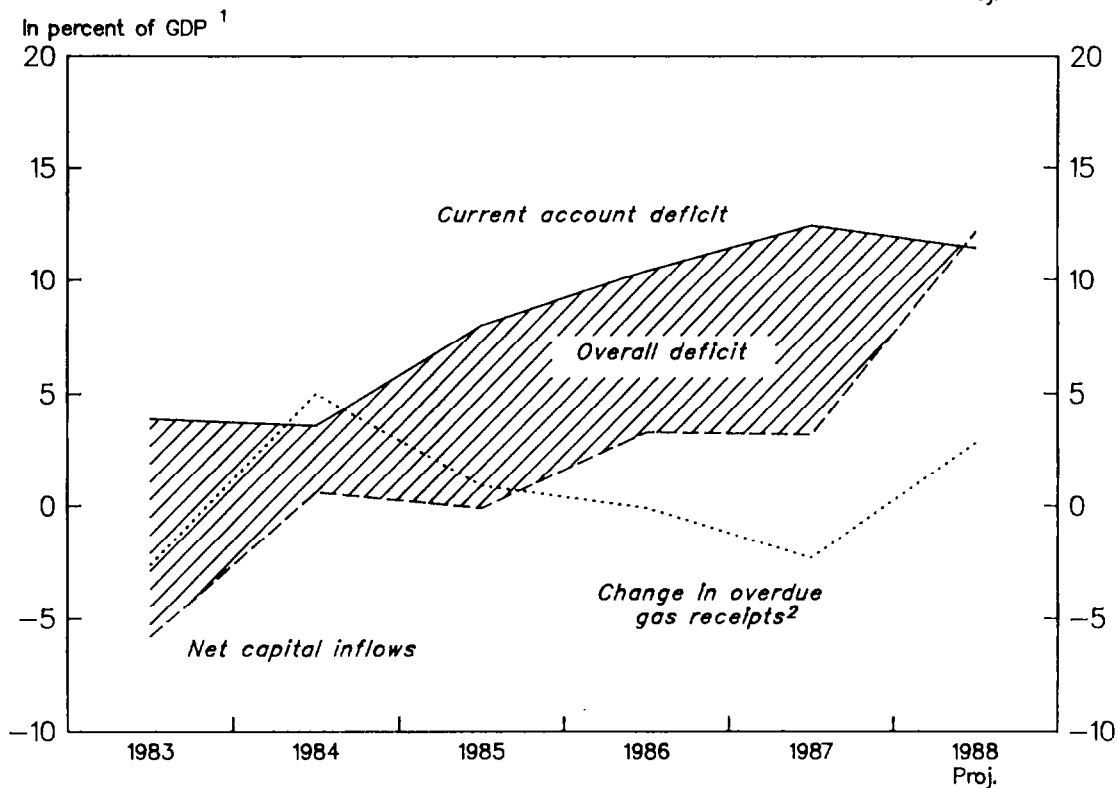
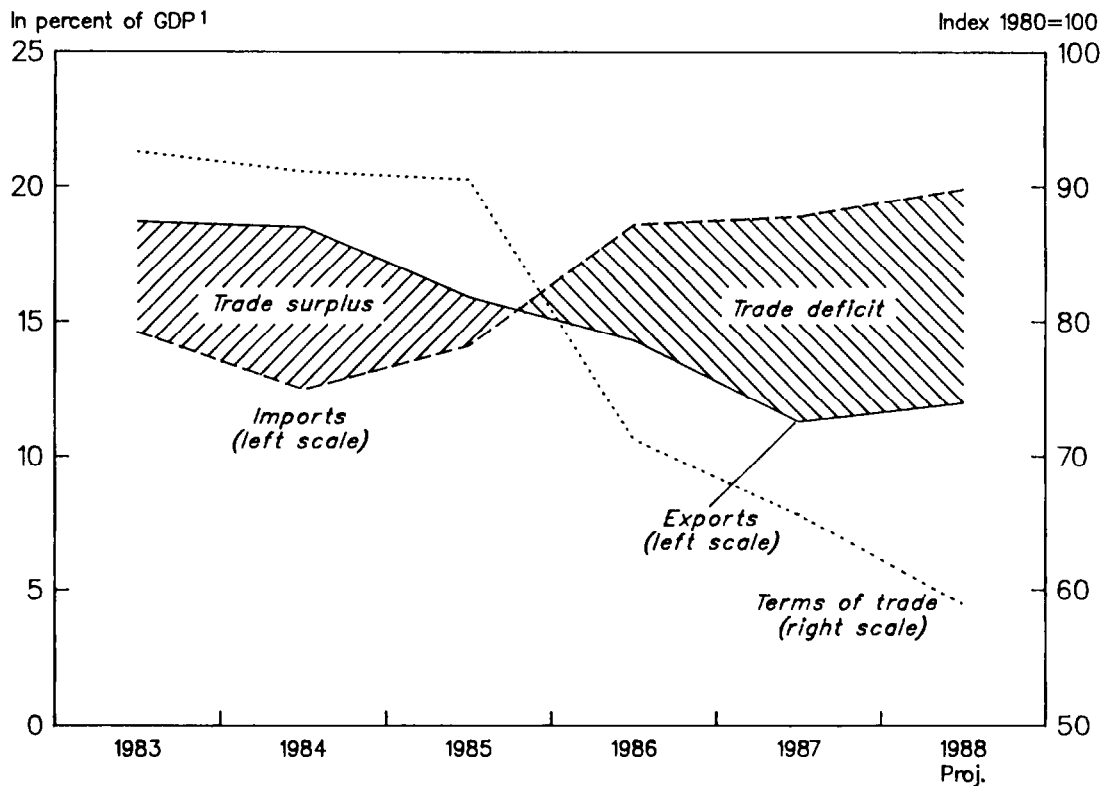
CHART 2  
BOLIVIA  
NONFINANCIAL PUBLIC SECTOR OPERATIONS  
(In percent of GDP)



Sources: Ministry of Finance; Central Bank of Bolivia; and Fund staff estimates.  
<sup>1</sup> Preliminary.  
<sup>2</sup> Projected.



# CHART 4 BOLIVIA SELECTED BALANCE OF PAYMENTS TRENDS



Sources: Central Bank of Bolivia; and Fund staff estimates.

<sup>1</sup>GDP in U.S. dollar terms was constructed using real growth and the U.S. GDP deflator during the hyper-inflation period 1983-85 to avoid distortions caused by currency overvaluation during this period.

<sup>2</sup>Overdue gas receipts are included in the capital account as an involuntary credit extended by Bolivia. A positive figure indicates repayment of overdue gas receipts.



Table 9. Bolivia: Impact of the Adjustment Program

		Prog. 1988		
	1987	January March 1/	April- Dec.	Year
<u>(In percent of annual GDP)</u>				
<u>Nonfinancial public sector</u>				
Tax revenue 2/	6.6	1.6	7.5	9.1
Public savings	-2.5	-0.5	0.6	0.1
Public investment	6.0	1.2	6.6	7.8
Overall balance	-7.5	-1.7	-5.0	-6.7
<u>(In millions of U.S. dollars)</u>				
<u>Balance of payments</u>				
Current account	-469.0	-102.1	-386.7	-488.8
Of which: Trade balance	-303.0	-58.1	-278.1	-336.2
Change in net international reserves (-increase)	78.2	33.9	-63.5	-29.6
<u>(In percent) 3/</u>				
<u>Financial system</u>				
Credit to the nonfinancial public sector	14.2	4.8	-9.3	-4.5
Credit to the private sector	32.2	2.5	24.6	27.1
Liabilities to the private sector	41.4	0.3	17.6	18.0

Sources: Data provided by the Bolivian authorities; and Fund staff estimates.

1/ Preliminary.

2/ Includes customs duties.

3/ Change in terms of liabilities to the private sector at the end of previous year; calculated at accounting exchange rates.



loans and the expected settlement of arrears on gas exports by Argentina, thus allowing for a net reduction of public sector debt with the Central Bank. Quarterly limits on the increase in public sector indebtedness have been established in accordance with these targets.

a. Revenue policies

Revenue from internal taxes and import duties is projected to increase from 6.6 percent of GDP in 1987 to 9.1 percent of GDP in 1988. Revenue from internal taxes is expected to benefit from the full-year effect of last year's tax reforms, the reorganization of the internal revenue and customs administrations and improved enforcement, including close monitoring of large taxpayers. A 15 percent tax on consumer durables has been submitted to Congress for approval and is expected to be implemented in the second half of 1988 together with the tax on rural land holdings, the last as yet unenforced tax of the 1986 tax reform package. In March 1988 the authorities reduced the customs tariff from 20 percent (with the option of a three-year deferment of duty payment) to 10 percent (without that option) for specified capital goods and the tariff on all other imports by one percentage point from 20 percent to 19 percent. The authorities intend to continue reducing the latter rate by 1 percentage point each quarter until a uniform tariff is re-established in 1990 at a level of 10 percent. Notwithstanding the tariff reductions, the effective rate of duty collection is expected to remain unchanged, in part as a result of a reduction of exemptions.

Domestic prices of petroleum products were raised by 29 percent on average to the equivalent of US\$45 per barrel in March 1988. The authorities intend to maintain the average price of petroleum products constant in U.S. dollar terms by small, frequent adjustments and have followed this policy since March. The adjustment in petroleum product prices is expected to yield 2 percent of GDP on an annual basis.

The average price for natural gas exports is expected to drop from US\$3.32 per thousand cubic feet in 1987 to US\$2.89 in 1988, in line with world market developments for energy prices. However, the decline in prices should be partly offset by a recovery in volume.

The revenue projections also assume that most mines of COMIBOL will be fully operational by mid-1988 and that the company's exports in 1988 will amount to US\$45 million (1.1 percent of GDP), net of refining costs incurred abroad.

b. Expenditure policies

An integrated system of financial administration and governmental control (SAFCO) is being established with financial and technical assistance from the World Bank and UNDP. SAFCO will monitor the operations of the largest state enterprises, decentralized agencies, regional development corporations and municipalities, and the social security system.

Table 10. Bolivia: Principal Objectives and Targets  
of the Program for 1988

	1986	1987	Prog. 1988
<u>(Annual percentage change)</u>			
<u>Output and prices</u>			
Real GDP	-2.9	2.4	2.5
Consumer prices (end-of-period)	66.0	10.6	12.5
<u>(In millions of U.S. dollars)</u>			
<u>External sector</u>			
Current account balance	-399.8	-469.0	-488.8
In percent of GDP	-10.4	-11.3	-11.4
Change in net international reserves	110.4	-78.2	29.6
Gross loan disbursements to nonfinancial public sector	144.0	144.8	243.1
<u>(In percent of GDP)</u>			
<u>Nonfinancial public sector</u>			
Tax revenue	3.9	6.6	9.1
Overall deficit	4.3	7.5	6.7
Domestic financing	-1.2	3.2	-1.1
<u>(Annual percentage change) 1/</u>			
<u>Financial system</u>			
Credit to the private sector	108.1	32.2	27.1
Liabilities to the private sector	131.2	41.4	18.0
<u>(In percent of GDP)</u>			
<u>Savings and investment</u>			
Gross domestic investment	8.0	10.1	12.7
National savings	-2.4	-1.2	1.3

Sources: Data provided by the Bolivian authorities; and Fund staff estimates.

1/ With respect to liabilities to the private sector at the beginning of the period and measured at an accounting exchange rate.

BOLIVIA--Basic Data

Area (square kilometers)	1,098,600
<u>Population and vital statistics (1986)</u>	
Population (1987)	6.75 million
Annual rate of population increase	2.78 percent
Density per sq. km. of agricultural land	20
Labor force in agriculture	48 percent
Life expectancy at birth	53 years
Infant mortality (aged under 1)	118 per thousand
Child death rate (aged 1-4)	20 per thousand
Population between 0-14 years	44 percent
Unemployment (1987)	20.5 percent
<u>Food and nutrition (1986)</u>	
Per capita food production index (1979-81 = 100)	91
Per capita supply of calories per day	2,146
Per capita protein intake (grams per day)	50
<u>Health (1986)</u>	
Population per physician	4,800
Population per hospital bed	2,500
<u>Access to services</u>	
<u>Safe water (1986)</u>	
Percent of urban population	69 percent
Percent of rural population	10 percent
<u>Electricity (1973)</u>	
Percent of urban population	76 percent
Percent of rural population	6 percent
<u>Education (1986)</u>	
Primary school enrollment	87 percent
Pupil-teacher ratio	25
<u>Income distribution (1973)</u>	
Percentage of private income received by:	
Highest 20 percent of households	59 percent
Lowest 20 percent of households	4 percent
Lowest 40 percent of households	13 percent
GDP (1987)	SDR 3,212 million

	1983	1984	1985	1986	1987		Proj.
					Prog.	Actual	1988
GDP per capita, SDR	590	596	591	484	504	476	469
<u>Origin of real GDP</u>				(In percent)			
Agriculture	18.1	22.3	24.5	24.1	22.0	23.5	23.3
Mining	16.8	14.8	13.0	11.3	13.3	10.9	11.4
Manufacturing	12.5	10.8	9.8	10.4	11.6	10.9	10.9
Construction	3.4	3.2	3.0	2.7	3.8	2.8	2.9
Transport and communications	6.4	6.5	6.7	7.1	5.9	7.4	7.4
Government	13.4	13.7	14.3	13.8	12.3	13.5	13.5
Other services	29.4	28.7	28.7	30.6	31.1	31.0	30.6
<u>Ratios to GDP</u>							
Exports of goods and nonfactor services	15.1	12.5	14.6	17.3	14.7	14.5	15.1
Imports of goods and nonfactor services	12.1	9.2	13.6	22.3	18.6	22.2	23.3
External public debt (end of year)	56.4	49.6	66.8	96.5	101.9	98.8	88.4
Central Administration revenues	8.3	3.1	9.0	14.8	14.1	14.3	16.5
Central Administration expenditures	26.6	23.7	17.7	17.8	17.2	19.3	18.7
Nonfinancial public sector savings	-17.0	-25.6	-9.4	-0.7	0.5	-2.5	0.1
Nonfinancial public sector surplus or deficit (-)	-18.3	-29.9	-12.7	-4.3	6.1	-7.5	-6.7
National saving	6.2	5.2	4.3	-2.4	3.0	-1.2	1.3
Gross domestic investment	8.9	7.3	10.4	8.0	12.4	10.1	12.7
Balance of payments current account	-2.7	-2.1	-6.1	-10.4	-9.4	-11.3	-11.4
Money and quasi-money (stock) 1/	21.3	21.6	12.6	10.7	8.4	13.7	14.8

	1983	1984	1985	1986	1987		Proj.
				(In percent)	Prog.	Actual	1988
<u>Annual changes in selected economic indicators</u>							
Real GDP per capita (in U.S. dollars)	-9.0	-3.0	-2.9	-5.5	0.4	-0.4	-0.3
Real GDP	-6.5	-0.3	-0.2	-2.9	3.2	2.4	2.5
GDP at current prices	254.0	1,400.9	12,392.4	236.5	14.7	16.5	18.9
Domestic expenditures (at current prices)	258.2	1,380.9	11,501.6	256.2	16.8	19.8	16.6
Investment	122.4	1,132.2	23,971.4	74.8	50.9	37.9	138.9
Consumption	281.6	1,405.8	10,872.1	276.3	13.3	18.3	4.8
GDP deflator	278.7	1,391.0	11,239.2	246.3	11.2	13.8	16.0
Cost of living (annual averages)	275.6	1,281.3	11,749.6	276.3	13.9	14.6	11.6
Central Administration total revenues	347.9	461.1	32,226.7	455.2	15.6	12.2	37.8
Central Administration total expenditures	296.5	1,225.3	8,384.3	235.0	14.4	27.4	14.8
Money and quasi-money	188.6	1,418.4	7,209.0	177.3	23.1	48.6	29.0
Money	212.5	1,777.1	6,105.4	81.6	17.7	39.0	15.7
Quasi-money	156.7	584.4	14,245.4	441.3	26.2	57.5	39.8
Net domestic bank assets <sup>2/</sup>	203.6	994.0	8,448.4	91.9	48.4	65.9	28.5
Credit to nonfinancial public sector (net)	255.5	1,477.1	3,891.3	-59.2	--	14.2	-4.5
Credit to private sector	104.2	463.0	4,248.1	108.1	49.0	32.2	27.1
<u>Central administration finances</u>							
			(In millions of bolivianos)				
Total revenues	0.108	0.606	195.9	1,087.6	1,178.8	1,220.6	1,682.2
Total expenditures	0.345	4.572	387.9	1,299.3	1,434.1	1,654.8	1,899.5
Current account surplus or deficit (-)	-0.272	-3.702	-151.6	-131.3	-84.6	-376.2	-194.1
Overall deficit (-)	-0.238	-3.970	-191.9	-211.7	-255.3	-434.1	-217.3
External financing (net)	0.002	0.027	60.0	383.6	400.6	300.5	280.0
Internal financing (net)	0.236	3.943	131.9	-171.9	-145.3	133.7	-62.7
<u>Balance of payments</u>							
			(In millions of U.S. dollars)				
Merchandise exports (f.o.b.)	755	724	623	547	474	472	514
Merchandise imports (c.i.f.)	-589	-492	-552	-712	-618	-775	-850
Factor income (net)	-428	-441	-429	-309	-335	-274	-271
Other services and transfers (net)	107	71	57	74	103	108	118
Current account balance	-155	-138	-300	-400	-375	-469	-489
Nonfinancial public sector <sup>3/</sup>	4	17	-12	70	179	76	185
Unpaid amortization <sup>4/</sup>	-167	-202	-165	-239	-245	-204	-96
Banking system n.i.e. (net)	-141	-2	91	44	69	60	91
Private capital (net) <sup>5/</sup>	178	21	47	254	38	152	90
Arrears on gas exports	-98	188	35	-3	--	-96	120
Allocation of SDRs and gold monetization	1	1	10	2	--	--	--
Overall balance	-379	-115	-300	-273	-332	-481	-99
Exceptional financing <sup>6/</sup>	667	262	328	383	313	403	129
Change in official NIR (increase -)	-289	-148	-29	-110	19	78	-30
<u>International reserve position</u>							
			(In millions of SDRs)				
Central Bank (gross)	168.8	292.1	244.8	413.1	415.1	291.6	...
Central Bank (net)	-38.2	109.7	124.0	201.6	163.7	118.7	...
Rest of banking system (net)	-57.1	-59.1	-41.8	-45.1	...	-25.2	...

<sup>1/</sup> Average of end-of-month stocks.

<sup>2/</sup> In relation to the stock of liabilities to the private sector at the beginning of the period.

<sup>3/</sup> Includes regular disbursements, assumption of restructured debt, and amortization paid.

<sup>4/</sup> Public sector.

<sup>5/</sup> Includes net errors and omissions.

<sup>6/</sup> Includes unpaid debt service (arrears, deferments, and restructuring).

Three-Year and First Annual Arrangements Under  
the Enhanced Structural Adjustment Facility

Attached hereto is a letter with an attached Memorandum on Economic and Financial Policies of Bolivia ("the memorandum") dated June 30, 1988, from the Minister of Planning and Cooperation, the Minister of Finance, and the President of the Central Bank of Bolivia, requesting from the International Monetary Fund a three-year arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder, and setting forth

- (i) the objectives and policies of the program to be supported by the three-year arrangement;
- and
- (ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangements in accordance with the following provisions, and subject to the Regulations for the administration of the structural adjustment facility and the Instrument to Establish the Enhanced Structural Adjustment Facility Trust:

1. (a) For a period of three years from August \_\_, 1988, Bolivia will have the right to obtain loans from the Fund under the enhanced structural adjustment facility, in a total amount equivalent to SDR 136.05 million. Of this amount, the equivalent of SDR 39.4545 million shall be provided from the structural adjustment facility within the Special Disbursement Account, and the equivalent of SDR 96.5955 million shall be provided from the Enhanced Structural Adjustment Facility Trust, subject to any changes in the amount of access to the structural adjustment facility.

(b) The amount of each annual arrangement will be the equivalent of SDR 43.35 million for the first annual arrangement; the equivalent of SDR 43.35 million for the second annual arrangement; and the equivalent of SDR 43.35 million for the third annual arrangement.

(c) Under the first annual arrangement:

- (i) the first loan, in an amount equivalent to SDR 22.675 million, will be available on August \_\_, 1988 at the request of Bolivia and
- (ii) the second loan, in an amount equivalent to SDR 22.675 million, will be available on December 15, 1988 at the request of Bolivia subject to paragraph 2 below.

2. Bolivia will not request disbursement of the second loan specified in paragraph 1(c)(ii) above -

Table 1. Bolivia: Minimum Gain or Maximum Loss of Net  
International Reserves of the Central Bank of Bolivia 1/

(Cumulative amounts in millions of U.S. dollars from December 31, 1987)

Date	Targets
March 31, 1988	-33.9 <u>2/</u>
June 30, 1988	61.0 <u>3/</u>
September 30, 1988	42.6 <u>3/4/</u>
December 31, 1988	29.6 <u>3/</u>

1/ Defined as central bank foreign assets less liabilities with a maturity of up to one year but including liabilities to the Andean Reserve Fund and to the International Monetary Fund, excluding those arising from loans from the IMF's Trust Fund.

2/ Actual.

3/ Target subject to adjustment in accordance with the provisions in paragraph 17.

4/ Performance criterion; other targets are benchmarks.

Table 2. Bolivia: Limits on the Increase in the  
Indebtedness of the Nonfinancial Public Sector 1/

(Cumulative amounts in millions of bolivianos from December 31, 1987)

Date	Limits
March 31, 1988	175.9 <u>2/</u>
June 30, 1988	320.6
September 30, 1988	482.5 <u>3/</u>
December 31, 1988	681.2

1/ The nonfinancial public sector is defined as the Central Administration, the social security institutions, other decentralized agencies, the regional development corporations, prefectures, municipalities, and the state enterprises (excluding the Central Bank of Bolivia and other state-owned financial institutions).

2/ Actual.

3/ Performance criterion; other limits are benchmarks.